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# 1 Introduction

The Productivity Commission is required to continue the practice of its predecessors, the Industry Commission and the Industries Assistance Commission, in reporting annually on measures that provide assistance to industry. Assistance is defined broadly to include any act that, directly or indirectly, assists a person to carry on a business or activity, or confers a pecuniary benefit on the person carrying out a business (*Productivity Commission Act 1998*).

Until recently, the focus in the Commission's annual reporting has been largely on assistance to agriculture and manufacturing, particularly the assistance provided through tariffs and other border measures, as well as domestic marketing arrangements designed to support local industry. However, structural and policy changes have meant that a wider range of issues now have to be considered in the Commission's annual *Trade and Assistance Review*.

## **Structural and policy changes**

Since the previous Commissions started reporting on industry assistance, the structure of the economy and the pattern of trade have changed considerably. The services sector now accounts for just over 70 per cent of output and employment in the Australian economy. Services represent a significant proportion of Australia's international trade, accounting for one fifth of the total value of exports and almost one fifth of the total value of imports.

Industry policies have also changed. With a few exceptions, notably for the passenger motor vehicle and textiles, clothing and footwear industries, tariffs and other forms of border assistance have been reduced to low levels. Furthermore, many domestic marketing arrangements have been dismantled, as part of trade liberalisation and domestic competition policy (although some restrictive arrangements at the State level are still in place).

However, the Commonwealth continues to implement a wide range of policies and programs which assist industry and affect trade. In some cases these are relatively transparent — for example, in the case of direct budgetary assistance for certain activities. Others are less transparent. For example, the application of anti-dumping policies may protect and assist local import competing industries, as may the

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application of quarantine restrictions on imports. In the growing services sector, domestic competition policies and foreign investment policies may restrict opportunities for foreign suppliers to enter the market, and thereby provide some support for local suppliers. While the assistance associated with these types of policies cannot be measured accurately, they are nevertheless an important component of any review of trade and assistance.

Against the backdrop of some significant changes in the economic and policy setting over the past year, this year's review of trade and assistance is particularly important. The significant depreciation of the Australian dollar against some major currencies and the severe economic downturn and instability in several Asian economies, which are both competitors and customers for Australian goods and services, have raised concerns about the effects on particular industries and the wider economy, and the role of the government in providing support. In some quarters this has resulted in calls for increased government assistance and a move away from efforts to open the Australian economy to global competition. To provide a basis for assessing concerns such as these, information on the nature and extent of existing government measures which support particular industries and activities or restrict trade is vital.

## **Structure of the report**

The tools used by the Commission and its predecessors to report on industry assistance — most notably, nominal and effective rates of assistance — are still useful. However, reflecting the policy shift away from forms of assistance that are relatively easy to quantify (such as tariffs and domestic marketing arrangements) and the increasing importance of the services sector, the review of effective and nominal rates of assistance now comprises a relatively small part of this report.

In the following chapter, the most obvious form of assistance to industry, Commonwealth budgetary assistance, is examined. This covers all four sectors — agriculture, mining, manufacturing and services. Assistance to agriculture and manufacturing is examined more closely in chapter 3. This reports nominal and effective rates of assistance, which summarise the effects of a range of quantifiable assistance measures. Chapter 4 covers agriculture and manufacturing trade policy issues and developments, including a review of recent developments in anti-dumping, APEC sectoral liberalisation and the World Trade Organization (WTO) negotiations on agriculture scheduled to commence in late 1999. Chapter 5 is devoted to the services sector, reviewing a range of developments and issues affecting services trade generally. It also has more detailed discussion of some topical service industries, especially financial services, where a major WTO

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agreement was signed in December 1997 and where there have been some important domestic policy developments over the past year.

The possible rationales for industry assistance and its effects on the economy are not analysed in this report. The aim is to report measures of assistance and related information which can provide a basis for further analysis, both within the Commission and outside. As in the past, the estimates presented in the report cover only Commonwealth assistance. However, key State developments, including reviews of legislation under the auspices of the Competition Principles Agreement, are discussed where relevant. The Commission's detailed report on State, Territory and local government assistance to industry was released earlier this year (IC 1996a).