2 Manufacturing, agriculture and mining

Historically, industries in the manufacturing and agricultural sectors have received high levels of assistance. Manufacturing industries have been assisted mainly through tariffs, while agricultural assistance has been provided mainly through domestic marketing arrangements. Industries in both sectors have also enjoyed budgetary assistance. Assistance to both sectors has declined over the past decade, although some of the industries continue to receive high levels of assistance.

Tariffs and budgetary assistance do not have a major effect on the mining sector. Other government measures, including native title, environmental regulation and royalties, are far more significant for the sector.

In this chapter, the Commission:

- summarises output and trade data for manufacturing, agriculture and mining;
- outlines the Commission's assistance measurement methodology;
- provides estimates of assistance to the three sectors, describes trends in assistance to agriculture and manufacturing, and discusses existing and foreshadowed assistance arrangements applying to them; and
- updates data on anti-dumping and countervailing activity.

2.1 Production and trade: a snapshot

Manufacturing accounts for around 12 percent of Australia's gross domestic product and employment (table 2.1), and around one fifth of Australia's exports (ABARE 2000). Some of the largest manufacturing industries are the *food, beverages & tobacco* sector, *machinery & equipment* (which includes the passenger motor vehicle industry), *metal products*, and *petroleum, coal & chemical products*.

The agricultural sector accounts for less than 4 percent of Australia's gross domestic product, 5 percent of employment (see table 2.1), and around one fifth of Australia's exports (ABARE 2000).

Mining accounts for around 5 percent of Australia's total gross domestic product, 1 percent of total employment (see table 2.1), and around 35 percent of Australia's exports (ABARE 2000). Coal, gold, iron ore, alumina, aluminium, copper and nickel are the largest mining industries.

World merchandise exports increased by 13 percent in the year 2000 to US$6186 billion. During the same period, Australia's merchandise exports increased by 14 percent to US$64 billion. This is equivalent to around 1 percent of world merchandise trade (WTO 2001b).

Table 2.1 **Manufacturing, agriculture and mining sectors' shares of total gross product and employment, 2000-01**[a]

Sector	*Gross product*[b]		*Employment*	
	Value	*Share of total*	*Persons employed*	*Share of total*
	$m	%	'000	%
Manufacturing				
Food, beverages and tobacco	17069	23.0	183	16.2
Textiles, clothing and footwear	2916	3.9	86	7.6
Wood and paper products	4658	6.3	73	6.5
Printing, publishing and recorded media	6463	8.7	120	10.7
Petroleum, coal and chemicals	10814	14.6	110	9.8
Non-metallic mineral products	4622	6.2	44	3.9
Metal products	11359	15.3	182	16.1
Machinery and equipment	14079	19.0	241	21.4
Other manufacturing	2260	3.0	89	7.9
Total	74240	100	1130	100
Total manufacturing as a percentage of total gross product and total employment		**12.6**		**12.4**
Agriculture, forestry and fishing				
Agriculture	17777	91.7	369	86.0
Forestry and fishing	1599	8.3	28	6.5
Total (incl. services)	19376	100	32	7.5
Total agriculture as a percentage of total gross product and total employment		**3.3**		**4.7**
Mining				
Mining	28147	94.6	64	82.0
Services to mining	1591	5.4	14	18.0
Total	29738	100	78	100
Total mining as a percentage of total gross product and total employment		**5.0**		**0.9**

a Figures may not add to totals due to rounding. **b** Gross product data are the industry gross value added at basic prices using 1999-2000 chain volume measures. Total output is the total gross value added.

Source: (ABS 2001b) and (ABS 2001c).

2.2 Scope of the Commission's assistance estimates

The Commission has adopted several measures to help quantify and compare the diverse assistance arrangements which affect businesses in the agriculture, mining and manufacturing sectors. These are defined in box 2.1. In brief, the key measures are:

- the *nominal rates of assistance*, which is a measure of assistance to an industry's or activity's outputs, or on its inputs;
- the *effective rate of assistance* and the *net subsidy equivalent*, which are measures of the net assistance to the land, labour and capital resources used in a particular industry or activity; and
- the *standard deviation in nominal rates* and the *standard deviation in effective rates*, which are indicators of the dispersion of output assistance and net assistance, respectively, among the industries within a sector.

These measures help to explain how the overall assistance structure affects the allocation of resources between different industries or activities within the economy, as well as how different types of assistance affect the incentives to produce and, to a lesser extent, to consume, certain commodities.

Notwithstanding the usefulness of these measures, caution is required when using the Commission's assistance estimates to draw inferences about the allocation of resources between different industries or activities. The key qualifications are that:

- the measurement methodology uses a 'static' framework, so the estimates do not take account of the 'dynamic' responses of producers and consumers to the incentives created by the provision of assistance;
- nominal rates of assistance, unlike effective rates, do not take into account the *net* impacts of assistance on various inputs and outputs;
- the net subsidy equivalent simply measures the transfers of income to producers from consumers, taxpayers and intermediate suppliers — it does not indicate the 'economic welfare' costs to the community of assistance;
- differences in calculation of the agricultural, manufacturing and mining estimates, particularly effective rates, mean that caution is required when making intersectoral comparisons; and
- the Commission's estimates do not take into account all forms of assistance.

These issues, and the Commission's assistance measures and methodology, are explained in more detail in appendix A of *Trade & Assistance Review 1998-99* (PC 1999).

Box 2.1 Definitions of assistance measures

The **gross subsidy equivalent** is an estimate of the change in producers' gross returns from assistance. It is the notional amount of money, or subsidy, necessary to provide an activity with a level of assistance equivalent to the nominal rate of assistance on its output.

The **nominal rate of assistance on outputs** is the percentage change in gross returns per unit of output relative to the (hypothetical) situation of no assistance. The nominal rate measures the extent to which consumers pay higher prices and taxpayers pay subsidies to support local output.

The **standard deviation in the nominal rate of assistance on outputs** measures the dispersion of the nominal rates of output assistance for the different industries in a sector around the sectoral average nominal rate. It is an indicator of the potential for distortions in production and consumption patterns within the sector resulting from the output assistance provided to the sector.

The **consumer tax equivalent** is the transfer from final consumers due to the price-raising effects of assistance. It is the sum of the gross subsidy equivalent of assistance, which measures the higher prices paid for domestically produced goods, and the effect of border assistance on the price of imports purchased by final consumers.

The **tax equivalent on materials** is an estimate of the net change to user industries' input costs due to government assistance altering the prices paid for intermediate inputs. It is the notional amount of money user industries pay for intermediate inputs to provide the producers of those inputs with a level of assistance equivalent to the nominal rate of assistance on materials.

The **nominal rate of assistance on materials** (intermediate inputs) is the percentage change in the prices paid for materials used in the production process, due to government intervention.

The **net subsidy equivalent** is an estimate of the change in returns to an activity's value added due to assistance. It is the notional amount of money, or subsidy, necessary to provide a level of assistance equivalent to the effective rate of assistance. It is equal to the gross subsidy equivalent plus any assistance to inputs or value-adding factors, less the tax equivalent on materials used in the production process.

The **effective rate of assistance** is the percentage change in returns per unit of output to an activity's value-adding factors due to the assistance structure. The effective rate measures net assistance, by taking into account the costs and benefits of government intervention on inputs, direct assistance to value-adding factors and output assistance.

The **standard deviation in the effective rate** measures the dispersion of the effective rates of assistance for the different industries in a sector around the sectoral average effective rate. It is an indicator of the potential for distortions in resource allocation within the sector resulting from the overall assistance structure.

2.3 Assistance to manufacturing

The manufacturing sector receives assistance from a range of government programs. Tariff assistance — which includes the impact of tariffs on import prices, as well as the effects of duty exemptions and concessions — is the main form of assistance received by the sector, accounting for around three quarters (or $4.6 billion) of *measured* assistance for manufacturing in 2000-01. Budgetary assistance ($1.6 billion) accounts for the remaining quarter of *measured* assistance received by the manufacturing sector. Budgetary assistance includes budgetary outlays, such as production bounties, certain export incentives and input subsidies, as well as 'tax expenditures' such as income tax concessions.

Nominal and effective rates of assistance to manufacturing, derived from tariffs, are presented in tables 2.3 and 2.4. The key estimates from these tables, together with related developments in manufacturing assistance, are discussed below. Combined tariff and budgetary assistance to manufacturing industries is reported in table 2.2. Budgetary assistance is discussed in more detail in chapter 4.

Trends in tariff assistance to the manufacturing sector

Movements in tariff assistance over the last decade

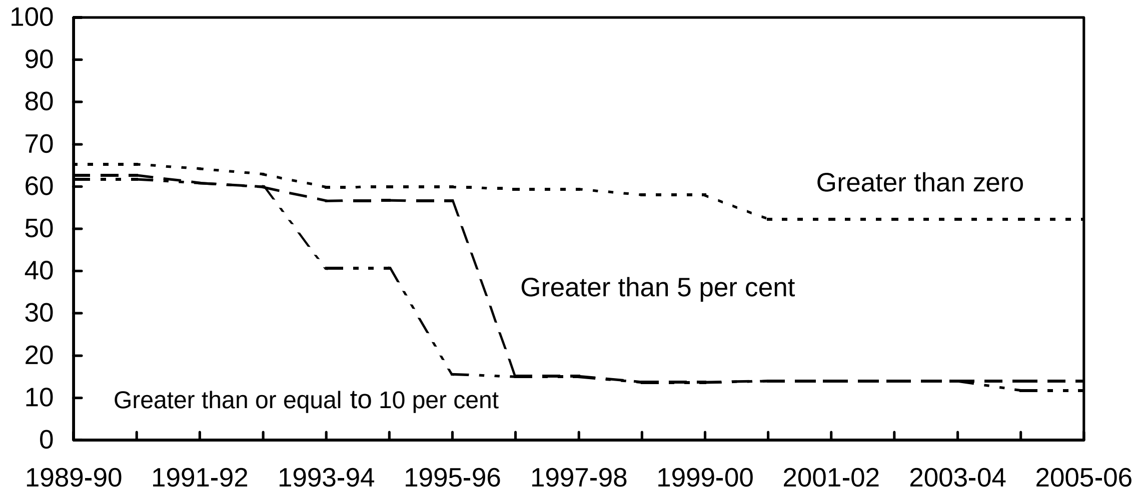
The proportion of tariff items with general rates greater than 5 percent fell significantly during the 1990s (figure 2.1). This fall can be attributed to the effects of a series of tariff policy changes over this period. In 1988, the Government announced a four-year program of phased reductions in tariffs from 1988 to 1992. This was followed by a further tariff reduction program, which took affect from 1992 to 1996.

The remaining tariff items with general rates greater than 5 percent are largely associated with just two industries: *textiles, clothing & footwear* (TCF) and *passenger motor vehicles* (PMV).

The fall in tariff rates over the period is also reflected in declining effective rates of assistance for the manufacturing sector (figure 2.2). Between 1989-90 and 1999-2000, the effective rate of assistance to manufacturing decreased from more than 16 percent to 5 percent. Higher tariff rates on TCF and PMV imports are reflected in higher effective rates of assistance for these sectors, although their assistance levels also declined significantly over the period. Between 1989-90 and 1999-2000, the effective rates of assistance for the TCF and PMV industries decreased from around 85 percent and 55 percent to around 26 percent and 15 percent, respectively.

Figure 2.1 **Proportion of tariff line items[a] for selected general rates[b], 1989-90 to 2005-06[cd]**

percent

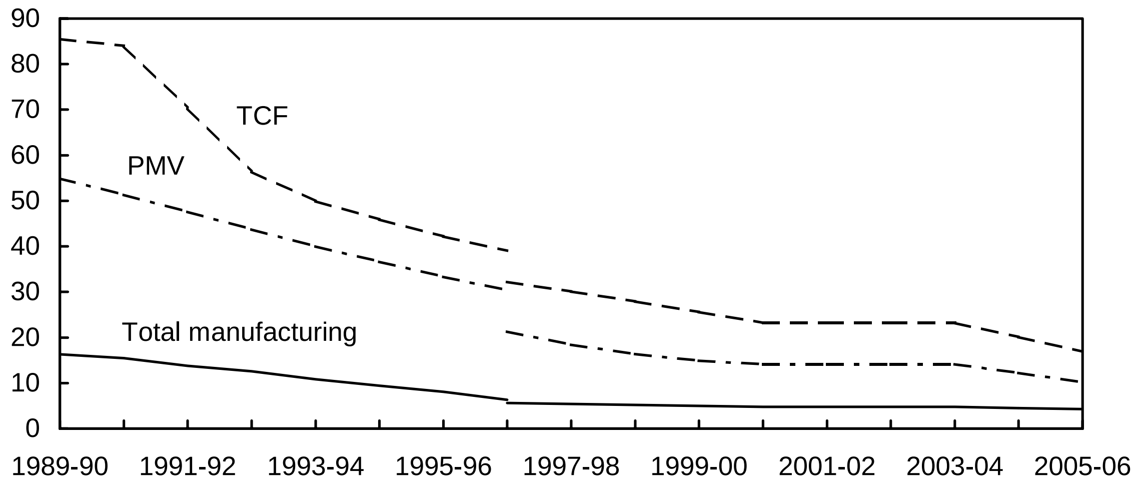


a A tariff line item is defined as an 8-digit import item as outlined in the Australian Customs Tariff Schedule. **b** The general rate is defined as the rate of duty applicable to individual tariff line items. **c** Rates for the years 1989-90 to 1995-96 and 1998-99 are averages for the year. From 1996-97 to 2003-04 and 2005-06, excluding 1998-99, the rates are for 1 July, while for 2004-05 the rates are for 1 January 2005. The rates at 1 July 2000 are assumed to also apply for the periods 2001-02 to 2003-04. **d** Tariff rates exclude the excise component of general rates on excisable goods.

Data source: PC estimates based on the Australian Customs Tariff Schedule.

Figure 2.2 **Average effective rates of assistance to manufacturing[a], TCF and PMV, 1989-90 to 2005-06**

percent



a Breaks in the series reflect periodic revisions to industry inputs and outputs. These changes occur gradually over time, due to factors such as changing technology and relative input and output prices.

Data source: PC estimates.

The dispersion of assistance across the manufacturing sector has also fallen over this period. The standard deviation of effective rates declined from more than 20 percent in 1989-90 to around 6 percent in 1999-2000.

Future movements in tariff assistance

Assistance to manufacturing is expected to fall marginally between 2000-01 and 2005-06. In 2000-01, the nominal and effective rates of assistance to manufacturing were 3.1 percent and 4.8 percent, respectively. In line with announced tariff changes, the nominal and effective rates of assistance are expected to stay at about these levels until 2005-06, when they are expected to fall to 2.8 percent and 4.3 percent, respectively. These changes primarily reflect the impact of tariff reductions scheduled to occur in 2005 under the TCF and PMV plans (discussed below). Other industries to be affected by phasing arrangements are the *petroleum, coal & chemical products*, *fabricated metal products* and the *other machinery & equipment* industries.

Declining TCF and PMV tariffs relative to the manufacturing average tariff rate (refer to figure 2.2 above) are expected to result in a decline in the dispersion of assistance across the manufacturing sector. Based on announced changes, the standard deviation of effective rates is projected to fall by 1.3 percentage points — from 5.6 percent in 2000-01 to 4.3 percent in 2005-06.

The estimated net subsidy equivalent of tariff assistance to manufacturing was around $4.6 billion in 2000-01, and is projected to fall to $4.1 billion in 2005-06 (in 2000-01 prices). The TCF and PMV industries accounted for around 35 percent of the estimated net subsidy equivalent to the manufacturing sector in 2000-01. This share is projected to fall to around 28 percent by 2005-06.

Combined tariff and budgetary assistance to manufacturing

As noted earlier, as well as tariff assistance, manufacturing industries also receive assistance in the form of budgetary outlays and tax concessions. Total budgetary assistance to the manufacturing sector accounted for $1.6 billion in 2000-01. Budgetary assistance is reported in more detail in chapter 4.

The incidence of both tariff and budgetary assistance in 2000-01, among manufacturing industry groupings, is reported in table 2.2. Care is required in interpreting the table as some assistance schemes are counted in both categories — the ‘totals’ column is adjusted accordingly. The estimates are provided in net subsidy equivalent form — that is, the dollar value of the assistance received. Hence, they do not relate the assistance received to industry size. In these absolute terms, however, the TCF and PMV industries remain among the most highly assisted. Other industry groupings receiving high levels of combined assistance in absolute terms include *food, beverages & tobacco, petroleum, coal, chemicals & plastics* (which includes pharmaceuticals), and *metal products*. In total, the manufacturing sector received $5.4 billion in measured assistance in 2000-01.

Table 2.2 **Tariff and budgetary assistance net subsidy equivalents[a], by manufacturing industry subdivision, 2000-01**

$ million

Industry Grouping	*Tariffs*	*Budgetary*	*Total[b]*
Food, beverages and tobacco	1039.3	78.8	1117.8
Textiles, clothing, footwear and leather (TCF)	756.6	112.6	809.9
Wood and paper products	278.8	26.6	305.2
Printing, publishing and recorded media	84.5	22.2	106.7
Petroleum, coal, chemical and assoc. products	578.0	202.6	778.8
Non-metallic mineral products	118.9	15.6	134.4
Metal products	572.0	95.2	664.9
Motor vehicles and parts (PMV)	819.9	639.7	886.5
Other transport equipment	-18.7	52.1	33.3
Other machinery and equipment	239.9	155.4	390.5
Other manufacturing	110.9	45.1	144.3
Unallocated manufacturing[c]	-	106.0	56.0
Total	**4580.1**	**1551.9**	**5428.9**

a The net subsidy equivalent is the dollar value of the net assistance to the land, labour and capital resources used in a particular industry or activity. **b** The total net subsidy equivalent has been adjusted to take account of programs included in both tariff and budgetary assistance. These programs include tariff concessions or tax expenditures such as the PMV export facilitation scheme, the Automotive Competitiveness and Investment Scheme, the TCF import credits scheme, duty drawback and TRADEX. **c** Unallocated includes general programs where details of claimants and/or beneficiaries is unknown.

Source: PC estimates.

Recent developments in sectoral or industry-specific assistance

General tariff arrangements

The Commission's *Review of Australia's General Tariff Arrangements* (PC 2000c) was released in July 2000. The Commission was asked, primarily, to report on the scope for a post-2000 reduction in tariffs of 5 percent or less, other than those included in the TCF and PMV plans, including consideration of the appropriateness of the Tariff Concession Scheme and Project By-law arrangements. In the report, the Commission recommended the abolition, sooner rather than later, of the general tariffs under reference and the Tariff Concession System. The Commission also considered that, *if* the general tariff arrangements are to continue, there would be merits for expanding the Project and Policy By-law schemes provided that they are confined to unprotected domestic production. It also made recommendations to reduce the administration and compliance costs of the schemes.

In December 2000, the Government announced that it would retain the general tariff rate at 5 percent and also retain the 3 percent duty on business inputs under the Tariff Concession Scheme. In announcing its decision, the Government stated that it:

> …accepts the Productivity Commission's view that there are benefits to be obtained from the removal of the general tariff, but that such benefits would be relatively small.
>
> …We consider there would be benefit in holding these current arrangements for the present and moving to withdraw them at a time consistent with trade and fiscal objectives (Costello and Minchin 2000).

In May 2001, the Government announced changes to the Policy and Project By-Laws Scheme (PBLs) to "…increase the competitiveness of Australian industry, by encouraging involvement in major investment projects and global supply chains, and lower industry input costs." The major changes include (AusIndustry 2001):

- broadening the number of sectors covered by By-Laws, from mining, resource processing, agriculture, and food processing and packaging, to also cover manufacturing and gas supply;
- limiting the concession to capital goods not produced domestically or 'technologically superior' imports of capital goods in the case of manufacturing;
- defining eligibility in terms of 'functional units' (that is, stages of production), rather than individual capital good items, even though some individual goods can be produced in Australia; and
- applicants are required to provide an Australian Industry Participation Plan to demonstrate that Australian industry has been given 'full, fair and reasonable opportunity' to supply the proposed project.

The Government further stated:

> The new PBLs provide a positive response to the Productivity Commission's Review of Australian General Tariff Arrangements, deliver on industry requests for expanded eligibility, remove the limiting criteria for split consignments, and reduce compliance costs by consolidating administration in a one-stop-shop … The new arrangements also deliver on the Government's commitment in response to the Liquefied Natural Gas Action Agenda for a by-law that caters for the needs of major projects.

The new PBL arrangements are estimated to cost around $46 million per year in forgone tariff revenue (Minchin 2001d).

Passenger motor vehicles

PMV remains one of Australia's most highly assisted industries, although its assistance has declined significantly since the mid-1980s. This is largely explained by tariff phasing arrangements over the last decade. PMV tariffs were reduced gradually from 35 percent in 1992 to 15 percent by January 2000. In 1997, the Government announced that the PMV tariff will remain at 15 percent until January 2005, when it is scheduled to fall to 10 percent. The Commission projects that the effective rate of tariff assistance for PMV will then be around 10 percent — still well over double the manufacturing average.

In January 2001, the Automotive Competitiveness and Investment Scheme (ACIS) replaced the previous PMV Export Facilitation Scheme. Under the ACIS, eligible firms can use transferable credits to reduce the customs duty payable on eligible imports. The scheme limits the benefits to 5 percent of sales for an individual firm in any year. Total import duty forgone under the scheme is capped at $2 billion over the five year period from 2001 over which the scheme will operate. The introduction of the ACIS was not expected to have a significant impact on measured assistance to the PMV industry, relative to the earlier assistance arrangements.

Earlier, in September 2000, the *ACIS Administration Amendment Bill 2000* had altered the ACIS legislation to introduce administrative changes to the scheme. Among other things, the changes increased the discretionary powers of the regulator to determine what is 'approved' plant and equipment and 'approved' research and development for the purposes of the ACIS, and the 'maximum claimable value' of such investments under the ACIS (Minchin 2000c).

In December 2000, General Motors Holden announced that it would build a new engine plant in Victoria. The plant will require an initial investment of $400 million, with further investments of around $300 million by 2005 (Bracks 2000). The quantum of government assistance provided to Holden in relation to the plant is unclear. The Commonwealth Government acknowledged that the Victorian State Government had offered a special package to secure the Holden investment (Minchin 2000e), although the amount of any such assistance was not revealed by the Victorian Government. The Commonwealth Government also indicated that it had provided Holden with a Strategic Investment Incentive of $12.5 million, and that Holden would also be eligible to obtain funds for the investment under the new ACIS (Minchin 2001a).

In March 2001, the South Australian Government announced that Mitsubishi Motors had accepted a State-funded loan package to the value of $20 million. The loan is interest-free, and the need to repay it is contingent on certain export market and job creation targets being met. In the event that these targets are reached, only half of the loan is required to be repaid.

The Commonwealth Government also announced a grant of $500 000 to Mitsubishi Motors to assist the company to develop feasibility plans for future production in Australia. The grant is to be matched by the South Australian Government and Mitsubishi Motors. The Government also held discussions with Mitsubishi Motors to explain the benefits available to the company from the Government's $2 billion ACIS scheme (Minchin 2001c).

In the May Budget, the Commonwealth Government announced that registered businesses would be able to claim full GST input tax credits on fleet vehicles, thereby reducing the cost of motor vehicles to businesses by around 9 percent. The Government noted that:

> Almost half of the passenger motor vehicles sold in Australia in 2000 were fleet sales and of these almost 70 percent were Australian made. A big beneficiary of this announcement will clearly be Australia's car makers (Minchin 2001e).

In July 2001, the Government introduced changes to *the Motor Vehicle Standards Amendment Bill 2001*. In doing so, it noted that rising imports of used cars 'may undermine the passenger motor vehicles plan'. Under the new arrangements:

- the new Low Volume Scheme will restrict the importation of used vehicles (except used motorcycles) to 'specialist' and 'enthusiast' vehicles and prevent importation of what are effectively standard vehicles;
- a new scheme will regulate registered automotive workshops; and
- imported used vehicles are required to be modified by registered automotive workshops, on a vehicle by vehicle basis, to comply with appropriate national standards.

The Office of Regulation Review considered that the Regulation Impact Statement accompanying the Bill did not satisfy the Government's stated requirements.

In November 2001, the Victorian Government announced that the Ford Motor Company had decided to invest $500 million in Victoria to produce a new four-wheel-drive vehicle. The Victorian Government will provide assistance to the project largely in the form of payroll tax relief, with further assistance being provided through Government funding of industry infrastructure, training and R&D (Bracks 2001). The Premier reported that the level of assistance would be disclosed in departmental annual reports. The project will also receive assistance from the ACIS. The current tariff rate on 'off-road vehicles', including four-wheel-drive vehicles, is 5 percent.

Textiles, clothing and footwear

Like PMV, the TCF industry's assistance has declined significantly since the mid-1980s, but it remains one of Australia's most highly assisted industries. In 2000-01, TCF had an effective rate of tariff assistance of around 23 percent, with total (combined) assistance of around $800 million in net subsidy equivalent terms. Most TCF assistance is provided through tariffs. All TCF tariffs (apart from those already at rates of 5 percent or less) were reduced to rates of 25 percent, 15 percent or 10 percent in July 2000. TCF tariffs are to remain at these levels until January 2005, when tariffs on apparel and certain finished textiles, footwear and fabrics are scheduled to decline immediately to 17.5, 10 and 7.5 percent, respectively. The Commission projects that the effective rate of assistance for TCF will then be around 17 percent — still well over three times the manufacturing average.

A new package of budgetary assistance measures for the TCF industry — the main component of which is the TCF Strategic Investment Program (SIP) — commenced in July 2000 and is scheduled to run until 2005. The SIP is projected to cost $700 million over the five years. The main activities eligible for SIP funding are investment in new TCF plant and equipment, R&D and product development. Total benefits under the scheme are subject to a limit of 5 percent of sales of eligible products in the previous year. The SIP also provides regional adjustment assistance in the form of payments to assist the purchase of 'state of the art' second hand plant and equipment where existing firms have consolidated or merged.

This year, several changes were made to the operation of the SIP under ministerial directions. In March 2001, the Government introduced new features to the design of the scheme (Minchin 2001h):

- claims for eligible expenditure incurred in two years prior to the commencement of the SIP and the first year of the scheme (ie 1998-99 to 2000-01) now receive the assistance in full;
- the SIP has been extended to also cover knitting mills and clothing manufacturing activities that operate on a fee or commission basis or use materials transferred from other entities; and
- a built-in mechanism now allows the transfer of SIP's benefits to new owners of SIP recipient companies in the case of takeovers or buy-outs.

In May 2001, the Government announced further changes to the SIP to "…provide earlier and more flexible access to grant funding". The changes are intended to allow eligible firms to receive part of their grants 4-6 months earlier than they otherwise would (Minchin 2001h and 2001b), but do not alter the quantum of assistance. The policy change subsequently made available an advance payment to the receiver of the Bradmill Group to fund employees' entitlements and restructuring of the company (Minchin 2001j).

While the new assistance arrangements embodied in the SIP may have implications for the distribution of assistance within the TCF sector, assistance at the broad industry grouping level is unlikely to change significantly between 2000 and 2005.

Table 2.3 **Nominal rates of tariff assistance on outputs,[a] manufacturing subdivisions, 1989-90 to 2005-06, selected years**

percent

ANZSIC[b] Industry grouping								
Code	*Description*	*1989-90*	*1996-97*	*1997-98*	*1998-99*	*1999-2000*	*2000-01*	*2005-06*
21	Food, beverages and tobacco	5.0	2.2	2.2	2.2	2.2	2.2	2.2
22	Textiles, clothing, footwear and leather	37.6	14.7	13.8	12.8	11.8	10.7	8.0
23	Wood and paper products	9.5	3.9	3.9	3.8	3.8	3.7	3.7
24	Printing, publishing and recorded media	5.8	1.3	1.3	1.3	1.3	1.3	1.3
25	Petroleum, coal, chemical and associated products	6.4	2.3	2.3	2.3	2.3	2.3	2.2
26	Non-metallic mineral products	3.0	1.8	1.8	1.8	1.8	1.8	1.7
271-3	Basic metal products	4.0	1.9	1.9	1.9	1.9	1.9	1.9
274-6	Fabricated metal products	13.3	3.8	3.8	3.8	3.8	3.7	3.7
281	Motor vehicles and parts	28.0	9.5	8.5	7.6	7.1	6.8	5.2
282	Other vehicles	10.0	1.0	1.0	1.0	1.0	1.0	1.0
283-6	Other machinery and equipment	14.9	2.6	2.6	2.4	2.3	2.1	2.1
29	Other manufacturing	16.3	3.9	3.9	3.9	3.8	3.8	3.8
21-29	**TOTAL MANUFACTURING**	**10.5**	**3.5**	**3.4**	**3.3**	**3.2**	**3.1**	**2.8**

a Assistance provided by tariffs and certain non-tariff measures. **b** Industry subdivision and group from the Australian and New Zealand Standard Industrial Classification (ANZSIC) 1993 edition.

Source: PC estimates.

Table 2.4 **Effective rates of tariff assistance,[a] manufacturing subdivisions, 1989-90 to 2005-06, selected years**

percent

ANZSIC[b] Industry grouping								
Code	*Description*	*1989-90*	*1996-97*	*1997-98*	*1998-99*	*1999-2000*	*2000-01*	*2005-06*
21	Food, beverages and tobacco	4.5	4.4	4.5	4.6	4.5	4.6	4.6
22	Textiles, clothing, footwear and leather	85.5	32.2	30.1	27.9	25.6	23.2	16.9
23	Wood and paper products	13.9	5.5	5.5	5.5	5.5	5.6	5.6
24	Printing, publishing and recorded media	6.5	0.9	0.9	0.9	0.9	0.9	0.9
25	Petroleum, coal, chemical and associated products	11.0	3.9	3.9	3.9	3.9	3.9	3.7
26	Non-metallic mineral products	4.1	2.7	2.8	2.7	2.7	2.7	2.6
271-3	Basic metal products	7.5	3.0	3.0	3.0	3.0	3.0	3.0
274-6	Fabricated metal products	20.0	4.6	4.6	4.6	4.7	4.6	4.5
281	Motor vehicles and parts	54.9	21.3	18.4	16.4	14.9	14.1	10.2
282	Other vehicles	10.0	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6
283-6	Other machinery and equipment	19.8	2.7	2.6	2.3	2.2	2.1	2.0
29	Other manufacturing	24.7	4.8	4.6	4.6	4.7	4.7	4.7
21-29	**TOTAL MANUFACTURING**	**16.3**	**5.6**	**5.4**	**5.2**	**5.0**	**4.8**	**4.3**

a Assistance provided by tariffs and certain non-tariff measures. **b** Industry subdivision and group from the Australian and New Zealand Standard Industrial Classification (ANZSIC) 1993 edition.

Source: PC estimates.

2.4 Assistance to agriculture

The agricultural sector receives assistance from a wide range of government programs. Statutory marketing and regulatory arrangements form the major component of assistance to agriculture, with budgetary assistance (including R&D, adjustment assistance and tax concessions) and tariffs on outputs being less important. Economic assistance can also exist as a by-product of quarantine restrictions for many agricultural products. The assistance associated with the above measures is partly offset by tariffs and other taxes on the inputs used in agriculture.

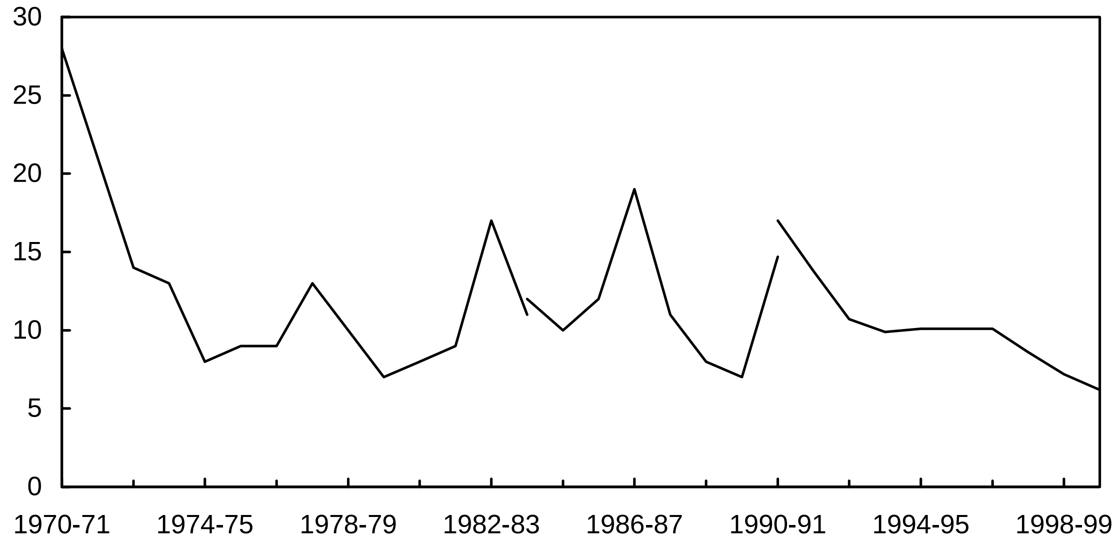
In this year's *Trade & Assistance Review*, the Commission has updated the estimates of assistance to agriculture to 1999-2000 — the latest year for which ABS value of production data are available (ABS 2001a). It also presents revised estimates for 1998-99, along with previously published estimates for earlier years. Nominal and effective rates of assistance for agriculture are reported in tables 2.5 and 2.6, and illustrated in figures 2.3, 2.4 and 2.5. The net subsidy equivalent (NSE) is presented in tables 2.7 and 2.8. The tables appear at the end of this section. The key estimates from these tables, together with related developments, are described and discussed below.

Trends in agricultural assistance

Average effective rates of assistance to agriculture since 1970-71 are presented in figure 2.3.

Assistance to agriculture has typically been more variable than assistance to manufacturing, with changes in estimated assistance reflecting more than just changes in assistance policies. These changes also reflect fluctuations in world commodity prices and in the value of output, as well as the counter-cyclical nature of many agricultural assistance programs. However, during the period of sustained high economic growth since the early 1990s, assistance to agriculture has on average trended downwards.

Figure 2.3 **Average effective rates of assistance for agriculture, 1970-71 to 1999-2000**[a]
percent



a Breaks in series reflect the effects of periodic revisions to industry inputs and outputs. These changes occur gradually over time, due to factors such as changing technology and relative input and output prices.

Data source: PC estimates.

Assistance in 1999-2000

Assistance levels

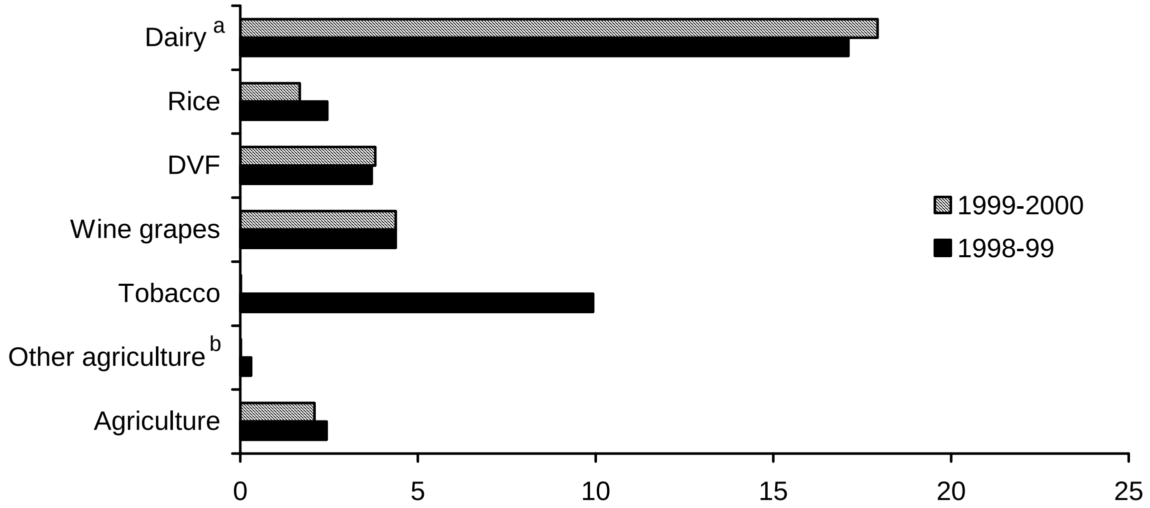
Overall, assistance to agriculture was lower in 1999-2000 than in 1998-99.

- The average *nominal* rate of assistance to agriculture fell by around half a percentage point to 2 percent. Only a few agricultural industries had nominal rates of more than one percent. These were manufacturing milk, market milk, rice, dried vine fruit and wine grapes. Nominal rates rose slightly for the dairy and dried vine fruits industries, while rates fell for the rice industry. Nominal rates also fell significantly for the tobacco industry following the completion of transitional arrangements put in place as part of the industry's restructuring program in 1995 (see IC 1996b) (figure 2.4).
- The average *effective* rate of assistance for agriculture fell from 7 percent to 6 percent in 1999-2000. There were slight rises in effective rates for dairy, sugar, dried vine fruits and wine grapes industries. There were falls for the rice, wheat and tobacco industries — significant in the case of tobacco. The dairy industry remained by far the most highly assisted agricultural industry in 1999-2000, with an effective rate of 52 percent, although assistance is likely to have fallen somewhat following the deregulation of the industry in July 2000 (see below). Sheep meat, beef, wheat, eggs, poultry, bananas, vegetables, apples and pears, oilseeds and tobacco all had effective rates of two percent or less (figure 2.5).
- The *NSE* for agriculture fell by 9 percent, from $719 million to $657 million. The fall in NSE reflects falls in output assistance ($52 million) and assistance to value adding factors ($14 million), while input assistance increased slightly ($4 million) (see table 2.8). Among the different agricultural activities, milk production enjoyed the largest NSE of $463 million in 1999-2000, up slightly from $453 million in the previous year. Other activities with high NSEs include wine grapes ($40 million), beef ($32 million), wool ($26 million), wheat ($22 million) and sugar ($20 million) (table 2.7).

The variation in assistance across agricultural commodities increased slightly in 1999-2000. The standard deviation of the effective rate increased from 29 percentage points to 32 percentage points, while the standard deviation of the nominal rate remained unchanged at 8 percentage points.

Figure 2.4 **Nominal rates of assistance to agricultural commodities, 1998-99 and 1999-2000**

percent

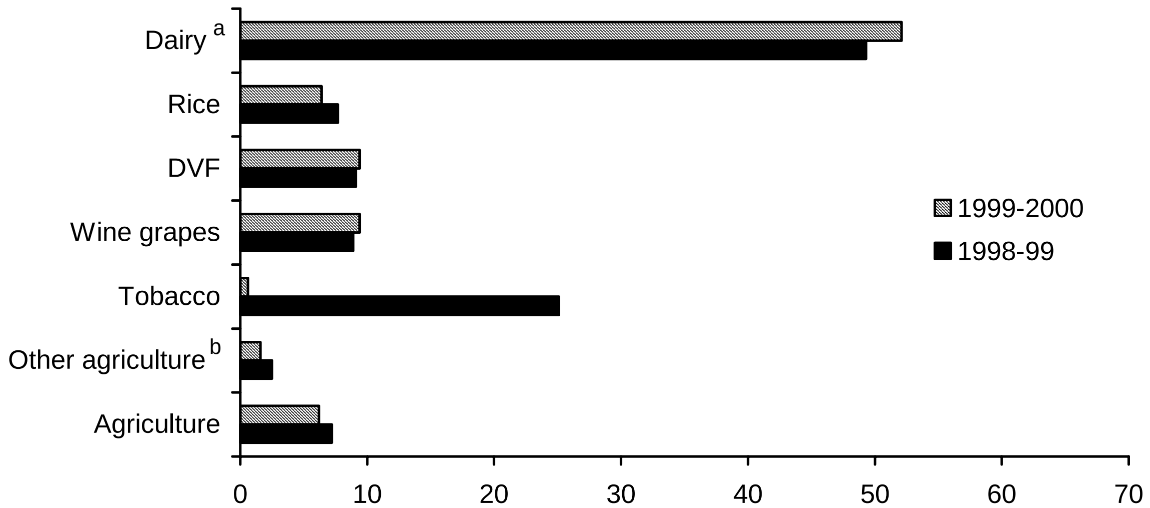


[a] Support to the dairy industry is expected to decline significantly in 2000-01. See text. [b] Other agriculture includes: sheep meat, wool, beef, eggs, poultry, pig meat, wheat, barley, oats, maize, sorghum, apples and pears, citrus, deciduous canning fruits, bananas, vegetables, sugar, cotton and oilseeds. All these sectors have nominal rates below 1.5 percent.

Data source: PC estimates.

Figure 2.5 **Effective rates of assistance to agricultural commodities, 1998-99 and 1999-2000**

percent



[a] Support to the dairy industry is expected to decline significantly in 2000-01. See text. [b] Other agriculture includes: sheep meat, wool, beef, eggs, poultry, pig meat, wheat, barley, oats, maize, sorghum, apples and pears, citrus, deciduous canning fruits, bananas, vegetables, sugar, cotton and oilseeds. All these sectors have effective rates below 5 percent.

Data source: PC estimates.

Forms of assistance

Statutory marketing and regulatory arrangements were the most significant form of assistance in 1999-2000. These arrangements accounted for around 69 percent of the total agricultural NSE. Arrangements for market milk accounted for most of this (around 68 percent), while the remainder of the NSE was largely for manufacturing milk.

Research assistance accounted for 25 percent of the NSE, with support for wheat, beef, dairy, wool, sugar, barley, vegetables and sheep meat accounting for 70 percent of this total.

Revenue forgone from tax concessions was also a significant source of assistance, accounting for 8 percent of the NSE. Concessions for wheat, beef, dairy, wool, sugar, barley, and wine grapes accounting for around 70 percent of this total.

Adjustment assistance represented 6 percent of the NSE, the major beneficiaries being beef, wool, wheat, dairy and sheep meat producers who received 85 percent of the total.

Other forms of assistance include tariffs, specific industry programs and export incentives.

Developments in sectoral or industry-specific assistance

Assistance to agriculture has fallen over the last decade, in part due to an unwinding of statutory marketing arrangements applying in many agricultural industries. Recent changes in both industry and assistance arrangements for selected agricultural industries are discussed below.

Dairy

The dairy industry has long been one of the most highly assisted and regulated industries in Australia. Industry regulation, and its associated assistance, has traditionally split the dairy industry into two distinct parts, market milk and manufacturing milk. Market or drinking milk is produced for direct human consumption, while manufacturing milk is used to make a variety of processed food products, like butter, cheese and milk powders.

Assistance in 1999-2000

In 1999-2000, the dairy industry received most of its assistance from two main sources. Manufacturing milk producers received most of their assistance from the Domestic Market Support Scheme (93 percent of the NSE in 1999-2000), administered by the Commonwealth, while market milk producers received assistance largely from State government regulatory price and production controls (99 percent of the NSE in 1999-2000).

The effective rate of assistance for dairy increased from 49 percent in 1998-99 to 52 percent in 1999-2000. The rate for manufacturing milk rose slightly, from 18 to 19 percent, while the rate for market milk remained above 200 percent.

The assistance provided to the dairy industry dominates the estimates for the agriculture sector. If the dairy industry were excluded, the 1999-2000 effective rate of assistance for agriculture would fall from 6 percent to 2 percent.

The post-deregulation adjustment package

The dairy industry was (largely) deregulated on 1 July 2000. This involved the removal of all pre-1 July 2000 Commonwealth and State Government marketing regulations covering the industry. The deregulation of the dairy industry also removed the artificial distinction between market and manufacturing milk at the farm-gate level.

As part of the deregulation process, in September 1999 the Commonwealth announced, at the request of the dairy industry, that it would provide a Dairy Industry Adjustment Package (DIAP). The DIAP, totalling $1.78 billion, is funded by a Commonwealth levy of 11 cents per litre on retail sales of all liquid milk. The levy commenced on 8 July 2000 and, when announced, was expected to operate for around eight years.

The DIAP initially comprised three main sub-programs:

- the Dairy Structural Adjustment Program (DSAP), which provides $1.63 billion in equal quarterly payments to eligible farmers (and ex-farmers) over the 8 year life of the package;
- the Dairy Exit Program (DEP), providing an optional tax-free exit payment of up to $45,000 for eligible dairy producers wishing to leave the industry. The DEP runs until June 2002 and is expected to cost around $30 million; and

- the Dairy Regional Assistance Program (DRAP), providing $45 million to assist regional communities to adjust to dairy deregulation. The DRAP will run for three years until June 2003.

In November 2000, five months after the commencement of the new arrangements, the Commonwealth asked ABARE to report on the impact of deregulation on the Australian dairy industry. ABARE completed its report in January 2001. Among other things, ABARE projected that average farm gate milk prices would fall by around 25 percent in the year after deregulation in New South Wales, Queensland and Western Australia — the States in which dairy farmers had previously held market milk quotas (ABARE 2001).

In May 2001, the Commonwealth Government announced that it would provide additional assistance for the dairy industry. The additional measures comprised two main parts:

- a Supplementary Dairy Assistance Program (SDAP), providing an additional $139 million in payments to the dairy industry. SDAP payments are due to commence in the 2001-02 financial year; and
- a $20 million expansion of the DRAP.

The SDAP and expansion of the DRAP are also funded by the 11 cents per litre levy on retail sales of liquid milk. The Dairy Adjustment Authority (DAA) has advised that the Commonwealth Government has decided to extend the levy in order to fund these additional programs. The DAA now expects the levy to last for around 10 years.

The largest program in the DIAP, including the additional measures, is the DSAP, accounting for around 90 percent of total funding. To qualify for an entitlement to payments under the program, dairy farmers must demonstrate that they had an interest in a dairy farm enterprise on 29 September 1999, that also delivered milk during 1998-99. Entitlements are payable at a rate of 46.23 cents per litre for market milk and 8.96 cents per litre for manufacturing milk. The volume of market and manufacturing milk supplied by individual dairy farmers in 1998-99 is used to estimate total dollar payments from the program. These payments are then averaged over the 8 year life of the program and delivered in 32 equal quarterly instalments.

In 2000-01, the first year of the DIAP, payments from the DSAP are estimated to have been approximately $110 million and $90 million for market and manufacturing milk, respectively. This represents a significant reduction in support for the dairy industry compared with the previous arrangements. The DSAP delivered around $200 million in funding in 2000-01, while the previous

Commonwealth and State assistance arrangements are estimated to have provided around $450 million in assistance to the dairy industry in 1999-2000.

In addition to the Commonwealth support measures for the dairy industry, State governments have also provided support to compensate farmers for the removal of statutory marketing arrangements for market milk. The Western Australian Government has provided a dairy industry adjustment package worth $27 million, while other States have waived stamp duty relating to DSAP payments and some waived producer levies in 2000-01. State government support to dairy farmers, however, has not been in the form of direct or explicit compensation for the reduction in the value of milk quotas or the fall in the capital value of dairy farms following the removal of statutory price and production controls for market milk (ABARE 2001).

In April 2000, the Commonwealth Government directed the Australian Competition and Consumer Commission (ACCC) to monitor prices, costs and profits of businesses dealing with market milk product sales. The ACCC was required to monitor prices over a nine month period commencing three months before the introduction of the 11 cents per litre Dairy Industry Adjustment Levy in July 2000 and concluding six months later in early 2001. Among other things, the ACCC found that, across all categories of milk stocked by Australian supermarkets, the average retail price of drinking milk decreased by 12 cents per litre in the six months to December 2000. Despite these price falls, the ACCC also found that the total volume of drinking milk sold in Australia had remained relatively stable following deregulation (ACCC 2001).

Lamb

In July 1999, the United States imposed a tariff-rate quota on imports of fresh, chilled or frozen lamb, indicating that it was taking the action under the World Trade Organization (WTO) Agreement on Safeguards. Around 99 percent of US lamb imports are from Australia and New Zealand.

In response, the Commonwealth Government put in place a mechanism to allocate the US quota to lamb producers and announced an $18 million assistance package for lamb producers (see the *Trade & Assistance Review 1999-2000*). In October 1999, the Government lodged a complaint with the WTO, contending that the United States' measure is inconsistent with various articles of the WTO Safeguard Agreement.

The WTO final report, delivered in December 2000, found that the US should lift restrictions on imported Australian and New Zealand lamb. The US Government in turn appealed against this decision. In May 2001, however, the WTO Appellate Body rejected the US appeal (Truss 2001b).

In response, the US Government announced that it would remove tariffs on exports of Australian lamb, effective from 15 November 2001. The Commonwealth Government also announced that it would continue to provide levy relief for lamb producers until that date (Truss 2001e).

Wheat

In early 2000, the Commonwealth Government commissioned a three member committee to conduct a National Competition Policy review of the *Wheat Marketing Act 1989*. The review examined the arrangements which, among other things, give the Australian Wheat Board International (AWBI) Limited a 'single desk' monopoly over export sales of wheat. In particular, the committee was required to assess whether the legislation provides a net benefit to the Australian community compared with open competition in wheat marketing.

In a submission to the review, the Commission (PC 2000b) argued that the single desk is unlikely to generate net benefits for Australia or, indeed, for wheat producers themselves, because:

- a lack of marketing choice for wheat growers is likely to impair efficiency and innovation within the industry; and
- most if not all of any potential benefits of the AWBI's single desk could be achieved under competitive selling arrangements combined with, if necessary, targeted mechanisms that could promote industry-wide activities and exploitation of export premiums in identified markets.

The Commission considered that a desirable outcome of the review would be to limit compulsory arrangements to those markets or activities where benefits of compulsion demonstrably outweigh the costs, and to allow competition in all other markets and activities.

The Committee delivered its final report on 22 December 2000. Among other things, the Committee recommended that the 'single desk' be retained until 2004 when a review of the AWBI's operation of the 'single desk' by the Wheat Export Authority (WEA) is scheduled to take place. While the Committee did not find clear evidence that the 'single desk' provides a net benefit to the Australian community, it gave two main reasons for its recommendation to maintain the single desk. Firstly, the Committee considered that there were sufficient uncertainties surrounding the estimation of the costs and benefits of the single desk arrangements, hence giving rise to some uncertainty as to whether there are, or are not, net benefits to Australian wheat growers and to the Australian community from the 'single desk'. Secondly, the Committee argued that, by continuing the 'single desk' until the 2004 review, better evidence could be provided to determine if the 'single desk' delivered a net benefit to the Australian community. The Committee recommended that if no compelling case can be made in 2004 that there is a net public benefit, then the 'single desk' should be discontinued.

However, the Committee felt that the introduction of more competition into export wheat marketing in the future would be more likely to deliver net benefits to growers and to the wider community than would maintaining the current arrangements without modification. Accordingly, the Committee made the following additional recommendations:

- a three year trial liberalisation of the export trade, with the WEA issuing annual licenses to approved exporters rather than approving each sale as currently is required;
- a three year liberalisation of non-bulk (containers and bags) export trade; and
- a three year trial allowing bulk exports of durum wheat by exporters other than the AWBI Ltd.

In response, the Commonwealth Government announced that the AWBI's single desk arrangements for exporting wheat would remain, and that improvements will be made to the consent system operated by the WEA. The Government, however, decided not to proceed with the Committee's recommendation to deregulate the exports of durum wheat "as it would have meant amending the Wheat Marketing Act" (Truss 2001a).

Wool

In 1993, the Commonwealth Parliament passed the *Wool International Act*. Wool International was responsible for the disposal of the wool stockpile and for repaying the Commonwealth Government guaranteed debt accumulated under the Reserve Price Scheme. The reserve price scheme was established in the early 1970s with the objective of providing price stability to the wool industry by setting a 'floor price' for wool. The scheme collapsed in 1991 as wool production substantially exceeded demand, leading to the creation of the wool stockpile. The stockpile peaked in 1991 at 4.7 million bales with an associated debt of $2.8 billion.

In October 1998, the Commonwealth Government announced its intention to privatise Wool International, a statutory corporation, and to pass ownership and control of the wool stockpile to shareholders (or wool growers). In July 1999, Woolstock Australia Ltd was created from Wool International with the responsibility to continue the disposal of the remaining wool stockpile and its associated debt, while at the same time maximising the net return to shareholders. At the time, the wool stockpile comprised the equivalent of around 1.1 million bales of wool and net debt of $196 million.

In August 2001, Woolstock Australia Ltd announced that all of the wool stockpile had been sold, with its associated debt being retired in the 2000-01 financial year. Subsequently, the Commonwealth Government has introduced legislation into Parliament to enable Woolstock Australia to wind-up its operations (Truss 2001d).

In the short term, the end of the wool stockpile is expected by the Government to have a positive impact on wool prices, as wool will now be traded without the influence of a large stockpile on prices (Truss 2001c).

Citrus

The citrus industry receives assistance through tax concessions, research and development funding and tariffs. Tariffs provide the largest single source of assistance for the industry. While tariffs on imported raw citrus fruit are zero, tariff assistance is provided through the tariff on imports of Brazilian frozen orange juice.

In 1999-2000, tariff assistance for the citrus industry was estimated at $1.4 million, while the NSE was estimated at $3.2 million. Overall, the nominal and effective rates of assistance for the citrus industry were relatively low in 2000-01, at 0.6 percent and 2.2 percent, respectively.

In September 2001, the Commonwealth Government asked the Productivity Commission to undertake an inquiry into the citrus industry. The Commission is to report (by 27 March 2002) on the competitive situation and outlook for citrus growing and processing. The Commission is to examine whether any measures are necessary to enhance the industry's competitiveness, and whether a formal safeguards investigation is warranted (Truss 2001f).

Table 2.5 Nominal and effective rates of assistance by agricultural activity, 1995-96 to 1999-2000

percent

	Nominal rate of assistance[a]					*Effective rate of assistance*[b]				
Activity/commodity	*95-96*	*96-97*	*97-98*	*98-99*	*99-00*	*95-96*	*96-97*	*97-98*	*98-99*	*99-00*
Horticulture										
Apples and pears	..	..	..	..	..	..	1	1	..	..
Dried vine fruits[c]	5	6	6	4	4	11	18	15	9	9
Wine grapes	7	4	4	4	4	15	10	9	9	9
Citrus	1	1	..	1	1	4	3	3	3	2
Deciduous canning fruits	..	..	..	..	..	2	7	6	3	2
Bananas	..	..	..	..	..	1	1	1	..	..
Tobacco[d]	40	30	20	10	..	160	98	56	25	1
Vegetables	..	..	..	..	..	1	..	..	1	1
Average	**2**	**1**	**1**	**1**	**1**	**6**	**4**	**4**	**4**	**3**
Extensive cropping										
Wheat	1	1	1	1	..	4	5	5	5	1
Barley	..	..	..	..	..	1	2	2	2	2
Oats	..	..	..	..	..	1	1	3	3	3
Maize	..	..	..	..	..	1	2	4	2	2
Sorghum	..	..	..	..	..	1	2	3	2	2
Oilseeds	..	..	..	..	..	4	2	1	1	1
Average	**1**	**1**	**1**	**1**	**..**	**3**	**4**	**4**	**4**	**1**
Extensive irrigation and high-rainfall crops										
Sugar[e]	4	4	..	..	..	15	15	3	4	6
Cotton	..	..	..	..	..	3	..	..	2	2
Rice[f]	2	3	2	2	2	8	10	8	8	6
Average	**2**	**2**	**..**	**..**	**..**	**10**	**8**	**2**	**3**	**4**
Extensive grazing										
Beef	..	..	..	..	..	5	5	3	2	1
Wool	2	1	1	..	..	9	6	4	4	3
Sheepmeat	..	..	..	..	..	3	3	2	1	1
Average	**1**	**..**	**..**	**..**	**..**	**6**	**5**	**3**	**2**	**2**
Intensive livestock										
Pigs	..	..	..	..	..	5	4	3	3	2
Poultry	..	..	..	..	..	11	3	..	1	1
Eggs[g]	2	..	..	..	..	8	4	2	1	1
Milk production	19	22	21	17	18	56	70	62	49	52
Manufacturing milk	8	8	7	7	7	21	23	18	18	19
Fresh milk[h]	53	67	64	50	55	>200	>200	>200	>200	>200
Average	**11**	**13**	**11**	**10**	**10**	**42**	**47**	**41**	**34**	**35**
Total agriculture										
Average	**3**	**3**	**3**	**2**	**2**	**10**	**10**	**9**	**7**	**6**
Standard deviation[i]	**(9)**	**(11)**	**(10)**	**(8)**	**(8)**	**(33)**	**(55)**	**(50)**	**(29)**	**(32)**

Table 2.5 **continued**

.. between -0.5 and 0.5 percent. **a** Average nominal rates on outputs are weighted by the unassisted value of output of each activity. **b** Average effective rates are weighted by the unassisted value added of each activity. **c** The estimates of assistance to sultanas are based on a comparison of the lower of either domestic or constructed import parity returns with the export returns. **d** Based on transfers derived by applying the price differential between Australian green leaf and comparable imported green leaf to the domestic sales of Australian leaf. Following the removal of the local leaf content scheme in January 1995, the methodology used for calculating producer transfers was revised for the 1995-96 estimates. **e** Producer transfers were estimated in accordance with the industry formula used for dividing raw sugar returns between millers and growers. **f** Estimated by comparing domestic and export prices for medium and long-grain rice. **g** Estimates are derived using a weighted average of retail prices for eggs in the deregulated States to determine a benchmark retail price. This benchmark price is compared with the average retail prices in the regulated States in order to make an estimate of assistance provided to retailers. Finally, this retail-level assistance is estimated on a pro-rata basis from the value of retail prices to provide an estimate of assistance at the farm gate-level. **h** The producer transfer was estimated by multiplying the difference between the fresh milk price and the local manufacturing milk price plus an allowance of 20 percent of the average Australian manufacturing milk price to represent the cost of assurance of out-of–season supply. **i** The standard deviation measures the extent of variation (or dispersion) in a distribution. The larger the variability among individual activities' nominal and effective rates, the larger the standard deviation.

Source: PC estimates.

Table 2.6 **Average nominal and effective rates of assistance, by 3-digit ANZSIC[a], 1995-96 to 1999-2000**

percent

		Nominal rate of assistance on output[b]					*Effective rate of assistance*[c]				
	Activity/commodity description	*95-96*	*96-97*	*97-98*	*98-99*	*99-00*	*95-96*	*96-97*	*97-98*	*98-99*	*99-00*
Code											
011	Horticulture and Fruit Growing	2	1	1	1	1	5	3	3	3	4
012	Grain, Sheep and Grain Beef Cattle Farming	1	1	1	..	..	5	5	4	3	2
013	Dairy Cattle Farming	19	22	21	17	18	56	70	62	49	52
014	Poultry Farming	..	..	..	..	..	10	3	1	1	1
015	Other Livestock Farming	..	..	..	..	..	5	4	3	3	2
016	Other Crop Growing	3	2	..	..	..	12	9	2	3	3
01	**Agriculture**	**3**	**3**	**3**	**2**	**2**	**10**	**10**	**9**	**7**	**6**

.. Between 0 and 0.5 percent. **a** Industry subdivision and group from the Australian and New Zealand Standard Industrial Classification (ANZSIC). **b** Average nominal rates on outputs are weighted by the unassisted value of output of each activity. **c** Average effective rates are weighted by the unassisted value added of each activity.

Source: PC estimates.

Table 2.7 **Net subsidy equivalents[a] by agricultural activity, 1995-96 to 1999-2000**

$ million

Activity/commodity	*95-96*	*96-97*	*97-98*	*98-99*	*99-00*
Horticulture					
Apples and pears	..	1	1	..	..
Dried vine fruits[b]	6	4	5	3	3
Wine grapes	38	28	36	41	40
Citrus	6	5	4	4	3
Deciduous canning fruits	..	2	1	1	..
Bananas	1	1	1	..	..
Tobacco[c]	13	11	7	4	..
Vegetables	7	..	1	6	6
Total	**71**	**52**	**56**	**58**	**53**
Extensive cropping					
Wheat	75	97	84	72	22
Barley	5	9	10	7	6
Oats	2	2	3	2	1
Maize	..	1	1	1	..
Sorghum	2	2	2	2	2
Oilseeds	4	3	2	4	3
Total	**89**	**113**	**102**	**87**	**35**
Extensive irrigation and high-rainfall crops					
Sugar[d]	67	66	14	17	20
Cotton	11	..	1	6	7
Rice[e]	7	12	10	10	7
Total	**85**	**78**	**24**	**33**	**34**
Extensive grazing					
Beef	81	74	54	38	32
Wool	99	77	54	36	26
Sheepmeat	15	14	10	7	6
Total	**195**	**165**	**118**	**81**	**64**
Intensive livestock					
Pigs	9	8	6	5	5
Poultry	12	3	1	1	1
Eggs[f]	6	3	2	1	1
Milk production	490	554	514	453	463
Manufacturing milk	167	170	140	143	152
Fresh milk[g]	323	384	374	310	311
Total	**518**	**569**	**522**	**460**	**470**
Total agriculture					
Total	**958**	**977**	**823**	**719**	**657**

.. Less than $0.5 million. **a** The net subsidy equivalent is the dollar value of the net assistance to the land, labour and capital resources used in a particular industry or activity. **b** The estimates of assistance to sultanas are based on a comparison of the lower of either domestic or constructed import parity returns with the export returns. **c** Based on transfers derived by applying the price differential between Australian green leaf and comparable imported green leaf to the domestic sales of Australian leaf. Following the removal of the local leaf content scheme in January 1995, the methodology used for calculating producer transfers was revised for the 1995-96 estimates. **d** Producer transfers were estimated in accordance with the industry formula used for dividing raw sugar returns between millers and growers. **e** Estimated by comparing domestic and export prices for medium and long-grain rice. **f** Estimates are derived using a weighted average of retail prices for eggs in the deregulated States to determine a benchmark retail price. This benchmark price is compared with the average retail prices in the regulated States in order to make an estimate of assistance provided to retailers. Finally, this retail-level assistance is estimated on a pro-rata basis from the value of retail prices to provide an estimate of assistance at the farm gate-level. **g** The producer transfer was estimated by multiplying the difference between the fresh milk price and the local manufacturing milk price plus an allowance of 20 percent of the average Australian manufacturing milk price to represent the cost of assurance of out-of-season supply.

Source: PC estimates.

Table 2.8 **Assistance to agriculture by form, 1995-96 to 1999-2000**

$ million

	1995-96	*1996-97*	*1997-98*	*1998-99*	*1999-00*
Assistance to outputs					
Domestic pricing arrangements[a]	504	571	509	449	453
Tariffs	66	55	36	42	38
Local content schemes	0	0	0	0	0
Export incentives	3	3	2	2	2
Export inspection services[b]	0	9	0	1	1
Marketing support	1	1	0	0	0
Government guarantees	85	80	57	52	0
Total[c]	**659**	**718**	**604**	**545**	**494**
Assistance to value-adding factors					
Adjustment assistance[d]	115	105	86	49	40
Agricultural research	155	161	161	164	165
Income taxation concessions	163	97	73	63	55
Natural disaster relief	1	1	0	0	0
Sugar industry program	2	4	3	4	6
Total	**436**	**368**	**323**	**279**	**265**
Assistance to inputs					
Disease control[e]	3	2	2	1	1
Tariffs on inputs[f]	-80	-61	-56	-57	-52
Tariffs on plant and machinery[f]	-61	-50	-50	-50	-52
Total	**-138**	**-109**	**-104**	**-106**	**-102**
Net Subsidy Equivalent	**958**	**977**	**823**	**719**	**657**

.. Between – 0.5 and 0.5 million. Figures may not add due to rounding. **a** For 1995-96 to 1998-99, estimates include transitional assistance to tobacco following the removal of the local content scheme in January 1995. **b** Based on shortfalls from 100 percent cost recovery. **c** Equal to the Gross Subsidy Equivalent. **d** Figures reflect actual Commonwealth interest subsidies and grants provided to producers. **e** Covers assistance provided by the bovine brucellosis and tuberculosis eradication campaign, and the tuberculosis freedom assurance program. **f** The additional costs incurred due to assistance raising the prices of inputs. The current series includes the effect of tariffs on materials used in non-traded inputs.

Source: PC estimates.

2.5 Assistance to mining

A number of government policies have significant impacts on the mining industry. These include native title legislation which may affect land tenure and land access, environmental regulation, and prescribed royalty levels which vary between firms. By contrast, tariffs and budgetary assistance do not effect mining substantially.

As reported in chapter 4, budgetary assistance for the mining sector is low — $284 million, which is equivalent to around 1 percent of mining gross value added, in 2000-01. The mining industry is assisted mainly through the development allowance and the R&D tax concession.

As a capital-intensive industry, tariffs on imported capital inputs have a negative effect on mining. The industry receives limited assistance from import tariffs. Chalk, slate, marble, granite, sandstone, mica, steatite and other monumental and building stones are subject to a 5 percent import tariff.

The mining industry's net subsidy equivalent from tariff assistance (NSE) for 2000-01 was negative, at -$153 million. This means that the overall effect of tariffs represented a tax on the industry, rather than a subsidy. Based on the tariff schedules outlining future reductions in tariffs, the Commission estimates that, by 2005-06, the NSE will remain negative at -$146 million. This would represent a modest $7 million gain to the mining industry compared with its situation in 2000-01. The effective rate of assistance for mining was marginally negative between 1996-97 and 2000-01 and is expected to remain so up until 2005-06 (table 2.9).

Table 2.9 **Tariff and budgetary assistance to the mining industry[a], 1996-97 to 2005-06, selected years**

$ million

	1996-97	*1997-98*	*1998-99*	*1999-2000*	*2000-01*	*2005-06*[b]
Gross subsidy equivalent (tariffs)	1.5	1.7	1.8	1.9	2.0	2.0
Tax equivalent on materials (tariffs)	123.1	132.0	135.3	148.8	155.4	148.0
Net subsidy equivalent (tariffs)	-121.6	-130.2	-133.5	-146.8	-153.4	-146.0
Net subsidy equivalent (budgetary)	455.4	302.7	266.0	260.9	284.1	na
Total net subsidy equivalent[c] (tariff and budgetary assistance)	333.8	172.4	132.5	114.1	130.6	na
Effective rate of tariff assistance[d]	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5

a 2000-01 and 2005-06 figures are estimates based on tariff schedules. **b** 2005-06 figures are in 2000-01 dollars. **c** The total net subsidy equivalent has been adjusted to take account of programs included in both tariff and budgetary assistance. **d** The effective rate of assistance is measured as a percentage change in returns per unit of output to an activity's value-added factors due to the assistance structure.

Source: PC estimates.

2.6 Anti-dumping and countervailing activity

Dumping is said to occur when a foreign supplier exports goods at a price below the 'normal value' of the goods in the supplier's home market. There is no single definition of normal value. The price of the good in the exporter's home market is generally used to determine the normal value, but alternatives such as the good's price in another export market or a constructed price are sometimes used.

Under WTO rules, a country can apply anti-dumping measures on dumped imports if they cause or threaten to cause material injury to a competing domestic industry.

Countries may also apply countervailing duties where imports — benefiting from certain forms of subsidies in the country of origin — cause, or threaten to cause, material injury to a domestic industry.

Like other measures that raise the price of imports, anti-dumping and countervailing measures can assist particular industries but can also impose higher costs on other domestic industries and consumers.

Australia's current anti-dumping and countervailing system, which took effect on 24 July 1998, was described in the *Trade & Assistance Review 1997-98* (PC 1998). The system is scheduled to be reviewed under National Competition Policy prior to June 2002.

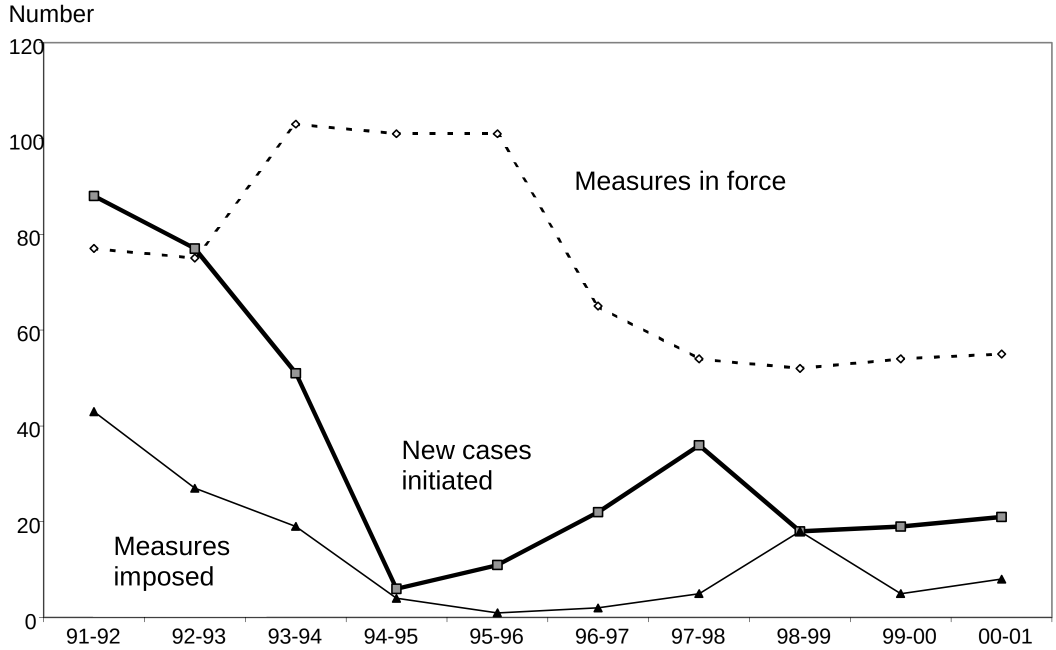
Recent anti-dumping and countervailing activity

Anti-dumping and countervailing activity is shown by three statistics: *initiations*, measures *imposed* and measures *in force* (figure 2.6). A case is *initiated* when a complaint of dumping or subsidisation is first made. If after investigation the case is found to have substance, the Customs Minister may *impose* measures to remedy the situation. These measures generally last for five years (though it is possible that measures may be extended at the end of this period) and the stock of these measures at any point is reported as measures *in force*.

The number of Australian *initiations* of anti-dumping and countervailing cases has been relatively stable over the past three years: 18 in 1998-99, 19 in 1999-2000 and 21 in 2000-01. The number of cases reported in 2000-01 is around three times that of 1994-95, but only around a quarter of the 1991-92 level. Only 1 of the 21 cases was a countervailing case. Table 2.10 lists the cases initiated in 2000-01.

The number of new measures *imposed* increased from 5 in 1999-2000 to 8 in 2000-01.

Figure 2.6 **Anti-dumping and countervailing activity[a], 1991-92 to 2000-01**



[a] A measure or case is counted as an action applying to one commodity from one economy. If multiple economies are involved, they are counted as separate actions.

Data sources: ACS and PC estimates.

Table 2.10 **New Australian anti-dumping and countervailing initiations, 2000-01**

Commodity	*Exporting economy*
Air-conditioners for caravans	Italy
Bottled brandy	France
Copper tube	Korea
Disk brake rotors	China, Italy, Taiwan
Glyphosate	China
Heaters, gas water	Japan
Pineapple juice	Indonesia, Thailand
Pineapple, canned	Indonesia, Thailand
Polyols, flexible slabstock	Japan, Korea, Singapore, USA
Shelving kits	China, Thailand
Ring binders	Malaysia
Road sweeper units	United Kingdom
Wound skin closure strips	Germany

[a] Complaints formally initiated by industry. Initiations are defined as actions applying to one commodity from one economy.

Source: ACS.

The total number of measures *in force* have been relatively static over the last four years. As of 30 June 2001, there were 55 measures in force – one more than in 2000. This is around half of the roughly 100 measures that were in force between 1994 and 1997.

Industry incidence

The *Food & beverages, Chemical & petroleum products* and *Machinery & equipment* industries accounted for 17 of the 21 initiations in 2000-01 (table 2.11). In the case of the *Food & beverages* and *Chemical & petroleum products* industries, multiple initiations by one firm accounted for four of the five initiations. Three particular initiations — pineapple products, polyols flexible slabstock and disk brake rotors — accounted for over half of the initiations in 2000-01.

Table 2.11 **Anti-dumping and countervailing cases[a], by industry, 1995-96 to 2000-01**

							Six-year period	
Industry[b]	*1995 -96*	*1996 –97*	*1997 –98*	*1998 -99*	*1999 -2000*	*2000 -01*	*Total*	*Percent of total[c]*
Food and beverages	–	–	–	–	–	5	5	4
Textiles	–	–	1	5	–	–	6	5
Paper, paper products	–	–	14	2	5	1	22	17
Metallic minerals	–	–	–	–	–	–	–	–
Chemical and petroleum products	5	11	13	10	5	5	49	39
Non-metallic mineral products	–	2	1	–	5	–	8	6
Metal products manufacturing	2	–	3	1	4	1	11	9
Transport equipment	–	–	–	–	–	–	–	–
Machinery and equipment	3	1	–	–	–	7	11	9
Miscellaneous manufacturing	1	8	4	–	–	2	15	12
Total	**11**	**22**	**36**	**18**	**19**	**21**	**127**	**100**

– Nil. **a** Complaints formally initiated by industry. Cases are defined as actions applying to one commodity from one economy. Cases where dumping and subsidisation are alleged for the same economy and commodity are counted as two distinct initiations. **b** Based on Australian and New Zealand Standard Industry Classification subdivisions. **c** The sum of percentages for individual industries may not equal total due to rounding.

Source: ACS.

The pattern of initiations in 2000-01 is somewhat different from that in previous years. The 5 initiations in the *food & beverages* industry are the first in that industry since 1994-95, and the 7 initiations in the *machinery & equipment* industry are its first since 1997-98. Conversely there was only one case in the *paper & paper products* industry in 2000-01, in contrast with the 21 initiations in the previous three years. The *chemical & petroleum products* subgroup has had only 5 initiations in the past two years, but had more than 10 in each of the previous three years.

Country incidence

During 2000-01, Australian firms initiated anti-dumping complaints against firms from 13 economies (table 2.12). Of the 21 initiated complaints, 15 were against firms from Asia and a further five were against firms from the European Union.

Relative to import shares, the number of initiations against Australia's trading partners in North America and the European Union have been much lower than against economies in the Asian region. This trend continued in 2000-01, with the Asian region accounting for nearly three-quarters of total initiations, but approximately one-third of Australia's merchandise imports.

There have been no Australian initiations against imports from New Zealand since July 1990 when the two countries agreed to eliminate anti-dumping and countervailing actions in trans-Tasman trade under changes arising from the Closer Economic Relations Agreement. Since then, competition laws under the *Australian Trade Practices Act 1974* and the *New Zealand Commerce Act 1986* have covered anti-competitive conduct in trans-Tasman trade.

International trends

In 1999-2000, Australia accounted for 19 (or 7 percent) of the 257 anti-dumping and countervailing cases initiated internationally (table 2.13). This is an increase from the 13 (or 5 percent of cases) in 1998. This made Australia the fifth largest user of anti-dumping and countervailing duties in 1999-2000 (as opposed to sixth in 1998). The largest users of anti-dumping and countervailing duties in 1999-2000 were the European Union, the United States, India and Argentina. These countries accounted for more than half of the initiations in 1999-2000.

Australia had 53 measures in force in 1999-2000. This was 4 percent of the 1216 measures in force around the world. This left Australia as the sixth largest user of anti-dumping and countervailing duties in terms of the number of measures in force. The United States, the European Union, Canada, India and Mexico accounted for over two thirds of anti-dumping and countervailing measures in force in 1999-2000.

Table 2.12 **Australian initiations of anti-dumping and countervailing cases, by trading region and economy[a], 1995-96 to 2000-01**

Region/economy	*1995 -96*	*1996 -97*	*1997 -98*	*1998 -99*	*1999 -2000*	*2000 -01*	*Six-year period* Total	*Six-year period* Percent b
North America	**1**	**1**	***2***	***1***	***–***	***1***	***6***	***5***
Canada	–	–	1	–	–	–	1	1
United States	1	1	1	1	–	1	5	4
European Union	***3***	***7***	***13***	***3***	***3***	***5***	***34***	***27***
Austria	–	–	1	–	1	–	2	2
Belgium/Lux	1	–	1	1	–	–	3	2
Finland	–	–	1	1	1	–	3	2
France	–	–	2	–	–	1	3	2
Germany	–	3	3	–	–	1	7	5
Italy	–	–	1	–	–	2	3	2
Netherlands	–	1	2	–	–	–	3	2
Sweden	–	2	1	–	–	–	3	3
UK	2	–	1	1	1	1	6	5
Other EU	–	1	–	–	–	–	1	1
Asia	***5***	***9***	***13***	***9***	***15***	***15***	***66***	***52***
China	1	3	2	–	1	3	10	8
Hong Kong	–	–	1	–	–	–	1	1
India	–	1	1	–	1	–	3	2
Indonesia	–	1	3	2	5	2	13	10
Japan	–	–	1	–	1	2	4	3
South Korea	2	–	2	1	2	2	9	7
Malaysia	1	1	–	2	1	1	6	5
Singapore	–	–	1	1	1	1	4	3
Thailand	1	1	–	2	1	3	8	6
Taiwan	–	2	2	1	2	1	8	6
Other	***2***	***5***	***8***	***5***	***1***	***–***	***21***	***16***
Saudi Arabia	–	–	–	2	–	–	2	2
South Africa	2	–	3	–	–	–	5	4
Other	–	5	5	3	1	–	14	11
Total	**11**	**22**	**36**	**18**	**19**	**21**	**127**	**100**

– Nil. **a** Cases are defined as actions applying to one commodity from one economy. Cases where dumping and subsidisation are alleged for the same economy and commodity are counted as two distinct initiations. **b** The sum of the percentages for the individual economies may not add to the regional totals due to rounding.

Source: ACS.

Table 2.13 **International anti-dumping and countervailing actions, 1998 and 1999-2000**

Country	*Initiation*		*Provisional measures*		*Definitive duties*		*Price undertakings*		*Measures in force*		*Percent of total measures in force*[c]	
	1998[a]	*99-00*[b]	*1998*[a]	*99-00*[b]	*1998*[a]	*99-00*[b]	*1998*[a]	*99-00*[b]	*1998*[a]	*99-00*[b]	*1998*[a]	*99-00*[b]
US	34	30	34	45	17	43	1	4	386	346	35	28
EU	29	57	30	32	23	24	10	14	164	203	15	17
Mexico	12	7	7	6	5	5	1	–	95	90	9	7
Canada	9	16	9	17	10	21	1	–	82	95	7	8
Australia	13	19	16	4	15	5	2	–	63	53	6	4
Turkey	1	2	–	–	–	8	–	–	34	13	3	1
Argentina	8	23	4	7	15	10	–	10	42	48	4	4
Brazil	17	17	2	6	14	12	–	–	34	48	3	4
South Africa	42	13	33	9	12	16	–	–	57	43	5	4
New Zealand	1	6	–	–	2	–	–	–	29	15	3	1
India	33	27	22	44	–	32	–	–	49	91	4	7
South Korea	3	4	4	4	6	–	2	2	28	27	3	2
12 WTO Members	**202**	**221**	**161**	**174**	**119**	**176**	**17**	**30**	**1063**	**1072**	**96**	**88**
All WTO Members	**249**	**257**	**184**	**206**	**127**	**204**	**19**	**21**	**1111**	**1216**	**100**	**100**

– Nil. **a** The reporting period covers 1 January to 31 December 1998. **b** The reporting period covers 1 July 1999 to the 30 June 2000. Due to a change in WTO reporting standards, comparable data for the six months from 1 January 1999 and 30 June 1999 is not available. **c** The sum of the percentages for individual countries may not equal the total due to rounding

Source: WTO (1999 and 2001a).