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## 3 National assistance estimates

The Commission and its predecessors have published estimates of industry assistance since the early 1970s. The estimates initially were focussed on the main forms of import protection for the manufacturing sector and domestic marketing arrangements for agriculture. Over time, the Commission has expanded its coverage to include a broad array of assistance measures touching all sectors of the economy.

The data and estimates reported in this chapter cover:

- Commonwealth budgetary assistance applying to all sectors;
- State and Territory budgetary assistance;
- tariff assistance, which assists mainly the manufacturing sector;
- agricultural regulatory and pricing assistance;
- trade restrictions in the services sector;
- anti-dumping measures; and
- ‘combined’ assistance for all sectors, and effective rates of combined assistance for the manufacturing, primary production and mining sectors.

The Commission’s estimates do not aim to capture all government support for industry (box 3.1). Further, the Commonwealth budgetary assistance estimates have been compiled on a different basis from those for the States and Territories. The Commonwealth budgetary estimates also contain some measures that are counted in the tariff assistance estimates (although the Commission adjusts for this when calculating ‘combined’ assistance). More generally, care is needed when drawing inferences from the estimates — in particular if attempting to compare assistance to the services sector with assistance to the three merchandise sectors.

The estimates of government assistance to industry in *Trade & Assistance Review* are intended principally to aid transparency and facilitate analysis. They do not of themselves indicate the policy merits, or the precise resource allocation effects, of different government assistance measures. Further guidance on the estimates is provided throughout this chapter and in the *Methodological Annex* to this year’s *Review* (PC 2002d).

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### Box 3.1 Coverage of the Commission's estimates

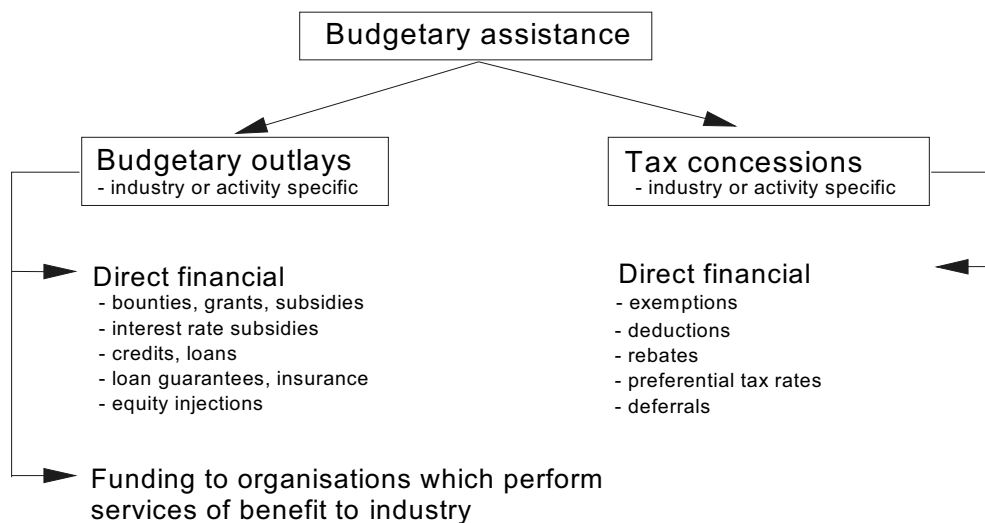
The Commission's assistance estimates cover only those measures which *selectively* benefit particular firms, industries or activities and which can be quantified given practical constraints in measurement and data availability. Exclusions from the estimates include:

- for agricultural industries, certain drought relief and any assistance effect that may be associated with quarantine restrictions, the underpricing of water resources or the absence of policies to address land degradation due to farming practices;
- government programs affecting a range of service industries, mainly relating to the provision of health and welfare, where funding predominantly benefits consumers and individual citizens;
- capital depreciation subsidies and the impact of tariffs on capital items;
- the effects of government purchasing preferences, particularly as they affect the manufacturing sector and IT industries; and
- in the case of the Commonwealth budgetary estimates, outlays on defence, health, education, professional sports and the arts industry, and the labour market.

## 3.1 Commonwealth budgetary assistance

Budgetary assistance comprises a range of outlays and tax concessions (figure 3.1). Recipients include individual firms, including those undertaking or utilising particular activities such as R&D, as well as particular industries or sectors.

Figure 3.1 Forms of budgetary assistance



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As well as reporting budgetary assistance by form, this year's *Review* also reports on:

- the activities — R&D, export, industry-specific support etc — to which Commonwealth budgetary assistance is directed; and
- the incidence of assistance across different sectors and industry groupings.

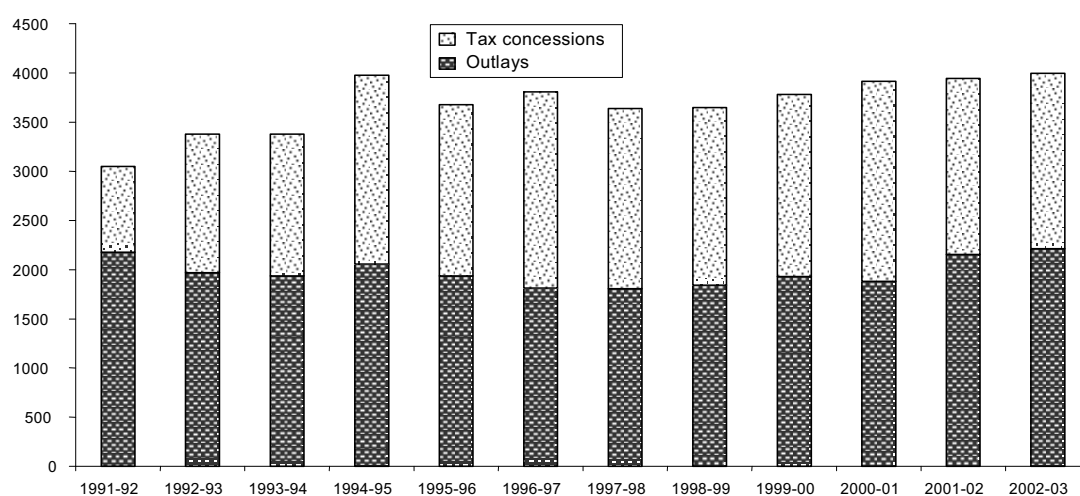
The assistance estimates in this section are derived primarily from the Commonwealth Budget Papers and Treasury's Tax Expenditure Statement. This year, the Commission has provided data on budgetary assistance up to 2002-03. The outlay figures up to 2001-02 are estimates, and those for 2002-03 are projections (based on Treasury forecasts). The tax concession figures up to 2000-01 are estimates, while those for 2001-02 to 2002-03 are projections. The estimates incorporate the Government's revisions of outlays and tax concessions for previous years. The Commission's approach to measuring Commonwealth budgetary assistance is explained in more detail in the *Methodological Annex*.

### Aggregate estimates and trends

The Commission's estimates and projections of (nominal) budgetary assistance and its main components for the twelve years to 2002-03 are shown in figure 3.2.

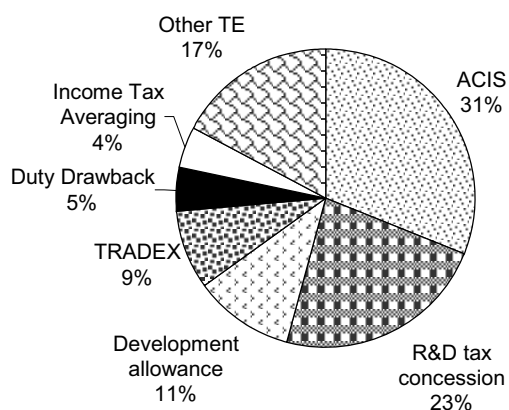
Following a reduction in 1997-98, total budgetary assistance has edged up again. Budgetary assistance was around \$3.9 billion in 2001-02 and is projected to reach \$4 billion in 2002-03, around the same level in nominal terms as in 1994-95.

Figure 3.2 **Commonwealth budgetary assistance to industry, 1991-92 to 2002-03**  
\$ million



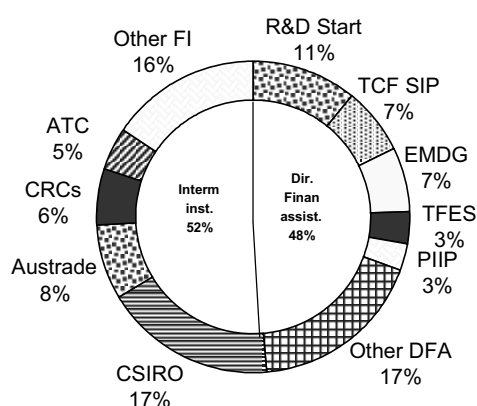
Data sources: Commonwealth Budget Papers; Treasury (2002); Commission estimates.

**Figure 3.3 Major Commonwealth tax concessions, 2001-02**



Data source: Commission estimates.

**Figure 3.4 Major Commonwealth budgetary outlays, 2001-02**



Data source: Commission estimates.

The main determinant of year-to-year changes in budgetary assistance is the impact of major tax concessions. Tax concessions can be open-ended, with no cap on revenue forgone. Thus, revenue forgone increases in response to growth in (successful) applications for assistance. The relatively high levels of budgetary assistance for the three-year period from 1994-95 to 1996-97 largely reflect the changes in the R&D tax concession, and the investment and development allowances, and the consequent increase in revenue foregone.

Tax concessions in 2001-02 totalled \$1.8 billion. The main tax concessions are the Automotive Competitiveness Investment Scheme (ACIS), the R&D tax concession and the Development Allowance (figure 3.3).

While the outlay category tends to be more stable than tax concessions, outlays increased by 15 per cent in 2001-02, reaching \$2.1 billion. Of this, about half was provided as direct financial assistance, with the other half comprising the funding of institutions such as the Australian Tourist Commission (ATC). As shown in figure 3.4, important outlays include Austrade's programs, R&D Start and the Innovation Investment Fund (IIF), and research by CSIRO, rural R&D corporations and cooperative research centres (CRCs).

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## Activities targeted

Budgetary assistance is often designed to encourage particular activities undertaken by firms across various industries and/or sectors. To provide an indication of the distribution of assistance amongst activities, the Commission classifies Commonwealth budgetary assistance into R&D, export, investment, and sectoral and adjustment measures (figure 3.5).

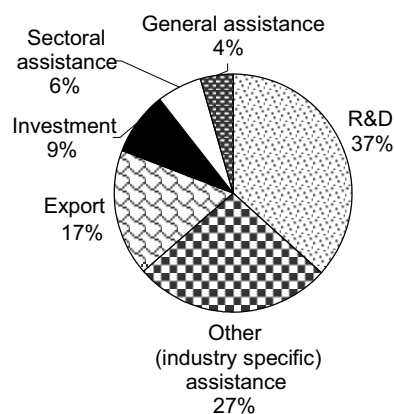
Caution is required in interpreting these estimates because particular programs may be designed to encourage more than one type of activity. In such cases, the Commission has allocated the program's total funding to the activity deemed to be the main target of the assistance. A further qualification is that the extent to which an activity that appears to be targeted by a program actually benefits from the assistance is not always clear. This reflects a lack of information on the operation of certain schemes and their economic effects.

As shown in figure 3.5, by far the largest shares of budgetary assistance involve R&D support and export assistance.

## Sectoral and industry distribution

As well as reporting budgetary assistance by form and activity, the Commission also estimates the incidence of budgetary assistance by the benefiting industry. It reports the incidence of assistance using a four sector classification of the Australian economy and a multiple industry classification.

Figure 3.5 Commonwealth budgetary assistance by activity<sup>a</sup>, 2001-02



<sup>a</sup> The assistance categories include general as well as specific schemes targeting an activity within an industry. For example, the *export assistance* category includes broad-based export measures (such as the Export Market Development Grants scheme) as well as industry-specific measures (such as funding for the Australian Tourist Commission) which also facilitate exports. The *sectoral assistance* category covers programs specifically benefiting producers in a sector or facilitating adjustment. The other general assistance category covers measures (such as the regional assistance program) not already included in the above categories.

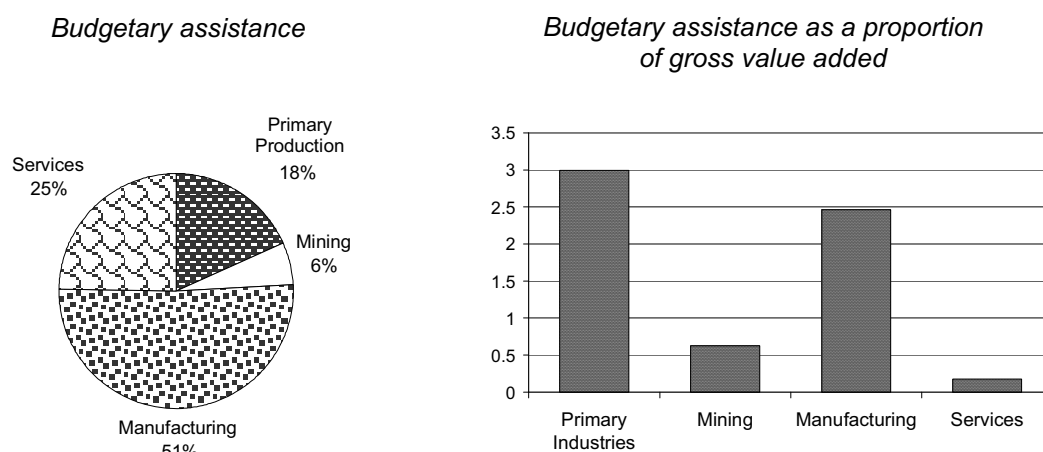
Data source: Commission estimates.

The methodology for allocating budgetary assistance among the sectors and industry groupings is discussed in the *Methodological Annex*. While the Commission has used detailed information to make these allocations, the need for judgment means that there remains some scope for imprecision.

Further, although the reporting of budgetary assistance by broad sectors and industries facilitates comparisons, it can conceal the significant variations in assistance between firms and industries within industry groupings. Indeed, many firms do not make any use of government programs. For example, a recent paper by Commission staff (Revesz and Lattimore 2001) found that the use of R&D and certain export programs between 1994 and 1998 ranged from 2 to 23 per cent of firms in the targeted activities.

Commonwealth budgetary assistance varies markedly between sectors, with the largest proportion directed to the manufacturing sector. As a proportion of gross value added — that is, relative to net industry output — budgetary assistance was highest for the primary production sector, followed by the manufacturing sector (figure 3.6).

**Figure 3.6 Commonwealth budgetary assistance by sector, 2001-02**



Data source: Commission estimates.

Table 3.1 below details the incidence of budgetary assistance by the Commission's 'industry grouping' classification. These groupings are not equivalent in size, so care is needed in drawing inferences from this data. Even so, *motor vehicles & parts* receives by far the most budgetary assistance — both in absolute terms and relative to its gross value added — reflecting the value of tariff concessions provided under the Automotive Competitiveness Investment Scheme.

**Table 3.1 Budgetary assistance by industry grouping, 2001-02 (\$ million)**

<i>Industry grouping</i>	<i>Budgetary outlays</i>	<i>Tax concessions</i>	<i>Total assistance</i>
<b>Primary production</b>	<b>529.2</b>	<b>133.4</b>	<b>662.6</b>
Dairy cattle farming	29.5	8.1	37.5
Grain, sheep and beef cattle farming	161.8	78.9	240.7
Horticulture and fruit growing	49.7	22.9	72.6
Other crop growing	67.4	12.5	79.9
Other livestock farming	11.0	3.8	14.8
Fisheries	49.6	10.8	60.4
Forestry and logging	39.6	0.9	40.5
Other <sup>a</sup> and unallocated primary production <sup>b</sup>	107.8	4.5	112.3
<b>Mining</b>	<b>75.6</b>	<b>136.4</b>	<b>212.0</b>
<b>Manufacturing</b>	<b>763.7</b>	<b>1099.3</b>	<b>1862.6</b>
Food, beverages & tobacco	55.2	26.6	81.8
Textiles, clothing, footwear & leather	189.3	26.9	216.2
Wood & paper products	31.8	8.2	40.1
Printing, publishing & media	22.3	1.5	23.8
Petroleum, coal, chemical & associated products	157.7	27.6	185.3
Non-metallic mineral products	11.7	7.5	19.2
Metal product manufacturing	47.5	73.2	120.7
Motor vehicles & parts	18.7	688.5	707.2
Other transport equipment	28.3	76.4	104.7
Other machinery & equipment	126.4	51.0	177.5
Other manufacturing	28.3	23.9	52.2
Unallocated manufacturing <sup>b</sup>	46.4	88.0	134.4
<b>Services</b>	<b>524.7</b>	<b>368.6</b>	<b>893.3</b>
Electricity, gas & water supply	20.7	61.1	81.8
Construction	29.4	9.5	38.9
Wholesale trade	13.2	35.8	49.0
Retail trade	25.2	6.8	32.0
Accommodation, cafes & restaurants	39.7	5.5	45.2
Transport & storage	53.5	37.2	90.6
Communication services	58.1	21.6	79.7
Finance & insurance	5.2	97.3	102.5
Property & business services	88.0	63.6	151.6
Government administration & defence	0.8	0.0	0.8
Education	11.7	1.3	13.0
Health & community services	37.1	3.0	40.1
Cultural & recreational services	86.2	25.2	111.4
Personal & other services	3.9	0.7	4.6
Unallocated services <sup>b</sup>	52.3	0	52.3
Unallocated other <sup>bc</sup>	261.6	52.0	313.6
<b>TOTAL<sup>d</sup></b>	<b>2154.8</b>	<b>1789.7</b>	<b>3944.1</b>

<sup>a</sup> Other primary production includes *services to agriculture* (including *hunting & trapping*) and *poultry farming*.

<sup>b</sup> Unallocated includes general programs where details of claimants and/or beneficiaries are unknown.

<sup>c</sup> Austrade export promotion expenditure, which was previously allocated, is now included in the *unallocated other* category. <sup>d</sup> Totals may not add due to rounding. Source: Commission estimates.

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## 3.2 State budgetary assistance

For this year's *Review*, the Commission has prepared estimates of the budgetary assistance to industry provided by the States and Territories (hereafter 'the States'), for the years 2000-01 and 2001-02. Similar estimates were last published as part of the Industry Commission's 1996 inquiry into *State, Territory and Local Government Assistance to Industry* (IC 1996).

This year's estimates have been drawn mainly from State budget papers, supplemented with additional information and feedback provided by State officials. The coverage of these estimates differs from the Commission's estimates of Commonwealth budgetary assistance (section 3.1) — for example, the estimates reported here include funding for professional sports and the arts industry.

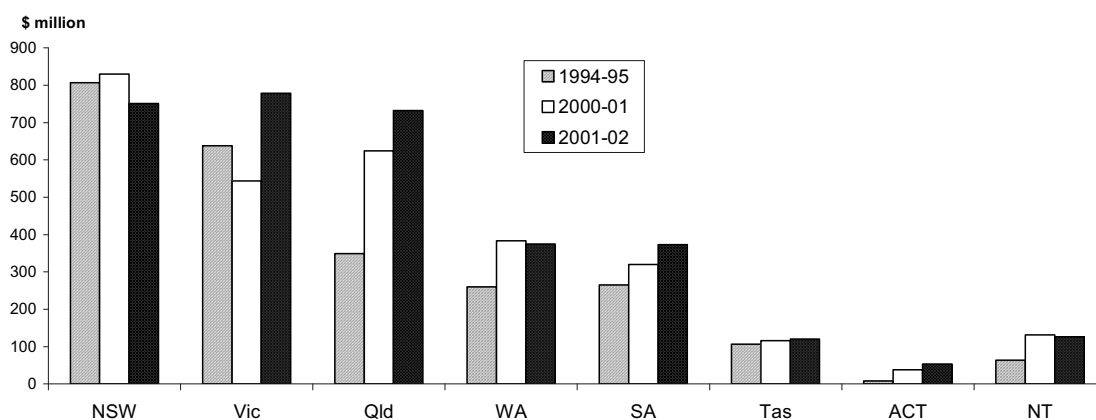
To differentiate between core industry assistance programs and programs that provide incidental assistance to industry, the Commission has classified the different State programs that assist industry according to their principal objectives. Data and information limitations mean that the estimates should be seen only as indicative, and caution should be exercised when making inter-jurisdictional comparisons. The data, methodology and classifications underlying the estimates are explained in appendix B, and detailed State-by-State data are presented in appendices C to J. As with the other estimates in this *Review*, the classification of a program as providing industry assistance does not of itself indicate whether the program has a sound public policy justification.

### Aggregate estimates and trends in outlays

The estimates indicate that the States outlaid around \$3.3 billion in 2001-02 on programs that provide assistance to industry. This figure comprises more than \$2.1 billion of expenditure on programs with industry development objectives, and up to \$1.2 billion on programs that provide incidental assistance to industry. The total represents an increase of 15 per cent in real terms over the equivalent figure for 1994-95.

At the level of individual States, the greatest growth in assistance provided through budgetary outlays has been recorded in Queensland (figure 3.7). In the case of Victoria, which has also recorded an increase, some substantial budgetary outlays recorded in the estimate for 1994-95 — specifically, subsidies to aluminium smelters — have now been moved 'off budget', suggesting that the actual growth in assistance has been greater than indicated in the figure.

**Figure 3.7 State outlays on assistance programs<sup>a</sup>, 1994-95, 2000-01 and 2001-02**



<sup>a</sup> The outlays data include some minor tax concessions that are included in State budget papers as part of the overall expenditure for an agency or investment incentive program.

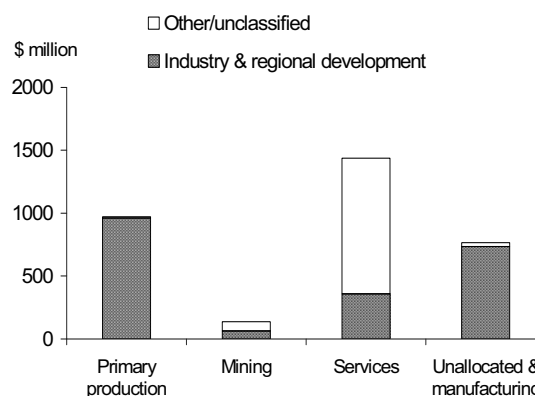
Source: Commission estimates.

### Sectoral distribution of outlays

The Commission has also developed broad estimates of the distribution of State budgetary outlays by sector. The limited information available about beneficiaries of some of the programs has caused the Commission to place a number of programs in the ‘unallocated’ category. That said, most of these programs come under the ambit of the relevant State departments with responsibility for industry or state development, and it appears likely that most of these programs predominantly assist businesses in the manufacturing sector.

The distributional pattern shows some differences compared with the pattern of Commonwealth budgetary assistance, with services receiving a larger share of the State outlay estimates (figure 3.8). This partly reflects the inclusion of funding for professional sport and the arts in the State estimates. Tourism also attracts significant State assistance. Even so, as a proportion of gross value added, primary production receives the most support from State budgetary outlays, probably followed by manufacturing.

**Figure 3.8 State outlays on assistance programs by sector, 2001-02**



Data source: Commission estimates.

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## State and Territory tax concessions

As well as providing assistance through budgetary outlays, State governments provide various tax concessions to businesses. These include tax holidays or concessions provided as part of incentive packages for individual businesses or projects (discussed in chapter 5). While these tend to represent a minor part of budgetary assistance, State governments also provide major exemptions in relation to payroll tax and land tax, among others. Some of these exemptions are directed specifically towards the social welfare-related industries, but others are available to businesses more widely.

Figures presented in the budgets of the five largest Australian States suggest that, in total, payroll tax exemptions to industries (other than social welfare-related industries) amounted to around \$3.2 billion in 2000-01. However, these estimates are incomplete and, for reasons set out in appendix B, can be considered to represent a lower bound on the payroll tax exemptions that the States provide for non-social welfare-related industries.

The Commission estimates that, across all States, payroll tax exemptions to non-social welfare industries were closer to \$5 billion in 2000-01. This represents an increase of around 60 per cent in nominal terms over the equivalent figure for 1993-94. The increase is predominantly due to growth in wages and salaries, and thus the potential tax take, rather than changes in the rate of State tax concessions (appendix B).

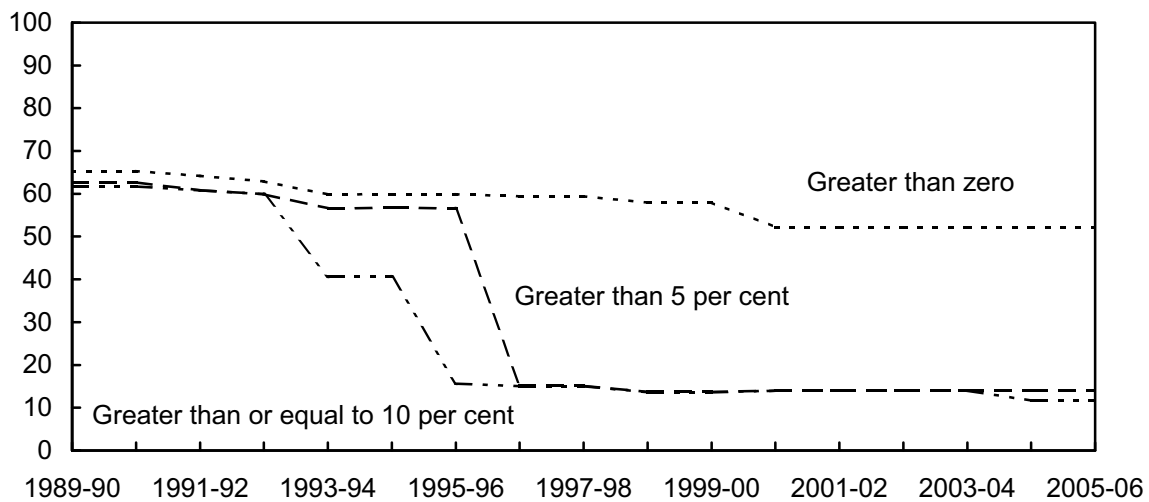
That said, the Commission emphasises that some portion of the payroll tax exemptions may be justified on tax-efficiency grounds — because up to some level of tax revenue, the costs of collecting and administering payroll taxes can exceed the revenue gained. While determining the optimal level of exemption is difficult, the current exemptions appear to significantly exceed the exemptions that could be justified on tax-efficiency grounds (appendix B).

### 3.3 Tariff assistance

Tariffs have a number of direct effects on the returns received by Australian producers. Tariffs on imported goods increase the price at which those goods can be sold on the Australian market, and thus allow scope for domestic producers of similar products to increase their prices. On the other hand, tariffs also increase the price of goods that are used as inputs and thus penalise local industries. This ‘penalty’ is reduced if tariff concessions are available to Australian producers. All of these effects are captured in the Commission’s estimates. The methodology underlying the Commission’s estimates of tariff assistance is set out in the *Methodological Annex*.

From the late 1980s to the mid-1990s, the proportion of items with general tariff rates greater than 5 per cent fell significantly (figure 3.9), reflecting a series of tariff policy changes over this period. A four-year program of phased reductions in tariffs commenced in 1988 and, in 1991, the Government announced the continuation of phased reductions in tariffs through to 1996. The remaining tariff items with general rates greater than 5 per cent are largely associated with just two industries, *textiles, clothing & footwear* (TCF) and *motor vehicles & parts* (MVP). However, these two industry groupings also experienced declines in tariffs during the 1990s.

**Figure 3.9 Proportion of tariff line items<sup>a</sup> for selected general rates<sup>b</sup>, 1989-90 to 2005-06<sup>cd</sup>**  
per cent



<sup>a</sup> A tariff line item is defined as an 8-digit import item as outlined in the Australian Customs Tariff Schedule.

<sup>b</sup> The general rate is defined as the rate of duty applicable to individual tariff line items. <sup>c</sup> 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. <sup>d</sup> Tariff rates exclude the excise component of general rates on excisable goods.

Data source: Commission estimates based on the Australian Customs Tariff.

The Commission estimates that the gross dollar value of tariff assistance on outputs was \$6.8 billion in 2001-02. Most tariff assistance is directed towards industries in the manufacturing sector (column 1, table 3.2). Indeed, the sector derives around three quarters of its total measured assistance from this source.

Mining and primary production industries receive little tariff assistance on outputs, and tariffs cannot be levied on services. In fact, because of their cost-raising effects on the industries' inputs, tariffs impose net penalties on all industries in these sectors, other than horticulture and fruit growing (column 2 in table 3.2).

**Table 3.2 Tariff assistance by industry grouping, 2001-02**

\$ million

<i>Industry grouping</i>	<i>Output assistance</i>	<i>Input assistance</i>	<i>Net tariff assistance</i>
<b>Primary production</b>	<b>45.7</b>	<b>- 94.7</b>	<b>-49.0</b>
Dairy cattle farming	0.0	-5.0	-5.0
Grain, sheep and beef cattle farming	0.0	-22.7	-22.7
Horticulture and fruit growing	39.8	-12.3	27.5
Other crop growing	0.0	-8.7	-8.7
Other livestock farming	0.0	-3.1	-3.1
Fisheries	0.1	-23.1	-23.0
Forestry	5.8	-11.4	-5.7
Other primary production <sup>a</sup>	0.0	-8.2	-8.2
<b>Mining</b>	<b>2.4</b>	<b>-178.7</b>	<b>-176.3</b>
<b>Manufacturing</b>	<b>6696.1</b>	<b>-2265.2</b>	<b>4431.0</b>
Food, beverages & tobacco	1170.2	-301.4	868.8
Textiles, clothing, footwear & leather	779.6	-164.3	615.2
Wood & paper products	504.6	-152.9	351.7
Printing, publishing & media	276.9	-109.3	167.6
Petroleum, coal, chemical & associated products	950.5	-296.5	654.0
Non-metallic mineral products	184.6	-42.3	142.3
Metal product manufacturing	957.8	-361.5	596.3
Motor vehicles & parts	1017.9	-305.9	712.1
Other transport equipment	44.8	-82.3	-37.5
Other machinery & equipment	517.7	-319.8	197.9
Other manufacturing	291.6	-128.9	162.7
<b>Services</b>	<b>36.2</b>	<b>-2335.0</b>	<b>-2298.8</b>
Electricity, gas & water supply	0.0	-53.3	-53.3
Construction <sup>b</sup>	3.8	-713.8	-710.0
Wholesale trade <sup>b</sup>	22.6	-177.7	-155.0
Retail trade	0.0	-202.0	-202.0
Accommodation, cafes & restaurants	0.0	-204.6	-204.6
Transport & storage	0.0	-177.2	-177.2
Communication services <sup>b</sup>	9.8	-69.7	-59.9
Finance & insurance	0.0	-48.1	-48.1
Property & business services	0.0	-254.2	-254.2
Government administration & defence	0.0	-184.8	-184.8
Education	0.0	-43.0	-43.0
Health & community services	0.0	-86.2	-86.2
Cultural & recreational services	0.0	-57.2	-57.2
Personal & other services	0.0	-63.2	-63.2
<b>TOTAL<sup>c</sup></b>	<b>6780.5</b>	<b>ne</b>	<b>ne</b>

<sup>a</sup> Other primary production includes *services to agriculture* (including *hunting and trapping*) and *poultry farming*. <sup>b</sup> Due to ABS industry-of-origin classification conventions, a small amount of output tariff assistance is recorded for these service industries. <sup>c</sup> Totals may not add due to rounding. **ne** not estimated.

Source: Commission estimates.

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Tariffs for MVP and TCF, which have been frozen since 2000, are scheduled to decline in 2005 (see chapter 4). Other industries to be affected by phasing arrangements are the *petroleum, coal & chemical products, fabricated metal products* and *other machinery & equipment* industries.

Other tariffs are likely to remain at their current rates of 5 per cent or less for the foreseeable future, although Australia is a signatory to the Bogor Declaration (APEC 1994) that commits industrialised countries in the Asia Pacific Economic Cooperation grouping (including Australia) to achieving ‘free and open trade and investment’ by no later than 2010.

### **3.4 Agricultural pricing and regulatory assistance**

Just as the manufacturing sector derives most of its assistance from tariffs and tariff concessions, so historically has the bulk of measured assistance to the agriculture sector been maintained through a range of statutory marketing arrangements, regulations and price supports.

While some of these schemes were dismantled in the 1980s, as recently as 1997 the Commission’s estimates incorporated assistance derived from statutory marketing arrangements for dairy, sugar, rice and eggs, a local content scheme for tobacco leaf and loan guarantees for borrowings by the wheat and wool boards. However, for the last few years, pricing and regulatory support have been limited to the rice and dairy industries.

Prior to 2000-01, assistance to the dairy industry was derived from a combination of State Government price and regulatory controls, which maintained high prices for drinking milk, and Commonwealth Market Support Payments for milk used in manufacturing. These arrangements provided dairy farmers with assistance of around \$450 million in 1999-2000.

These arrangements were terminated as part of the deregulation of the dairy industry in July 2000, although a levy was imposed on retail sales of drinking milk to fund an adjustment package for existing dairy farmers. The Commission estimates that these arrangements provided around \$180 million in 2000-01 to those farmers who have remained in the industry. Assistance increased again in 2001-02, to around \$250 million, as payments from the Supplementary Dairy Assistance Program — announced in May 2001 — came on stream (table 3.3). However, the Commission expects assistance to decline over the forthcoming years as these payments run out and as more dairy farmers exit the industry. (The effects of dairy industry deregulation are discussed in more detail in section 4.1 of chapter 4.)

The rice industry is centred in the Riverina in New South Wales and is far smaller than the dairy industry. It is assisted through statutory marketing arrangements which allow the NSW Rice Growers Co-operative to vest and market all rice grown in the state. This enables the domestic price of rice to be maintained at higher levels than would prevail under more competitive conditions. The Commission estimates that assistance derived from these arrangements was around \$7 million in 2001-02 (table 3.3).

Table 3.3 **Agricultural pricing and regulatory assistance, 1999-2000 to 2001-02**  
\$ million

<i>Industry grouping</i>	<i>1999-2000</i>	<i>2000-01</i>	<i>2001-02</i>
Dairy cattle farming	448.6	181.5	253.5
Other crop growing (rice)	4.2	9.7	6.6
Total <sup>a</sup>	<b>452.8</b>	<b>191.3</b>	<b>260.1</b>

<sup>a</sup> Totals may not sum due to rounding. *Source:* Commission estimates.

### 3.5 Restrictions on trade in services

Although many services are not traded across borders and are not subject to tariffs, domestic service suppliers can receive assistance through cross-border regulatory restrictions on, for example, the temporary or permanent immigration of personnel. Assistance also arises through domestic regulations that restrict competition within Australia. Entry requirements for foreign-trained doctors represents an example of the former, while restrictions on college places for local people wanting to train as doctors represent an example of the latter.

While measuring such restrictions is more difficult than measuring restrictions on trade in goods, the Commission — in collaboration with the Australian National University — has developed a methodology to gauge the impact of restrictions on trade in services. The methodology allows researchers to classify the different types of restrictions on trade in services, assess the nature and extent of these restrictions, and estimate the effect of the restrictions on the profit margin or price of services. The methodology was described in last year's *Review* (PC 2001). While it aims to capture the economic significance of various restrictive measures across countries, it inevitably involves a degree of subjective judgment as to the relative importance of different restrictions. Estimates of the price effects of the restrictions also need to be interpreted with caution.

Results from studies of restrictions in banking, distribution, the professions, telecommunications and maritime are outlined in table 3.4. Although their

underlying data sets are becoming dated, the studies provide an indication of the level and effects of trade restrictions on services trade in some key Australian sectors.

**Table 3.4 Trade restrictiveness indexes and their price effects for selected services**

	<i>Domestic<sup>a</sup></i>		<i>Foreign<sup>a</sup></i>		<i>Price effect<sup>b</sup></i>	
	<i>Maximum (country)</i>	<i>Australia (rank<sup>c</sup>)</i>	<i>Maximum (country)</i>	<i>Australia (rank)</i>	<i>Maximum (country)</i>	<i>Australia (rank)</i>
Legal	0.33 (Austria, Japan)	0.27 (24/29)	0.58 (France, Turkey)	0.42 (10/29)	ne	ne
Accountancy	0.31 (India)	0.16 (12/34)	0.63 (Philippines)	0.41 (18/34)	ne	ne
Architectural	0.25 (Canada)	0.03 (12/34)	0.44 (Austria)	0.15 (12/34)	ne	ne
Engineering	0.2 (Austria, Germany)	0.04 (15/34)	0.39 (Austria)	0.08 (6/34)	14.5 (Austria)	2.8 (6/20)
Distribution	0.26 (Korea)	0.03 (5/38)	0.40 (Malaysia)	0.10 (7/38)	ne	ne
Banking	0.27 (Malaysia)	- (1/38)	0.65 (Malaysia)	0.12 (22/38)	60.6 (Malaysia)	9.3 (21/38)
Telecommunications	0.47 (Turkey)	0.04 (7/38)	0.80 (Turkey)	0.04 (7/38)	138.4 (Indonesia)	0.3 (8/37)
Maritime	0.28 (Korea)	0.13 (14/35)	0.64 (Philippines)	0.42 (21/35)	ne	ne

<sup>a</sup> The restrictiveness index scores range from 0 to 1. The higher the score, the greater are the restrictions for an economy. <sup>b</sup> The price effect of restrictions is measured as a percentage. <sup>c</sup> Rank refers to the position of Australia relative to other countries in the study, where 1 is the least restrictive economy. For example, 24/29 means Australia is the 24<sup>th</sup> least restrictive economy of the 29 economies included in the study — that is, there are five economies more restrictive than Australia. **ne** Not estimated. - Nil.

*Sources:* Kalirajan (2000); Nguyen-Hong (2000); Kalirajan et. al. (2000); McGuire and Schuele (2000); McGuire, Schuele and Smith (2000); Warren (2000a); Warren (2000b).

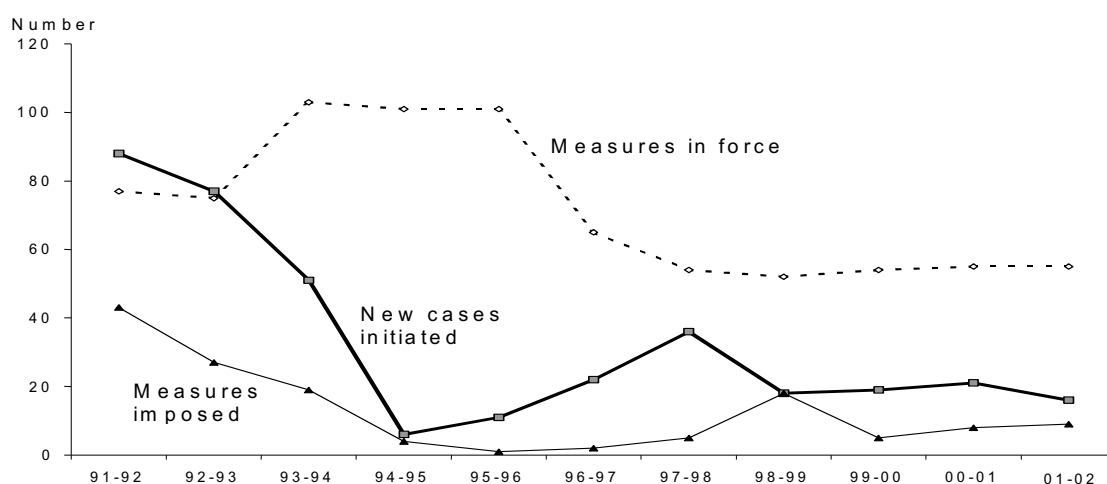
The estimates indicate that, by international standards, Australia's restrictions are moderate or low. Some price impacts also appear limited — less than one per cent in the case of telecommunications and 3 per cent in the case of engineering. However, the effect of non-prudential restrictions in banking on bank interest rate margins was estimated to be closer to 10 per cent. A more recent study by Commission researchers (Doove et al 2001), summarised in last year's *Review* (PC

2001), estimated tentatively that Australia's bilateral air transport restrictions increase discount international fares to and from Australia by around 15 per cent.

### 3.6 Trends in anti-dumping activity

Under Australia's anti-dumping rules, local companies can apply to have anti-dumping and countervailing measures — mainly 'temporary' customs duties — imposed on 'dumped' imports if the imports cause or threaten to cause material injury to the local industry.<sup>1</sup>

Figure 3.10 Anti-dumping and countervailing activity<sup>a</sup>, 1991-92 to 2001-02



<sup>a</sup> 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 Commission estimates.

Like other measures that raise the price of imports, anti-dumping and countervailing measures assist the protected industries, but also impose higher costs on other domestic industries and consumers. Lack of information means that the Commission does not include the assistance effect of these duties in its national estimates, but monitors year-to-year usage.

Aside from a rise in 1997-98, the number of new anti-dumping and countervailing cases *initiated* in Australia has been stable and relatively low over recent years, compared with the early 1990s (figure 3.10). Of the 16 new anti-dumping cases in

<sup>1</sup> Dumping is said to occur when a foreign supplier exports goods at a price below the value of the goods in the supplier's home market. WTO rules allow countries to apply anti-dumping measures on 'dumped' imports if they cause, or threaten to cause, material injury to a competing domestic industry. Similar measures (countervailing duties) may also be applied to imports that benefit from certain forms of subsidies in the country of origin, but are not necessarily dumped.

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2001-02, three firms in the *Petroleum, coal, chemical & associated products* industry were responsible for 10 initiations, with firms in the *Wood & paper products* and *Metal product manufacturing* industries accounting for the remainder. This pattern of initiations is similar to that of previous years.

The actual number of anti-dumping and countervailing measures *imposed* by the government, and the number of measures *in force*, have broadly followed the trend in the number of cases initiated, albeit with slight lags (figure 3.10).

More detailed information on the number and nature of recent anti-dumping cases in Australia and the level of anti-dumping activity overseas is presented in appendix K.

### **3.7 Combined tariff, budgetary and agricultural pricing and regulatory assistance**

For this year's *Review*, the Commission has compiled 'combined' estimates of the key forms of national assistance covered in this chapter, namely:

- Commonwealth budgetary assistance;
- tariff assistance; and
- agricultural pricing and regulatory assistance.

The combined estimates exclude State budgetary assistance and assistance provided through restrictions on services trade and anti-dumping measures, as the estimates of these measures are either insufficiently robust or not compatible with those for the above measures. More generally, the estimates do not include any other forms of assistance that are not captured in the Commission's estimates (as outlined in box 3.1).

#### *Measures*

Table 3.5 reports estimates of the dollar value of combined assistance to different industry groupings for 2001-02. This *net subsidy equivalent* is a measure of the net assistance to the land, labour and capital resources used in a particular industry or activity. It measures the transfers of income to producers from consumers, taxpayers and intermediate suppliers, although it does not indicate the 'economic welfare' costs to the community of the assistance.

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Table 3.5 also includes estimates of the *effective rate of assistance* for the manufacturing, primary production and mining sectors for 2001-02.<sup>2</sup> Technically, effective rates are a measure of the net assistance to an industry divided by the industry's unassisted value added. They can provide an indication of the extent to which assistance to an industry allows it to attract and hold economic resources. That is, where there is some competition between industries for resources, those industries with high effective rates of assistance are more likely, as a result of their assistance, to be able to attract resources away from those with lower rates. The effective rate concept is discussed further in the *Methodological Annex*.

For this year's *Review*, the Commission has made a number of adjustments to its effective rates model and methodology to update the estimates and improve their comparability across sectors. These modifications include:

- updating its manufacturing and mining estimates to incorporate the latest 'input-output' data available from the ABS;
- switching its agriculture estimates to a similar input-output data source;
- including all Commonwealth budgetary assistance in the estimates, whereas the previous estimates included no budgetary assistance to manufacturing and mining, and only some budgetary assistance to agriculture; and
- aligning the definition of value-added across the different sectoral estimates.

These changes mean that the effective rate estimates published in this chapter are not directly comparable with the estimates previously published by the Commission. The changes are documented in the *Methodological Annex* (PC 2002d). The annex also contains time-series estimates back to 1997-98, in addition to the 'snapshot' data for 2001-02 presented here.

### *Sectoral estimates*

At the sectoral level, the estimates in table 3.5 indicate that:

- the manufacturing sector attracts the most combined assistance, particularly in absolute dollar terms but also in effective rate terms;
- primary production attracts a lower rate of combined assistance;
- mining attracts negligible net measured assistance; and
- combined assistance to the services sector is negative.

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<sup>2</sup> Effective rates of assistance (ERAs) have not been published for the services sector mainly for technical reasons associated with the treatment of services in transportable goods sectors. In addition, ERAs for services would involve double-counting of services value added in the formation of economy-wide ERA measures.

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Taking the sectoral incidence of the Commission's State budgetary assistance estimates into account (section 3.2) would result in a slight narrowing of these disparities (even if all the 'unallocated' assistance in the estimates were allocated to manufacturing — see appendix B).

However, the key point from this analysis is that, in contrast to the levels of assistance recorded in earlier periods (as discussed in chapter 2), all sectors now record low average rates of (combined) assistance.

### *Industry estimates*

These sectoral averages hide significant variation in assistance between industries.

At the high end are TCF and parts of MVP. The effective rates for these industry groupings are around 25 and 11 percent respectively. However, the MVP industry grouping covers a broader range of activities than just passenger motor vehicle production. Some of the activities in this industry grouping receive low assistance, others attract high levels of assistance. Indeed, in its recent inquiry into the automotive industry, the Commission estimated (using different data sources) that assistance in 2000 to a 'typical' motor vehicle assembler and component producer within the sector exceeded 30 per cent.

The dairy industry continues to record the highest level of assistance among agricultural industries, with an effective rate of around 16 per cent in 2001-02. However, this represents a significant decline compared with the level that prevailed prior to the industry's deregulation in July 2000, when the effective rate of combined assistance was 31 per cent. Further, under the new arrangements, assistance to dairy farmers has been 'decoupled' from dairy output and farm activity levels, thus diluting its effects on production incentives.

The sugar industry — which is part of *Other crop growing* — has recently attracted an increase in assistance. In its current study of industries in the Great Barrier Reef catchment, the Commission disaggregated assistance to this industry grouping. Sugar was estimated to attract a net subsidy equivalent of \$57 million in 2001-02, which translates into an effective rate of combined assistance estimated to be around 7 per cent, which is about double the sectoral average.

The assistance arrangements applying to the TCF, MVP, dairy and sugar industries are examined in more detail in the next chapter.

**Table 3.5 Combined<sup>a</sup> assistance by industry grouping, 2001-02**

<i>Industry grouping</i>	<i>NSE<sup>b</sup></i>	<i>ERA</i>
	<i>\$m</i>	<i>%</i>
<b>Primary production<sup>c</sup></b>	<b>873.8</b>	<b>2.8</b>
Dairy cattle farming	286.0	15.7
Grain, sheep and beef cattle farming	224.6	1.5
Horticulture and fruit growing	103.9	2.3
Other crop growing	71.2	2.4
Other livestock farming	11.7	1.1
Fisheries	37.5	2.1
Forestry	34.8	4.0
Other primary production <sup>d</sup>	6.3	0.2
<b>Mining<sup>c</sup></b>	<b>35.2</b>	<b>0.1</b>
<b>Manufacturing<sup>c</sup></b>	<b>5497.6</b>	<b>4.6</b>
Food, beverages & tobacco	949.9	3.7
Textiles, clothing, footwear & leather	806.0	25.1
Wood & paper products	391.5	4.9
Printing, publishing & media	191.3	1.5
Petroleum, coal, chemical & assoc. products	836.5	4.3
Non-metallic mineral products	161.5	2.5
Metal product manufacturing	713.4	4.1
Motor vehicles & parts	768.7	11.2
Other transport equipment	67.2	2.8
Other machinery & equipment	368.0	3.0
Other manufacturing	196.9	4.2
<b>Services<sup>c</sup></b>	<b>-1414.7</b>	<b>ne</b>
Electricity, gas & water supply	28.5	ne
Construction	-672.0	ne
Wholesale trade	-111.9	ne
Retail trade	-170.0	ne
Accommodation, cafes & restaurants	-159.4	ne
Transport & storage	-89.0	ne
Communication services	19.8	ne
Finance & insurance	54.4	ne
Property & business services	-102.6	ne
Government administration & defence	-184.0	ne
Education	-30.1	ne
Health & community services	-46.1	ne
Cultural & recreational services	54.2	ne
Personal & other services	-58.6	ne

<sup>a</sup> 'Combined assistance' comprises budgetary, tariff and agricultural pricing and regulatory assistance, as reported in tables 3.1, 3.2 and 3.3 respectively. The total NSE has been adjusted to take account of programs included in both tariff and budgetary assistance. <sup>b</sup> NSE estimates are derived using ABS Industry Gross Value Added at current prices data. This information is subject to periodic revision by the ABS. <sup>c</sup> Totals may not add due to rounding. Sectoral totals also include assistance to the sector that has not been allocated to specific industry groupings. <sup>d</sup> Other primary production includes *services to agriculture, hunting and trapping* and *poultry farming*. **ne** not estimated. *Source:* Commission estimates.

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All other industry groupings covered in the estimates recorded an effective rate of less than 5 per cent in 2001-02, with many recording a rate of less than 3 per cent.

While mining, fisheries and, to a lesser extent, forestry recorded low effective rates, the forms of assistance covered in the ‘combined’ estimates play a relatively minor role in these industries relative to other government measures. Specifically:

- the mining industry is more affected by environmental regulation, prescribed royalty levels and accelerated depreciation provisions. Native title legislation can also affect land access and tenure; and
- the key government measures affecting forestry and fisheries relate to resource management issues, such as the pricing of forests and the use of quotas to control harvesting rates to protect the resource stock.

The assistance implications of these measures, whether positive or negative, are not captured in the Commission’s estimates.