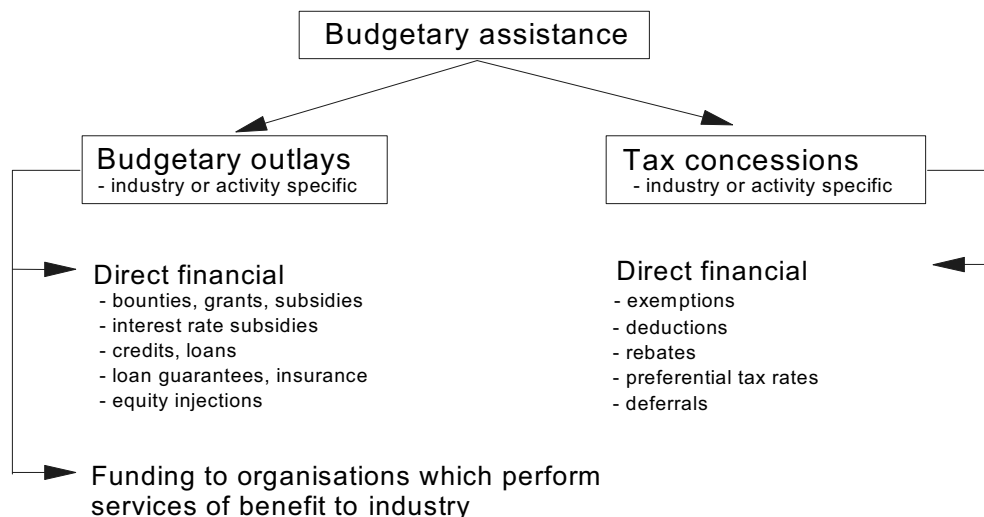

2 Budgetary assistance estimates

This chapter reports estimates of budgetary assistance provided by the Australian Government for 2004-05. A detailed breakdown of the estimates, covering the three years to 2004-05, is presented in appendix A.

Budgetary assistance takes a number of different forms, which can be grouped under the broad headings: outlays and tax concessions (figure 2.1).

Figure 2.1 **Forms of budgetary assistance**



As well as reporting budgetary assistance by form, the chapter also reports on:

- the activities to which Australian Government budgetary assistance is directed, such as R&D, export, industry-specific support etc; and
- the incidence of budgetary assistance across different sectors and industries.

The estimates are derived primarily from the Australian Government Budget Papers, Departmental Annual Reports and the Australian Treasury's 2005 Tax Expenditures Statement.

Care is needed when drawing inferences from assistance estimates. Some aspects of the coverage and interpretation of the budgetary estimates reported in this chapter are set out in box 2.1.

Box 2.1 **Aspects of the Commission's budgetary assistance estimates**

Budgetary assistance can be defined as comprising outlays and tax concessions that directly or indirectly assist a person to carry on a business or activity, or confer (or result in the conferring of) a pecuniary benefit to a person in respect of carrying on a business or activity.

The Commission's estimates of budgetary assistance seek to cover only those budgetary measures that *selectively* benefit particular firms, industries or activities, and that can be readily quantified given practical constraints in measurement and data availability. Budgetary assistance is not restricted to measures targeted at firms in particular industries; it also covers measures that seek to stimulate particular activities, such as R&D and exporting, that may be undertaken by firms in a number of industries. However, the estimates in this chapter contain a number of exclusions, including:

- Australian Government programs affecting a range of service industries, mainly relating to the provision of health and welfare, where funding predominantly benefits individual citizens;
- Australian Government budgetary outlays on defence, health, education, sport, the arts and the labour market;
- general taxation measures, such as the goods and services tax, and excises and various excise exemptions;
- certain specific items including capital depreciation subsidies and direct drought relief payments¹; and
- budgetary assistance provided by state, territory and local governments.

In interpreting the estimates, it should be recognised that budgetary assistance estimates by their nature do not cover the substantial assistance provided by tariffs. They also do not cover assistance provided by restrictions on competition (such as agricultural pricing and marketing arrangements, occupational licensing and anti-dumping measures), and do not address any assistance affects of items such as government procurement preferences, quarantine restrictions and the (under)pricing of utilities.

These other forms of assistance may to some degree offset, or add to, any differences in the level of budgetary assistance received by different businesses, industries or activities. More generally, assistance estimates do not of themselves indicate the policy merits, or the precise resource allocation effects, of different government assistance measures.

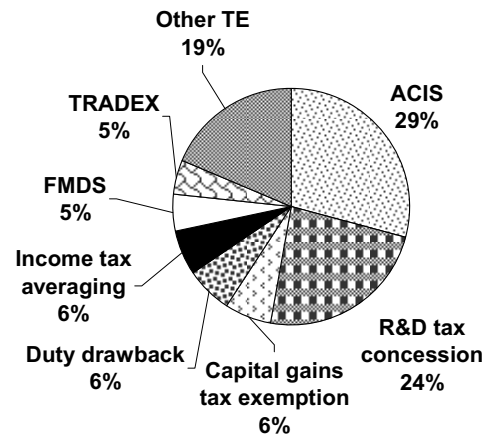
The Commission's approach to measuring assistance is explained in more detail in *Methodological Annex A* to the *Trade & Assistance Review 2001-02*.

¹ While not included in the assistance estimates in this chapter, data on drought relief provided by the Australian Government and the states and territories are provided in section 3.6 of chapter 3

Main assistance programs

Of the \$4.6 billion of budgetary assistance covered in the Commission's estimates for 2004-05, tax concessions totalled an estimated \$1.9 billion. The main tax concessions are the Automotive Competitiveness Investment Scheme (ACIS), the income tax averaging provisions for primary producers and the R&D tax concession (figure 2.2).

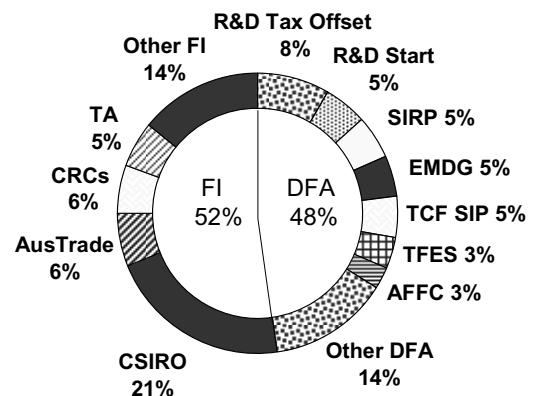
Figure 2.2 Major Australian Government tax concessions, 2004-05



Source: Commission estimates.

Budgetary outlays in 2004-05 totalled an estimated \$2.6 billion. Around half of these outlays are provided as direct financial assistance (DFA), with the other half comprising the funding of institutions (FI) such as Tourism Australia (TA) and CSIRO. As shown in figure 2.3, important outlays include Austrade's programs, including the Export Market Development Grants (EMDG) scheme, and funding for research institutions.

Figure 2.3 Major Australian Government budgetary outlays, 2004-05



Source: Commission estimates.

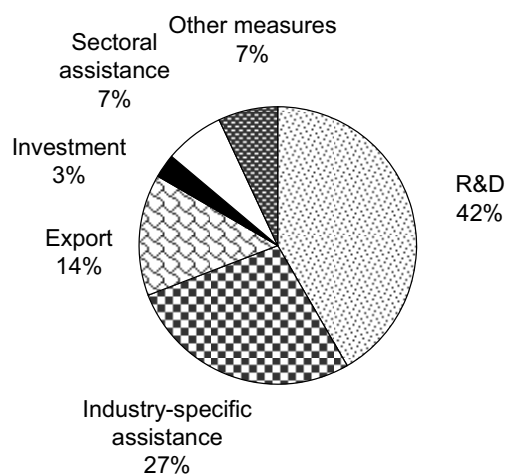
Activities targeted

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 among activities, the Commission classifies the Australian Government budgetary assistance covered in the estimates into R&D, export, investment and sectoral assistance, as well as industry-specific assistance and ‘other’ (figure 2.4).

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 results from a lack of information on the operation of certain schemes and their economic effects.

As shown in figure 2.4, the largest shares of budgetary assistance are provided for R&D and industry-specific assistance.

Figure 2.4 **Australian Government budgetary assistance by activity^a, 2004-05**



^a 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 Tourism Australia) 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.

Source: Commission estimates.

Sectoral and industry distribution

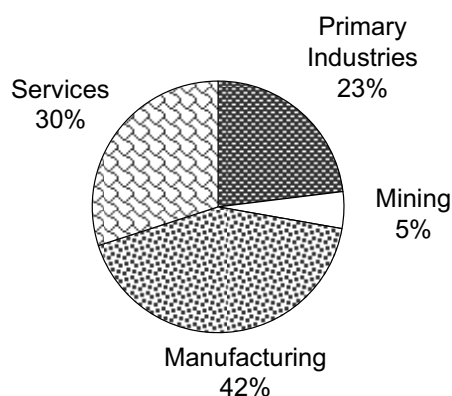
The Commission estimates the incidence of budgetary assistance according to the industries that initially benefit from it. It reports the incidence using a four sector classification of the Australian economy and a multiple ‘industry grouping’ classification. While the Commission has used detailed information to allocate budgetary assistance among the different sectors and industries, there remains some scope for imprecision.

Although the reporting of budgetary assistance by broad sectors and industries facilitates comparisons, the sectors and industry groupings are not equivalent in size and there can be significant variations in assistance between firms within a sector or industry grouping. Indeed, many firms do not make any use of government programs. For example, a study 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. Further, the effects of budgetary assistance ideally need to be considered in conjunction with the effects of other assistance, such as tariffs and agricultural pricing and regulatory assistance. Thus, care is needed in drawing inferences from the data.

Australian Government budgetary assistance varies markedly between sectors, with the largest proportion directed to the manufacturing sector (figure 2.5).

Table 2.1 details the incidence of budgetary assistance by the Commission’s ‘industry grouping’ classification. *Motor vehicles & parts* receives by far the most budgetary assistance — both in absolute terms and relative to its gross value added — because of the value of tariff concessions provided under the ACIS.

Figure 2.5 **Australian Government budgetary assistance by sector, 2004-05**



Source: Commission estimates.

Table 2.1 Budgetary assistance by industry grouping, 2004-05 (\$ million)

<i>Industry grouping</i>	<i>Budgetary outlays</i>	<i>Tax concessions</i>	<i>Total assistance</i>
Primary production	704.5	275.4	980.0
Dairy cattle farming	29.5	20.8	50.3
Grain, sheep and beef cattle farming	192.7	163.9	356.6
Horticulture and fruit growing	86.3	45.6	131.9
Other crop growing	160.8	16.1	176.9
Other livestock farming	12.5	9.9	22.5
Fisheries	68.9	8.2	77.1
Forestry and logging	37.8	2.6	40.3
Other ^a and unallocated primary production ^b	116.0	8.3	124.4
Mining	120.1	87.9	208.0
Manufacturing	769.5	1023.0	1792.5
Food, beverages & tobacco	82.6	26.4	109.0
Textiles, clothing, footwear & leather	143.7	54.8	198.5
Wood & paper products	38.8	11.6	50.4
Printing, publishing & media	14.3	7.7	22.0
Petroleum, coal, chemical & associated products	108.8	27.3	136.1
Non-metallic mineral products	2.4	9.5	11.9
Metal product manufacturing	116.7	23.9	140.6
Motor vehicles & parts	5.3	664.9	670.2
Other transport equipment	12.9	13.0	25.9
Other machinery & equipment	91.2	50.1	141.3
Other manufacturing	109.5	12.8	122.3
Unallocated manufacturing ^b	43.2	121.1	164.3
Services	750.8	557.2	1308.0
Electricity, gas & water supply	19.3	18.7	38.0
Construction	22.9	19.8	42.7
Wholesale trade	20.1	59.8	79.9
Retail trade	6.6	40.6	47.2
Accommodation, cafes & restaurants	4.8	5.8	10.7
Transport & storage	8.1	24.9	33.0
Communication services	106.4	33.9	140.3
Finance & insurance	15.2	194.5	209.8
Property & business services	186.7	87.6	274.3
Government administration & defence	3.1	0.1	3.1
Education	9.0	12.7	21.7
Health & community services	38.5	3.1	41.6
Cultural & recreational services	132.4	54.6	187.0
Personal & other services	3.4	1.2	4.6
Unallocated services ^b	174.2	0.0	174.2
Unallocated other^b	270.1	-8.1	262.0
TOTAL^c	2615.0	1935.5	4550.6

^a Other primary production includes *services to agriculture* (including *hunting & trapping*) and *poultry farming*.

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

^c Numbers may not sum to total due to rounding.

Source: Commission estimates (see appendix A).