
4 Budgetary assistance

Budgetary assistance to industry comprises government spending and tax concessions that selectively benefit industries or firms. In the past, the major forms of assistance in Australia have been border protection measures, such as tariffs and quotas, and statutory marketing arrangements. While many of these measures are being unwound, the Government continues to provide a wide range of budgetary assistance measures and, in some cases, is providing budgetary assistance in place of other forms of assistance.

A feature of budgetary assistance is the frequent changes of individual schemes from year to year as funding levels vary and new schemes are created, and as budgetary outlays are subject to annual review by Parliament.

In this chapter, the Commission:

- outlines the scope of the Commission's budgetary assistance estimates;
- presents the main trends in budgetary assistance; and
- discusses recent policy developments affecting budgetary assistance.

4.1 Scope of the Commission's estimates

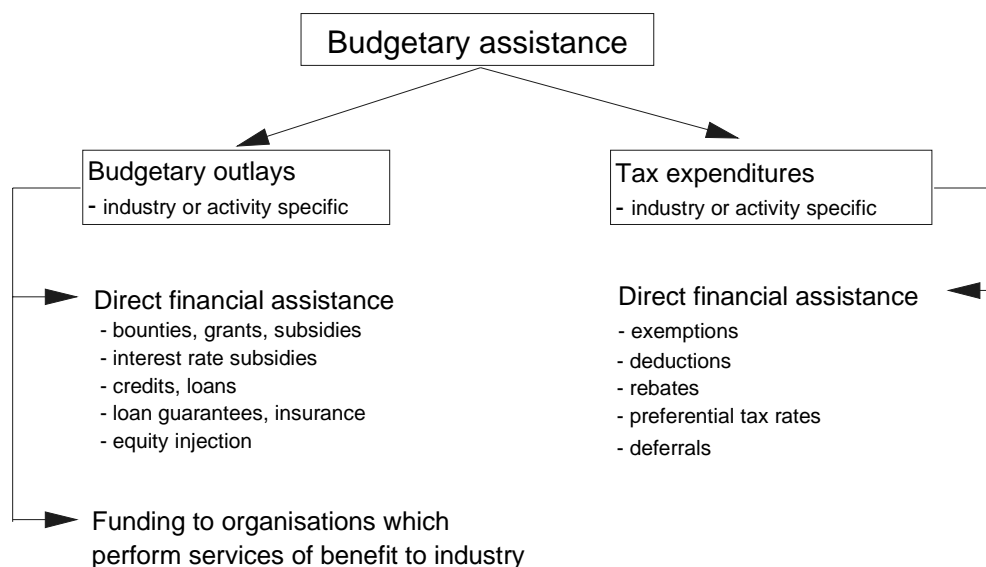
Budgetary assistance comprises:

- outlays, which include funding to organisations which perform activities and services of benefit to industry (such as CSIRO research), as well as grants, bounties, interest rate subsidies, subsidised loans, loan guarantees and equity injections which afford direct financial assistance to businesses; and
- tax expenditures, which are provisions of the tax system that reduce the tax burden of businesses. Tax 'expenditures' include tax exemptions, deductions, rebates, preferential tax rates and tax deferrals which involve the Commonwealth forgoing revenue it would otherwise collect (see figure 4.1).

Recipients can be individual firms, including those undertaking or utilising particular activities such as R&D, as well as particular industries or sectors. As well as reporting budgetary assistance by form, this year's *Trade & Assistance Review* also reports on:

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

Figure 4.1 **Forms of budgetary assistance**



The Commission's estimates of budgetary assistance cover those budgetary measures that can be quantified given practical constraints in measurement and data availability. They cover the budgetary assistance provided by the Commonwealth Government, but not that provided by State, Territory and local governments.¹ The estimates exclude outlays on defence, health, education and the labour market. They also exclude measures which are generally available to all firms, such as changes in road funding.

Assistance estimates in this chapter are derived from a number of information sources, including Commonwealth Budget Papers and Treasury's Tax Expenditure Statement. This year, the Commission has provided data on budgetary assistance for the four years up to 2000-01. The outlay figures for 1999-2000 are estimates, and those for 2000-01 are projections (based on budget appropriations). Due to the late release of this year's Tax Expenditure Statement, the tax expenditure figures for 1997-98 are estimates, and the figures for 1998-99 to 2000-01 are projections. The estimates also incorporate the Government's revisions of outlays for previous years.

¹ In a previous inquiry (IC 1996), the Commission estimated that budgetary assistance afforded by State and Territory governments totalled \$5.7 billion in 1994-95. This consisted of \$2.5 billion in budgetary outlays and \$3.2 billion in payroll tax exemptions.

In addition to measures identified in the previous Trade & Assistance Review, this year's budgetary assistance estimates incorporate:

- capital gains tax exemptions for small businesses, which were introduced in 1997. These exemptions reduce tax liabilities on the sale of small businesses and are estimated to cost \$75 million annually in revenue forgone². Operation of the exemptions is examined in Lattimore (1998); and
- the Regional Assistance Program, which was introduced in 1997 at an annual cost of \$40 million to fund business projects with the aim of generating employment in metropolitan, regional and rural areas. A component of the program — the National Initiatives and Emergencies component — provides assistance on a case-by-case basis, including assistance provided as part of the Strategic Investment Incentive program.

The Commission's approach to measuring budgetary assistance was explained in more detail in appendix A of last year's Trade & Assistance Review.

4.2 Commonwealth budgetary assistance

The Commission's estimates of budgetary assistance are set out in tables 4.1 to 4.7 which, apart from table 4.1 (below), appear at the end of the chapter. The key estimates, together with the allocation of assistance across industries, are described and discussed below.

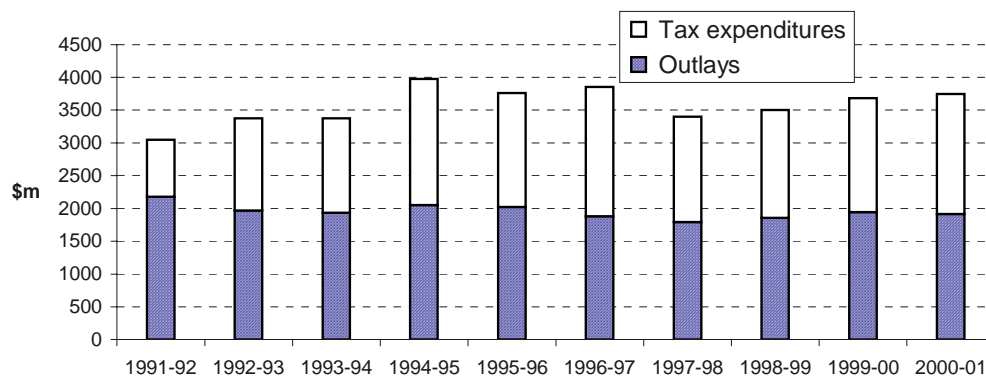
Aggregate estimates

Estimates and projections of budgetary assistance and its main components for the ten years to 2000-01 are shown in figure 4.2.

Despite some fluctuations, budgetary assistance in recent years has remained broadly at the level of the early 1990s. There was some increase in budgetary assistance in the early 1990s to a peak of \$4 billion in 1994-95. It then declined slightly in the following three years and, after rising again in 1998-99, is estimated to be relatively stable thereafter. The broad stability in budgetary assistance contrasts with the general trend to lower assistance through border protection measures and marketing arrangements (see chapter 2).

² In previous years, estimates of actual revenue forgone due to the exemptions were not available from the Commonwealth Treasury and thus could not be incorporated into budgetary assistance estimates. The \$75 million revenue forgone is small relative to the payroll tax exemptions to small businesses provided by State and Territory governments.

Figure 4.2 **Commonwealth budgetary assistance to industry, 1991-92 to 2000-01**



Data sources: Commonwealth Budget Papers, Treasury (2000); ACS (2000); PC estimates.

Total budgetary assistance was around \$3.7 billion in 1999-2000. This comprised \$2 billion in program outlays and \$1.7 billion in tax expenditures.

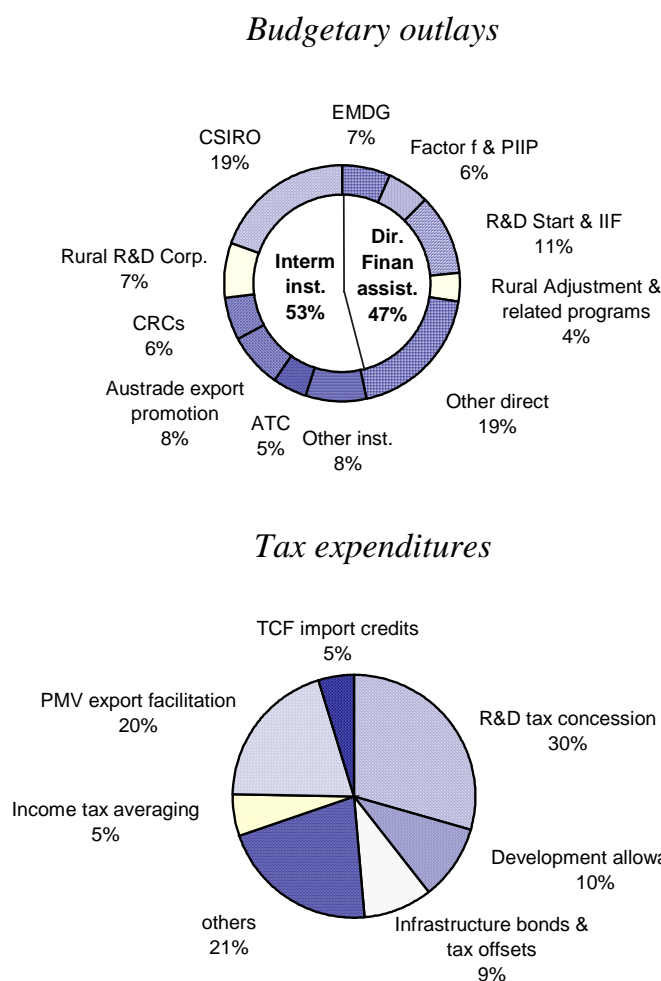
The main determinant of year-to-year changes in budgetary assistance is the impact of major tax expenditures. A feature of tax concessions is that they can be open-ended, involving no cap on revenue forgone, and thereby lead to a rise in revenue forgone in response to growth in applications for assistance. The relatively high levels of budgetary assistance between 1994-95 and 1996-97 reflect the changes in revenue forgone from the R&D tax concession, and the general investment and development allowances.

In contrast to the fluctuations in tax expenditures, the outlay category has been more stable. This was particularly so between 1992-93 and 1995-96, as is expected to be the case between 1996-97 and 2000-01. In recent years, several changes to the design of outlay schemes and the introduction of new measures have been made or foreshadowed. However, to date, total outlays have remained steady.

Major assistance schemes

Total budgetary assistance was provided through around 100 separate government programs and tax expenditures in 1999-2000. However, the bulk of total budgetary assistance (76 per cent) was accounted for by 20 programs and tax expenditures, as shown in figure 4.3.

Figure 4.3 Major programs and tax expenditures, 1999-2000



Data source: PC estimates.

Of total budgetary outlays, 47 per cent was provided as direct financial assistance. The remaining share is accounted for by the funding of institutions which perform activities and provide services of benefit to producers, such as the Australian Tourist Commission (ATC).

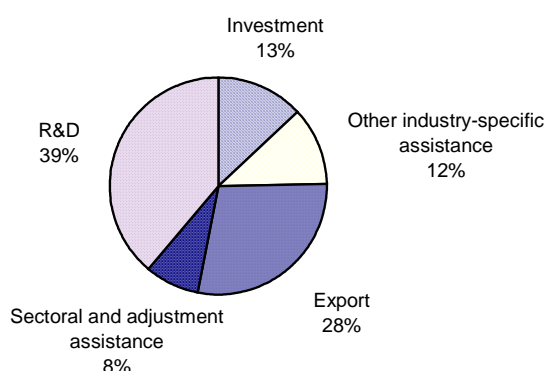
As shown in figure 4.3, important outlay schemes include Austrade's programs, the Factor f program and Pharmaceutical Industry Investment program (PIIP), R&D Start and the Innovation Investment Fund (IIF), and research by CSIRO, rural R&D corporations and cooperative research centres (CRCs).

The major tax expenditures are the R&D tax concession, the development allowance and the PMV Export Facilitation Scheme (figure 4.3).

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 distribution of assistance amongst activities, the Commission further classifies budgetary assistance into R&D, export, investment, and sectoral and adjustment measures (figure 4.4).

Figure 4.4 **Budgetary assistance, by activities, 1999-2000**
per cent



Note: 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 the TCF Import Credits Scheme) which also facilitate export. The *sectoral and adjustment assistance* category covers programs specifically benefiting producers in a sector or facilitating adjustment. The other industry-specific assistance category covers measures (such as bounties) not already included in the above categories.

Data source: Commission estimates.

Caution is required in interpreting these estimates because, firstly, 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 is because there is often a lack of information on the operation of certain schemes and their economic effects.

As shown in figure 4.4, the largest shares of budgetary assistance involve R&D support (39 per cent), followed by export assistance (28 per cent) and investment measures (13 per cent). Sectoral and adjustment assistance and other industry-specific measures accounted for 8 and 12 per cent, respectively.

While there is considerable change over time in the particular budgetary assistance measures, the above forms of support have long been a feature of the assistance

provided to Australian industries. Section 4.3 discusses recent developments affecting budgetary assistance in those areas.

Sectoral and industry distribution of budgetary assistance

As well as reporting assistance by program, the Commission also estimates the incidence of budgetary assistance by benefiting industries. To date it has reported the incidence of assistance using a four sector classification of the Australian economy. This year, the Commission has augmented this approach by also allocating assistance using a more detailed 27 industry classification. Under this system, the primary production and mining sectors remain as single categories. However, the manufacturing and services sectors are subdivided into 11 and 14 ‘industry groupings’, respectively.

The methodology for allocating budgetary assistance among the 27 industry groupings is discussed in appendix B. While the Commission has used detailed information to allocate assistance among the industry groupings, the need for judgment means that there remains some scope for imprecision. The Commission would welcome comments on its general methodology and on specific allocations.

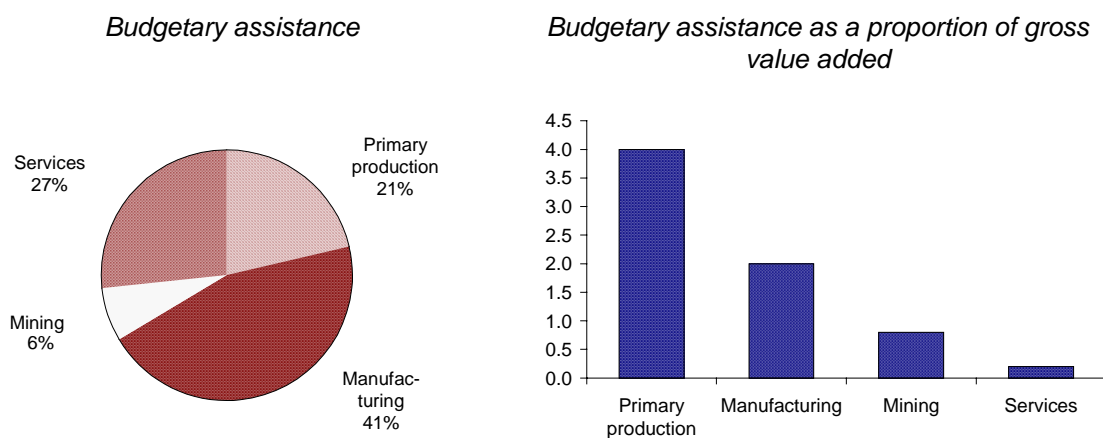
The new allocation method provides significantly more information on the incidence of assistance than the four sector split. That said, although the reporting of budgetary assistance by broad sectors and industries facilitates data collection and measurement, it may conceal significant variations in assistance between firms and industries, and within industry groupings. Indeed, a survey of 6000 firms revealed that around 90 per cent of them used no government programs in 1993-94 and 1994-95 (IC/DIST 1997).

Sectors

Budgetary assistance varies markedly between sectors. The largest proportion of budgetary assistance goes to the manufacturing sector (41 per cent). Services account for 27 per cent, and primary production 21 per cent. The mining sector receives the smallest share (figure 4.5).

As a proportion of gross value added — that is, relative to industry size — budgetary assistance was highest for the primary production sector (4 per cent), followed by the manufacturing sector (2 per cent). The proportion was 0.8 per cent for the mining sector and 0.2 per cent for the services sector.

Figure 4.5 Budgetary assistance by sector, 1999-2000



Data source: Commission estimates.

Industry groupings

Table 4.1 below details the incidence of budgetary assistance by industry grouping.

There is significant variation in budgetary assistance at this level. The four industry groupings that accounted for the largest shares of total budgetary assistance in 1999-2000 were:

- *primary production* — assisted mainly through R&D support (CSIRO research and rural R&D corporations), adjustment assistance and income tax averaging provisions;
- *motor vehicles & parts* — assisted almost entirely through the PMV Export Facilitation Scheme;
- *petroleum, coal, chemical & associated products* — most assistance to this sector is targeted to the pharmaceutical industry through the Factor f scheme and its successor, the Pharmaceutical Industry Investment Program; and
- *mining* — assisted mainly through the development allowance and the R&D tax concession.

These four industry groupings each separately accounted for at least 5 per cent of total budgetary assistance in 1999-2000. In contrast, around half of the remaining groupings each received 1 per cent or less of total budgetary assistance.

Table 4.1 Budgetary assistance by industry grouping, 1999-2000

<i>ANZSIC Industry</i>	<i>\$m</i>	<i>% of total</i>	<i>% of gross value added</i>
Primary production	762	21	4.0
Mining	220	6	0.8
Manufacturing	1 509	41	2.0
Food, beverages & tobacco	70	2	0.5
Textiles, clothing, footwear & leather	134	4	4.7
Wood & paper products	31	1	0.6
Printing, publishing & media	13	0	0.2
Petroleum, coal, chemical & associated products	292	8	2.9
Non-metallic mineral products	27	1	0.9
Metal product manufacturing	148	4	1.1
Motor vehicles & parts	404	11	7.1
Other transport equipment	37	1	1.6
Other machinery & equipment	143	4	1.7
Other manufacturing	35	1	1.5
Unallocated manufacturing ^a	174	5	na
Services	994	27	0.2
Electricity, gas & water supply	77	2	0.7
Construction	75	2	0.2
Wholesale trade	32	1	0.1
Retail trade	40	1	0.1
Accommodation, cafes & restaurants	33	1	0.3
Transport & storage	134	4	0.4
Communication services	103	3	0.5
Finance & insurance	127	3	0.3
Property & business services	110	3	0.2
Government administration & defence	6	0	0.0
Education	30	1	0.1
Health & community services	29	1	0.1
Cultural & recreational services	118	3	1.2
Personal & other services	5	0	0.0
Unallocated services ^a	77	2	na
Unallocated other ^a	202	5	na
TOTAL^b	3 686	100	0.6

^a Unallocated includes general programs where details of claimants and/or beneficiaries is unknown. ^b Totals may not add due to rounding.

Sources: ABS (2000a) and Commission estimates.

A similar pattern emerges when budgetary assistance is measured as a percentage of industry gross value added (GVA). Of the above four industry groupings, three remain as the most assisted, whilst mining is replaced by the *textile, clothing,*

footwear & leather industry grouping. Among these four most assisted industry groupings, budgetary assistance ranges from 2.9 per cent of GVA (*petroleum, coal, chemical & associated products*) to 7.1 per cent (*motor vehicles & parts*). A further 5 industry groupings receive budgetary assistance greater than 1 per cent of GVA. This compares with an average for the remaining 18 groupings of 0.3 per cent.

Within the manufacturing sector, the incidence of budgetary assistance also varies significantly, ranging from 0.2 per cent of GVA in the case of *printing, publishing & recorded media* to 7.1 per cent for *motor vehicles & parts*. Two manufacturing groupings which receive high budgetary assistance — *motor vehicles & parts* and *textiles, clothing, footwear & leather* — also rank highly in terms of tariff assistance (see chapter 3). The combined effect of this narrow incidence of budgetary and tariff assistance magnifies the unevenness in the distribution of assistance across the economy.

In the case of the services sector, almost all industry groupings are clustered tightly around the 0.2 per cent sector average, except for *cultural & recreational services*, which recorded 1.2 per cent budgetary assistance to GVA. Around three-quarters of budgetary assistance to this industry grouping is a result of funding for the Australian film industry.

4.3 Recent developments

Research and development

This year, the future directions of R&D policy in Australia have been a subject of much debate. One catalyst has been the reports of the National Innovation Summit (Miles 2000) and the Chief Scientist (Batterham 2000). These reports have generally advocated increased funding to:

- foster an ‘innovation culture’, via funding on education, awareness and entrepreneurship relating to science and technology;
- support public sector and business R&D, including doubling of funding for the Australian Research Council (Batterham 2000) and raising the 125 per cent R&D tax concession (Miles 2000); and
- assist the commercialisation of R&D.

The main focus in this debate is the low level of Australia’s R&D expenditures, particularly business R&D, by OECD standard. It has been argued that Australia’s R&D expenditure should match overseas levels to maintain the competitiveness of

Australian industries. According to this argument, government action is needed to reverse the falls in business R&D expenditures in recent years.

The Commission examined Australia's R&D policy comprehensively in a public inquiry (IC 1995). The Commission found a clear economic rationale for some government support of R&D. It also found much to commend in the existing arrangements at that time, and recommended several proposals to improve the design of R&D policy. In particular, the Commission endorsed the (then) 150 per cent tax concession, but considered that changes were needed to improve the design of the scheme (in particular, the targeting of the subsidy). Ways for doing this were further examined in its *Telecommunications Equipment, Systems and Services* report (IC 1998).

However, the Commission also found that the gap between Australian business R&D and that overseas was not attributable to a lack of government assistance. When all forms of assistance were accounted for, business R&D appeared to be more highly supported in Australia than in most other countries. In any case, while international comparisons can reveal the amount of resources used for R&D here relative to abroad, such comparisons do not, of themselves, indicate whether Australia's R&D expenditure is appropriate given its particular industry structure and market conditions.

The Government has indicated that it is considering new R&D funding. It has argued that Australia's R&D support is around the OECD average and that several support measures have been implemented recently, including the restoration of funding for the CSIRO and the doubling of funding of the National Health and Medical Research Council. It has also noted that the earlier exploitation of syndication arrangements under the R&D tax concession underpinned the earlier rise in 'measured' business R&D and that the closure of R&D syndication has in turn contributed to the recent falls in 'measured' business R&D. Nevertheless, the Government will respond to the recommendations of the National Innovation Summit and the Chief Scientist reports in an *Innovation Plan*:

It will address the innovation spectrum, from skill gaps, through to innovation incentives, fostering collaboration, developing a culture to underpin innovation, and setting in place appropriate technology diffusion and commercialisation programs (Minchin 2000e).

The Innovation Plan is intended to be released in early 2001.

IR&D Board guidelines

The Industry Research and Development (IR&D) Board administers the R&D Start program, the Innovation Investment Fund and the COMET program (discussed below). The Board determines eligibility for assistance according to guidelines under auspices of ministerial directions and the *Industry Research and Development Act 1986*.

At the request of the IR&D Board, in April 2000 the Government revised the ministerial directions to allow the Board to adopt a new framework for assessing assistance (Minchin 2000d). The change is intended to:

- allow companies which commercialise R&D overseas (as opposed to in Australia) to be still eligible for IR&D Board assistance; and
- ensure that the levels of assistance are not affected by the goods and services tax.

Under the revised guidelines, the IR&D Board will have additional flexibility to determine the ‘national benefits’ arising from commercialisation of R&D projects. Prior to the change, only ‘national benefits’ arising from commercialisation or manufacture of products in Australia could be considered.

To be eligible, recipient firms are required to include an on-going commitment to retain Australia as a home base for R&D activities in the commercialisation plan. If (at some stage after the assistance is granted) the firm ceases to comply with the conditions, it is required to repay the grant with interest at the 10 year long-term bond rate.

The new rules will apply to the R&D Start program and the Innovation Investment Fund, and the R&D tax concession to the extent permissible by the *IR&D Act 1986*. Where the Board considers that commercialisation does not satisfy the national benefit criteria, it may issue a certificate to the Commissioner of Taxation to disallow any deductions claimed under the R&D tax concession.

Venture capital

Under the existing Innovation Investment Fund (IIF) program, the Government establishes venture capital funds to invest in small companies that are seeking to commercialise their technologies. The IIF funds receive equity injection from the Government and venture capital companies on a 2:1 basis. The fund managers make all investment and fund management decisions subject to certain conditions specified in a licence agreement.

The IIF has been allocated funding of \$130 million in round 1 (commencing in December 1998 and running to 2000-01) and \$90 million in round 2 (commencing in 2000-01). For round 2, the selection guidelines were changed to encourage competitive bids on the capital ratio (from 1:2 to 1:1 private contribution) and management fees.

In March 2000, the Government announced a 'revolving fund' for the IIF program (Minchin 2000b). Under this arrangement, if and when fund managers realise a return from their investment, the funding initially injected into the venture capital funds, plus interest, would be redistributed to the IIF program, instead of being returned to the Consolidated Revenue Fund (Senate Economics Legislation Committee 2000).

The IIF affords assistance to venture capital companies as well as commercialising firms. In relation to the profit from the investment, the Government receives a share of 10 per cent, as opposed to its 66 per cent (2:1 ratio) share of the initial capital injection (IR&D Board 2000).

The first application of the revolving fund involves a re-allocation of \$31.6 million out of a return of \$51.4 million from the Government involvement in an IIF fund, AMWIN. As a result of a \$2.2 million investment in an Internet-based company, LookSmart, AMWIN received \$250 million from the sale of its shares when LookSmart was floated on the US NASDAQ. Of this \$250 million, the Government retrieved its equity in AMWIN (\$27.5 million), plus interest (\$4.1 million) and a profit (\$19.8 million) — the equity plus interest (\$31.6 million) was then returned to the IIF. The Commonwealth share of profit (\$19.8 million) was 10 per cent of the distributed surplus profit. The private partners and fund managers retained 90 per cent of the surplus profit (estimated to be \$178 million), from their \$14 million capital contribution to the fund. LookSmart has now relocated its principal operations to the United States.

Emerging technologies

Last year, the Commission reported (PC 1999) the Government's announcement that it would create an Investment Ready Program to improve the commercialisation of Australian technology by small firms. Its funding of \$20 million was intended to be reallocated from the R&D Start program. However, the program did not proceed.

Instead, in November 1999, the Government launched the Commercialising Emerging Technologies (COMET) program. Assistance is determined by the IR&D Board and covers individuals, 'early-stage' growth firms and spin-off companies from research institutions, in two components:

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- the Tailored Assistance for Commercialisation — which provides up to a maximum of \$100 000, or 80 per cent, of the costs of certain activities, such as developing business plans or undertaking market research; and
 - the Management Skills Development plan — which provides up to \$5000 to recipients to fund the costs of educational courses on management skills.

The program has been allocated \$30 million over three years to 2002. The funds for the program have been diverted from the R&D Start program. The majority of assisted projects is in the communications and manufacturing sectors (IR&D Board 2000).

Biotechnology

Although no special assistance programs have been established for biotechnology, the Government has estimated that the biotechnology industry receives some \$250 million a year from various research institutions and a range of programs (DISR 1999).

In the 1999-2000 Budget, \$10 million was provided for the development of a biotechnology strategy, including the establishment of a Ministerial Council. The Government also foreshadowed increased funding for health and biotechnology research through the National Health and Medical Research Council, from \$165 million in 1998-99 to more than \$350 million in 2004-05.

In July 2000, the Government committed an additional \$30 million to the National Biotechnology Strategy to support the development and commercialisation of biotechnology. Of this funding, \$20 million will be used to establish a Biotechnology Innovation Fund with matching contributions from industry and State governments.

Export assistance

Export finance and insurance

The Export Finance and Insurance Corporation (EFIC) is a Commonwealth statutory authority which provides credit and finance services to exporters. EFIC's credit insurance facilities provide short-term cover for exporters for non-payment by overseas buyers. The export finance facilities include loans and loan guarantees for buyers of Australian exports. These services are provided through:

-
- the Commercial Account, in which the Government guarantees all EFIC short-term and medium/long-term businesses. However, EFIC has been self-funded and built up its own reserves, and has not called on this guarantee; and
 - the National Interest Account, in which the Government directs EFIC to undertake transactions which the Government considers to be in the ‘national interest’. In these cases, the Government directly bears the costs if the export payments are in default. Examples of support provided under this account occurred in response to the Asian financial crisis, when EFIC provided a guarantee to Australian exporters to South Korea and Indonesia (see PC 1998).

In recent years, EFIC’s public ownership has raised competitive neutrality issues. Competitive neutrality requires that a government business does not enjoy a competitive advantage by the nature of its public ownership over its private competitors. Competitive neutrality issues have the potential to arise in relation to EFIC since its short-term business could also be provided by the private sector.

In March 2000, the *Export Finance and Insurance Corporation Amendment Act 2000* was passed to apply competitive neutrality disciplines to EFIC. For short-term insurance contracts, EFIC is to provide a debt neutrality charge, guarantee fees and tax equivalent payments to the Government, subject to directions by the Minister for Trade. The debt neutrality charge will apply to its borrowing, while the guarantee fees are to be paid on the Commonwealth guarantee provided to EFIC. The tax equivalent payments remove the tax-exempt status of EFIC and, according to Martyn and Emmerly (1999), this provision is likely to have a significant impact on its fees. In addition, the Act also subjects EFIC’s short-term business to the existing insurance laws from which it was previously exempt.

This approach to competitive neutrality was implemented so as to avoid jeopardising EFIC’s role of providing export assistance. The Regulation Impact Statement (RIS) accompanying the Bill rejected the option of incorporating EFIC under Corporations Law, as this could limit its ability to provide assistance to exports that have risk levels higher than the commercial level. The RIS also proposed that certain EFIC activities — for example, assistance to small and medium-sized exporters — be classed as community service obligations and receive ‘notional funding’ so that EFIC could operate at lower rate of return targets, and that this option be implemented through administrative action (Fisher 1999).

In June 2000, the Government announced that it will conduct a review of market developments in export finance and insurance services to consider the implications for government involvement, including EFIC’s viability under the new competitive neutrality regime. The review will also consider options of the operation and funding under the National Interest Account, taking into account the impact on rural

and regional Australia of any proposed change. The review is to be completed by the end of 2000. (Vaile 2000b)

Export marketing

The Export Market Development Grants (EMDG) scheme is an assistance program for small and medium-sized exporters in Australia. The scheme provides taxable grants for up to 50 per cent of marketing and promotion expenses that firms incur in export markets. In recent years, funding for the EMDG scheme has been capped at \$150 million per year. In the 1997 *Investing for Growth* statement, the Government decided to extend the scheme for an additional two years to 2001-02.

The scheme is administered by Austrade, which also undertakes export promotion activities such as providing information and advice, and administers other export programs. In 1999-2000, total funding for Austrade's export promotion activities, the EMDG scheme and related export programs was \$300 million.

In 1999, the Austrade Board was asked by the Government to review the effectiveness of the EMDG scheme, and whether it should be extended beyond June 2000 and, if so, in what form.

In a submission to the review, the Commission discussed a number of issues to assist the Board to assess the performance of the EMDG scheme (PC 2000a). It considered that the review would need to assess whether export assistance yields net benefits to the economy as a whole, rather than just for exporters. This requires account to be taken of relevant costs — such as those associated with raising revenue to finance the scheme and compliance and administration costs. It also requires assessing whether the scheme induces additional eligible market expenditure, rather than crowding out existing expenditure, and the relationship between such expenditure and additional exports. The Commission also suggested that, of the many reasons advanced to justify government assistance to exports, those relating to certain information deficiencies and 'spillovers' appear to be most relevant. However, given that virtually all activities (including firms' domestic marketing activity) face similar problems, justifying government assistance requires that the nature of the spillovers be identified and be assessed to be significant for exporting firms.

In June 2000, the Austrade Board concluded that the EMDG scheme was effectively meeting its objectives of encouraging the creation and expansion of foreign markets for Australian goods and services (Austrade 2000). Among other things, the review recommended that:

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- the EMDG scheme be continued for a minimum period of five years until the end of 2005-06, with a review after four years;
 - the Government raise the funding cap to take account of the demand for grants. The review noted that if applications increase then, under the existing funding cap, the value of grants for a significant proportion of applicants will be reduced;
 - the scheme's eligibility be broadened to include professional conference organisers, expenses incurred in bringing overseas buyers to Australia and domestic travel and accommodation costs associated with overseas visits; and the definition of consultancy costs and trade fairs also be broadened; and
 - the flexibility of the scheme be enhanced by removing the rules for product eligibility from the EMDG legislation and, instead, appropriate ministerial guidelines be established.

In tabling the review's report in Parliament in August 2000, the Government accepted the key recommendation of the review to retain the EMDG scheme for another five years (with a review after four years). The Government is yet to consider other modifications to the program. The Minister for Trade said:

... while the [EMDG] scheme would be continued, the report would be considered in detail in the lead up to the 2001/2002 Federal Budget. This will give business time to fully consider the report and enable the Government to take any views into account before it takes a final position on the detailed recommendations and findings. (Vaile 2000d)

Export concessions

In the 1997 *Investing for Growth* statement, the Government announced that the Tradex scheme would replace the Tariff Export Concession (TEXCO) scheme and, partially, the Duty Drawback scheme. Tradex became operational in June 2000.

Tradex provides exporters with an up-front exemption from customs duties and goods and services tax (except excise) on imported goods that are processed or warehoused prior to export. The scheme:

- removes the TEXCO requirement that imported goods undergo 'industrial processing' for export as a condition for eligibility;
- requires that imported goods be exported within 12 months;
- adopts a self-assessment system for claims to improve access to the scheme and reduce compliance costs for users; and

-
- removes the need for duty drawback by providing an up-front exemption. However, duty drawback will still be available in relation to imported goods where it is not known at the time of import whether they will be exported or not.

Tradex costs \$100 million per annum, in terms of revenue forgone, and is used by firms across several sectors.

Agriculture

Adjustment assistance

Adjustment assistance has long been a key element of assistance to Australian agricultural industries. In the past, this type of support was provided mainly through the Rural Adjustment Scheme (RAS).

In 1997, the Government introduced the *Agriculture — Advancing Australia* (AAA) package with funding of \$500 million over four years, following the mid-term review of the RAS which found that the existing scheme was not effective in promoting rural development (IC 1997b). In replacing the RAS and other rural programs, the package introduced the Farmbis program, the Farm Family Restart Scheme, the Farm Management Deposits Scheme and assistance for retiring farmers (see PC 1998).

In the 2000-01 Budget, the Government announced that the AAA package is to be extended for an additional four years at a funding cost of \$309 million. According to the Government:

The package's components have been refocused to facilitate change, improve farm skills and expand market opportunities, while retaining essential elements of social welfare. (Costello and Fahey 2000, p. 6-17)

The package includes the following programs:

- *Skilling Farmers for the Future* — \$168 million will be used to support business and natural resource management training through an amalgamation of Farmbis and Property and Management Planning programs;
- *Farm Help* — \$112 million will be used for welfare support and counselling of farmers in financial difficulty through an extension of the Farm Family Restart Scheme to 2003;
- *Farm Innovation* — a new pilot program will be allocated \$18 million to encourage farmers to adopt better farming techniques, diversification strategies and innovation;

-
- *Farm Growth through Export Growth* — \$7 million will be used for the negotiation of bilateral cooperation agreements with countries that serve as key markets for Australian agricultural exports; and
 - *A Rural Industries Communication Campaign* — \$6 million will be used to ensure that farmers are aware of the assistance available.

In addition, the new package provides for continuation of assistance to retiring farmers (to June 2001) and of the Farm Management Deposits Scheme.

Industry-specific assistance

Pharmaceuticals

The Pharmaceutical Industry Investment Program (PIIP), which replaced the Factor f scheme, commenced in July 1999. Like the Factor f scheme, the PIIP has the stated aim of compensating the pharmaceutical industry for the low drug prices under the Pharmaceutical Benefits Scheme (PBS).

Under the PIIP, the payments provide actual and/or notional price increases for pharmaceutical products nominated by eligible companies in return for their commitments in relation to:

- ‘production value added’ and/or R&D targets (which incorporate both existing and additional activity); and
- ‘broad activities’, such as investment in new plant and equipment, workplace reform, or location of regional headquarters in Australia.

PIIP’s funding is capped at \$292 million over five years (to June 2004) and involves a reduction of \$20 million per year when compared with the Factor f scheme.

Under a competitive-based assessment process conducted in 1998, 10 companies (out of 22 applicants) were selected for assistance, with payments ranging from \$6 million to \$60 million (over five years) per company. The Australian National Audit Office provided advice to the assessment panel and subsequently undertook an audit of the selection process (ANAO 1999). Among other things, the ANAO considered that PIIP’s assessment process ‘was free of bias and conflict of interest, as well as following closely the published guidelines’.

In 1998, the Government extended the 20-year patent term for an additional 5 years for both existing and new pharmaceutical patents. New ‘springboarding’ provisions also allow regulatory approval for generic products still under patent. In addition, under new data exclusivity arrangements, registration data submitted to the

Therapeutic Goods Administration are afforded a five-year period of protection from use by other companies (DISR 1999).

Textiles, clothing, footwear and leather

In December 1999, legislation was passed in parliament to give effect to the TCF Strategic Investment Program (SIP). At a cost of \$700 million over five years, the SIP commenced in July 2000 and forms part of an assistance package, including a tariff pause, for the TCF industries. Details of these assistance arrangements were provided in PC (1998).

The Government has noted that the SIP is *not* intended to replace the TCF Import Credit Scheme (ICS), which was scheduled to cease in July 2000. According to the Regulation Impact Statement (RIS) accompanying the Bill (Minchin 1999a), the Government decided that the assistance under the SIP is to be provided:

- as cash payments rather than duty credits provided under the ICS — since the latter has a ‘tainted status’ in the WTO, favours importing firms and attracts transparency concerns;
- through a program rather than a bounty (or production subsidy) — taking into account problems of bounty assistance highlighted in the Commission’s report (IC 1997a);
- as an entitlement rather than on a competitive basis — since the former is likely to be more effective in ensuring the survival and expansion of small TCF firms in the APEC free trade environment of 2010; and
- through legislation rather than budget appropriations — as the industry argued that legislation would provide more certainty in funding.

In May 2000, the Government extended the ICS to September 2000 to assist producers located in Forum Island countries (particularly Fiji). The extension was a response to concerns that removal of the ICS could cause dislocation of TCF activities in those countries. It will also facilitate the finalisation of negotiations of new provisions under the South Pacific Regional Trade and Economic Cooperation Agreement (Downer and Minchin 2000).

In June 2000, the Government introduced the *Customs Tariff Proposal No. 5 (2000)* to allow import credits earned under the ICS to be used up to December 2001. Under existing provisions, import credits could only be used up to June 2000.

In a long-running dispute between Australia and the United States, a WTO Panel ruled in February 2000 that Australia had not withdrawn the prohibited export subsidy provided to Howe Leather (see box 4.1). In June 2000, Australia announced

Box 4.1 Assistance to Howe Leather

Australia is a signatory to the WTO Agreement on Subsidies and Countervailing Measures (1995) which prohibits export subsidies, except for agricultural commodities.

In 1996, US leather manufacturers filed a petition that the assistance afforded by the Australian Government to Howe Leather was an export subsidy. Following an agreement between the Australian and US Governments in 1997, Howe Leather was excised from the PMV Export Facilitation Scheme and the TCF Import Credits Scheme. The Australian Government subsequently introduced an assistance package for Howe Leather, comprising a \$30 million grant and a \$5 million loan.

Following a request by the United States, a WTO Panel was established in June 1998 to determine whether the grant and loan to Howe Leather were export subsidies. In June 1999, the Panel found that the grant (but not the loan) was an export subsidy and recommended that Australia withdraw the grant within 90 days.

In September 1999, the Government announced that, to comply with the WTO finding, the grant contract was to be terminated and that Howe Leather was to repay \$8 million of the \$30 million provided in 1997. It also agreed to provide an additional loan of around \$13.7 million to Howe Leather (Vaile and Minchin 1999).

In October 1999, the United States further submitted to the WTO Dispute Settlement Body that the (partial) withdrawal of the grant and the new loan by the Australian Government were inconsistent with the WTO original finding. The United States requested the original Panel to rule on the new assistance regime within ninety days.

In January 2000, the WTO Panel found that Australia had failed to withdraw the subsidy, and therefore had not taken measures to comply with the previous ruling. It considered that provision of the new loan of \$13.7 million was *specifically conditioned* on, and therefore nullified, Howe Leather's repayment of \$8 million, such that no repayment had effectively taken place.

Sources: PC (1999); WTO (2000a).

several policy measures in a settlement with the United States to resolve the dispute, involving:

- payment of \$7.2 million to the Government by Howe Leather (instead of the full \$30 million grant recommended by the WTO);
- removal of automotive leather from eligibility for certain TCF and PMV assistance — namely, the SIP and the Automotive Competitiveness and Investment Scheme;
- prohibition of other direct or indirect subsidies that benefit the manufacture, sale or distribution of automotive leather for a period of 12 years; and
- removal of customs duty on 30 items³ from the (nominal) 5 per cent rate to zero from July 2000 (WTO 2000b; Vaile 2000a).

Selective investment incentives

The Commonwealth's Strategic Investment Incentive Program (SIIP) is designed to attract direct investment to Australia by providing assistance to selected projects. Under the SIIP, the Office of the Strategic Investment Coordinator (OSIC), currently headed by Mr Fergus Ryan, assesses applications for investment incentives on a case-by-case basis against 'indicative' selection criteria and advises the Cabinet on the merits of investment proposals. The Cabinet then makes a determination on the project, and the level and form of assistance to be provided. However, details of the assessments of selected projects have not been publicly released. The Commission examined aspects of the early operation of the SIIP and the program's design in the *Trade & Assistance Review 1998-99* (PC 1999).

At the State and Territory level, various types of incentives are also provided to attract investment (see IC 1996).

Projects assisted under the SIIP

To date, three companies in the manufacturing sector have been awarded incentives or received an offer for assistance under the SIIP. These are:

- a \$40 million package for Visy Industries to establish a pulp and paper mill in Tumut, New South Wales (Minchin 1998);
- an offer of assistance exceeding \$100 million to Comalco to expand an alumina refinery in Gladstone (Howard 1999); and
- a \$70 million package for the US based Syntroleum Corporation for access to, and development of, gas-to-liquid (GTL) technology in Australia (Minchin 2000a).⁴

The assistance to Visy Industries was announced in December 1998 and initial payments were made in December 1999. The incentive involves a combination of existing programs' funds and additional funding (see PC 1999).

³ These tariff items cover certain chemical, rubber, glassware, cutlery, machinery and appliances, electrical equipment, recorders and television, photographic, and toy and sport products. The actual tariff rates applied to these items would be lower than the nominal tariff rates once tariff concession arrangements, to which these imports are also eligible, are taken into account.

⁴ In addition to Commonwealth investment incentives, the SIIP's selected projects also receive assistance from State governments, usually in the form of infrastructure funding. For example, Syntroleum has stated that a \$30 million funding package is to be provided by the Western Australian Government for construction of a desalination plant, access roads and site improvements where its plant is located (Syntroleum 2000).

Comalco has chosen Gladstone (over Bintulu in Malaysia) as its preferred site to conduct a final feasibility study of the proposed alumina refinery. It is yet to make a final decision to proceed with the project (Minchin 2000c).

The incentive to Syntroleum was announced in February 2000. The package consists of a \$30 million licence agreement and a \$40 million interest-free loan with 25 years maturity.⁵ Under the licence agreement, the Commonwealth will pay a \$30 million licence fee for the rights to use Syntroleum's GTL technology. Provision of the loan is subject to Syntroleum fulfilling certain conditions before August 2004. The conditions require the company to participate in a research consortium involving Australian research organisations and universities, and to undertake a feasibility study to develop a GTL fuel plant in Australia within three years (Minchin 2000a). Syntroleum has agreed to complete a feasibility study for its 'Sweetwater' project to be located on the Burrup Peninsula in Western Australia. The GTL plant will obtain its gas supply from the nearby North West Shelf project to produce synthetic specialty chemicals.

Expanded SIIP

In September 1999, the Government decided to increase the scope of investment incentives in its response to the (Ralph) Review of Business Taxation:

Recognising the potential impact of removing accelerated depreciation on large capital intensive projects with long lives, the Government will be prepared to consider such projects in the context of an expanded strategic investment coordination process, including consideration of the option of targeted investment allowances. (Costello 1999a)

In explaining the program change, the Government nominated the North West Shelf project, among others, as a likely recipient of assistance under the expanded SIIP. It noted that, when the North West Shelf project was developed, the (then) Government agreed to provide it with special treatment to compensate for the fact that the project would be unable to benefit from accelerated depreciation provisions (at least in the short term). Because the Government has decided to consider special treatment for the North West Shelf under the SIIP, it has also decided to do the same for other long term projects (Costello 1999b).

⁵ The value of assistance of an interest-free loan is equivalent to the amount of interest that the firm would otherwise pay if it were to borrow the loan at a market rate of interest. Consider, for example, the present market interest rate for a business loan of 8 per cent; an interest-free loan of \$40 million with 25 years maturity would provide a subsidy of \$3.2 million per year for 25 years, or a total of \$80 million. The exact assistance depends on the annual market rate of interest, the period of the loan and the rate of payback.

In December 1999, the Government introduced new objectives for the expanded SIIP to reaffirm its decisions to afford assistance to major resource-based projects. It noted that the assessment process would still be based on the existing, 'indicative' selection criteria. However, the expanded SIIP will have a key objective of compensating for the impact of tax reforms:

... for very large projects, in addition to net economic and employment benefits, the Government will also take into consideration the impact of the Government's broader taxation reforms. (Minchin 1999b)

Another objective of the SIIP is to promote regional development:

... recognising the importance of regional development to Australia, the Government will be mindful of the regional impact of proposals when considering for incentives. (Minchin 1999b)

While the focus of the expanded SIIP has been to assist major resource-based projects, in the *Industry 2000* statement on industry policy priorities, the Government indicated that it is evaluating a range of measures to attract investment in R&D activities and knowledge-based industries:

Strategic initiatives are also being developed to attract investment into the information technology, telecommunication and biotechnology sectors ... As part of this work, Invest Australia is developing an R&D investment strategy that will contribute to the proposed Innovation Action Plan. (Minchin 2000e)

State and Territory incentives

Selective investment incentives are provided by State and Territory governments as well as by the Commonwealth. A recent example of State incentives is the (undisclosed sum of) assistance provided by the South Australian Government to attract two manufacturing companies — Email and BAE Systems — to relocate from Victoria to South Australia.

In its inquiry on State, Territory and Local Government assistance to industry (IC 1996), the Commission examined several options to develop an agreement on assistance among the States. The agreements could involve an agreed transparency and monitoring mechanism, limits on some assistance or a comprehensive arrangement to limit all assistance. The Commission also saw a legitimate role for the Commonwealth to encourage the States to limit their selective industry assistance.

The Commonwealth has recently indicated that it has reached an agreement with State and Territory governments to cooperate on investment attraction activities. As part of this cooperation, it will seek to ensure a consistent set of guidelines for investment attraction across jurisdictions (Minchin 2000e).

Table 4.2 Budgetary assistance to industry, 1997-98 to 2000-01
\$ million

	1997-98	1998-99	1999-00	2000-01
Total budgetary assistance	3 399	3 501	3 686	3 745
Budgetary outlays	1 795	1 856	1 947	1 912
Tax expenditures	1 604	1 645	1 739	1 833
Assistance categories ^a				
Research and development	1 201	1 317	1 433	1 468
Export	1 030	1 062	1 044	856
Investment	434	444	486	717
Sectoral and adjustment assistance	324	304	294	312
Other industry-specific assistance	409	373	430	392

^a The assistance categories include general as well as specific schemes targeting an activity within an industry. For example, the *export assistance* category would include broad-based export measures (such as the Export Market Development Grants scheme) as well as industry measures (such as the TCF Import Credits Scheme) which also facilitate export. The *sectoral and adjustment assistance* category covers programs specifically benefiting producers in a sector or facilitating adjustment. The other industry-assistance category covers measures (such as bounties) not already included in the above categories.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 1999; PC estimates.

Table 4.3 Commonwealth budgetary outlays on primary production, 1997-98 to 2000-01
\$ million

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
<i>Industry-specific programs</i>					
<i>Horticulture, crops etc</i>					
Australian Plaque Locust Commission	FI	<1	1	-	-
Citrus industry market diversification subsidy	DFA	<1	1	2	<1
Deduction of capital expenditure on establishing horticultural plantations	TE	1	3	4	5
Deduction of expenditures over four years on acquiring and establishing grape vines	TE	4	4	4	4
Sugar Industries Package	FI	-	3	5	4
Sugar Industry Program	FI	3	1	1	2
<i>Forestry</i>					
Forest Industry Structural Adjustment	DFA	6	24	4	48
Commonwealth-NSW Forest Industry	FI	-	3	<1	3
National Forest Policy Program	FI	7	9	5	1
NSW Southeast Forests Package	FI	4	-	-	-

Table 4.3 (continued)

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
<i>Livestock, poultry etc</i>					
Australian Animal Health Laboratory	FI	6	6	6	6
Bovine brucellosis & tuberculosis eradication	FI	2	-	-	-
Exotic Disease Prepared Program	FI	<1	5	16	1
Lamb Industry Development Program	DFA	-	-	9	-
Pigmeat Processing Grants Program	DFA	-	2	4	4
Pork Producer Exit Program	DFA	-	-	5	-
Pork Industry Development Group Grant	FI	2	5	4	1
<i>Total</i>		36	67	69	79
<i>Research and development^c</i>					
<i>General R&D measures</i>					
Cooperative Research Centres	FI	29	27	24	23
CSIRO plant and animal research	FI	128	133	141	114
R&D Start & related programs	DFA	2	2	5	5
R&D tax concession	TE	6	7	7	7
<i>Rural R&D Corporations</i>					
Fishing industry research	FI	11	12	16	18
Grains (wheat and other ^d)	FI	34	34	33	32
Horticulture	FI	11	15	17	18
Land and Water Resources R&D Corporation	FI	11	11	22	19
Meat & livestock research	FI	23	21	21	21
Other rural research ^e	FI	33	36	32	38
Rural Industries R&D Corporation	FI	11	11	11	16
Wool	FI	7	10	12	13
<i>Total</i>		305	320	339	323
<i>Sectoral and adjustment programs</i>					
<i>Adjustment and income support</i>					
Agribusiness programs	FI	<1	<1	<1	-
Farm Household Support Scheme	DFA	<1	<1	-	-
Farm Family Restart Program					
- Re-establishment	DFA	17	14	17	23
- Income support	DFA	5	20	18	16
Farm Business Programs	FI	6	6	12	27
Farm Assistance program	FI	-	-	-	1
Farm Innovation	FI	-	-	-	5
Food and Fibre Supply Chain Program	FI	-	-	7	6
Rural Adjustment Scheme	DFA	82	43	29	17
Skilling farmers for the future	FI	-	-	-	10

Table 4.3 (continued)

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
<i>Other sectoral measures</i>					
Income Equalisation Deposits Scheme	TE	26	24	9	-
Farms Management Deposits Scheme	TE	-	-	23	45
Income tax averaging provisions	TE	90	95	95	95
National Landcare Program	FI	54	56	37	37
Tax deduction for conveying water & conservation measures	TE	30	30	30	30
Tax rebate for landcare expenditures	TE	-	-	1	1
Tax allowance on drought-prepared assets	TE	14	15	15	ne
<i>Total</i>		<i>324</i>	<i>304</i>	<i>294</i>	<i>312</i>
<i>General export measures</i>					
<i>Austrade</i>					
- Export Market Development Grants scheme	DFA	4	4	5	5
- Austrade export promotion	FI	30	32	36	36
- Innovative Agricultural Marketing Program	DFA	3	-	-	-
EFIC National Interest Business ^f	DFA	18	17	17	16
<i>Total</i>		<i>55</i>	<i>53</i>	<i>58</i>	<i>57</i>
<i>Unallocated primary production</i>					
Tasmanian Freight Equalisation Scheme	DFA	2	3	4	4
Total outlays		553	568	574	589
Total tax expenditures		171	178	188	187
Total budgetary assistance		724	746	762	776

* Nil. ne Not estimated. Figures may not add to total due to rounding. ^a DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. ^b 1999-2000 data are Budget estimates and 2000-01 data are Budget appropriations. ^c Estimates are derived in part from the Science and Technology Budget Statement 2000-01. ^d Other includes barley, grain, legumes and oilseeds. ^e Other industries include dairy, chicken meat, pig meat, eggs, cotton, dried vine fruits, grapes and wine, honey, sugar and tobacco. ^f The estimates reported in this section are net National Interest Business outlays. These payments are insurance pay-outs. Because any difference between the National Interest Business scheme's borrowing and lending rates is underwritten by the Commonwealth, the scheme may provide assistance to agricultural exporters. However, net National Interest Business outlays provide only a weak indication of any assistance provided.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 1999; PC estimates.

Table 4.4 Commonwealth budgetary assistance to the manufacturing sector, 1997-98 to 2000-01

\$ million

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
Food, beverages & tobacco					
<i>Industry-specific measures</i>					
Agri-Food Industry Program	FI	1	-	-	-
Brandy excise preferential rate	TE	5	5	5	4
<i>General investment measures</i>					
Development allowance	TE	26	4	4	6
<i>General export measures</i>					
Export Market Development Grants scheme	DFA	7	8	9	9
<i>General R&D measures</i>					
Cooperative Research Centres	FI	8	8	6	5
CSIRO research	FI	17	18	18	20
R&D Start and related programs	DFA	3	2	2	3
R&D tax concession	TE	15	22	18	19
<i>Other measures</i>					
Tasmanian Freight Equalisation scheme	DFA	5	1	8	8
Total		87	68	70	74
Textiles, clothing, footwear & leather					
<i>Industry-specific measures</i>					
Assistance to Howe Leather ^b					
- Grant	DFA	13	13	-	-
- Loan	DFA	-	-	14	-
TCF Import Credit Scheme	TE	121	106	83	107
TCF Strategic Investment Program	DFA	-	-	-	10
Other TCF programs ^c		6	8	7	6
<i>General export measures</i>					
Austrade export promotion	FI	1	1	1	1
Export Market Development Grants scheme	DFA	6	6	5	5
Tariff Export Concession (TEXCO)	TE	12	9	9	-
TRADEX	TE	-	-	-	15
<i>General R&D measures</i>					
Cooperative Research Centres	FI	2	3	3	-
CSIRO research	FI	15	15	11	31
R&D Start and related programs	DFA	<1	<1	<1	<1
R&D tax concession	TE	2	20	2	2
Total		178	180	134	177

Table 4.4 (continued)

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
Wood & paper products					
<i>Industry-specific programs</i>					
Investment incentives to Visy Industries	DFA	-	-	3	3
<i>General export measures</i>					
Export Market Development Grants scheme	DFA	1	1	1	1
Tariff Export Concession (TEXCO)	TE	3	2	2	-
TRADEX	TE	-	-	-	3
<i>General R&D measures</i>					
Cooperative Research Centres	FI	2	1	<1	-
CSIRO research	FI	4	4	5	5
R&D Start and related programs	DFA	<1	<1	<1	<1
R&D tax concession	TE	2	2	2	2
<i>Other programs</i>					
Tasmanian Freight Equalisation scheme	DFA	12	10	18	18
<i>Total</i>		24	21	31	32
Printing, publishing & recorded media					
<i>Industry-specific programs</i>					
Book bounty	DFA	7	<1	-	-
Printing Industry Competitiveness scheme	DFA	-	-	6	3
Extended Printing Industry Competitiveness	DFA	-	-	-	14
<i>General investment measures</i>					
Development allowance	TE	1	<1	<1	<1
<i>General export measures</i>					
Export Market Development Grants scheme	DFA	3	3	3	3
<i>General R&D measures</i>					
R&D Start and related programs	DFA	1	2	2	2
R&D tax concession	TE	2	1	2	2
<i>Total</i>		14	6	13	24
Petroleum, coal, chemical & associated products					
<i>Industry-specific programs</i>					
Investment incentives to Syntroleum	DFA	-	-	42	8
Factor f program	DFA	174	159	79	-
Pharmaceutical Industry Development program	DFA	-	-	34	55
<i>General investment measures</i>					
Development allowance	TE	2	10	9	13

Table 4.4 (continued)

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
<i>General export measures</i>					
Austrade export promotion	FI	2	2	3	3
Export Market Development Grant scheme	DFA	5	6	6	6
Tariff Export Concession (TEXCO)	TE	2	2	2	-
TRADEX	TE	-	-	-	3
<i>General R&D measures</i>					
Cooperative Research Centres	FI	11	17	19	18
CSIRO research	FI	38	39	40	41
R&D Start and related programs	DFA	6	8	12	12
Innovation Investment Fund	DFA	-	5	8	8
R&D tax concession	TE	32	19	38	40
<i>Total</i>		273	267	292	206
Non-metallic mineral products					
<i>General investment measures</i>					
Development allowance	TE	1	13	12	17
<i>General export measures</i>					
Export Market Development Grants scheme	DFA	2	1	1	1
Tariff Export Concession (TEXCO)	TE	1	1	1	-
TRADEX	TE	-	-	-	1
<i>General R&D measures</i>					
R&D Start and related programs	DFA	2	3	<1	<1
R&D tax concession	TE	11	9	13	13
<i>Total</i>		17	27	27	33
Metal product manufacturing					
<i>General investment measures</i>					
Development allowance	TE	18	52	48	67
<i>General export measures</i>					
Export Market Development Grants scheme	DFA	4	4	4	4
Tariff Export Concession (TEXCO)	TE	6	4	5	-
TRADEX	TE				8
<i>General R&D measures</i>					
Cooperative Research Centres	FI	6	8	9	11
CSIRO research	FI	25	27	28	28
R&D Start and related programs	DFA	5	3	6	6
R&D tax concession	TE	41	52	49	52
<i>Total</i>		106	151	148	176

Table 4.4 (continued)

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
Motor vehicles & parts					
<i>Industry-specific measures</i>					
PMV Export Facilitation Scheme	TE	251	288	348	174
Automotive Competitiveness & Investment Scheme	TE	-	-	-	200
Automotive Market Access & Development	FI	-	8	5	7
<i>General investment measures</i>					
Development allowance	TE	3	18	17	23
<i>General export measures</i>					
Austrade export promotion	FI	4	5	5	5
<i>General R&D measures</i>					
R&D Start and related programs	DFA	1	1	<1	<1
R&D tax concession	TE	25	30	29	31
<i>Total</i>		284	350	404	441
Other transport equipment					
<i>Industry-specific measures</i>					
Shipbuilding bounty	DFA	19	24	15	12
Shipbuilding Innovation Scheme	DFA	-	-	6	9
<i>General R&D measures</i>					
Cooperative Research Centres	FI	2	2	1	-
R&D Start and related programs	DFA	1	3	4	4
R&D tax concession	TE	10	7	12	13
<i>Total</i>		32	36	37	38
Other machinery & equipment					
<i>Industry-specific measures</i>					
Computer bounty	DFA	49	58	-	-
Machine tools and robots bounty	DFA	4	<1	-	-
<i>General investment measures</i>					
Development allowance	TE	1	1	1	1
<i>General export measures</i>					
Export Market Development Grant scheme	DFA	19	18	18	18
Tariff Export Concession (TEXCO)	TE	42	30	31	-
TRADEX	TE	-	-	-	53
<i>General R&D measures</i>					
Cooperative Research Centres	FI	21	21	20	23
Innovation Investment Fund	DFA	1	1	2	1

Table 4.4 (continued)

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
R&D Start and related programs	DFA	23	40	37	38
R&D tax concession	TE	30	42	35	37
<i>Total</i>		191	212	143	171
Other manufacturing					
<i>General investment measures</i>					
Development allowance	TE	<1	2	1	2
<i>General export measures</i>					
Export Market Development Grant scheme	DFA	5	4	6	6
Tariff Export Concession (TEXCO)	TE	12	9	9	-
TRADEX	TE	-	-	-	16
<i>General R&D measures</i>					
R&D Start and related programs	DFA	7	11	11	12
R&D tax concession	TE	4	6	5	6
<i>Other programs</i>					
Tasmanian Freight Equalisation scheme	DFA	3	5	2	2
<i>Total</i>		32	37	35	43
Unallocated manufacturing					
<i>General export measures</i>					
Duty drawback	TE	79	95	87	50
International Trade Enhancement Scheme	DFA	13	-	-	-
<i>General R&D measures</i>					
Technology Support Centres	DFA	14	-	-	-
CSIRO research	FI	34	33	35	35
Technology Diffusion Program	DFA	-	15	19	21
<i>Other programs</i>					
Enterprise Development Program	FI	28	14	6	1
Greenhouse voluntary gas reduction	FI	1	-	-	-
Tasmanian Freight Equalisation Scheme	DFA	20	21	28	29
<i>Total</i>		189	179	174	136
Total outlays		665	673	632	572
Total tax expenditures		762	860	877	981
Total budgetary assistance		1 426	1 533	1 509	1 552

- Nil. Figures may not add to total due to rounding. ^a DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. ^b 1999-2000 data are Budget estimates and 2000-01 data are Budget appropriations.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 1999; PC estimates.

Table 4.5 **Commonwealth budgetary assistance to service sectors, 1997-98 to 2000-01**
\$ million

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
Electricity, gas & water supply					
<i>General investment measures</i>					
Development allowance	TE	14	1	1	2
Infrastructure Bonds	TE	60	55	44	31
Infrastructure Borrowing tax offset scheme	TE	3	25	25	-
<i>General export measures</i>					
Export Market Development Grant scheme	DFA	<1	<1	<1	<1
<i>General R&D measures</i>					
Cooperative Research Centres	FI	3	4	5	5
R&D Start and related programs	DFA	1	1	1	1
R&D tax concession	TE	1	1	1	1
<i>Total</i>		83	88	77	40
Construction					
<i>General export measures</i>					
Austrade export promotion	FI	20	22	24	24
Export Market Development Grant scheme	DFA	2	2	2	2
<i>General R&D measures</i>					
CSIRO research	FI	24	25	25	22
R&D Start and related programs	DFA	2	<1	<1	<1
R&D tax concession	TE	19	18	23	24
<i>Total</i>		67	67	75	73
Wholesale trade					
<i>General investment measures</i>					
Development allowance		<1	-	-	-
<i>General export measures</i>					
Export Market Development Grant scheme	DFA	15	15	13	14
<i>General R&D measures</i>					
R&D Start and related programs	DFA	-	<1	2	1
R&D tax concession	TE	14	15	17	17
<i>Total</i>		30	31	32	32
Retail trade					
<i>Industry-specific programs</i>					
Pharmacy Restructuring grants	DFA	7	11	13	10
<i>General investment measures</i>					
Development allowance	TE	<1	<1	<1	<1

Table 4.5 (continued)

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
<i>General export measures</i>					
Australian Tourist Commission	FI	18	21	21	21
Export Market Development Grants scheme	DFA	4	4	3	3
<i>General R&D measures</i>					
R&D tax concession	TE	2	3	3	3
<i>Total</i>		32	39	40	38
Accommodation, cafes & restaurants					
<i>General investment measures</i>					
Development allowance	TE	1	1	1	1
<i>General export measures</i>					
Export Market Development Grants Scheme	DFA	4	5	5	6
Australian Tourist Commission	FI	24	27	27	28
<i>Total</i>		29	33	33	35
Transport & storage					
<i>General investment measures</i>					
Development allowance	TE	33	<1	<1	<1
Infrastructure Bonds	TE	55	50	41	26
Infrastructure Borrowing tax offset scheme	TE	4	31	31	31
<i>General export measures</i>					
Export Market Development Grant scheme	DFA	18	18	17	17
Australian Tourist Commission	FI	30	34	34	35
<i>General R&D measures</i>					
R&D Start and related programs	DFA	-	1	5	5
R&D tax concession	TE	4	14	5	5
<i>Total</i>		144	149	134	119
Communication services					
<i>Industry-specific measures</i>					
Software Engineering Centres	FI	-	2	6	6
<i>General investment measures</i>					
Development allowance	TE	-	13	-	-
<i>General export measures</i>					
Export Market Development Grant scheme	DFA	1	1	1	<1
Austrade export promotion	FI	17	18	20	20
Australian Tourist Commission	FI	1	1	1	1

Table 4.5 (continued)

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
<i>General R&D measures</i>					
Cooperative Research Centres	FI	2	2	2	3
CSIRO research	FI	22	21	21	21
Innovation Investment Fund	DFA	-	12	20	17
R&D Start program	DFA	7	10	12	13
R&D tax concession	TE	16	8	19	20
<i>Total</i>		66	89	103	102
Finance & insurance					
<i>General investment measures</i>					
Development allowance	TE	27	4	4	6
Offshore Banking Unit	TE	17	27	35	35
Infrastructure Borrowing tax offset scheme	TE	3	19	19	19
<i>General export measures</i>					
Export Market Development Grant scheme	DFA	<1	<1	<1	<1
<i>General R&D measures</i>					
R&D Start program	DFA	1	<1	<1	<1
Innovation Investment Fund	DFA	-	5	5	2
R&D tax concession	TE	54	30	64	68
<i>Total</i>		102	85	127	130
Property & business services					
<i>General investment measures</i>					
Development allowance	TE	1	-	12	17
<i>General export measures</i>					
Export Market Development Grants scheme	DFA	22	23	24	24
<i>General R&D measures</i>					
Cooperative Research Centres	FI	7	4	3	4
R&D Start & related programs	DFA	6	14	22	23
Innovation Investment Fund	DFA	-	1	1	1
R&D tax concession	TE	40	57	48	50
<i>Total</i>		76	98	110	118
Government administration & defence					
<i>General investment measures</i>					
Development allowance	TE	-	2	2	3
<i>General export measures</i>					
Austrade export promotion	FI	2	2	3	3

Table 4.5 (continued)

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
<i>General R&D measures</i>					
R&D Start & related programs	DFA	<1	<1	<1	<1
<i>Total</i>		2	5	6	6
Education					
<i>General investment measures</i>					
Development allowance	TE	-	1	1	1
<i>General export measures</i>					
Australian Tourist Commission	FI	<1	1	1	1
Export Market Development Grant scheme	DFA	11	11	9	9
Austrade export promotion	FI	8	8	9	9
<i>General R&D measures</i>					
R&D Start & related programs	DFA	5	5	7	7
R&D tax concession	TE	2	-	3	3
<i>Total</i>		27	26	30	30
Health & community services					
<i>General export measures</i>					
Export Market Development Grants scheme	DFA	<1	<1	<1	<1
<i>General R&D measures</i>					
Cooperative Research Centres	FI	12	12	13	13
R&D Start program	DFA	7	10	12	13
R&D tax concession	TE	2	3	3	3
<i>Total</i>		22	26	29	29
Cultural & recreational services					
<i>Industry-specific measures</i>					
Australian Film Commission ^b	DFA	30	16	17	17
Australian Film Finance Corporation & Film Australia ^b	DFA	48	48	48	48
Film industry 100 per cent capital deduction	TE	20	20	20	20
<i>General export measures</i>					
Australian Tourist Commission	FI	3	4	4	4
Austrade export promotion	FI	16	17	19	19
Export Market Development Grants scheme	DFA	6	7	7	7
<i>General R&D measures</i>					
Cooperative Research Centres	FI	5	2	2	2
R&D Start & related programs	DFA	-	<1	<1	<1

Table 4.5 (continued)

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
R&D tax concession	TE	1	1	1	2
<i>Total</i>		129	115	118	120
Personal & other services					
<i>General export measures</i>					
Export Market Development Grant scheme	DFA	1	1	2	1
<i>General R&D measures</i>					
R&D Start & related programs	DFA	2	2	2	2
R&D tax concession	TE	<1	<1	<1	1
<i>Total</i>		3	3	5	4
Unallocated services					
<i>General export measures</i>					
Austrade export promotion	FI	19	20	23	23
Australian Tourist Commission	FI	1	1	1	1
<i>General R&D measures</i>					
CSIRO research	FI	9	9	9	10
R&D Start & related programs	DFA	-	<1	2	3
<i>Other programs</i>					
Building IT Strengths	DFA	-	-	42	42
<i>Total</i>		29	31	77	78
Total outlays		445	484	569	564
Total tax expenditures		395	402	424	390
Total budgetary assistance		840	886	994	954

- Nil. Figures may not add to total due to rounding. ^a DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. ^b 1999-2000 data are Budget estimates and 2000-01 data are Budget appropriations.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 1999; PC estimates.

Table 4.6 **Commonwealth budgetary outlays on the mining sector, 1997-98 to 2000-01**

\$ million

	Type ^a	1997-98	1998-99	1999-00 ^b	2000-01 ^b
<i>Industry-specific measures</i>					
Exemption of income from sale, transfer or assignment of rights to mine gold	TE	38	18	5	-
Regional Minerals Program	FI	-	-	1	1
<i>General investment measures</i>					
Development allowance	TE	138	67	62	87
<i>General export measures</i>					
Austrade export promotion	FI	7	7	8	8
Export Market Development Grants scheme	DFA	1	2	2	2
<i>General R&D measures</i>					
Cooperative Research Centres	FI	8	10	9	6
CSIRO minerals research	FI	45	47	47	53
R&D Start and related programs	DFA	9	8	23	24
R&D tax concession	TE	52	96	62	66
Total outlays		69	74	91	93
Total tax expenditures		228	181	129	153
Total budgetary assistance to mining		298	255	220	246

^a Nil. Figures may not add to total due to rounding. ^a DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. ^b 1999-2000 data are Budget estimates and 2000-01 data are Budget appropriations.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 1999; PC estimates.

Table 4.7 **Commonwealth budgetary assistance, unallocated other^a**
1997-98 to 2000-01
 \$ million

	Type ^b	1997-98	1998-99	1999-00 ^c	2000-01 ^c
<i>Energy programs</i>					
Energy R&D Corporation	FI	21	2	-	-
National Energy Efficiency Program	FI	2	4	-	-
Renewable Energy Commercialisation	DFA	-	2	4	6
Renewable Energy Equity Fund	DFA	-	-	1	3
<i>General investment measures</i>					
Development allowance	TE	3	1	1	1
Invest Australia	FI	-	15	15	14
Regional Headquarters Program	TE	2	2	2	2
<i>General export measures</i>					
Export Access	FI	3	4	4	3
Tourism programs	FI	7	3	7	-
<i>R&D measures</i>					
Commonwealth Technology Park	FI	-	-	3	8
R&D tax concession	TE	43	20	42	44
<i>Other measures</i>					
Enterprise Networking Program	FI	7	4	-	-
Pooled Development Funds	TE	na	na	na	na
Private Sector Linkages Program	FI	3	-	-	-
Regional Assistance Program	DFA	15	20	42	54
Clean Food Production Program	FI	1	1	1	1
National Space Program	FI	1	-	-	-
Small business capital gains tax exemption	TE	-	-	75	75
Innovation Investment Fund	DFA	4	3	5	4
Total outlays		64	57	81	95
Total tax expenditures		48	23	121	122
Total budgetary assistance		111	80	202	217

- Nil. Figures may not add to total due to rounding. **na** not available. **a** Include programs or amounts of funding where the industry is not stated or recipients are unknown. **b** DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. **c** 1999-2000 data are Budget estimates and 2000-01 data are Budget appropriations.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 1999; PC estimates.