3 Selected developments in assistance

This chapter documents a number of recent policy announcements and developments with ramifications for Australia's assistance structure generally or for particular sectors or industries. The developments relate to:

- tariff arrangements for the automotive and textiles, clothing and footwear industries, and for business inputs;
- selective investment incentives, including for the aerospace industry;
- assistance for export marketing;
- assistance for the tourism industry;
- industry-specific assistance for sugar, rice, pigmeat and commercial fishing;
- drought relief; and
- anti-dumping arrangements.

3.1 Reform of tariff arrangements

Historically, the imposition of tariffs on imports has been the main mechanism used by the Australian Government to assist domestic manufacturing. High tariff rates were initially introduced for many industries after the Second World War. The more recent trend to lower tariffs began with a 25 per cent general tariff reduction in 1973. This was followed by ad hoc changes in tariffs, until broadly-based programs of phased reductions in tariffs commenced in 1989. Today, around half of all dutiable items are duty free and, for the remainder, the general tariff rate is 5 per cent (although higher tariffs remain for the TCF and PMV industries). Australia also operates a tariff concession system which waives or reduces the duty payable on imported goods where certain eligibility criteria are met.

Textiles, clothing and footwear and passenger motor vehicles

The textiles, clothing and footwear (TCF) and passenger motor vehicles (PMV) industries are the most highly assisted industry groupings in the manufacturing sector. They receive tariff protection from import competition as well as receiving significant budgetary assistance.

Previously scheduled tariff reductions for these industries came into effect on 1 January 2005. The reforms reduce the disparity in tariff protection between these industries and the manufacturing sector more generally.

For TCF products, tariffs were reduced:

- from 25 to 17.5 per cent on imports of clothing and certain other finished textiles goods;
- from 15 to 10 per cent on imports of cotton sheeting, fabrics, footwear and carpet; and
- from 10 to 7.5 per cent on imports of sleeping bags, table linen and footwear parts.

These reductions were provided for in the *Customs Tariff Amendment (Textile, Clothing and Footwear post-2005 Arrangements) Act 2004*. Under the Act, TCF tariffs will remain at their new rates until 2010, when they will be reduced to 5 per cent and maintained at that rate until 2015. The exception is for apparel and certain finished textile goods, for which the tariff will be reduced to 10 per cent in 2010, and then to 5 per cent in 2015.

For PMV products, the tariff rate was reduced from 15 to 10 per cent on 1 January 2005. This reduction was provided for in the *Customs Tariff Amendment (ACIS) Act 2003* and the *ACIS Administration Amendment Act 2003*. Under the legislation, automotive tariffs are to remain at 10 per cent until 2010, when they will be reduced to 5 per cent and remain at that level until 2015.

The post-2005 tariff assistance arrangements for the TCF and PMV industries, together with other assistance arrangements for those industries, were discussed in detail in *Trade & Assistance Review* 2001-02 (PC 2002b).

Assistance to TCF and PMV industries is also affected by recently-concluded preferential trading arrangements. For example, under the May 2004 Australia-United States Free Trade Agreement, certain motor vehicle imports from the United States can now enter Australia at a concessional tariff rate. The concession is scheduled to increase each year such that, by 2010, eligible US-sourced vehicles shall be able to enter duty-free. Similarly, under the March 2004 Thailand-Australia Free Trade Agreement, eligible motor vehicles and certain parts and components imported from Thailand can now enter Australia duty-free, while eligible TCF products can enter at concessional rates.

Revenue duty on business inputs

As a revenue-raising measure in the 1996-97 budget, the Australian Government introduced a 3 per cent duty on a range of imports that were used as business inputs and for which there was no competing domestic production. These imports had previously entered duty-free under the Tariff Concession Scheme.

In its *Review of Australia's General Tariff Arrangements* (PC 2000b), the Commission found that the 3 per cent revenue duty disadvantaged Australian manufacturers and imposed unnecessary costs on consumers. The Commission recommended that the duty on business inputs be removed. In subsequent reports, the Commission found similar impacts of the revenue duty on automotive producers and TCF manufacturers (PC 2002a and 2003a).

In the 2005-06 Budget, the Australian Government announced the removal of the duty, effective from 11 May 2005. The reform eliminated a cost impost on Australian industries and consumers of around $300 million a year.

3.2 Selective investment incentives

All Australian governments provide selective investment incentives to firms, generally on an ad hoc basis. At the Commonwealth level, such assistance is provided primarily through the Strategic Investment Coordination (SIC) process, which is designed to attract foreign investment into Australia. The SIC is administered by Invest Australia, which also undertakes facilitation of investment projects generally. State and Territory governments also provide an array of selective assistance, often in competition with other State governments, to attract targeted firms to invest or locate in their particular State.

The provision of investment incentives has sometimes led to costly bidding wars among Australian jurisdictions (IC 1996 and Banks 2002). The Commission has examined issues surrounding the provision of investment incentives and reported on the provision of such incentives by governments in previous *Trade & Assistance Reviews* (PC 1998, 2004b).

Aerospace incentives

In recent times, the aerospace manufacturing industry has been assisted mainly through government funding of research activities undertaken by the Defence Science and Technology Organisation (DSTO) and the Cooperative Research Centre for Advanced Composite Structures (DITR 2003, p. 71-9).

In its Aerospace Industry Action Agenda, the Department of Industry, Tourism and Resources (DITR 2003) canvassed different mechanisms to support the development of the Australian industry. It argued that, while the Australian industry is currently fragmented, there is potential for it to become a significant international supplier of major aerospace components (for example, aeroengines and wings). It was recommended in the Agenda that the Government:

> … recognise that some competing countries offer investment incentives for supply chain projects associated with the development of new and derivative aerospace platforms. … [and that] The SIC process is the established mechanism under which the Government considers investment incentives. (p. 10)

It was also recommended that the Government use its projected Defence aerospace procurement expenditure of $29 billion over the coming decade as 'leverage to sustain strategic industry capabilities' (p. 19).

In March 2005, the Australian Government announced an investment incentive of $12.5 million to the Victorian-based aerospace manufacturer, Hawker de Havilland (HdH). HdH is a subsidiary of the Boeing company and has announced that it intends to invest $175 million in a manufacturing plant to produce trailing wing edge components for the Boeing 787 'Dreamliner' aircraft.

The Australian Government's support is part of a joint incentive package provided in conjunction with the Victorian Government. The Victorian Government assistance has not been disclosed (Macfarlane 2005a and 2005b).

The Interstate Investment Agreement

In recognition of the adverse effects that selective investment incentives can have on 'efficient competition' and 'national welfare', in 2003 all State and Territory governments except Queensland signed an agreement to reduce cross-border bidding and restrict the use of financial incentives to attract investment.

In its *Review of National Competition Policy Reforms* (PC 2005a), the Commission received submissions from some State governments on this issue and also reviewed progress in implementing the interstate agreement.

The report found that the original concerns of state governments that had led to the signing of the Interstate Investment Agreement remain significant. For example, the Tasmanian Government suggested that investment attraction potentially becomes 'an important issue for smaller economies, such as Tasmania, in the event that national economic growth slows and investment becomes more difficult to attract'.

In addition, the Commission's report found that the agreement lacks mechanisms to ensure monitoring and compliance. Accordingly, the Commission recommended that the Interstate Investment Agreement be strengthened to encourage compliance and be extended to cover all jurisdictions, including the Australian Government.

3.3 Export marketing assistance

The Export Market Development Grants (EMDG) scheme is the Australian Government's principal financial assistance program for Australian exporters. Established in 1974, the scheme focuses on small and medium-sized enterprises and provides taxable grants to reimburse up to 50 per cent of designated export promotion and marketing expenses.

The number of grant recipients has traditionally represented a relatively small proportion of Australian exporters. For example, participants in the EMDG scheme represented approximately 16 per cent of Australian exporters in the four years to 1998 (Revez and Lattimore 2001). EMDG grants were provided to around 3200 eligible companies in 2004-05.

The EMDG scheme is administered by Austrade, which also undertakes export promotion activities, such as providing business information and advice, and administers other export programs. In 2004-05, total funding for Austrade's export promotion activities, the EMDG scheme and related export programs was around $280 million.

From 1997 to 2002, funding for the EMDG scheme was capped at $150 million a year. In the 2004-05 budget, the Australian Government announced an additional $30 million for the scheme, to be provided for 2005-06 and 2006-07.

As part of an Austrade review of the scheme which commenced in 2004, the Centre of International Economics (CIE) was commissioned to assess the scheme's effects on export activity and also its economy-wide effects.

Based on a survey of recipient firms together with economic modelling, the CIE (2005b) found uncertain results. While 63 per cent of the grant recipients surveyed considered that the scheme had either 'no' or 'small' influence on their export marketing, 37 per cent of grant recipients indicated that the scheme was a 'major' influence. The CIE found that the EMDG scheme could induce considerable additional export marketing and exports by recipient firms, particularly when they are 'capital-constrained' and the returns from their exports are increasing. The CIE study also indicated that the scheme would displace non-EMDG exports, may not generate significant spillover benefits and that it is difficult to be categorical about the net benefits of the scheme.

In its report of June 2005, Austrade (2005, p. 9) found that:

> … the scheme is effective in increasing the number of SMEs that develop into new exporters, in increasing the number of SMEs that achieve sustainability in export markets, in generating additional exports, and in further developing an export culture in Australia. In arriving at this conclusion, Austrade took into account:
>
> - strong business and industry views, expressed in public submissions and through the review facilitation process
> - the independent survey of recent EMDG scheme recipients and analysis of the results
> - Austrade's own experience as the administrator of the scheme

Austrade recommended that the scheme be continued. It also recommended some changes to the details of the scheme.

In January 2006, the Government announced that the scheme will continue until the end of 2010-11, with provision for another review of the scheme by June 2010. Among other things, the Government noted that it will consider the funding of the scheme in the context of the 2006-07 budget (Vaile 2006).

3.4 Assistance to tourism

Governments throughout Australia have traditionally provided significant support for tourist activities in the form of expenditures on tourism promotion, the maintenance of high profile sites, the funding of events that attract tourists and the provision of infrastructure services that benefit travellers more generally (as well as local residents).

Following more than twenty years of rapid growth, the tourism industry's fortunes dipped early in this decade. Beginning in September 2001, terrorism, airline failures and later outbreaks of contagious diseases, such as SARS, significantly dampened travel — particularly international travel.

In response to these shocks, governments in Australia introduced a number of additional measures to assist the local tourism industry, including the release of the *Tourism White Paper* in November 2003. These additional measures were outlined in previous editions of the *Trade & Assistance Review* (PC 2002b, 2003b).

In 2004 and 2005, the number of international tourists and other visitors travelling to Australia increased to 5.2 million and 5.5 million arrivals, respectively. This exceeded the previous high of 4.9 million international visitors in 2000, which included additional visitors for the Sydney Olympics.

Implementation of the Australian Government's White Paper initiatives

The *Tourism White Paper: a Medium to Long Term Strategy for Tourism* contained a wide-ranging package of measures costed at $235 million and to be implemented over four-and-a-half years.

As foreshadowed in the White Paper, in July 2004 the Australian Tourist Commission was amalgamated with the Bureau of Tourism Research, the Tourism Forecasting Council and See Australia Limited to form a new body: Tourism Australia. Tourism Australia is responsible for both international and domestic tourism marketing, and the delivery of research, statistics and forecasts for the sector. A unit has also been established to promote business events (including the 'meetings, incentives, conventions and exhibitions' sector) as well as sporting, cultural and other major events. Another unit has been established to promote niche markets (such as ecotourism, and food and wine tourism).

The White Paper also announced the development of 'a revitalised Brand Australia' and an increase in funding for tourism promotion. Key initiatives have included the '30 great spaces' domestic campaign, launched in March 2005, and the 'So where the bloody hell are you?' international campaign, launched in February 2006.

A government progress report on the implementation of these and other White Paper initiatives is expected to be released by April 2006.

The National Tourism Investment Strategy

In March 2005, the Australian Minister for Small Business and Tourism established a National Tourism Investment Strategy (NTIS) Consultative Group, comprising travel and tourism industry representatives, to 'develop initiatives to attract further private sector investment in tourism infrastructure, research and innovation, and education and training.' (Bailey 2005)

In its report released in March 2006 (COA 2006), the Consultative Group took a 'broad and comprehensive' view of tourism and argued that a significant part of Australia's long-term economic prosperity depends on the release and realisation of tourism investment opportunities across the whole nation, including regional and rural Australia. However, the report argued that, with the possible exception of the accommodation market in major cities, tourism investment opportunities are generally viewed as speculative and that the inherent riskiness is an impediment to large scale, innovative investment.

The report contained 44 recommendations for additional assistance and reform, including in the areas of national and regional economic development, tax breaks and depreciation arrangements, regulatory issues, 'niche market' development, border security, the utilisation of airports and other assets, information and research, and workforce and training issues. The report (COA 2006, p. 5) stated:

> The collective intention of the Consultative Group's recommendations is to improve investment returns [in tourism] relative to investment in competing sectors. If actioned, they will enable tourism to be an integral factor in the overall strategy of nation building and sustainable economic development. Given tourism's highly developed supply chain the investment community does not perceive it to stand alone as an industry, but the Australian Government has an opportunity to refashion that perception so tourism can be viewed as an enabler for future community development.

In the Australian Government's interim response, the Minister for Small Business and Tourism noted that the Consultative Group's recommendations 'cover a very broad range of issues across a number of Ministerial portfolios. As such it will take some time to properly consider the proposals, taking into account recent and current Government reforms and reviews.' The Minister also stated:

> A number of the Consultative Group's recommendations propose concessions and incentives delivered through the tax system including tax leveraging, revised depreciation schedules, and exemption from capital gains tax for certain assets. The Australian Government has carefully considered these tax related recommendations and decided not to pursue them. The Australian Government has pursued various policies directed towards simplifying the tax system and reducing the number of special exemptions and concessions to particular industries. (Bailey 2006)

Other recent Australian Government measures

In addition to the above initiatives, recently the Australian Government has:

- developed an Emerging Markets Strategy, to assist Australian industry to benefit from visitation from China and India; and strengthened the operation of the Approved Destination Status scheme which allows group tourists from China to visit Australia;
- established a new 'indigenous tourism' unit within Tourism Australia;
- developed a Korea Action Plan, and announced the development of an Action Plan for Japanese Tourism;
- committed to develop a 'National Road Tourism Strategy'; and
- announced $20 million in funding for 11 regional tourism projects during the 2004 election campaign.

Exploratory assistance estimates

In April 2005, the Commission released a study of assistance to the tourism industry. The study included estimates of assistance to tourism provided by the Australian Government and state and territory governments for the years 2000-01 to 2002-03 (PC 2005b). While the estimates were based on the Commission's normal assistance measurement methodology, the unusual nature of the tourism industry and the assistance it receives, in conjunction with data limitations, made measuring assistance to tourism more problematic than estimating assistance to conventional industries.

A key issue for the study was how to delineate tourism from other forms of travel and then to estimate the tourism industry's size. The Commission estimated that the tourism industry accounts for between 1.6 and 2.2 per cent of GDP, substantially less than recent estimates by the Australian Bureau of Statistics (see box 3.1).

In quantifying assistance to the industry, the paper included all government spending on destination promotion and marketing, tourism-related research, grants to firms and organisations for tourism-related purposes, and other items deemed to be 'dedicated' tourism assistance. The estimates also included up to one-third of the funding provided for the attraction of major events, such as the Commonwealth Games and the Australian Grand Prix, and for convention centres and convention bureaus. Also included was a small share of government funding on items including national parks, art galleries, sports facilities, passenger transport infrastructure and services, and regional development assistance, that support tourism activity. While the (relatively minor) effects of some tax expenditures and tariffs on tourism inputs were included, the assistance estimates did not cover the effects of general tax measures such as fuel excise and the goods and services tax.

Reflecting the conceptual and data difficulties entailed, the Commission presented both 'base line' and 'upper bound' estimates of tourism assistance, and cautioned that the estimates should be treated as 'exploratory'.

For the three years covered by the study, the Commission's base line estimates suggest that the net assistance provided by the Australian Government totalled around $145 million per year, which is equivalent to some 1.4 per cent of the industry's 'gross value added' as measured by the Commission. This suggests that tourism received more Australian Government assistance relative to its gross value added than do the services and mining sector, but less than the manufacturing and primary production sectors.

Box 3.1 The size of the tourism 'industry'

Although tourism has traditionally been considered a consumption activity, not a production activity, in recent years efforts have been made to measure production associated with tourism as if it were a single industry. One widely used measure is provided in the Australian Tourism Satellite Accounts (TSA), which has been published since 2000 by the Australian Bureau of Statistics, with the support of the Department of Industry, Tourism and Resources. The TSA is based on a very broad definition of 'tourism', promulgated by the World Tourism Organisation.

The TSA released in April 2005 (the most recent at the time this *Review* was finalised) estimated that the tourism industry accounted for 3.9 per cent of GDP in 2003-04. This was slightly lower than the level recorded for the preceding two years, and significantly lower than the level (4.6 per cent of GDP) recorded for 2000-01.

However, in its recent paper on assistance to tourism, the Commission found that the conception of the tourism industry used in the TSA is far broader than would commonly be understood to constitute tourism, and does not provide a good basis for assessing assistance to the industry.

- The TSA counts many people as tourists even when travelling for work or study, to do household shopping, to obtain medical treatment, or for personal/family matters such as to see friends or to attend weddings or funerals. Generally, such trips and their associated expenditure are unlikely to be induced much, if at all, by tourism considerations or government tourism promotion activities.
- Further, unlike conventional measures of the activity levels of other industries, the TSA includes production of businesses in upstream industries, such as food processors, clothing manufacturers and passenger motor vehicle producers, as part of the tourism industry's output.

Adjustments by the Commission to align the tourism industry more closely with the basis on which other industries are defined and with a more common understanding of tourism yielded estimates significantly smaller than those in the TSA. They suggest that tourism accounted for between 1.6 and 2.2 per cent of GDP, on average, over the three years from 2000-01 to 2002-03.

Contrary to some comments reported in the media following the report's release, the Commission's estimates did not ignore or exclude the value of expenditure by business people travelling to attend conferences and conventions. All such expenditure was included in the paper's upper bound estimates of tourism expenditure, as was one-third (on average) of expenditure by all visitors travelling for non-holiday/leisure reasons, such as those travelling for work, study or family get-togethers. This was in addition to the expenditure of people travelling primarily for holiday/leisure purposes, which comprised the paper's base line estimates of tourism expenditure.

Most assistance to tourism as measured in the paper is provided by State and Territory Governments. The Commission's base line estimates indicated that this assistance amounted to about $780 million per year, which is equivalent to 7.5 per cent of the tourism industry's gross value added. However, more uncertainty attaches to these estimates, and comparable estimates of state and territory assistance for other industries are not available.

While the study did not seek to assess the merits of existing tourism support measures, either individually or collectively, it noted that:

> Given the significant level of dedicated tourism assistance — totalling between around $350 to $400 million per annum during the years covered by the study — together with support for conventions and events which is often justified at least partly on tourism promotion grounds, it is important that support to tourism be rigorously reviewed from time to time to ensure that it addresses genuine instances of market failure or inequity, does so in an efficient manner and that it is associated with net benefits for the community.
>
> In this context, assessments of the potential benefits of tourism promotion depend in part on views of the initial size of the tourism industry. The estimates in this paper indicate that much of what has been counted as 'tourism' is expenditure and production that is unlikely to be affected significantly, if at all, by tourism promotion measures. Their inclusion can cloud assessments of the effectiveness of tourism support measures, as well as potentially distorting estimates of the rate of assistance that tourism receives, relative to other industries.

3.5 Industry-specific assistance for primary producers

Sugar production

Background

The Australian sugar industry, which is centred mainly in north-east Queensland, has been subject to a number of reforms and assistance packages since the mid 1990s:

- In July 1997, following a National Competition Policy Review of the industry, the Australian Government removed tariffs on imported sugar, and domestic price supports were partly removed by the Queensland Government. These arrangements had previously provided significant assistance to domestic canegrowers and sugar millers.
- In July 1998, to help offset the reduction in assistance, the Australian Government announced the Sugar Industry (Research) Assistance Package, with

funding of \$13.5 million over four years for research, particularly into ways of increasing the sugar content of cane.

- In 2000, the Australian Government introduced a Sugar Industry (Cane Growers) Assistance Package with funding of over \$65 million. The Queensland Government also allocated \$10 million for concessional loans for the replanting of sugar cane crops.
- In September 2002, the Australian Government announced further assistance of up to \$120 million in the form of the Sugar Industry Reform Program (SIRP) 2002, to be funded by a levy of 3 cents per kilogram on domestic sugar sales. \$17.6 million (including administration costs) was provided by the Australian Government under this program in the 2002-03, and a further \$9.1 million in 2003-04, before being superseded by the 2004 program (see below). As part of the September 2002 announcement, the Queensland Government indicated that it would contribute \$30 million to the assistance package (although in practice the Australian Government and Queensland programs operated separately).
- In April 2004, against a background of no expansion in access to the US market for the sugar industry in the Australia-United States Free Trade Agreement, and following the 'Independent Assessment of the Sugar Industry' (Hildebrand 2002), the Australian Government announced the SIRP 2004, with funding up to \$444 million. The main elements of the program are outlined in box 3.2.

These assistance arrangements were discussed in more detail in *Trade & Assistance Review 2003-04* (PC 2004b).

Recent Australian Government developments

In February 2005, the Australian Government announced that the Industry Oversight Group (IOG), which had been established to report on the industry's progress with reform, was unable to recommend to the Government that the second tranche of the *sustainability grant* be paid (at that time). The first tranche of the sustainability grant was paid in June 2004 after the Government and industry representatives signed a Statement of Intent to Reform the Industry. The IOG had found insufficient evidence of reform and inadequate progress on the development of regional industry plans (Truss 2005a). Meeting these conditions was a requirement for receiving the second tranche of the sustainability grant.

Also in February 2005, the Australian Government reminded the industry that *income support* payments would, as scheduled under the SIRP 2004, cease on 1 March 2005. The Government noted that the 1 March deadline would affect around 1600 sugar farmers who were on income support, including 950 growers

Box 3.2 **The Sugar Industry Reform Program 2004**

The main elements of SIRP 2004 include:

- $146 million towards a one-off *sustainability grant* for cane growers and millers.
- Up to $21 million for *income support* for eligible growers and harvesters.
- Up to $40 million for *grower restructuring grants for* eligible farmers choosing to remain in the industry. The grants, payable in two instalments, were to be paid at a rate of $75 per hectare under cane production — capped at $7500 per instalment per farm enterprise.
- Up to $15 million for growers, harvesters and millers to access *business planning assistance*.
- Up to $75 million towards *regional and community projects* to assist the medium- and longer-term restructuring of the sugar industry.
- Up to $8 million for *industry oversight* and *regional advisory groups* to help insure the industry's long-term economic, social and environmental sustainability.
- Up to $23 million towards a sugar industry *intergenerational transfer scheme*.
- For those wishing to leave the industry, *re-establishment grants* of up to $50 000 and up to $100 000 for harvesters and growers, respectively.
- Up to $7 million towards *re-training assistance* for growers, harvesters and mill workers made redundant through the reforms, and up to $5 million for *crisis counselling* for families in the industry.

Source: Truss (2004)

who had also received support under the 2002 sugar program. The Government also noted that less than half of those receiving income support had taken the opportunity to develop an appropriate business or farm management plan (Truss 2005b).

In May 2005, the Australian Government announced that it would provide additional funding to the sugar Regional Advisory Groups, which had been established to progress local reforms. The additional funding was in response to advice from the IOG that there was insufficient evidence in the regional plans of progress with regard to realistic and genuine plans for structural reform (Truss 2005c).

The limited evidence of reform (including a lower-than-expected uptake of *re-establishment grants* which were available to assist farmers to exit the industry) may have been caused partly by changes in market conditions. In 2004-05, the world indicator price for raw sugar increased by over 30 per cent and is forecast to rise by a further 16 per cent in 2005-06. Higher world prices in 2005-06 are primarily the result of Brazil diverting a higher proportion of its sugar cane into ethanol production at the expense of raw sugar. This is being driven by increased demand for ethanol resulting from current and expected relatively high oil prices (ABARE 2005b).

In June 2005, the Australian Government announced that it would ease the assets tests for sugarcane farmers wishing to apply for *re-establishment grants* under the SIRP 2004. Under previous provisions, the value of the family home for a sugarcane farmer wanting to leave the industry was considered under a separate category to the value of all other assets. Homeowners with partners were allowed up to $217 500 of assets under each category. Under the new provisions, the separate categories have been amalgamated, allowing farmers to off-set their various assets into a single, overarching limit of $445 000. Changes have also been made to allow cane farmers who exceed the assets limit to qualify for a reduced grant. In these cases, the value of the re-establishment grant is reduced by $2 for every $3 in assets held above the relevant limit. The deadline for applying for the maximum grant of $100 000 has also been extended, by 12 months, to 30 June 2006. The (maximum) grant will then fall to $50 000 (Truss 2005f), and will be available until June 2007.

In September 2005, the Australian Government announced that it had agreed to the payment of the second tranche of the SIRP 2004 *sustainability grant*, following the acceptance of regional reform plans. The Government stated that the IOG had determined that the regional reform plans formed a solid basis for progressing sugar industry reform (McGauran 2005b). This payment had originally been scheduled for January 2005 (see above).

Recent Queensland Government developments

Reforms to the Queensland sugar industry, legislated in Queensland State Parliament in April 2004, took effect in January 2005. These reforms included the abolition of the cane production area system and the statutory bargaining system (replaced with a voluntary collective bargaining regime), and the phase-in of a new dispute resolution system. The abolition of the cane production area system removed restrictions on growers delivering cane to the mill of their choice. Under previous arrangements, growers were obliged to supply the mill to which their cane production area related. Reflecting the phasing-in of a new dispute resolution system, compulsory arbitration continued in a modified form in 2005, but industry parties will be required to decide their own dispute resolution process from 2006 onwards (Palaszczuk 2004).

In November 2005, the Queensland Government introduced legislation to amend the *Sugar Industry Act 1999* to deregulate the sugar market, including removal of Queensland Sugar Limited's compulsory acquisition powers. The amendments, which took effect on 1 January 2006, involved removal of the Queensland Minister for Primary Industries and Fisheries' statutory price control powers, which had allowed the Minister to issue a direction for the pricing of raw sugar sold on the domestic market at the export parity price. Individual mills are also being provided with the opportunity to develop markets for specialty sugars and products, including exports of speciality sugar in bags and containers. However, a preferred marketer (or 'voluntary single desk') is being retained for exports of bulk raw sugar. It is intended that commercially negotiated contractual arrangements will be introduced between individual milling companies and co-operatives, and Queensland Sugar Limited, for the export of bulk raw sugar for an initial three year period (Nuttal 2005).

Rice growing

The rice industry is centred in the Riverina area of New South Wales. In addition to Australian Government budgetary assistance, the industry has been 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 otherwise prevail. The Commission estimates that the arrangements provided around $3 million in assistance in 2004–05.

Background

In November 1995, a National Competition Policy (NCP) review of the New South Wales statutory marketing arrangements for rice recommended that the restrictions on the domestic rice market be removed, while retaining the single desk for rice exports (NCC 2005b).

In June 1997, in its first NCP assessment, the National Competition Council (NCC) found that the New South Wales Government had not met its NCP obligations, as the domestic marketing arrangements remained in place. The NCC, however, did not initially recommend reductions in that state's competition payments, as the New South Wales Government had agreed to work with the NCC to resolve the matter (NCC 2005b).

Over subsequent years, the New South Wales and Australian governments examined options for retaining a single export desk under Australian Government jurisdiction, while removing the domestic rice market monopoly. In December

2003, however, following consultations with other states, the Australian Government formally advised the New South Wales Government that it would not establish a single Australian rice export desk (NCC 2005b).

In March 2004, the New South Wales Government informed the NCC that it would conduct a 'new' review of the rice marketing arrangements. The NCC endorsed this action and recommended a specific suspension of 5 per cent of 2004-05 competition payments, recoverable on the completion of an appropriate review of the restrictions and, where necessary, timely implementation of NCP-compliant reforms (NCC 2005b).

Recent developments

In April 2005, the 'new' NCP review of New South Wales rice marketing arrangements was completed. In its report, the review estimated that the arrangements provided a net public benefit of around $45 million per year, and that it had found no feasible alternative to 'vesting'. The report recommended the government retain both the domestic and export monopolies.

In response, the NCC expressed a number of major reservations about the review, including in relation to the 'rigour and objectivity' of research drawn on by the review and the veracity of estimates of various benefits said to arise from the monopoly on the marketing of New South Wales rice. (NCC 2005b).

In October 2005, the New South Wales Government announced that it would deregulate the domestic rice market through the introduction of an authorised buyer scheme.[1] The new arrangements will be introduced on 1 July 2006 after the current rice crop has been harvested. Under the new arrangements:

- the single desk for rice exports from New South Wales will be retained;
- competition will be introduced on the domestic rice market through the implementation of an authorised buyer scheme;
- applicants for an authorisation to participate in the scheme will face minimum qualifying criteria and may have their authorisation suspended if they breach its conditions by, for example, exporting rice; and
- the scheme will be administered by the Rice Marketing Board, with the Board's decisions subject to appeals through the NSW Administrative Decisions Tribunal (NCC 2005a).

[1] In November 2005, the New South Wales Parliament passed legislation amending the *Marketing of Primary Products Act 1983* that would allow, from 1 July 2006, competition in the domestic marketing of rice grown in New South Wales (NCC 2005b).

As measured by the Commission, the introduction of competition on the domestic rice market will remove all agricultural pricing and regulatory assistance to the rice industry. (The Commission's estimates assume that the single desk export arrangements do not provide any pricing assistance industry as the industry has insufficient market power to extract prices on the export market in excess of those which would prevail under competitive conditions).

Pigmeat production

In recent years, the Australian pigmeat industry (including both production and processing) has experienced structural change and become increasingly integrated into world pigmeat markets. The industry experienced declining competitiveness between mid-2002 and late 2003 due to low pig prices in competitor countries, high feed costs due to drought and an appreciating Australian dollar. Profitability improved during 2004, but imports continued to rise and exports to fall.

In August 2004, the Australian Government asked the Commission to report on the competitive situation of the pigmeat industry and whether government measures are necessary to improve the industry's competitiveness.

In its August 2005 report, the Commission found that:

- The Australian pigmeat industry' main competitive advantages are its 'clean, green' image, disease free status and closeness to Asian markets, but that it faces high feed costs and low economies of scale. For the long term, the Commission predicted that the international competitiveness of pigmeat businesses will be driven by sustainable cost advantages and/or product differentiation.
- Imports of pigmeat into Australia do not benefit significantly from subsidies, and assistance to Australian pigmeat producers is comparable to that provided in key overseas exporting countries.
- While there are some ways in which governments could reduce impediments to industry performance and competitiveness, general government assistance is available to help Australian pigmeat businesses to adjust, and further assistance is not warranted at this time.

The Australian Government responded to the report in August 2005, in effect endorsing the bulk of the Commission's findings. It noted the substantial financial grants that have been provided to the pigmeat industry to help it adjust to market and climatic conditions of the past few years — this assistance is in addition to the $24 million adjustment package provided between 1998 and 2002 — and did not commit to additional industry-specific assistance measures for the pigmeat industry (McGauran 2005a).

Commercial fishing

Australian commercial fishing operates under fisheries management policies of the Australian and state governments, and environmental regulations imposed under the *Environment Protection and Biodiversity Conservation Act 1999*.

Fisheries management policies apply input and output controls on fish catches, which are designed to overcome problems associated with the 'open access' nature of fisheries resources. These problems include overfishing, overcapitalisation of fishing fleets, and thus the dissipation of economic returns over time. The Australian Fisheries Management Authority (AFMA) administers the Australian Government's managed fisheries, which are funded by the Australian Government and cost-recovery from Commonwealth fishers. The Australian Government also funds fisheries research and development by matching industry contributions. Industry contributes to fisheries research and development through statutory levies on Commonwealth fishers and voluntary funding from State commercial fisheries.

In November 2004, the Australian Bureau of Agriculture and Resource Economics prepared a report on fisheries mananagement for the Australian Government Department of Agriculture, Fisheries and Forestry (ABARE 2004). The ABARE report concluded that:

> Evidence from ABARE surveys suggests that net economic returns in many Commonwealth fisheries are close to zero … A net return of zero means that while all of the costs of fishing are covered and that a return is being made on the capital invested in the fishery, there is no return from the use of the stock …
>
> In fisheries where management results in no economic return, further management or research expenditure will not produce any long term benefits until fishing effort and harvests are controlled. If a fishery returns no net value over the long term, the point in managing it must be questioned (p. 1-2).

In November and December 2005, the Australian Government announced the *Securing Our Fishing Future* package, which contains three sets of measures aimed at ensuring the ongoing profitability and sustainability of the Australian fishing industry (Macdonald 2005a, 2005b).

First, the Australian Government directed AFMA to take 'immediate action' in all Commonwealth fisheries to halt existing and prevent further overfishing, to recover overfished stocks to sustainable and productive levels, and to manage the broader environmental impacts of fishing, including on threatened species.

In its response to the Government's directions, the AFMA announced that it will implement tighter controls on fish catches and fishing activity through new harvest strategies for each species. During 2006-07, the AFMA is also to complete Ecological Risk Assessments for all Commonwealth fisheries to prioritise management needs. In addition, vessel monitoring systems are to be a compulsory requirement in all Commonwealth fisheries to improve compliance with management arrangements. Additional measures will be introduced to significantly reduce 'bycatch'[2] in all Commonwealth fisheries. (AFMA 2005)

Second, a network of Marine Protected Areas (MPAs) has been proposed, subject to public consultation, and is to be declared under the *Environment Protection and Biodiversity Conservation Act 1999,* by the end of 2006. The network will cover a substantial proportion of Commonwealth waters in the South-east Marine Region off Tasmania, Victoria, eastern South Australia and far southern New South Wales. The MPA network will include significant areas where commercial fishing activity is limited or prohibited.

Third, a Fisheries Structural Adjustment package of $220 million will provide assistance through the following programs:

- *Business Exit Assistance*. $149 million to provide a one-off opportunity for operators to exit the industry. To this end, a voluntary tender will be conducted in a competitive process focussed at reducing fishing capacity in those Commonwealth fisheries that are assessed to be subject to overfishing, or at significant risk of overfishing in the future.[3]
- Funding of up to $30 million for:
  - *Business Restructuring Assistance.* Businesses which are directly related to the fishing industry, such as fish processors and marine engineers, will receive assistance to restructure their business operations. The recipients will be required to demonstrate that their turnover is affected by the reduced fishing activity associated with the package.
  - *Business Planning Assistance.* Up to $1500 each will be available to fishing businesses and directly affected onshore businesses to offset the costs of obtaining professional business advice on their options under the package.
  - *Worker Assistance.* Payments of $5000 and $3000 will be made to skippers and crew, respectively, who lose employment due to the fishing reductions, to help offset the costs of job seeking, retraining and/or relocation.

[2] Bycatch refers to the take of non-target species in fishing.

[3] The targeted fisheries are the Southern and Eastern Scalefish and Shark Fishery (with the exception of the Great Australian Bight Trawl Sector); the Eastern Tuna and Billfish Fishery; and the Bass Strait Central Zone Scallop Fishery. The Northern Prawn Fishery was included in the process subject to the Northern Prawn fishers choosing to move to a management system based on output controls.

- *Fishing Community Assistance*. Funding of up to $20 million will be provided for projects that are deemed to be capable of generating local economic activity and opportunities in affected communities.
- *AFMA Levy Subsidy*. $15 million will be provided to subsidise AFMA fisheries management fees paid by those fishers remaining in the industry. The subsidy is to commence in 2006-07, and will be provided over 3 years.
- *Improved Science, Compliance and Data Collection.* $6 million will be directed towards science, compliance and data collection to improve management outcomes.

3.6 Drought relief

Drought is a natural phenomenon that frequently affects agricultural activities such as broadacre farming. Its occurrence has economic, environmental, social and political impacts. The effects of drought on primary producers depend on their production systems and management decisions, as well as on any government support provided.

Australia's National Drought Policy (NDP), agreed to in 1992 by the Australian and state governments, recognised that drought is a natural feature of Australia's variable climate and needs to be managed accordingly. The key objectives of the NDP, which embodies the principle of self-reliance, are summarised in box 3.3. The main element of the NDP is the Exceptional Circumstances scheme (discussed below).

Box 3.3 **Objectives of the National Drought Policy**

- Encourage primary producers and other sections of rural Australia to adopt self-reliant approaches to managing the risks stemming from climatic variability.
- Facilitate the maintenance and protection of Australia's agricultural and environmental resource base during periods of increased climatic stress.
- Facilitate the early recovery of agricultural and rural industries consistent with long-term sustainable levels.

Source: National Drought Policy Task Force 1997.

Australian governments have also introduced a range of agriculture-wide programs — for example, the *Agriculture-Advancing Australia* package — to support rural adjustment and improve drought preparedness, farm business management and land use planning. Additional support has also included the Farm Management Deposits scheme, which provides taxation benefits designed to assist farmers to handle income variability and reduce reliance on government support in times of drought (AFPRG 2006).

The following section outlines drought-specific programs which have been provided in recent years.

Exceptional Circumstances drought relief

The Exceptional Circumstances (EC) arrangements are the Australian Government's primary mechanism for providing assistance to farmers affected by drought. Under current arrangements, state governments are responsible for lodging applications for EC assistance to the Australian Government Minister for Agriculture, Fisheries and Forestry. Among other things, the EC applications should demonstrate that the event is rare (a one-in-20-25 year event)[4] and results in a severe downturn in farm incomes over a prolonged period. Once an area has received an EC declaration, assistance is available to eligible producers through the following programs:

- *Business support*. Farm enterprises are eligible for EC Interest Rate Subsidies of up to $100 000 per year or $300 000 over five years. EC Interest Rate Subsidies are funded jointly by the Australian Government (90 per cent) and state and territory governments (10 per cent).
- *Income support*. The EC Relief Payment provides eligible farmers a fortnightly payment at the rate equivalent to the Newstart Allowance, including additional benefits (such as a healthcare card).

In addition, the Australian Government has introduced interim income support payments, which can be accessed by eligible farmers during the EC application assessment process. Under the '*prima facie*' EC arrangements introduced in September 2002, the Australian Government may provide interim income support payments for up to six months for an area that is experiencing severe drought conditions.[5]

[4] EC payments were triggered for the recent drought in late 2002. Significant drought relief payments were also triggered during the major drought of 1991-1995. In the previous major drought, which occurred during 1982-83, drought relief was provided under the National Disaster Relief Arrangements.

[5] If the EC application is successful, the interim payments are replaced by EC Relief Payments and continue for two years. If not, applicants are eligible for assistance for up to six months from the commencing date of the Prima Facie assistance.

EC Interest Rate Subsidies are delivered via state rural adjustment authorities. To be eligible, farm businesses must be assessed to be viable. They must also satisfy an asset test which excludes essential farm assets and other government assistance such as Farm Management Deposits. Under revised arrangements announced in May 2005, the off-farm asset test for EC Interest Rate Subsidies has been lifted from a threshold of $217 500 to $446 000. Prior to May 2005, EC Interest Rate Subsidies were paid to eligible farmers at the rate of 50 per cent of the prevailing interest rate on existing, new or additional loans for up to two years. The rate of subsidy has also been raised, from 50 to 80 per cent for the second and subsequent years of an EC declaration. In addition, farmers who have already been paid the subsidy at 50 per cent and are assessed to be in their 'recovery' year (year 2 of their EC declaration) and 'extended recovery' year (year 3 of their EC declaration) will automatically be assessed to be considered for a 'top up' to the 80 per cent rate. The purchase of an additional farming property, during the term of an EC declaration, is not a reason for refusing an application based on the 'not-in-need' criterion (Truss 2005d and 2005e).

EC Relief Payment (income support) is delivered by Centrelink on behalf of the Department of Agriculture, Fisheries and Forestry. The benefits are available for the period of the EC declaration. To be eligible for EC Relief Payment, applicants must be farmers who hold a current EC certificate, which identifies the farm enterprise as being in an EC declared area. In contrast to the Newstart Allowance, EC Relief Payment does not require eligible applicants to search for alternative employment and/or market the farm. The assets test of the EC Relief Payment also excludes the farm assets essential to long-term profitable operations and the farmer's superannuation and life insurance. The income test also excludes the proceeds from the forced disposal of livestock due to drought that are deposited in either a Farm Management Deposit or a financial institution. From 1 July 2005, the income test also excludes up to $10 000 of off-farm income derived from salary or wages. (Centrelink 2005).

State government drought support

State and territory governments also have a range of programs to assist farm businesses affected by drought. In addition to EC Interest Rate Subsidy contribution, state governments provide freight, fodder and water subsidies to reimburse part of the costs of transport and use of fodder and water during drought periods. Assistance also includes grants and low interest loans for the purchase of fodder, water and grain during drought. The Queensland Government, for example, provides subsidies for the transport of drinking water (for stock), and concessional loans from the Queensland Rural Assistance Authority. In Western Australia, eligible producers may access several assistance measures, including water and water transport rebates, and professional advice and counselling.

Drought relief estimates

For this year's *Review*, the Commission has prepared estimates of drought relief to agricultural industries provided by the Australian and the state and territory Governments, for the years 2002-03 and 2003-04. Where information is readily available, the estimates are also presented for the projected budget funding for drought during 2004-05.

The estimates have been drawn mainly from budget papers, supplemented with additional information provided by state rural adjustment authorities and ABARE Farm Surveys. The estimates cover:

- Australian Government EC Interest Rate Subsidies and income support programs; and
- state government EC Interest Rate Subsidy contributions and drought-specific support, including freight, fodder and transport subsidies.

The estimates (table 3.1) indicate that, in total, Australian governments provided $246 million of such drought relief in 2002-03 and $359 million in 2003-04. The latter figure is equivalent to around one-third of the assistance for primary producers included in the Commission's assistance estimates for 2003-04. The Australian Government accounted for most of the drought relief funding (80 per cent). Funding data provided by the Australian Government indicates that the drought relief it provides fell from $294 million in 2003-04 to $220 million in 2004-05, but had been projected to rise to as much as $616 million in 2005-06.[6]

Table 3.2 shows estimates of the distribution of drought relief by agricultural commodities for 2003-04. The information on EC Interest Rate Subsidies has been provided by state rural adjustment authorities. For EC Relief Payment, estimates of the industry distribution of the funding have been derived from ABARE Farm Surveys which contain data on farm characteristics and drought funding for 2002-03 and 2003-04 (ABARE 2005a).

The estimates indicate that the main industries receiving drought support were grain, sheep and beef cattle farming; dairy cattle farming and other crop growing — grains, wheat and barley as well as rice and cotton. Drought relief is concentrated in New South Wales, Queensland, Victoria and Western Australia.

[6] Data provided by the Australian Government Department of Agriculture, Fisheries and Forestry indicates that around $308 million had been expended in the first 8 months of 2005-06.

Table 3.1 Estimates of Australian and State drought relief

$ million

	2002-03	2003-04	2004-05
Australian Government	**140.8**	**294.0**	**220.4**
– EC interest subsidy	39.7	92.5	99.2
– Interest rate subsidy - Drought Relief Package of 2002	3.3	6.7	2.3
– EC Relief Payment	45.9	153.4	117.1
– Interim Income Support	52.0	41.5	1.9
State Government	**105.0**	**65.4**	**na**
New South Wales	46.0	48.8	na
Victoria	51.1	3.8	na
Queensland	3.6	8.9	na
Western Australia	2.3	1.3	na
South Australia	2.0	2.5	na
Tasmania	0.1	0.1	na
Northern Territory	–	–	na
Australian Capital Territory	–	–	na
TOTAL	**245.8**	**359.4**	**na**

Source: Commission estimates based on data provided by the Australian Government Department of Agriculture, Forestry and Fisheries and state rural adjustment authorities. The figures are actual expenditure. Figures may not add to totals due to rounding.

Table 3.2 Estimates of drought relief, by ANZSIC industry, 2003-04

$ million

	Australian Government		State government		Total
ANZSIC industry	*EC interest subsidies*	*Income support*[a]	*EC interest subsidies*	*Other programs*[b]	
Horticulture and fruit growing	2.1	–	0.2	0.4	2.7
Grain, sheep and beef cattle farming	70.9	117.9	7.7	49.0	245.5
Dairy cattle farming	21.1	56.0	2.3	2.3	81.7
Poultry farming	<0.1	2.5	<0.1	<0.1	2.6
Other livestock farming	1.3	1.5	0.1	0.7	3.6
Other crop growing	3.7	16.9	0.4	0.8	21.8
Services to agriculture	<0.1	–	<0.1	–	<0.1
Unallocated primary production	–	–	–	1.6	1.6
Total	99.1	194.9	10.7	54.8	359.4

[a] Includes EC Relief Payment and interim income support. [b] Include drought transport, fodder and water subsidies. Figures may not add to totals due to rounding.

Source: Commission estimates based on data provided by state adjustment authorities and ABARE Farm Survey (2005).

Recent reviews

The provision of drought assistance has been subject to several government reviews which have assessed the effects of government policies on the sector and suggested several improvements.

Prior to 1989, drought was considered a natural disaster, and drought assistance formed part of the Natural Disaster Relief Arrangements (NDRA). Reflecting a recognition that drought is actually a natural feature of Australia's climate, after 1 July 1989 drought was excluded from NDRA. In a recent review of drought assistance, the Australian National Audit Office commented on the developments of the late 1980s:

> Analysis at that time suggested that the assistance provided was poorly targeted and distorted farm input prices. It had acted as a disincentive for farmers to plan and prepare for drought (p. 106).

This led to the subsequent development of the National Drought Policy in 1992. Under this policy, the Australian and State and Territory Governments agreed to phase out 'transaction based' subsidies (ie fodder, water and transport subsidies), and to only provide interest subsidies in 'exceptional circumstances' (ANAO 2005 and NDP Task Force 1997).

Following the drought of 1991-95, the National Drought Policy (NDP) Review Taskforce (1997) was commissioned by the Government to assess drought policy. Among other things, the Taskforce examined possible problems for farmers seeking to access commercial finance in times of drought and the effectiveness of EC assistance to agricultural industries. The Taskforce found there was limited evidence of a lack of commercial finance to viable farmers to address income shortfalls from drought, and that there were many instances in which EC Interest Rate Subsidies assisted those whom the credit market was already supporting. The Taskforce recommended the phasing out of EC Interest Rate Subsidies and fodder, water and transport subsidies (called 'transaction-based subsidies') for drought. The Review also recommended phasing out the income support arrangements at the time (the Drought Relief Payment) and replacing it with an interim arrangement to facilitate farm exits and structural adjustment within the agricultural sector.

In October 2003, the Australian Government established a Drought Review Panel to examine Australia's drought policy, including drought assistance measures. Following consultations with industry and other stakeholders, the Panel presented its report to the Government in March 2004. The Panel found significant support for some elements of current drought assistance policy, but some confusion and limited support for others. The Panel found that a more comprehensive review of the National Drought Policy may be warranted, noting:

> A significant level of government assistance has been committed to farmers affected by the drought, but no comprehensive evaluation of the effectiveness of government drought assistance has yet been conducted. The Panel believes there would be merit in a review (perhaps conducted by the Productivity Commission) of the impact of this assistance on agricultural productivity and other outcomes, as well its effects on the pace of structural adjustment (p.6)

In March 2005, the Australian Government Minister for Agriculture, Fisheries and Forestry commissioned the Agriculture and Food Policy Reference Group (chair: Peter Corish) to assess policies and assistance programs affecting the agriculture and food sector. The Reference Group released its report in February 2006. Among other things, the report found that EC Interest Rate Subsidies and transaction subsidies do not lead to improved management skills and do not encourage self-reliance, and there are risks that such assistance may influence the amount of debt some farming businesses carry.

The Reference Group recommended that the Government and the agriculture sector cooperate to achieve self-reliance, by:

- introducing a consistent approach to government assistance for those facing viability problems or wishing to lift their business performance;
- retaining the Farm Management Deposits scheme as a key risk management tool, informed by analysis to confirm that it is meeting its objectives; and
- introducing new and improved measures to develop better farm preparedness (including risk management strategies) to deal with market fluctuations and climatic extremes, while phasing out interest rate and other transaction based subsidies by the end of 2010. (AFPRG 2006, p. 189)

The Reference Group also proposed that the Government continue income support payments for drought, coupled with the provision of professional advice to facilitate adjustment.

3.7 Anti-dumping measures

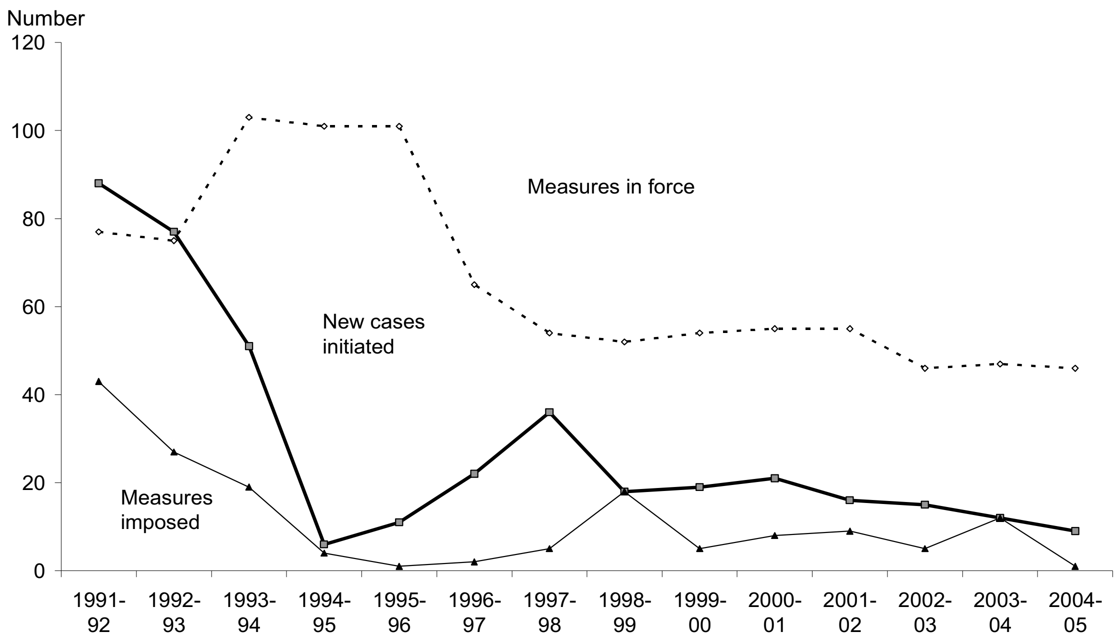
Under Australia's anti-dumping rules, local companies can apply to have anti-dumping and countervailing measures — mainly 'temporary' customs duties — imposed on 'dumped' imports if the imports cause, or threaten to cause, material injury to the local industry.[7]

Recent activity levels

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 3.1). There were 9 new cases in 2004-05, initiated mainly by firms in the *Metal product manufacturing* industry. Over the nine years to 2004-05, however, the *Petroleum, coal, chemical & associated products* industry (mainly chemical and plastic products) has been the largest initiator of anti-dumping and countervailing actions, accounting for 40 per cent of total initiations.

One new measure was *imposed* by the government in 2004-05, compared to 12 measures imposed in the previous year. Even so, the number of measures *in force* remained relatively stable at around 50 (figure 3.1).

Figure 3.1 **Anti-dumping and countervailing activity,[a] 1991-92 to 2004-05**



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

Source: ACS.

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 B.

7 Dumping is said to occur when a foreign supplier exports goods at a price below the 'normal value' of the goods in the supplier's home market. The price of the good in the exporter's home market is generally used to determine the normal value.

Review of anti-dumping arrangements

Like other trade barriers, anti-dumping and countervailing measures provide immediate relief for the protected industries, but can also serve to restrict competition and, through higher prices, penalise consumers and domestic downstream industries.

Accordingly, Australia's anti-dumping regime was scheduled for review by 2000 under the legislation review element of the 1995 National Competition Policy Agreement. However, such a review has not yet taken place.

In its *Review of National Competition Policy Reforms* (PC 2005a), the Commission recommended that an independent review of anti-dumping arrangements be undertaken as soon as practicable, noting that:

> … the potential for the inappropriate applications of anti-dumping to jeopardise the wider benefits that trade and competition policy have delivered makes this one of the more important trade policy areas to be addressed.

In February 2006, the Australian Government announced an 'administrative' review of Australia's anti-dumping regime. The review will be conducted by the Australian Customs Service, the Department of Industry, Tourism and Resources, the Department of Foreign Affairs and Trade and the Trade Measures Review Officer. It is to examine a range of administrative matters including the complexity of information requirements on businesses making applications for anti-dumping measures, how those applications are 'screened', the information required from respondents to a Customs investigation, and the manner in which Customs monitors compliance with measures imposed.

In announcing the review, the Industry Minister stated:

> The Australian Government considers it a basic right that local industry is provided with an accessible but robust anti-dumping regime, consistent with our international obligations. The review has been initiated in response to industry suggestions there was scope for improvements to existing legislation. It is not a review of existing legislation (MacFarlane 2006).