
1 Introduction

The *Productivity Commission Act 1998* defines government assistance to industry as:

... any act that, directly or indirectly, assists a person to carry on a business or activity, or confers a pecuniary benefit on, or results in a pecuniary benefit to, a person in respect of carrying on a business or activity.

Assistance thus takes many forms. It extends beyond direct government subsidies to particular firms or industries, and includes tariffs, quotas, regulatory restrictions on imported goods and services and tax concessions. Assistance can also arise from the provision of services below cost by government agencies and from government procurement policies.

Although assistance generally benefits the firms or industries that receive it, it typically imposes costs on other sectors of the economy. For example, direct business subsidies increase returns to recipient firms and industries, but to fund subsidies governments must increase taxes and charges, cut back on other spending, or borrow additional funds. Similarly, while tariffs provide some price relief to domestic producers, they result in higher input costs for other local businesses and higher prices for consumers, who then have less money to spend on other goods and services.

Governments provide assistance for many different reasons. In some cases, particular types of assistance — notably R&D funding and measures with environmental objectives — can deliver net community benefits. Similarly, some policies which have industry assistance effects may be justified on other grounds, such as the achievement of social or equity objectives.

In view of the costs, as well as the potential benefits, that industry assistance can entail, government measures that provide assistance need to be monitored and regularly reviewed. One of the Productivity Commission's functions is to review industry assistance arrangements. It also has a more general statutory obligation to report annually on assistance and its effects on the economy.

This edition of *Trade & Assistance Review* contains the Commission's latest estimates of Australian Government assistance to industry (chapter 2). These estimates cover the years 2002-03 to 2007-08. They provide a broad indication of

the resource allocation effects of selective government industry policies, and highlight some of the costs of industry support. Appendix A provides additional details of the Commission's estimates of assistance.

However, care is required in interpreting the estimates. Among other things, they cover only those government measures that selectively benefit particular firms, industries or activities, and which can be quantified given practical constraints in measurement and data availability. However, because industry assistance is discriminatory and can distort the allocation of economic resources, assessing whether the benefits of any particular industry support program exceed its costs involves case-by-case consideration — a task beyond the scope of the *Trade & Assistance Review*.

This year's *Review* also reports on a number of developments since November 2007 with ramifications for Australia's assistance structure generally or for particular sectors or industries.

- Chapter 3 describes four major industry policy reviews that reported in 2008: a review of export policies and programs (the 'Mortimer' review); a review of the national innovation system (the 'Cutler' review); a review of the automotive sector (the 'Bracks' review) and a review of the textile, clothing and footwear industries (the 'Green' review).
- Chapter 4 catalogues recent policy announcements relating to R&D assistance, sector-specific programs, infrastructure provision and regional development, responses to the global financial crisis and other announcements with ramifications for industry assistance. Appendix B provides information on recent anti-dumping and countervailing duty cases in Australia.
- Chapter 5 reports on a stocktake of measures that Australian governments have taken to reduce carbon emissions or to provide support in the transition to a less carbon intensive economy. The chapter further examines some implications of these measures (from an assistance viewpoint) and the processes for their evaluation and review. Appendix C contains a full list of the measures that have been identified in the stocktake.
- Chapter 6 reports on selected recent developments in international trade policy, including responses to the global financial crisis, the progress of multilateral trade negotiations, Australia's involvement in negotiating Preferential Trade Agreements (PTAs), and a broader examination of the issues relating to global trends in PTA formation.