3 Agriculture and manufacturing

The agricultural and manufacturing sectors together account for around 20 percent of Australia's gross domestic product and are the source of nearly 40 per cent of the nation's exports.

Assistance to these sectors, which has been reduced during the last decade, declined again in 1997-98. These falls primarily reflect the effects of ongoing reductions in import tariffs on the manufacturing side, and the unwinding of various statutory marketing arrangements in the agricultural sector.

Several other trade and assistance policy matters affecting these sectors, and in particular affecting specific industries within the agricultural sector, have emerged recently. These include a recent WTO decision to disallow Australia's ban on Canadian salmon imports, a decision by the United States to impose a tariff on lamb imports, the provision of a $1.8 billion restructuring package for the dairy industry subject to deregulation in the sector, an assistance package for the pigmeat industry following its application for temporary 'safeguard' import protection, and changes to Australia's anti-dumping assessment system.

Further, agricultural trade barriers are scheduled to be negotiated during the proposed WTO Millennium Round. Access to export markets is crucial for the viability of many Australian farmers, so the sector has a large stake in the success of these negotiations. Aspects of intellectual property rights, which affect both the agricultural and manufacturing sectors, are also on the WTO agenda.

Against this background, in this chapter the Commission:

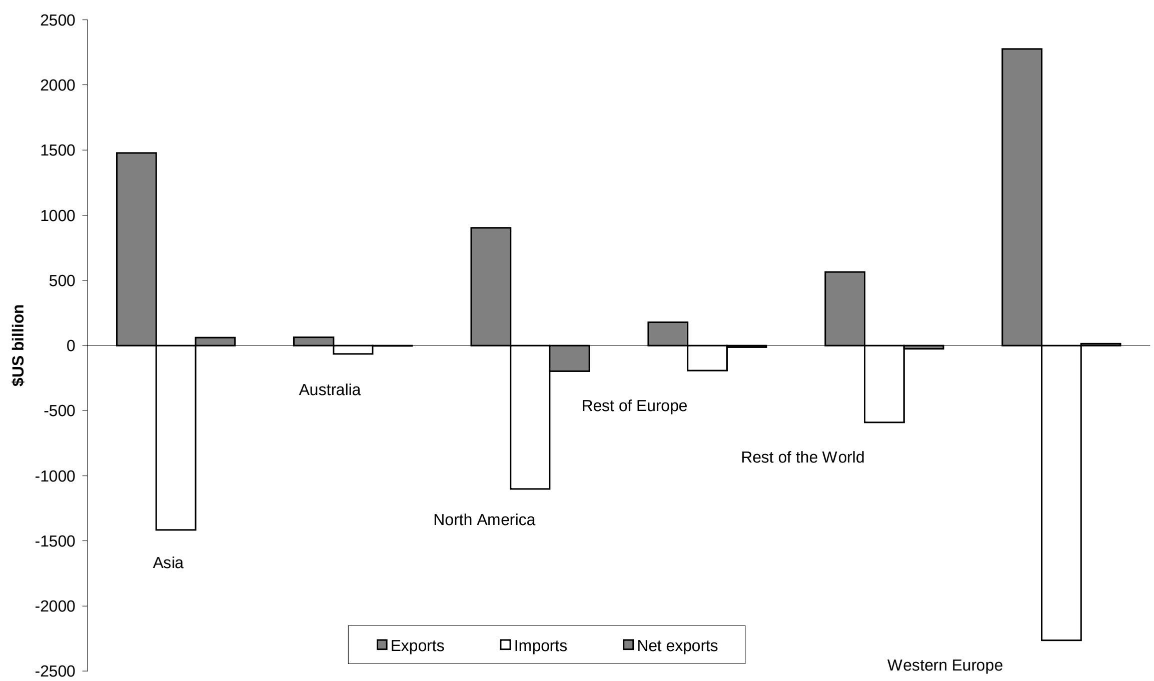
- summarises the output and trade performance of agriculture and manufacturing;
- explains the Commission's assistance measures;
- provides estimates of assistance to the two sectors, and discusses existing and foreshadowed assistance arrangements applying to them;
- examines recent anti-dumping activity and the new assessment system; and
- discusses other trade policy issues which affect one or both of the sectors.

3.1 Trade and production: a snapshot

In 1997, global agricultural exports totalled $US580 billion and global exports of manufactures totalled $US3927 billion, or around 10 per cent and 60 per cent of total world exports, respectively (WTO 1998c). Not surprisingly, the flow of exports and imports of merchandise — which includes mining, as well as agriculture and manufacturing[1] — is largest in Asia, North America and Western Europe (figure 3.1). Asia and Western Europe are the largest net exporters of merchandise, while North America and the 'Rest of the World' are the largest net importers. Australia accounts for 1.2 per cent of merchandise trade (WTO 1998c).

Figure 3.1 **World exports and imports of merchandise for selected region, 1997**[ab]

$US billion



a North America includes Canada and the United States. Western Europe includes Croatia, European Union Member States, Iceland, Malta, Norway, Slovenia, Switzerland, Turkey and the former Yugoslavia. The Rest of Europe includes Central and Eastern Europe, the Baltic States and the Commonwealth of Independent States. The Rest of the World includes Africa, Latin America and the Middle East. Asia excludes Australia. **b** Data for some economies are not available.

1 The Commission has sometimes used WTO merchandise trade figures in this section due to the lack of reliable disaggregated data on agriculture and manufacturing for the selected regions. The WTO reports that 'mining' exports account for 10 per cent of total world exports, compared with 70 per cent for agriculture and manufacturing combined. Hence, agriculture and manufacturing account for more than 85 per cent of the merchandise category. Under WTO classifications, 'agriculture' includes food and raw materials.

Data source: WTO (1998c).

Agriculture and manufacturing each account for around 20 per cent of Australia's total exports (ABARE 1999). Over the past five years, Australia's agricultural exports have increased on average by 12 per cent annually and manufacturing exports by 5 per cent annually (ABS 1997 and 1999f). Imports in these two sectors have been increasing at around 6 per cent per annum over the same period. In 1998-99, Australia recorded a trade deficit in merchandise of almost $8 billion (ABS 1999b).

Although agriculture and manufacturing generate a similar level of exports, the sectors have a very different trade orientation. For agriculture, Australia exports around 65 to 70 per cent of its domestic production, whereas for manufacturing, exports are far less significant as a proportion of domestic production.[2]

Both sectors have declined in relative importance over recent decades, despite consistent growth in farm output and a more than doubling of manufacturing output over the last three decades. The farm sector's share of gross domestic product has fallen from 14 per cent in the 1950s to around 3 per cent today, and its share of employment has halved from 10 per cent in the 1960s to 5 per cent now (ABARE 1998). Manufacturing's shares of gross domestic product and employment have also declined, from around 20 per cent in the 1980s to approximately 15 per cent today. These declines are attributable to the fact that other sectors, particularly services and mining, have been growing much more rapidly.

Some of the largest manufacturing sectors are machinery and equipment (which includes the passenger motor vehicle industry), the food sector, metal products, printing, publishing and recording, and petroleum, coal and chemical products.

Agricultural output is split roughly equally between livestock and related products, and crops.

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[2] Precise estimates of an industry's exports as a percentage of the industry's domestic production are difficult to make as data are collected on different bases. In ABS statistics, the value of domestic production is gross value added and the value of exports is 'free on board' (FOB). The FOB data include not only the value of a product but also the value added after the product was produced. For example, a farm product valued at FOB is usually the value of production at the farm gate *plus* the value added between the farm gate and the product landing on the dock. Using the FOB figures, the relevant figure for agriculture is around 80 per cent. However, the Australian Bureau of Agricultural and Resource Economics (ABARE) has advised the Commission that, when the post-farm gate component is removed, the figure drops to between 65 and 70 per cent. Equivalent data are not available for manufacturing.

3.2 Scope of the Commission's assistance estimates

Because of their different trade orientations, the manufacturing and agricultural sectors traditionally have been afforded different forms of assistance. Manufacturing has been assisted mainly through tariffs, quotas and other forms of protection against imports. For agriculture, assistance has taken the form mainly of statutory marketing arrangements, designed to allow producers to combine together to limit competition for domestic sales and thereby allow higher prices to be charged. In some cases, high returns from the domestic market have been used to subsidise agricultural exports. As well, both sectors benefit from various budgetary assistance arrangements, including support for research and development (R&D) and tax concessions on inputs.

The Commission has adopted several measures to help quantify and compare diverse assistance arrangements such as these. The measures are explained in detail in box A.2 of appendix A. In brief, the key measures are:

- the *nominal rate of assistance*, which is a measure of assistance to an industry's or activity's outputs;
- the *effective rate of assistance* and the *net subsidy equivalent*, which are measures of the net assistance to the land, labour and capital resources used in a particular industry or activity; and
- the *standard deviation in nominal rates* and the *standard deviation in effective rates,* which are indicators of the dispersion of output assistance and net assistance, respectively, among the industries within a sector.

These measures can be used to help understand how the overall assistance structure affects the allocation of resources between different industries or activities within the economy, as well as how different types of assistance affect the incentives people face to produce and, to a lesser extent, to consume certain commodities.

The effective rate measure is particularly useful as it:

- can include a wide range of industry assistance;
- takes into account both the benefits and penalties of assistance to individual industries and activities; and
- provides a summary indicator of the extent to which the overall assistance structure advantages or disadvantages an industry or activity relative to others.

Notwithstanding the usefulness of these measures, caution is required when using the Commission's assistance estimates to draw inferences about the allocation of resources between different industries or activities. The key qualifications are that:

- the measurement methodology uses a 'static' framework, so the estimates do not take account of the 'dynamic' responses of producers and consumers to the incentives created by the provision of assistance;
- nominal rates of assistance, unlike effective rates, do not take into account the *net* impacts of assistance on various inputs and outputs;
- the net subsidy equivalent simply measures the transfers of income to producers from consumers, taxpayers and intermediate suppliers — it does not indicate the 'economic welfare' costs to the community of assistance;
- differences in calculation of the agricultural and manufacturing estimates mean that caution is required when making intersectoral comparisons; and
- the Commission's estimates do not take into account all forms of assistance.

These issues, and the Commission's assistance measures and methodology more generally, are discussed in more detail in appendix A.

3.3 Assistance to agriculture

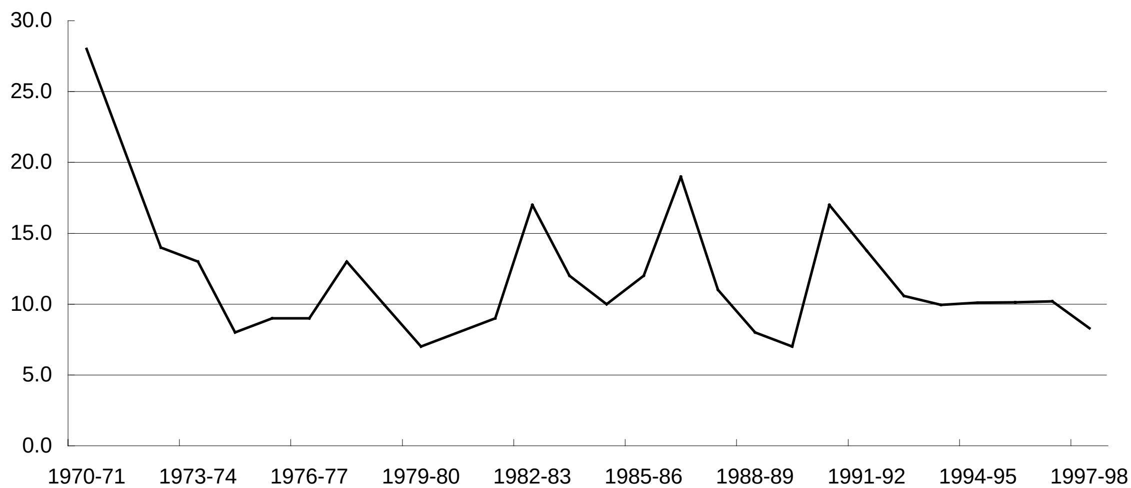
The agricultural sector receives assistance from a wide range of government programs and policies. Statutory marketing and regulatory arrangements form the major component of assistance to agriculture, with budgetary assistance (including R&D, adjustment assistance and tax concessions) and tariffs on outputs being less important. The assistance associated with these measures is partly offset by tariffs and other taxes on the inputs used in agriculture.

For this year's *Trade and Assistance Review*, the Commission has updated the estimates of assistance to agriculture to 1997-98. It also presents revised estimates for 1996-97, along with previously published estimates for earlier years. Nominal and effective rates of assistance for agriculture are reported in tables 3.1 and 3.2 and in figures 3.2, 3.3 and 3.4. The net subsidy equivalent (NSE) is presented in table 3.3. The tables appear at the end of this section. The key estimates from these tables, together with related developments, are described and discussed below.

Trends in agricultural assistance

Average effective rates of assistance to agriculture since 1970-71 are presented in figure 3.2.

Figure 3.2 **Average effective rates of assistance for agriculture, 1970-71 to 1997-98**
per cent



Data source: Commission estimates.

While assistance afforded by various agricultural arrangements has declined over the past decade, it has not fallen consistently across commodities. Assistance to agriculture has typically been more variable than assistance to manufacturing, with changes in estimated assistance reflecting more than just changes in assistance policies. They also reflect fluctuations in world commodity prices, the value of output, and the counter-cyclical nature of many agricultural assistance programs. During most of the 1990s, however, assistance to agriculture has been relatively stable.

Compared with 1996-97, overall agricultural assistance declined in 1997-98.

- The average nominal rate of assistance to agriculture fell from 3.3 per cent to 2.8 per cent. Nominal rates rose for market milk, wine grapes and dried vine fruit, but fell or remained the same for the rest. The largest falls were in the tobacco and sugar sectors.
- The average effective rate of assistance for agriculture fell from 10.2 per cent to 8.3 per cent in 1997-98. Again, there were rises in effective assistance for market

milk, wine grapes and dried vine fruit. The largest falls were for sugar, tobacco and manufacturing milk.

- The fall in the net subsidy equivalent (NSE) for agriculture was $171 million, with assistance to value adding factors falling by $68 million and assistance to output falling by $103 million. Assistance to inputs was virtually unchanged.

The fall in agricultural assistance mainly reflects the removal of import tariffs and of domestic monopoly pricing for sugar, the phasing down of assistance for tobacco and manufacturing milk, and the removal of government loan guarantees and reductions in research assistance in a number of sectors. These developments are discussed in more detail below.

Overall, the assistance provided to the dairy industry dominates the estimates for the agricultural sector. If the dairy industry was excluded, the 1997-98 effective rate of assistance for agriculture would be 3.2 per cent.

The variation in assistance across agricultural commodities increased slightly in 1997-98. The standard deviation of the effective rate rose from 55.5 percentage points to 62.8 percentage points, although the standard deviation of the nominal rate was virtually unchanged at 10.9 percentage points (table 3.1).

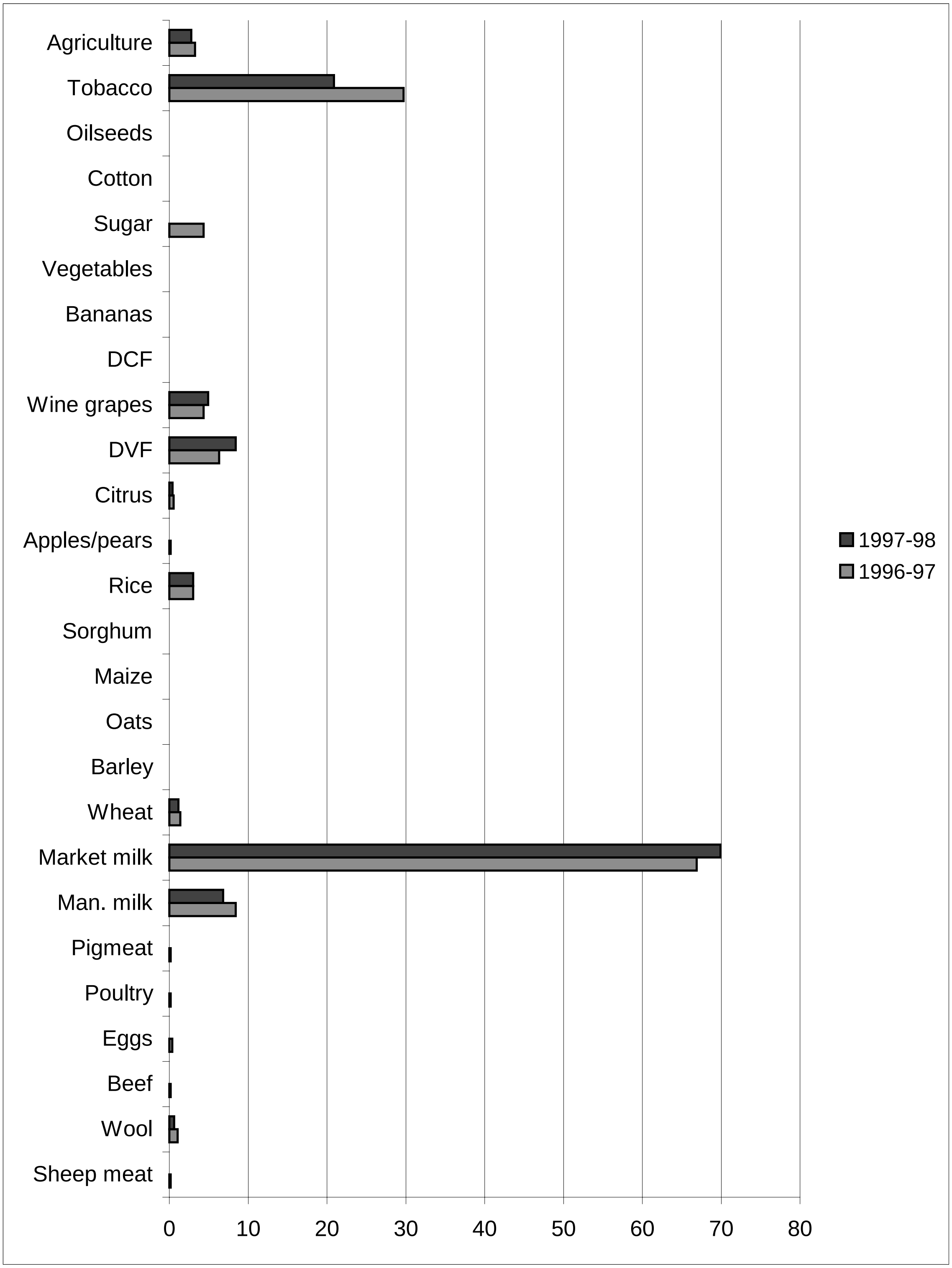
Developments in sectoral and commodity assistance

Agricultural assistance fell in total and across most agricultural sectors in 1997-98. The biggest falls in net subsidy equivalents (NSEs) were in the sugar, beef, wheat, manufacturing milk and wool sectors. Recent policy announcements mean that further falls are likely to have occurred in the 1998-99 financial year.

Despite this, a range of assistance remains in place for several agricultural industries. These measures are discussed below, as are assistance arrangements for those sectors where recent changes have been made or announced.

Figure 3.3 **Nominal rates of assistance to agricultural commodities, 1996-97 and 1997-98**

per cent

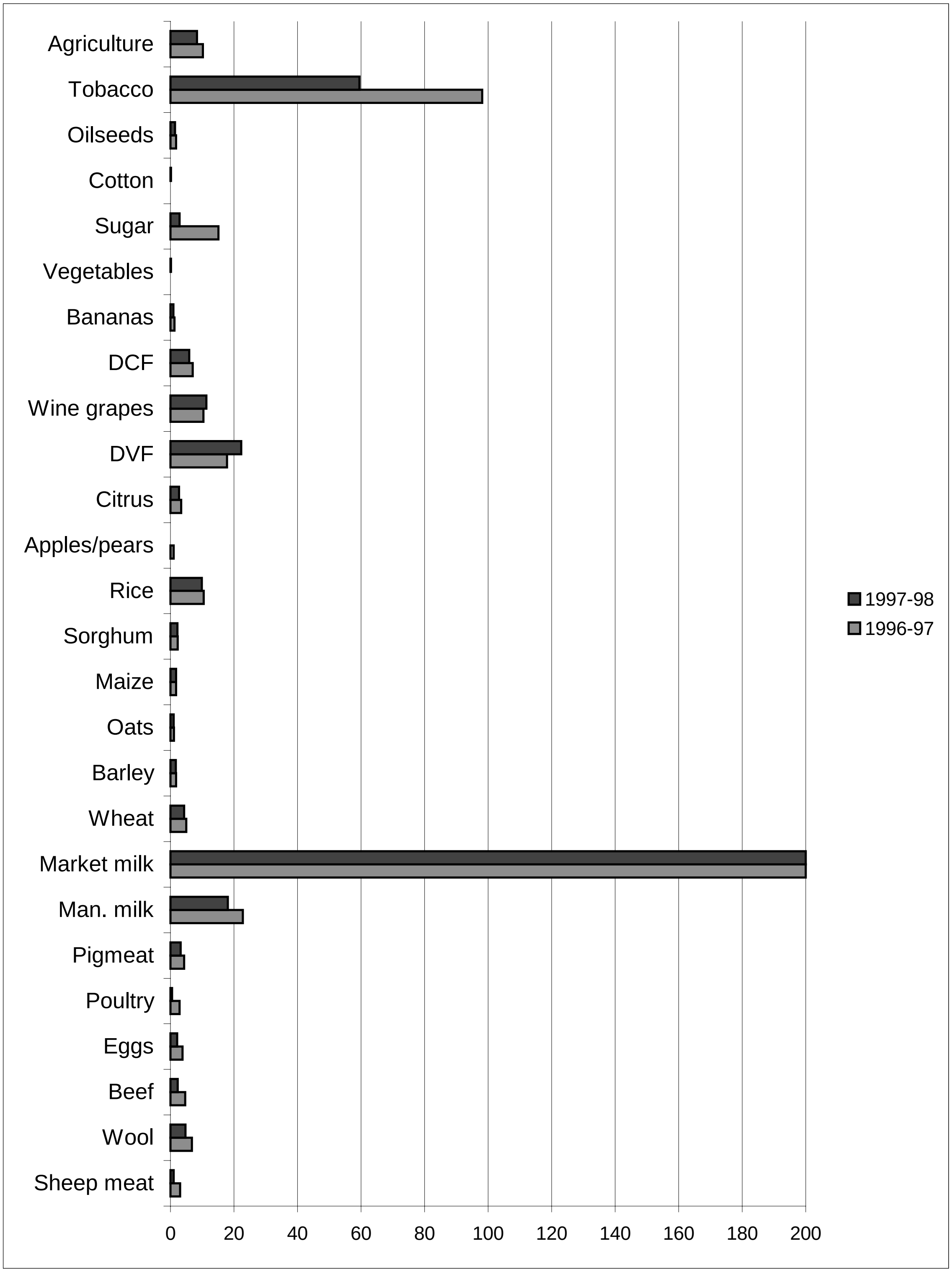


Notes: [a] DCF: Deciduous Canning Fruits. [b] DVF: Dried Vine Fruits. [c] Man. Milk: Manufacturing milk.

Data source: Commission estimates.

Figure 3.4 **Effective rates of assistance to agricultural commodities, 1996-97 and 1997-98**

per cent



Notes: [a] DCF: Deciduous Canning Fruits. [b] DVF: Dried Vine Fruits. [c] Man. milk: Manufacturing milk.

Data source: Commission estimates.

Forms of agricultural assistance

Sixteen kinds of agricultural assistance (twelve applying to the industries themselves and four to their inputs) have been identified for this year's *Trade and Assistance Review*. These can be grouped as:

- *assistance to value adding factors,* the most significant of which are adjustment assistance, research assistance, tax concessions and natural disaster relief;
- *output assistance,* which includes marketing and regulatory arrangements, export incentives, export inspection and government loan guarantees; and
- *input assistance,* which includes tariff assistance, materials assistance and penalties on non-traders.

Statutory marketing and regulatory arrangements were the most significant form of assistance measure in 1997-98. These arrangements accounted for 65 per cent of the total agricultural NSE. Arrangements for market milk accounted for most of this (73 per cent), while the remainder of the NSE was largely for manufacturing milk.

Research assistance accounted for 17 per cent of the NSE, with support for wool, wheat, sugar, dairy, beef and barley research accounting for 65 per cent of this total.

Revenue forgone from tax concessions was also a significant source of assistance, accounting for 9 per cent of the NSE. Concessions for wheat, beef, dairy, wool, sugar and barley accounted for 74 per cent of the total.

Adjustment assistance represented 11 per cent of the NSE, the major beneficiaries being wool, beef, wheat and dairy producers who received 80 per cent of the total.

Market Milk

For market milk in 1997-98:

- the nominal rate of assistance on outputs increased from 66.9 to 69.9 per cent;
- the effective rate of assistance also increased, remaining above 200 per cent; and
- the NSE accounted for 47.9 per cent of the total agricultural NSE.

Assistance is largely due to State marketing arrangements (98 per cent of NSE in 1997-98). Marketing authorities in each State set farm gate prices and production quotas, as well as regulating in other areas.

The high level of assistance provided by these arrangements may be about to fall. In July 1999, the (then) Victorian Government gave in-principle agreement to the deregulation of its market milk industry. The new State Government has indicated that it will put this issue to a vote of the State's dairy farmers. If Victoria deregulates its industry, this is likely to have a flow-on effect to the other States due to the size of the Victorian industry (as was acknowledged in the report by the Queensland Dairy Legislation Review Committee 1998).

In September 1999, the Federal Government announced that, provided certain conditions are met, it will provide dairy farmers — producers of both market and manufacturing milk — with $1.8 billion of adjustment assistance. The offer is conditional upon all States having deregulated their dairy industries by July 2000. The rationale for the assistance is that the payments will allow farmers to improve their efficiency and competitiveness. Assistance would be paid quarterly over eight years and funded through a levy of 11 cents per litre on all retail sales. Up to $45 000 would also be available for each farmer choosing to exit dairying (Truss 1999).

Manufacturing milk

For manufacturing milk in 1997-98:

- the nominal rate fell from 8.4 per cent to 6.8 per cent;
- effective rate fell from 22.7 per cent to 18.1 per cent; and
- the NSE accounted for 17.3 per cent of the total agricultural NSE.

The bulk of assistance for manufacturing milk came from Commonwealth marketing arrangements (the Domestic Market Support Scheme). The scheme assists manufacturing milk with subsidies raised through levies collected from all milk producers (market and manufacturing). The subsidy rates are being phased down, with the scheme due to expire on 30 June 2000 (IC 1997).

Tobacco

For tobacco in 1997-98:

- the nominal rate fell from 29.7 per cent to 20.9 per cent;
- the effective rate fell from 98.1 per cent to 59.4 per cent; and
- the NSE accounted for 1 per cent of the total agricultural NSE.

Statutory marketing arrangements for tobacco are being phased out as a part of a restructuring program, which commenced in January 1995. The transitional arrangements have been discussed previously (IC 1996g). Effective rates of assistance are expected to fall to around 2 per cent in 1999-2000 with the completion of the restructuring program.

Rice

For rice in 1997-98:

- the nominal rate remained at 3 per cent;
- the effective rate fell from 10.4 per cent to 9.9 per cent; and
- the NSE was 1.4 per cent of the agricultural NSE.

The majority of Australia's rice is grown in NSW, and receives assistance through statutory marketing arrangements.

Assistance for rice is set to decline, with the NSW Government reversing its original decision and giving in-principle agreement to a Commonwealth proposal for the deregulation of the domestic rice market. This decision is in line with the recommendations of an independent National Competition Policy (NCP) review of the rice industry conducted in 1995.

Wool

For wool in 1997-98:

- the nominal rate fell from 1.1 per cent to 0.6 per cent;
- the effective rate fell from 6.7 per cent to 4.7 per cent; and
- the wool NSE was 6.8 per cent of the agricultural NSE.

The wool industry receives assistance mainly from research and development funding, the rural adjustment scheme and the government guarantee on borrowings by Wool International. The decrease in the effective rate is largely due to reductions in government guarantees and research assistance.

The October 1998 freeze of the wool stockpile increased wool prices and could be considered as an assistance measure. However, the effects of the freeze have not been included in the Commission's assistance estimates. In any case, the stockpile has now been privatised, being purchased by Woolstock Australia Ltd in July 1999.

Wheat

For wheat in 1997-98:

- the nominal rate fell from 1.4 per cent to 1.2 per cent;
- the effective rate fell from 4.9 per cent to 4.3 per cent; and
- the NSE was 10.4 per cent of the agricultural NSE.

These falls were almost entirely due to reductions in the government guarantee on borrowings by the Australian Wheat Board (AWB). This guarantee on AWB borrowings now accounts for around a third of all assistance received by the wheat industry. The interest subsidy afforded by the guarantee is equal to the interest savings resulting from the difference between the assessed market interest rate, and government-guaranteed interest rates. The guarantee expired at the end of 1998-99. However, some of the guarantee subsidy will be received in 1999-2000, because sales from the 1998-99 wheat pool, which attracts the guarantee, will continue into 1999-2000.

Pigmeat

For pigmeat in 1997-98:

- the nominal rate remained at less than 0.5 per cent;
- the effective rate fell from 4.3 per cent to 3.2 per cent; and
- the NSE was 0.8 per cent of agricultural NSE.

The pigmeat industry receives assistance primarily from R&D funding, adjustment assistance and tax concessions. R&D funding accounted for around half of the industry's assistance in 1997-98.

In 1998, increased imports of pork prompted the domestic pork industry to seek the imposition of temporary 'safeguard' duties on pork imports.

Following an inquiry by the Commission (see section 3.6), in January 1999 the government decided not to impose a temporary tariff, opting instead to introduce a Pork Industry Assistance Package. The package provides a potential $24 million to the industry, as follows:

- over the period 1998-2000, $9 million will be provided to the National Pork Industry Development Program focussing on improving international competitiveness and export development and $1 million will be provided to the FarmBis Pork Producer Assistance Program to improve producer management skills;
- in 1999-2000, $6 million will be provided to the Pork Producer Exit Program to assist the most severely affected producers exit pork production; and
- $8 million for the Pork Processing Grants Program, for which applications for funding closed in December 1998, to encourage improved efficiencies in the processing sector.

Sugar

For sugar in 1997-98:

- the nominal rate fell from 4.3 per cent to zero;
- the effective rate fell from 15.1 per cent to 2.8 per cent; and
- the NSE was 1.7 per cent of the agricultural NSE.

Output assistance to Queensland's sugar industry was provided by a tariff and by Queensland's statutory marketing arrangements. The tariff has been removed and the Queensland Sugar Corporation is now required to price domestic sales at the export parity price. As a result, nominal assistance has fallen to essentially zero.

In addition, the NSE has fallen by $51.5 million. To offset this reduction in support, the Commonwealth Government introduced an adjustment package in July 1998. The Sugar Industry Assistance Package provides funding of $14 million over four years for R&D aimed at increasing the sugar content levels of sugar cane.

Sheepmeat

For sheepmeat in 1997-98:

- the nominal rate fell from 0.2 per cent to essentially zero;
- the effective rate fell from 3 per cent to 1 per cent; and
- the NSE was 0.6 per cent of the agricultural NSE.

Following a US decision to impose a tariff-rate quota on lamb imports from Australia, in July 1999 the Government announced a $20 million package to assist lamb producers. The first component of the package will provide relief of 50 per cent of the levy payment used to fund marketing, R&D, and animal health and residue testing programs. A Lamb Industry Development Program will also be established to assist producers, processors and exporters of lamb. The Government has also lodged an appeal with the WTO against the US action (see section 3.6).

Table 3.1 **Nominal and effective rates of assistance by agricultural activity, 1993-94 to 1997-98**

per cent

	Nominal rate of assistance[a]					*Effective rate of assistance*[b]				
Activity/commodity description	*93-94*	*94-95*	*95-96*	*96-97*	*97-98*	*93-94*	*94-95*	*95-96*	*96-97*	*97-98*
Horticulture										
Apples and Pears	..	..	..	..	..	..	..	..	1	..
Dried vine fruits[c]	12	5	5	6	8	29	14	11	18	22
Wine grapes	10	9	7	4	5	24	19	15	10	11
Citrus	2	1	1	1	..	4	4	4	3	3
Deciduous canning fruits	..	..	..	..	..	1	1	2	7	6
Bananas	..	..	..	..	..	..	..	1	1	1
Tobacco[d]	60	50	40	30	21	>200	>200	160	98	59
Vegetables	..	..	..	..	..	..	..	1	..	..
Average	**3**	**2**	**2**	**1**	**1**	**6**	**5**	**6**	**4**	**4**
Extensive cropping										
Wheat	2	2	1	1	1	5	6	4	5	4
Barley	..	..	..	..	..	1	2	1	2	2
Oats	..	..	..	..	..	1	1	1	1	1
Maize	..	..	..	..	..	..	..	1	2	2
Sorghum	..	..	..	..	..	1	1	1	2	2
Oilseeds	..	..	..	..	..	3	5	4	2	1
Average	**1**	**1**	**1**	**1**	**1**	**4**	**4**	**3**	**4**	**3**
Extensive irrigation and high-rainfall crops										
Sugar[e]	4	4	4	4	..	12	11	15	15	3
Cotton	..	..	..	..	..	1	2	3	..	..
Rice[f]	1	2	2	3	3	4	8	8	10	10
Average	**2**	**2**	**2**	**2**	**..**	**7**	**7**	**10**	**8**	**3**
Extensive grazing										
Beef	..	..	..	..	..	3	4	5	5	2
Wool	4	1	2	1	1	14	6	9	7	5
Sheepmeat	..	..	..	..	..	4	3	3	3	1
Average	**1**	**..**	**1**	**1**	**..**	**6**	**4**	**6**	**5**	**3**
Intensive livestock										
Pigs	..	..	..	..	..	4	5	5	4	3
Poultry	..	..	..	..	..	7	9	11	3	1
Eggs[g]	3	4	2	..	..	9	11	8	4	2
Milk production	19	24	19	22	21	56	77	56	70	65
Manufacturing milk	8	9	8	8	7	20	25	21	23	18
Fresh milk[h]	49	58	53	67	70	>200	>200	>200	>200	>200
Average	**10**	**13**	**11**	**13**	**12**	**38**	**51**	**42**	**48**	**44**
Total agriculture										
Average	**3**	**3**	**3**	**3**	**3**	**10**	**10**	**10**	**10**	**8**
Standard deviation[i]	**(9)**	**(10)**	**(9)**	**(11)**	**(11)**	**(30)**	**(41)**	**(33)**	**(56)**	**(63)**

Table 3.1 (continued)

Notes. .. between -0.5 and 0.5 per cent. [a] Average nominal rates on outputs are weighted by unassisted value of output of each activity. [b] Average effective rates are weighted by the unassisted value added of each activity. [c] The estimates of assistance to sultanas are based on a comparison of the lower of either domestic or constructed import parity returns with the export returns. [d] Based on transfers derived by applying the price differential between Australian green leaf and comparable imported green leaf to the domestic sales of Australian leaf. Following the removal of the local leaf content scheme in January 1995, the methodology used for calculating producer transfers was revised for the 1994-95 and 1996-97 estimates. [e] Producer transfers were estimated in accordance with the industry formula used for dividing raw sugar returns between millers and growers. [f] Estimated by comparing domestic and export prices for medium and long-grain rice. [g] Estimates are derived using a weighted average of retail prices for eggs in the deregulated States to determine a benchmark retail price. This benchmark price is compared with the average retail prices in the regulated States in order to make an estimate of assistance provided to retailers. Finally, this retail-level assistance is estimated on a pro-rata basis from the value of retail prices to provide an estimate of assistance at the farm gate-level. [h] The producer transfer was estimated by multiplying the difference between the fresh milk price and the local manufacturing milk price plus an allowance of 20 per cent of the average Australian manufacturing milk price to represent the cost of assurance of out-of–season supply. [i] The standard deviation measures the extent of variation (or dispersion) in a distribution. The larger the variability among individual activities' nominal and effective rates, the larger the standard deviation.

Source: Commission estimates.

Table 3.2 **Average nominal and effective rates of assistance, by 3-digit ANZSIC,[a] 1993-94 to 1997-98**

per cent

		Nominal rate of assistance on output[b]					Effective rate of assistance[c]				
	Activity/commodity description	*93-94*	*94-95*	*95-96*	*96-97*	*97-98*	*93-94*	*94-95*	*95-96*	*96-97*	*97-98*
Code											
011	Horticulture and Fruit Growing	2	2	2	1	1	4	4	5	3	3
012	Grain, Sheep and Grain Beef Cattle Farming	1	1	1	1	1	5	5	5	5	3
013	Dairy Cattle Farming	19	24	19	22	21	56	77	56	70	65
014	Poultry Farming	..	1	..	..	..	8	10	10	3	1
015	Other Livestock Farming	..	..	..	..	..	4	5	5	4	3
016	Other Crop Growing	3	3	3	2	..	11	9	12	9	2
01	**Agriculture**	**3**	**3**	**3**	**3**	**3**	**10**	**10**	**10**	**10**	**8**

Notes: .. Between 0 and 0.5 per cent. [a] Industry subdivision and group from the Australian and New Zealand Standard Industrial Classification (ANZSIC). [b] Average nominal rates on outputs are weighted by unassisted value of output of each activity. [c] Average effective rates are weighted by the unassisted value added of each activity.

Source: Commission estimates

Table 3.3 **Assistance to agriculture by form, 1993-94 to 1997-98**

$ million

	1993-94	*1994-95*	*1995-96*	*1996-97*	*1997-98*
Assistance to outputs					
Domestic pricing arrangements[a]	392	479	504	571	523
Tariffs	58	58	66	55	29
Local content schemes	18	0	0	0	0
Export incentives	2	3	3	3	2
Export inspection services[b]	16	6	0	9	0
Marketing support	22	1	1	1	0
Government guarantees	106	58	85	80	60
Total[c]	**614**	**605**	**659**	**718**	**615**
Assistance to value-adding factors					
Adjustment assistance[d]	105	120	115	105	86
Agricultural research	156	160	155	161	137
Income taxation concessions	70	86	163	97	73
Natural disaster relief	2	1	1	1	0
Sugar industry program	3	4	2	4	3
Total	**336**	**371**	**436**	**368**	**300**
Assistance to inputs					
Disease control[e]	3	3	3	2	2
Tariffs on inputs[f]	-87	-77	-80	-61	-60
Tariffs on plant and machinery[f]	-64	-62	-61	-50	-50
Total	**-148**	**-136**	**-138**	**-109**	**-108**
Net Subsidy Equivalent	**802**	**839**	**957**	**977**	**806**

Notes: .. Between - 0.5 and 0.5 million. Figures may not add to total due to rounding. [a] For 1994-95, 1995-96, 1996-97 and 1997-98, estimates include transitional assistance to tobacco following the removal of the local content scheme in January 1995. [b] Based on shortfalls from 100 per cent cost recovery. [c] Equal to the Gross Subsidy Equivalent (see section A.1 in Appendix A). [d] Figures reflect actual Commonwealth interest subsidies and grants provided to producers. [e] Covers assistance provided by the bovine brucellosis and tuberculosis eradication campaign. [f] The additional costs incurred due to assistance raising the prices of inputs. The current series includes the effect of tariffs on materials used in non-traded inputs.

Source: Commission estimates.

3.4 Manufacturing assistance

The manufacturing sector receives assistance from a wide range of government programs and policies. Tariffs remain an important form of assistance, but manufacturing activities also receive assistance in the form of production bounties, certain export incentives, input subsidies, by-law (or commercial tariff concession orders) and excise.

The general program of phased tariff reductions, which ran from March 1991 to July 1996, reduced most tariff rates to 5 per cent or less. Those protecting the Passenger Motor Vehicles (PMV) and Textiles, Clothing and Footwear (TCF) industries, however, remained higher.

Despite the large reductions in tariff rates under this program, tariff assistance still accounts for around 90 per cent of **measured** effective assistance to the sector. While the Commission's manufacturing assistance estimates are not comprehensive in their coverage of budgetary assistance, even with the inclusion of some of the additional measures identified in chapter 4, tariffs would remain the dominant form of support for the sector.

Estimates of assistance to the manufacturing sector have not been updated for 1997-98 and 1998-99. Only PMV and TCF tariff rates have changed significantly since 1996-97. These changes had already been foreshadowed, and changes in budgetary assistance would have had a relatively minor impact on measured assistance.

The effects of implementing the remaining scheduled tariff reductions for PMV and TCF are reflected in the Commission's projections of assistance for 2000-01. These projections have not been revised. They continue to represent reasonable estimates of future rates of assistance, particularly at higher levels of aggregation, because:

- tariffs are the dominant influence on measured assistance; and
- the schedule for further PMV and TCF tariff reductions has not changed; and
- no further general tariff reductions have been announced.

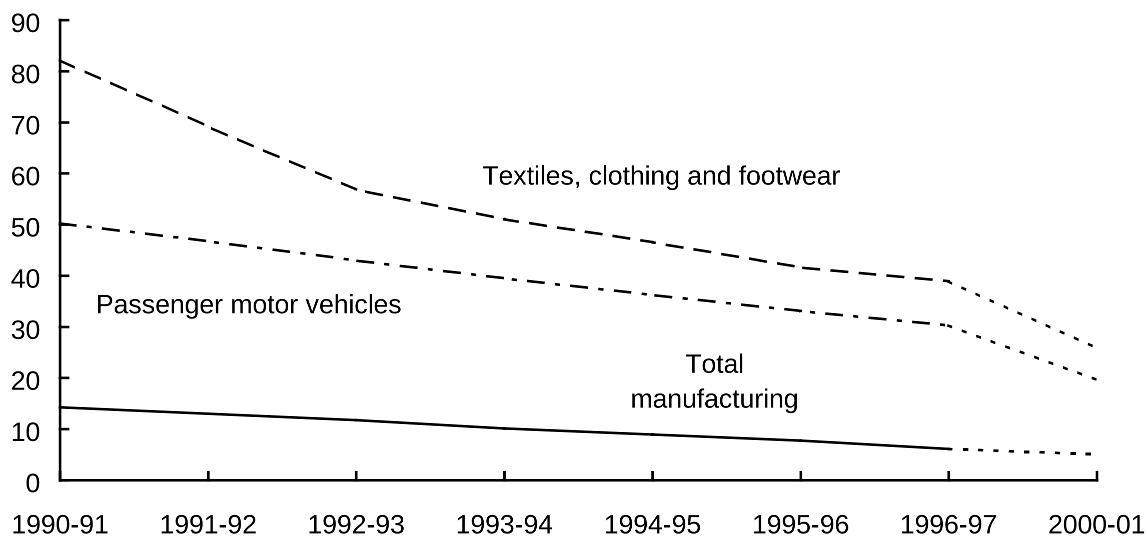
That said, the Commission intends to revise its assistance methodology and estimates in relation to manufacturing (and agriculture) as part of its general tariff review (see below).

For this year's *Trade and Assistance Review*, the Commission has reported manufacturing assistance estimates at the 2-digit ASIC subdivision level, in tables 3.4 to 3.6 (at the end of this section). Previously published estimates of nominal and effective rates of assistance are provided for the years 1993-94 to 1996-97, as well as projections for 2000-01. More detailed estimates down to the 4-digit ASIC industry level were presented in the Commission's information paper, *Assistance to Agricultural and Manufacturing Industries* (IC 1995a). The key estimates from tables 3.4 to 3.6, together with related developments, are described and discussed below.

Trends in manufacturing assistance

The nominal rate of assistance to manufacturing was around 4 per cent in 1996-97 and is projected to fall to 3 per cent by 2000-01, while the effective rate of assistance is projected to fall from 6 per cent to 5 per cent over the same period. PMV and TCF industries continue to receive assistance several times higher than other manufacturing activities (figure 3.5).

Figure 3.5 **Average effective rates of assistance to manufacturing, PMV and TCF, 1990-91 to 2000-01**
per cent



Data source: Commission estimates.

The fall in PMV and TCF tariffs relative to the generally applicable manufacturing tariff of 5 per cent is expected to result in a decline in the dispersion of assistance across the manufacturing sector in the period to 2000-01. The standard deviation of effective rates is projected to fall from 10 percentage points in 1996-97 to 7 percentage points in 2000-01.

The estimated net subsidy equivalent of assistance to manufacturing was around $4 billion in 1996-97 and is projected to fall to $3.5 billion in 2000-01. The PMV and TCF industries accounted for around half of the estimated net subsidy equivalent to the manufacturing sector in 1996-97. This share is projected to fall to around 40 per cent by 2000-01.

Developments in sectoral or industry-specific assistance

In relation to assistance for manufacturing, since the start of 1998-99:

- reductions in PMV and TCF tariffs have occurred as scheduled;
- a number of programs announced in the government's *Investing for Growth* statement have commenced operating;
- the Government has announced the abolition of 400 'nuisance' tariffs and an inquiry into remaining tariffs except those for the PMV and TCF industries;
- the Government has announced changes to tariffs on aluminium can sheet and tin plate, certain parts of machine tools, and imported meters; and
- the Commission has commenced a review into all remaining tariffs, other than those applying to the TCF and PMV industries.

Assistance to the PMV industry

As a result of continuing phased tariff reductions, the effective rate of assistance to the PMV industry is expected to fall to 19 per cent by 2000-01, from 28 per cent in 1996-97 (table 3.6).

The PMV tariff declined by a further 2.5 percentage points to 17.5 per cent on 1 January 1999 and is to fall to 15 per cent in 2000. The tariff is to remain at 15 per cent until January 2005, when it is scheduled to fall immediately to 10 per cent. Assuming no other changes in assistance, the effect of the pause in tariff reductions will be to maintain effective assistance to PMV at levels nearly 4 times the manufacturing average.

Commencing in January 2001, the current Export Facilitation Scheme is to be replaced by the Automotive Competitiveness and Investment Scheme (ACIS) which will operate for five years. The ACIS is not expected to have a significant impact on measured assistance to the PMV industry, relative to current assistance arrangements. Legislation to give effect to these changes was approved by the Parliament in October 1999.

Assistance to the TCF industries

Assistance to the TCF industries is expected to decline between 1996-97 and 2000-01, reflecting further phased tariff reductions. The effective rate of assistance for the textiles industry is projected to fall to 17 per cent in 2000-01, from 25 per cent in 1996-97. And the effective rate for the clothing and footwear industries is projected to decline to 34 per cent by 2000-01, from 52 per cent in 1996-97 (table 3.6).

Most TCF tariffs declined on 1 July 1999[3], and are to fall further. All TCF tariffs (apart from those already at rates of 5 per cent or less) will be reduced to tariff rates of 25, 15, or 10 per cent on 1 July 2000. TCF tariffs are to remain at these levels until 2005, when tariffs on apparel and certain finished textiles, footwear and fabrics are scheduled to decline immediately to 17.5 per cent, 10 per cent and 7.5 per cent, respectively.

A new package of assistance measures will apply to the TCF industry, to operate from 2000 to 2005. These measures, which replace some existing arrangements, were outlined in last year's *Trade and Assistance Review*. While they may have implications for the distribution of assistance within TCF and rates of assistance for individual industries, assistance at the broad industry subdivision level is unlikely to change significantly between 2000 and 2005.

The 'Investing for Growth' initiatives

In December 1997, the Commonwealth Government announced a series of initiatives, covering R&D support, investment incentives, export assistance and specific incentives for the information technology industry, in its *Investing for Growth* statement. These initiatives were detailed in last year's *Trade and Assistance Review*.

A number of these initiatives have now commenced. Under the R&D Start program — the major component of *Investing for Growth* — grants to the value of over $190 million were approved in 1998-99 (DISR 1999). As well, the Government has offered two investment incentive packages under its Strategic Investment Incentives program, one of which has been accepted (see section 4.3).

[3] On 1 July 1999, the tariffs on apparel and certain finished textiles fell from 31 to 28 per cent; the tariffs on cotton sheeting and woven fabrics fell from 19 to 17 per cent; the tariffs on sleeping bags, table linen and tea towels fell from 12 to 11 per cent; the tariffs on footwear fell from 21 to 18 per cent; and the tariffs on carpets fell from 19 to 17 per cent. The tariffs on footwear parts and textile yarns remained unchanged at 10 and 5 per cent, respectively.

While the *Investing for Growth* initiatives are not expected to have a significant impact on manufacturing assistance in 1998-99, the program is likely to increase budgetary assistance significantly by 2001-02. It may therefore have implications for future effective rates of assistance to the manufacturing sector.

'Nuisance' tariffs

The Government recently announced the removal of 400 'nuisance tariffs' in late November 1999 pending public consultation by the end of October. These tariffs range from 3 per cent to 5 per cent and are levied on goods not typically made in Australia. They provide few or no protective benefits for Australian industry and disadvantage Australian industry, where such imports are used as inputs into the production process, relative to imported goods which enter Australia duty-free. The Government estimates the removal of these tariffs will reduce business input and consumer costs by around $18 million a year.

As these tariffs apply to goods which are not typically made in Australia and which are used as inputs in the production process of other goods, their removal is likely to place upward pressure on effective rates of assistance to users of them by reducing the (tariff) penalty on business inputs. However, the impact of these tariff reductions on assistance to the manufacturing sector at the 2-digit ASIC subdivision level is not expected to be significant.

Other tariff changes

The Government recently announced the removal of tariffs on aluminium cansheet — used to make the body, ends and tabs of beverage cans — and steel tinplate, following recommendations from the Industry Commission's 1996 inquiry report into *Packaging and Labelling* (IC 1996a).

The Government has also recently implemented the Commission's remaining recommendations from its 1997 inquiry report on *Machine Tools and Robotics Industries* (IC 1996b). These changes include:

- a reduction in tariffs on parts of machine tools, classified to certain subheadings in chapter 84 of the Customs Tariff Act, from 5 per cent to zero; and
- the cancellation of policy by-law items 48, 49 and 55 in schedule 4 of the Customs Tariff Act.

The Government has reimposed a 5 per cent tariff on imported utility meters. The tariff was removed in line with recommendations in the Commission's report into *Medical and Scientific Equipment* (IC 1996f) in 1998. However, following representations from the relevant industry association, the Government decided to restore the tariff, effective from September 1999 (AEEMA 1999).

Like the removal of 400 ‘nuisance’ tariffs outlined above, the impact of these tariff changes on assistance to the manufacturing sector (at the 2-digit level) is not expected to be significant.

General tariff review

In October 1999, the Government requested the Commission to conduct an inquiry reviewing Australia’s general tariff arrangements. The inquiry is to examine the scope for a post-2000 reduction in remaining tariffs other than PMV and TCF, including consideration of the appropriateness of the Tariff Concession Scheme and Project By-Law arrangements.

This review follows decisions by the Government to remove tariffs in the information technology and telecommunications sectors and on medical and scientific equipment. The decision on medical and scientific equipment was in response to a Commission recommendation in the Report on *Medical and Scientific Industries* (IC 1996f). The review also follows consultation between the Minister for Industry, Science and Resources and manufacturing industry representatives on the abolition of ‘nuisance’ tariffs on around 400 manufacturing items (see above).

Table 3.4 **Nominal rates of assistance on materials,[a] manufacturing subdivisions,[b] 1993-94 to 1996-97 and 2000-01**

per cent

Industry[c]						
Code	*Description*	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*2000-01*
21	**Food, beverages and tobacco**	**5**	**4**	**4**	**3**	**3**[d]
234	Textile fibres, yarns and woven fabrics	3	3	3	2	2
235	Other textile products	8	7	6	5	4
23	**Textiles**	**4**	**4**	**4**	**3**	**2**
244	Knitting mills	9	8	7	5	5
245	Clothing	19	18	16	14	9
246	Footwear	9	8	7	5	5
24	**Clothing and footwear**	**15**	**13**	**12**	**10**	**7**
25	**Wood, wood products and furniture**	**6**	**5**	**4**	**3**	**3**
26	**Paper, paper products and publishing**	**4**	**3**	**3**	**2**	**2**
27	**Chemical, petroleum and coal products**	**1**	**1**	**1**	**..**	**..**
28	**Non-metallic mineral products**	**1**	**1**	**1**	**1**	**1**
29	**Basic metal products**	**1**	**1**	**1**	**1**	**1**
31	**Fabricated metal products**	**6**	**5**	**5**	**4**	**4**
323	Motor vehicles and parts	11	10	9	8	6
32	**Transport equipment**	**10**	**9**	**8**	**7**	**6**
33	**Other machinery and equipment**	**7**	**6**	**5**	**3**	**3**
34	**Misc. manufacturing**	**7**	**6**	**4**	**3**	**3**
21-34	**TOTAL MANUFACTURING**	**4**	**3**	**3**	**2**	**2**

.. Between 0 per cent and 0.5 per cent. [a] Assistance provided by tariffs and certain non-tariff measures. The nominal rate of assistance on materials is an average of the nominal rates on materials used by that industry, weighted by the unassisted value of each material used. [b] The nominal rate of assistance on materials is provided at the 3-digit ASIC level for the more highly assisted Textiles, Clothing and Footwear and Passenger Motor Vehicle industries. [c] Industry subdivision and group from the Australian Standard Industrial Classification (ASIC) 1983 Edition. The ASIC was replaced by the Australia and New Zealand Standard Industrial Classification (ANZSIC) in 1993. However, manufacturing assistance estimates based on ANZSIC have not been derived. [d] Estimates reflect the Commission's projections of assistance to agricultural commodities.

Source: Commission estimates.

Table 3.5 **Nominal rates of assistance on outputs,[a] manufacturing subdivisions,[b] 1993-94 to 1996-97 and 2000-01**

per cent

Industry[c]						
Code	*Description*	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*2000-01*
21	**Food, beverages and tobacco**	**5**	**4**	**3**	**3**	**3**[d]
234	Textile fibres, yarns and woven fabrics	9	8	7	7	5
235	Other textile products	19	18	16	14	10
23	**Textiles**	**12**	**11**	**10**	**9**	**6**
244	Knitting mills	37	34	31	29	20
245	Clothing	39	36	33	30	21
246	Footwear	31	28	25	23	13
24	**Clothing and footwear**	**37**	**34**	**31**	**29**	**19**
25	**Wood, wood products and furniture**	**7**	**6**	**5**	**4**	**4**
26	**Paper, paper products and publishing**	**5**	**4**	**3**	**2**	**2**
27	**Chemical, petroleum and coal products**	**2**	**1**	**1**	**1**	**1**
28	**Non-metallic mineral products**	**2**	**2**	**2**	**1**	**1**
29	**Basic metal products**	**3**	**3**	**3**	**2**	**2**
31	**Fabricated metal products**	**9**	**7**	**6**	**4**	**4**
323	Motor vehicles and parts	20	19	17	15	10
32	**Transport equipment**	**17**	**15**	**14**	**12**	**9**
33	**Other machinery and equipment**	**9**	**8**	**6**	**4**	**4**
34	**Misc. manufacturing**	**10**	**9**	**7**	**5**	**5**
21-34	**TOTAL MANUFACTURING**	**6**	**5**	**5**	**4**	**3**

.. Between 0 per cent and 0.5 per cent. **a** Assistance provided by tariffs and certain non-tariff measures. The nominal rate of assistance on outputs is an average of the nominal rates on outputs used by that industry, weighted by the unassisted value of output used. **b** The nominal rate of assistance on outputs is provided at the 3-digit ASIC level for the more highly assisted Textiles, Clothing and Footwear and Passenger Motor Vehicle industries. **c** Industry subdivision and group from the Australian Standard Industrial Classification (ASIC) 1983 Edition. The ASIC was replaced by the Australia and New Zealand Standard Industrial Classification (ANZSIC) in 1993. However, manufacturing assistance estimates based on ANZSIC have not been derived. **d** Estimates for 2000-01 reflect the Commission's projections of assistance to agricultural commodities.

Source: Commission estimates.

Table 3.6 **Effective rates of assistance,[a] manufacturing subdivisions,[b] 1993-94 to 1996-97 and 2000-01**

per cent

Industry[c]						
Code	*Description*	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*2000-01*
21	**Food, beverages and tobacco**	**3**	**3**	**3**	**2**	**2**[d]
234	Textile fibres, yarns and woven fabrics	37	33	24	23	15
235	Other textile products	37	34	31	28	19
23	**Textiles**	**37**	**33**	**27**	**25**	**17**
244	Knitting mills	92	86	80	76	49
245	Clothing	59	54	50	47	33
246	Footwear	60	54	50	46	24
24	**Clothing and footwear**	**65**	**60**	**56**	**52**	**34**
25	**Wood, wood products and furniture**	**9**	**7**	**6**	**4**	**4**
26	**Paper, paper products and publishing**	**6**	**5**	**4**	**2**	**2**
27	**Chemical, petroleum and coal products**	**6**	**5**	**4**	**3**	**3**
28	**Non-metallic mineral products**	**3**	**3**	**2**	**2**	**2**
29	**Basic metal products**	**6**	**5**	**5**	**4**	**4**
31	**Fabricated metal products**	**12**	**10**	**8**	**4**	**4**
323	Motor vehicles and parts	38	35	31	28	19
32	**Transport equipment**	**26**	**24**	**21**	**19**	**13**
33	**Other machinery and equipment**	**11**	**9**	**8**	**5**	**5**
34	**Misc. manufacturing**	**14**	**12**	**10**	**7**	**7**
21-34	**TOTAL MANUFACTURING**	**10**	**9**	**8**	**6**	**5**

.. Between 0 per cent and 0.5 per cent. [a] Assistance to an activity, net of the effects of tariffs and certain other forms of government intervention which alter the prices of material inputs used by the industry. For certain TCF industries the estimates include some assistance to value adding factors. [b] The effective rate of assistance is provided at the 3-digit ASIC level for the more highly assisted Textiles Clothing and Footwear and Passenger Motor Vehicles. [c] Industry subdivision and group from the Australian Standard Industrial Classification (ASIC) 1983 Edition. The ASIC was replaced by the Australia and New Zealand Standard Industrial Classification (ANZSIC) in 1993. However, manufacturing assistance estimates based on ANZSIC have not been derived. [d] Estimates for 2000-01 reflect Commission projections of assistance to agricultural commodities.

Source: Commission estimates.

3.5 Anti-dumping and countervailing activity

Dumping occurs when a foreign supplier exports goods at a price below the 'normal value' of the goods in the supplier's home market. There is no single definition of normal value. The good's price in the exporter's home market is generally used to determine the normal value, but alternatives such as the good's price in another export market, or a constructed price, are sometimes used instead.

The General Agreement on Tariffs and Trade allows Members to apply anti-dumping measures on dumped imports if they cause, or threaten to cause, material injury to a domestic industry. Anti-dumping measures can take two forms:

- the foreign exporter may agree to make a formal undertaking to export future goods to the importing market at a normal price; or
- a dumping duty may be imposed on the relevant imports to bring the export price up to but not higher than the normal value of goods in the exporting country.

As well as allowing anti-dumping actions, the WTO Agreement on Subsidies and Countervailing Measures (1995) allows Members to apply countervailing duties where imports, benefiting from certain forms of subsidies in the country of origin, cause or threaten to cause material injury to a domestic industry.

Like other measures which raise the price of imports, anti-dumping and countervailing measures can assist particular domestic industries but can also impose higher costs on other domestic industries and consumers.

Australia's new system

A new anti-dumping and countervailing system — implemented through amendments to the *Customs Act 1901* and the *Customs Tariff (Anti-Dumping) Act 1975* — took effect on 24 July 1998. Key features of the new system are:

- a significantly shorter overall investigation period conducted solely by the Australian Customs Service (ACS);
- the abolition of the Anti-Dumping Authority (ADA); and
- a new appeal and review mechanism conducted by a statutory officer known as the Trade Measures Review Officer (TMRO).

Table 3.7 outlines and compares the key features of the previous and new anti-dumping and countervailing systems.

Investigations under the new system are undertaken entirely by the ACS. Previously, the ADA was responsible for undertaking a second stage of investigation before making a final finding on the level and extent to which measures would be imposed.

ADA findings were often different from ACS findings. Over the nine years to 1997-98, ADA investigations resulted in a final finding different from the ACS finding in more than 40 per cent of cases — the ADA overturned 30 per cent and amended 10 per cent of positive preliminary findings made by the ACS.

The WTO (1998a), in its most recent Trade Policy Review of Australia, questioned whether the shorter investigation, now the shortest in the world, conducted entirely by the ACS would allow as effective an investigation as under the previous system.

Another concern is the adequacy and effectiveness of the new appeal process. Previously, the ADA was responsible for conducting appeals and, in the process, had the capacity to call for and obtain information which was independent of the ACS's investigations. This contrasts with the new system of appeals, which consists of a review of existing information, with no further investigation. The office of the TMRO conducts the appeal, drawing on the resources of the Department of Industry, Science and Resources. The implementation of the new system, which differs in important respects from its predecessor, raises questions such as:

- the appropriateness of the TMRO being restricted to reviewing the interpretation of information collected by the ACS; and
- whether TMRO has sufficient time and resources to conduct appeals effectively.

These questions, and other matters, will need to be examined as part of the Government's scheduled review of anti-dumping and countervailing regulation under the Competition Principles Agreement. The review has been postponed to allow for full implementation of the new arrangements through 2000.

Table 3.7 **Comparison of previous[a] and new[b] anti-dumping and countervailing systems**

Feature	*Previous*	*New*
Total time frame	215 day two stage system conducted by the ACS and ADA.	155 day (175 including screening) single stage system conducted by the ACS.
Screening	20 days for ACS to examine application and to initiate investigation or reject application.	20 day screening period is now outside the formal investigation period.
	25 per cent local content requirement for a dumping complaint to warrant an investigation.	Complainants must demonstrate that they are a local industry producing like goods, undertake a substantial process of manufacture, and have the support of a majority of local producers of the good.
Preliminary investigation	85 days for ACS to deliver a preliminary finding at which stage interim duties may be applied.	Interim duties may be applied after 60 days of the investigation period.
Final Finding	In the case of a positive preliminary finding, 110 days for the ADA to gather additional information, conduct an investigation and deliver a final finding.	In the case of a positive finding after preliminary investigation, the ACS to continue investigation and deliver a final finding within 155 days. Statement of essential facts by day 110 with submissions in response due by day 130.
Review and Appeals	Rejection of initial application subject to appeal, 60 days for the ADA to conduct a review.	Rejection of initial application automatically subject to 60 day review by the TMRO.
	Negative preliminary finding subject to appeal, 90 days for the ADA to undertake a review of ACS's investigation.	Negative finding after preliminary investigation automatically subject to 60 day review by the TMRO.
	Final duty assessment subject to appeal, 90 days for the ADA to undertake a review.	Positive or negative final finding subject to appeal, 90 days for the TMRO to conduct a review of the ACS's investigation with: • notice of appeal given within 30 days of the final decision; • submissions due by day 60; and • decision delivered by the TMRO by day 90.

a System after the interim reductions to time frames implemented on 1 February 1997. **b** Effective from 24 July 1998.

Source: Truss (1998), Moore and Truss (1998) and Willett (1996).

Recent anti-dumping and countervailing activity

The anti-dumping and countervailing data for 1998-99 are a combination of data under the current and previous anti-dumping and countervailing arrangements, with the ADA completing its final case in December 1998.

The number of Australian anti-dumping cases reported as initiated halved from 36 in 1997-98 to 18 in 1998-99 (figure 3.6 and table 3.8). No countervailing cases were initiated in 1998-99.

Although the number of measures reported as initiated fell to a relatively low level in 1998-99, the number of measures imposed increased from 5 in 1997-98 to 18 in 1998-99. This increase is partly attributable to a backlog of investigations from 1997-98 and a faster completion of investigations under the new streamlined arrangements in 1998-99.

In addition, the conversion rate of cases initiated to measures imposed increased in 1998-99 with more than a third of initiated cases resulting in duties being imposed. This compares to conversion rates of 20 per cent in 1997-98 and less than 10 per cent in 1996-97.

The forthcoming legislative review of anti-dumping and countervailing regulation under the Competition Principles Agreement will need to consider these developments and examine whether the new system is effective and appropriate.

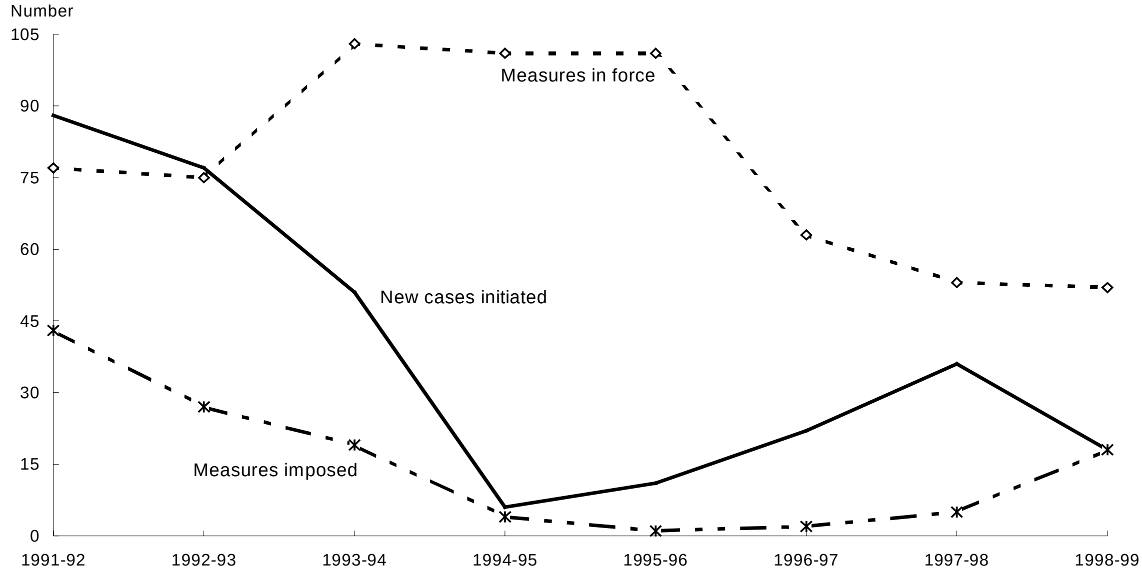
Notwithstanding the increase in measures imposed, there was little change in the number of measures in force as at 30 June 1999. This was due to the expiry of several measures for which no applications for extensions were made.[4]

Industry incidence

The initiations for 1998-99 are dominated by industries in the chemical and petroleum products, and textiles, subdivisions (table 3.9). Both of these subdivisions had multiple country initiations in 1998-99. Two initiations in the chemical and petroleum products subdivision — low density polyethylene and polyvinyl chloride resin — accounted for a majority of initiations. In the textiles subdivision, a single initiation — carpet backing — accounted for all five initiations (refer to table 3.8).

[4] Anti-dumping action in Australia is subject to a five year settlement or sunset period, with reviews to be undertaken prior to the expiry date, if the action is to continue.

Figure 3.6 **Anti-dumping and countervailing activity,[a] 1991-92 to 1998-99**



[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 and Commission estimates.

Table 3.8 **New Australian anti-dumping and countervailing initiations[a] in 1998-99**

Commodity	*Economy*
A4 copy paper	Brazil
Carpet backing	Belgium, Colombia, Saudi Arabia, United Kingdom, United States of America
Expandable polystyrene	Taiwan, Thailand
Galvanised steel pipe	Thailand
Low density polyethylene	Indonesia, South Korea, Malaysia, Saudi Arabia
Polyvinyl chloride resin	Hungary, Indonesia, South Korea, Singapore
Uncoated white cut ream copy paper	Finland

[a] Complaints formally initiated by industry. Initiations are defined as actions applying to one commodity from one economy.

Source: Information provided by ACS.

Table 3.9 **Anti-dumping and countervailing cases,[a] by industry, 1993-94 to 1998-99**

Industry[b]	*1993 -94*	*1994 -95*	*1995 -96*	*1996 -97*	*1997 -98*	*1998 -99*	*Six-year period* *Total*	*Per cent of total*
Food and beverages	–	2	–	–	–	–	2	1
Textiles	10	–	–	–	1	5	16	11
Paper, paper products	–	–	–	–	14	2	16	11
Metallic minerals	–	–	–	–	–	–	–	–
Chemical and petroleum products	16	2	5	11	13	10	57	40
Non-metallic mineral products	4	–	–	2	1	–	7	5
Metal products manufacturing	4	1	2	–	3	1	11	8
Transport equipment	–	–	–	–	–	–	–	–
Machinery and equipment	4	1	3	1	–	–	9	6
Miscellaneous manufacturing	13	–	1	8	4	–	26	18
Total	**51**	**6**	**11**	**22**	**36**	**18**	**144**	**100**

– Nil. [a] Complaints formally initiated by industry. Cases are defined as actions applying to one commodity from one economy. Cases where dumping and subsidisation are alleged for the same economy and commodity are counted as two distinct initiations. [b] Based on Australian and New Zealand Standard Industry Classification subdivisions.

Source: Information provided by ACS.

Country incidence

In 1998-99, Australian firms initiated anti-dumping cases against firms from 14 economies (table 3.10).

The trading regions which have had the highest incidence of initiations against them over the six years to 1998-99 are Asia and Western Europe, together accounting for almost three quarters of total initiations.

Relative to import shares, the number of initiations against Australia's trading partners in North America and Western Europe have been much lower than against economies in the Asian region. This trend continued in 1998-99 with the Asian region accounting for half of total initiations but about a third of Australia's merchandise imports (ABS 1999e).

There have been no Australian initiations against imports from New Zealand since July 1990, when the two countries agreed to eliminate anti-dumping and countervailing actions in trans-Tasman trade under changes arising from the Closer Economic Relations Agreement. Since then, anti-competitive conduct in trans-Tasman trade has been covered by competition laws under the Australian *Trade Practices Act 1974* and the New Zealand *Commerce Act 1986*.

International trends

Australia accounted for 43 of the 256 (or 17 per cent) of the anti-dumping and countervailing cases initiated internationally in 1997 (the latest year for which comparable data are available) (table 3.11). This made Australia the second largest initiator of anti-dumping and countervailing actions. This is in contrast to 1996 when Australia was the seventh largest initiator of new actions. The increase is partly explained by an initiation made against 14 economies with respect to imports of coated wood-free paper in late 1997 (refer to PC 1998b).

Australia accounted for a much smaller proportion of provisional and other measures imposed internationally in 1997, and had 5 per cent of total measures in force at the end of 1997, down from 6 per cent at the end of 1996. A recent study found that, over the ten years to 1997, Australia was the third most intensive user of anti-dumping measures, on a trade weighted basis, after New Zealand and Argentina (Miranda, Torres and Ruiz 1998).

The United States, the European Union, South Africa, Mexico, Canada and Australia accounted for three quarters of total measures in force in 1997.

The base metals, machinery and electrical equipment, and chemicals and petroleum industries accounted for more than three quarters of all anti-dumping cases initiated internationally in 1997. Measures against base metals continue to be prominent in the United States, while the European Union has a high proportion of measures in the chemicals and textiles industries.

Table 3.10 **Australian initiations of anti-dumping and countervailing cases, by trading region and economy,[a] 1993-94 to 1998-99**

							Six-year period	
Region/economy	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*1997-98*	*1998-99*	*Total*	*Per cent[b]*
North America	***2***	***–***	***1***	***1***	***2***	***1***	***7***	***5***
Canada	–	–	–	–	1	–	1	1
United States	2	–	1	1	1	1	6	4
Western Europe	***11***	***2***	***3***	***7***	***14***	***3***	***40***	***28***
Austria	1	–	–	–	1	–	2	1
Belgium/Lux	–	–	1	–	1	1	3	2
Finland	–	–	–	–	1	1	2	1
France	1	–	–	–	2	–	3	2
Germany	1	–	–	3	3	–	7	5
Italy	2	2	–	–	1	–	5	3
Netherlands	3	–	–	1	2	–	6	4
Spain	1	–	–	1	–	–	2	1
Sweden	–	–	–	2	1	–	3	2
Switzerland	–	–	–	–	1	–	1	1
UK	2	–	2	–	1	1	6	4
Asia	***27***	***2***	***5***	***9***	***13***	***9***	***65***	***45***
China	2	1	1	3	2	–	9	6
Hong Kong	2	–	–	–	1	–	3	2
India	–	–	–	1	1	–	2	1
Indonesia	1	1	–	1	3	2	8	6
Japan	2	-	–	–	1	–	3	2
South Korea	5	–	2	–	2	2	11	8
Malaysia	3	–	1	1	–	1	6	4
Singapore	6	–	–	–	1	1	8	6
Thailand	1	–	1	1	–	2	5	3
Taiwan	5	–	–	2	2	1	10	7
Other	***11***	***2***	***2***	***5***	***7***	***5***	***32***	***22***
Saudi Arabia	–	–	–	–	–	2	2	1
South Africa	6	2	2	–	3	–	13	9
Other	5	–	–	5	4	3	17	12
Total	**51**	**6**	**11**	**22**	**36**	**18**	**144**	**100**

– Nil. [a] Cases are defined as actions applying to one commodity from one economy. Cases where dumping and subsidisation are alleged for the same economy and commodity are counted as two distinct initiations. [b] The sum of the percentages for the individual economies may not add to the regional totals due to rounding.

Source: Information provided by ACS.

Table 3.11 **International anti-dumping and countervailing actions, 1996 and 1997[a]**

Country	*Initiation*		*Provisional measures*		*Definitive duties*		*Price undertakings*		*Measures in force at 31 December*		*Per cent of total measures in force*	
	1996	*1997*	*1996*	*1997*	*1996*	*1997*	*1996*	*1997*	*1996*	*1997*	*1996*	*1997*
US	23	22	15	21	14	19	1	4	378	354	37	37
EU	24	45	11	33	26	24	6	10	155	140	15	14
Mexico	3	7	3	7	5	7	–	–	106	89	10	9
Canada	5	14	9	7	–	7	–	–	101	96	10	10
Australia	18	43	5	17	–	1	1	–	60	52	6	5
Turkey	–	4	–	–	–	–	–	–	37	35	4	4
Argentina	24	16	4	12	19	10	2	1	31	32	3	3
Brazil	17	11	1	–	6	2	–	–	31	29	3	3
South Africa	30	24	9	17	8	18	–	–	31	43	3	4
New Zealand	8	6	3	–	4	2	–	2	29	28	3	3
India	20	13	5	16	–	6	–	–	15	24	1	2
South Korea	13	15	9	5	5	6	1	7	14	20	1	2
12 WTO Members	**185**	**220**	**74**	**135**	**87**	**102**	**11**	**24**	**988**	**942**	**96**	**96**
All WTO Members	**224**	**256**	**92**	**160**	**93**	**119**	**11**	**24**	**1028**	**967**	**100**	**100**

– Nil. [a] The reporting period covers 1 January to 31 December of each year.

Source: WTO 1997 and 1998b.

3.6 WTO trading rules and disputes

Several matters have arisen recently which demonstrate the role of WTO trading rules and dispute settlement processes, namely:

- a US complaint regarding assistance to Howe Leather;
- a Canadian complaint regarding Australian import restrictions on certain uncooked salmon;
- Australian consideration of the case for safeguard action against imported Canadian salmon; and
- a US decision to take safeguards action against lamb imported from Australia.

Export assistance for Howe Leather

Australia is a signatory to the WTO Agreement on Subsidies and Countervailing Measures (1995) which prohibits export subsidies for products other than agricultural commodities. The Agreement defines subsidies and establishes remedies for measures in breach of the agreement. The prohibition of export subsidies applies to those subsidies considered to be contingent 'in law or in fact' upon export performance. When an export subsidy is challenged and is found to be a prohibited subsidy, the country must cease the practice or the requesting country can impose countervailing measures.

The vulnerability of Australia's export assistance schemes was highlighted in recent challenges by the United States concerning the assistance afforded to Howe Leather. Following a petition by US leather manufacturers in 1996, the Australian and US Government reached an agreement in 1997, which led to Howe Leather being excised from the PMV Export Facilitation Scheme and 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. The grant was conditional on sales and capital expenditure targets.

Following a request by the United States, a WTO Panel was established in June 1998 to examine whether the grant and loan to Howe Leather, while not expressly specified to target exports, were 'contingent in fact' on export performance.

In its examination of the case, the WTO Panel concluded on 16 June 1999 that the loan was not an export subsidy as there were no requirements tied to export or sales performance.

However, it concluded that the grant payments were subsidies ‘contingent in fact’ on export performance:

> Given the export-dependent nature of Howe’s business, and the size of the Australian market, these sales performance targets are, in our view, effectively, export performance targets (WTO 1999a, p. 110).

The Panel report recommended that Australia withdraw the grant subsidy within 90 days.

In September 1999, the Government accepted the WTO finding. Howe Leather is to repay $8 million of the $30 million provided in 1997 and the grant contract has been terminated, although the repayment relates only to the component of the grant which applies to sales performance targets from 14 September 1999 to 30 June 2000. The Government has also agreed to provide an additional loan of around $14 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 (on non-commercial terms) by the Australian Government are inconsistent with WTO recommendations and rulings. The United States requested the original Panel to rule on the new assistance regime within ninety days. Australia and the United States have reached an agreement on how to proceed with this matter. Among other things, both countries agreed that they will unconditionally accept the Panel’s report and there will be no appeal arising from that report (WTO 1999b).

Quarantine restrictions on uncooked salmon

Under the Sanitary and Phytosanitary (SPS) Agreement (1994), Australia, as a WTO Member, may apply quarantine measures which it deems necessary to keep the risk of disease from imported products at an acceptably low level. These measures may be challenged through the WTO’s dispute settlement procedures.

In 1997, Canada lodged a complaint with the WTO concerning Australia’s quarantine ban on uncooked salmon imports. Canada argued that while Australia had maintained a quarantine ban on imports of uncooked salmon products since 1975, there was virtually unrestricted access for a wide range of other fish products which posed levels of disease risk similar to salmon and related species in Australia. A WTO panel subsequently ruled that Australia’s ban on uncooked salmon imports was inconsistent with the SPS Agreement and that the ban nullified or impaired benefits accruing to Canada under the Agreement.

In response to the WTO's findings, the Australian Quarantine Inspection Service conducted and recently released an import risk analysis (IRA) (box 3.1) which determined that imports of some uncooked salmon would be permitted, subject to certain conditions to minimise the risk of disease. New restrictions will be imposed on current imports of marine fish products and on imports of live ornamental fish.

Box 3.1 **Australia's system of import risk analysis**

Import risk analysis (IRA) is a framework which quarantine regulators in several countries, including Australia, apply when making decisions affecting imports of animals, plants and their products. In Australia, the IRA process is conducted and coordinated by the Australian Quarantine Inspection Service and consists of three components — risk assessment (a scientific or technical component), risk management (an economic or policy component) and risk communication (a consultative component).

In Australia, IRAs are being conducted under new transparency and consistency guidelines announced in 1996. These guidelines have the stated aim of ensuring that such analyses are completed in a transparent and consistent manner. The new arrangements are in line with recommendations made by the Nairn Report into Australia quarantine and the Report of the National Task Force on imported fish and fish products. Both reports were released in late 1996. Recent IRAs have covered:

- apples from New Zealand;
- chicken meat (uncooked);
- durian from Thailand;
- maize from the United States;
- ornamental finfish; and
- salmon meat product.

Australian safeguard action on pigmeat

In 1998, growing imports of pork — largely of frozen pork from Canada, allowed into Australia following the removal of quarantine restrictions on frozen pork for processing in July 1990 — prompted the domestic pork industry to seek the imposition of temporary 'safeguard' duties on pork imports.

The Government subsequently requested the Commission to undertake an inquiry into whether safeguard action, in accordance with the WTO Agreement on Safeguards, was warranted against imports of certain frozen pigmeat.

Article XIX of the General Agreement on Tariffs and Trade (1994) allows for safeguard action against imports of particular products which are deemed to be causing, or threatening to cause, serious injury to an industry. Safeguard action is intended to provide temporary assistance for industries to adjust to increased competition from imports.

The Commission found that safeguard action on pigmeat imports could be justified under the WTO provisions, but questioned whether a short-term import tariff would be appropriate as 'remedying injury and facilitating adjustment' in the pork industry. The Commission found that a combination of measures that directly promote industry restructuring and export orientation, while providing assistance to those producers wishing to leave the industry, would be more appropriate.

In January 1999, the government decided not to impose a temporary tariff, opting instead to introduce a Pork Industry Assistance Package. Details of the package are set out in section 3.3.

United States safeguard action against imported Australian lamb

In July 1999, the United States' imposed a tariff-rate quota on imports of fresh chilled, or frozen lamb, indicating that it was taking the action under the WTO Agreement on Safeguards.

In response, the Government announced a $20 million package to assist lamb producers in July. Details of the package are set out in section 3.3.

In October, the Government lodged an appeal with the WTO, contending that the measure is inconsistent with various articles of the WTO 'safeguard' agreement.

3.7 Trade-related aspects of intellectual property

Intellectual property rights provide legal protection to intellectual property against imitations or copying, through patents, copyrights, trade marks, industrial designs and, to a certain extent, trade secrets. All intellectual property involves some investment in intellectual effort. These intangible investments can be easily copied or imitated by competitors. In many cases, without intellectual property right protection, it would be impossible to prevent 'free-riding' by persons who did not contribute to the original intellectual property investment, making it hard to recover the cost of such investment.

The WTO's international agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPS) was introduced in 1995, and is on the agenda for further consideration during the proposed Millennium Round. The TRIPS specifies minimum standards of intellectual property protection which must be achieved by all Members. Australia's legislation was already largely compliant with TRIPS when it was introduced.

Australia's best approach to intellectual property rights protection will generally be to provide regulation that complies with minimum protection standards required by the TRIPS (Revesz 1999). Compliance with the minimum standards of TRIPS is advisable in order to avoid political and trade retaliation and disciplinary action under the WTO. However, providing protection beyond the minimum standards will hamper competition in the domestic market and provide additional income to foreign intellectual property rights holders at the expense of Australian consumers.[5]

The outstanding issues for Australia of the TRIPS are protection of biotechnology and geographic labelling.

- In the biotechnology area, Australia provides stronger protection for biological innovations than other countries in the world, with the possible exception of the United States and Japan. It may be economically advantageous for Australia to support an international agreement which would strengthen the worldwide intellectual property right protection of biological innovations. The TRIPS requires intellectual property right protection only for new micro-organisms and new plant varieties.
- Geographical indications prevent false or deceptive labeling on the geographical source of goods. The European Union has extended the strong protection of geographical indications now applied in TRIPS to wine and spirits to other products, such as processed foods, agricultural products and handicrafts. This action hinders Australia's competitiveness in export markets against regions which have already acquired a strong reputation for quality. These issues will be considered in Australia's review of intellectual property rights (see below).

Parallel importing is also a prominent intellectual property rights issue for Australia. Apart from sound recordings and books which have not been put on the Australian market within a prescribed period, parallel importing applies to other copyright material, including publications, films, videos and software. Parallel importing is formally allowed for patent and design protected goods, but Australian legislation

[5] An exception to this general principle can occur in areas where intellectual property rights protection is mainly aimed to prevent imitation and copying by domestic (rather than overseas) competitors. For these areas, the rule not to exceed the minimum standards of the TRIPs may not represent the best approach (see Revesz 1999).

provides exclusive rights over importation to the intellectual property right holders, who can prevent parallel importation if they so wish. TRIPS neither sanctions nor prohibits parallel importing.

Australia's intellectual property rights legislation is being reviewed as part of the ongoing reviews of legislation under National Competition Policy. The Intellectual Property and Competition Review Committee will inquire into the effects of intellectual property legislation to determine whether the intellectual property system is meeting the needs of Australian business and consumers while maximising the benefits of domestic and global competition (Entsch 1999). An important component of the review will be to assess the nature of intellectual property restrictions and their likely effects on competition. The review will cover the *Patents Act 1990*, the *Trade Marks Act 1995*, the *Designs Act 1995*, the *Copyright Act 1968* and the *Circuit Layouts Act 1989*. The Committee is expected to report to the Government by 30 June 2000.