5 Recent developments in assistance to activities and firms

In addition to providing assistance for specific industries, governments provide assistance to particular types of economic activities. 'Activities' are generic economic practices that arise across many industries, such as undertaking research and development, exporting and, as at present, coping with the effects of drought. In aggregate, these forms of assistance can entail substantial expenditures.

Governments also provide assistance for particular firms. Such assistance is generally provided in an ad hoc way, normally in relation to a specific investment that a business may be considering. The rate of assistance to particular projects can be very high, but often the actual amount of assistance provided is not disclosed by governments.

In this chapter, the Commission reports on developments in activity- and firm-based assistance, both at the Commonwealth and State level.

5.1 Accelerated depreciation provisions

In Australia, accelerated depreciation provisions have existed in one form or another for many years. Accelerated depreciation provisions provide taxation and cash flow benefits to eligible firms by bringing forward tax deductions. The provisions are mainly of benefit to capital intensive industries, such as mining and manufacturing. They provide little assistance to service industries, such as finance, tourism or retailing.

Following the (Ralph) Business Review of Taxation in 1999, the Government decided to move to a depreciation system based on the 'effective life' of the asset. It removed accelerated depreciation provisions as part of a trade-off in which it also reduced the rate of company tax. In addition, the Government foreshadowed a reassessment of the depreciation schedule by the Australian Taxation Office (ATO) to take into account the effect of relevant market and technology changes on the effective life of assets (Costello 1999).

Following its review of the existing depreciation provisions, the ATO proposed to significantly extend the effective life for several types of assets. These assets are mainly used in industries such as aviation, gas transmission and distribution, and oil and gas production.

In May 2002, the Government announced its decision to introduce statutory caps on the ATO determinations of the effective lives of aeroplanes, and of pipeline, oil and gas assets used in major resource and energy projects. The effect of the statutory caps is to provide a shorter effective life for the 'capped' assets than that implied by the ATO recommendations (table 5.1).

The Government noted that the purpose of the caps is to address 'national interest' considerations:

> The establishment of statutory effective life caps aims to address the broader national interest where large increases in 'safeharbour' effective lives resulting from the review of the existing effective life determination would have a significant effect on investment in industries with national economic significance (Costello 2002a, 77).

The statutory caps apply to investments only in particular industries. As such, they discriminate against other industries (such as electricity) which compete in output markets and/or for capital resources with industries targeted by the measure.

Table 5.1 **Assets subject to statutory caps on effective life**

Asset class	*Current effective life (years)*	*ATO proposed new effective life (years)*	*Statutory cap on effective life (years)*
Aeroplanes & helicopters			
– General use	8	20	10
– Used for agricultural spraying & dusting	4	10	8
Gas transmission & distribution assets	20	5-50	20
Oil & gas production assets[a]	10-20	5-30	15
Offshore oil or gas platforms	20	5-30	15
Assets [a] used to manufacture condensate, crude oil, domestic gas, LNG or LPG, other than at an oil refinery	13.3	10-30	15

[a] Excludes electricity generation assets.

Source: Coonan (2002).

The Regulation Impact Statement (RIS) accompanying the *Taxation Laws Amendment Bill (No. 4) 2002* notes that the main impact of the measure is to provide significant benefits to the industries concerned. The total revenue forgone is estimated at $1.9 billion over 10 years. Additional information provided in the

Senate Economics Legislation Committee (2002) indicates that the majority of this revenue forgone will accrue to airlines.

However, as the primary effect of the statutory caps is to defer tax liabilities, this measure is not equivalent to the *assistance* provided to the industries that benefit from the caps. When the higher tax paid in later years is taken into account, the actual assistance is the equivalent of an interest-free loan and, as such, is only a fraction of the $1.9 billion estimates of revenue foregone.

5.2 Export assistance

Austrade programs

The Export Market Development Grants (EMDG) scheme is the principal mechanism to assist Australian exporters. The scheme has an annual budget of $150 million to fund eligible export marketing expenses for small and medium-sized exporters.

The scheme is administered by Austrade, which also undertakes export promotion activities, such as providing information and advice, and administers other export programs, such as TradeStart and Export Access. In 2001-02, total funding for Austrade's export promotion activities, the EMDG scheme and related export programs was around $300 million.

The Commission reported recent developments relating to the EMDG scheme in *Trade & Assistance Review 1999-2000* (PC 2000). Following a review of the EMDG scheme in 2000, the Government announced that it would retain the scheme for another five years.

In the 2002-03 Budget, the Government announced that the minimum grant payment under the EMDG scheme will be raised from $2500 to $5000 for those exporters incurring marketing expenses between $15 000 and $25 000 per annum. The change is estimated to cost an additional $2 million over four years to 2005-06.

The new policy will also involve an amalgamation of the TradeStart and Export Access programs, and an expansion of the export advisory office network of these programs to rural and regional areas. The present arrangement under which the programs are jointly funded by the Commonwealth and State governments, together with industry associations and regional development organisations, will be maintained.

5.3 Small and medium sized enterprises

Small Business Assistance Program

In the 2002-03 budget, the Government announced funding of $60 million (over 4 years) for the Small Business Assistance Program. This funding has two components.

- $24 million will be used to provide government advisers to facilitate small business's access to Commonwealth assistance programs.
- $36 million will be used to fund Small Business Incubators to provide subsidised premises and advice to newly formed companies, and to fund the skills development component of the Small Business Enterprise Culture Program.

Other programs

At present, the Government funds ISONET — a company which coordinates the procurement activities of the Government's Industrial Supplies Office network. ISONET also administers the Supplier Access to Major Projects (SAMP) Program, which is designed to encourage small business to participate in major private and public sector projects. The 2002-03 budget allocated additional funding of $3.1 million to ISONET and the SAMP program.

5.4 Drought relief

Droughts, like floods, are relatively frequent occurrences in Australia. During 2002, all Australian states, other than Tasmania, have recorded their driest period since the early 1980's. Largely as a result of these conditions, the Australian Bureau of Agricultural and Resource Economics (ABARE) has forecast that the net value of Australian farm income is expected to fall by around 63 per cent to $3.7 billion in 2002-03 (ABARE 2002a).

During droughts, the farming sector is eligible for State and Commonwealth assistance. The Exceptional Circumstances (EC) program is one of the main Commonwealth programs providing assistance to drought-affected farmers. Subject to an area receiving an exceptional circumstances declaration, the EC program provides assistance in the form of:

- family income support; and
- business support.

Family income support, or Exceptional Circumstances Relief Payments (ECRP), are paid fortnightly at a rate equivalent to the Newstart Allowance. The ECRP are subject to the same income and assets tests applying to Newstart Allowance, although farm assets are exempt from the assets test and proceeds from the forced sale of livestock due to drought are excluded from the income test. The payments are available for a period of up to two years while the exceptional circumstances declaration is in force.

Business support is provided in the form of interest rate subsidies up to a maximum of 50 per cent of interest payments. The arrangements are administered by State and Territory Rural Adjustment Authorities. Business support is funded jointly by the Commonwealth (90 per cent) and State and Territory governments (10 per cent). Like the family support payments, the interest rate subsidies are also available for a period of up to two years.

The Commonwealth has allocated $360 million for the EC program in 2002-03 and 2003-04 (Truss 2002f). Funding from the program, however, is uncapped and may increase should other areas be declared to be facing exceptional circumstances. The Commonwealth is currently negotiating with the States for reforms to the EC program (Truss 2002d).

As part of the reforms to the EC program, in September 2002, the Commonwealth announced it would provide interim income support payments for drought-affected farmers. These measures are designed to make assistance from the program more readily available. The payments and eligibility criteria are similar to the ECRP and Newstart allowance.

The income support payments will be available for a period of six months from the date on which the Minister for Agriculture, Fisheries and Forestry announces that an application for exceptional circumstance for an area has a *prima-facie* case. Should exceptional circumstances be declared during this period, the income support payments will cease and recipients can apply for the ECRP.

In November 2002, the Government announced a number of additional measures to assist drought-affected farming communities (Howard 2002g). These include:

- earlier access to Farm Management Deposits (FMD) for farmers in an EC-declared area — the normal waiting period for access to the scheme is 12 months;
- an additional $2 million in funding for personal counselling services in drought-affected areas;

- a re-allocation of $10 million in funding from the Natural Heritage Trust to target works to protect the land, water, vegetation and biodiversity resource base from the effects of drought, and to assist recovery;
- a $1 million pest management grant to assist farmers and communities to humanly deal with pest animals to reduce the total grazing pressure on drought-affected vegetation; and
- $1 million in emergency funding for the Country Women's Association to assist it in helping and supporting farmers.

In December 2002, the Government announced that it would provide an additional one-off drought relief package of $368 million over three years (Howard 2002h). The package includes:

- interim income support for a period of six months for eligible farmers in areas suffering a one-in-twenty year rainfall deficiency over the nine months from March 2002 to November 2002. The eligibly requirements for these payments are similar to those outlined above;
- an interest rate subsidy on new and additional commercial loans up to $100 000 for stock support and drought recovery for eligible farmers in areas suffering a one-in-twenty year rainfall deficiency. The funding is also available to eligible farmers already receiving interim income support or exceptional circumstances support, and is available for up to two years;
- an interest rate subsidy on existing or new commercial loans up to $100 000 for eligible small businesses in EC declared areas. The program is available for up to two years;
- an extension of the Work for the Dole scheme, Drought Force, to allow the unemployed in drought-hit rural and regional areas to work on drought-affected properties; and
- improvements to the Incentive for Rural and Regional Skills Shortages Program to assist drought-affected rural employers to retain apprentices and trainees.

Other Commonwealth programs, while not being specifically designed to alleviate problems associated with drought, can also provide assistance to drought affected farmers. These programs include the Australia Advancing Agriculture program, which embodies the Farm Management Deposits Scheme, and tax relief programs such as income tax averaging provisions. Funding for these two programs was around $105 million in 2001-02.

In addition to this Commonwealth assistance, State and Territory governments have provided assistance in response to recent drought conditions.

In July 2002, the NSW Government announced a number of assistance measures including a transport subsidy scheme, deferment of interest payments on loans from the NSW Rural Assistance Authority, and an expansion of the special conservation scheme.

The Queensland Government has a number of similar arrangements in place including freight subsidy assistance, electricity tariff relief, the deferment of interest payments on loans from the Queensland Rural Assistance Authority and assistance for financial counselling.

In October 2002, the Victorian, Western Australian and South Australian governments announced funding packages for drought assistance of $27.7 million, $6.8 million and $5 million, respectively. The Victorian package comprises cash grants of up to $20 000 to eligible farmers. The grants are open ended, subject to appropriate business management procedures being in place (Bracks 2002). The Western Australian package includes direct assistance grants of up to $6000 per eligible farm business, $1.5 million in additional funding for the Farm Water Grants Scheme and an extra $300 000 to extend rural counselling services (Gallop 2002b). The South Australian package includes cash grants of up to $10 000 for assistance in reseeding crops, restocking, and for domestic water supplies, an additional $300 000 for more rural counselling support, $150 000 for grants for rural community groups and $1 million in additional funding for the FarmBis program (Rann 2002).

5.5 Commonwealth investment attraction and firm-specific assistance

As well as providing broad-based assistance for industries and activities, the Commonwealth Government also assists specific projects and firms. This assistance is generally provided on an ad hoc basis and is often aimed at attracting foreign multinationals to locate facilities locally. A number of dedicated agencies are involved in investment attraction and promotion, including the provision of firm-specific assistance:

- Invest Australia — which has an annual budget of $11 million to promote investment opportunities in Australia, provide market information and advice on establishment costs, connect investors to government contracts, and provide grants for feasibility studies.
- Austrade — which spends about $8 million annually on investment promotion activities, in partnership with Invest Australia;

- The National Office for the Information Economy — which has annual funding of about $0.5 million to facilitate and attract investment in information technology industries; and
- Axiss Australia — which is a division of the Commonwealth Treasury that has an annual budget of $3.8 million to promote Australia's advantages as a global financial centre.

Strategic Investment Incentive Program

The main Commonwealth investment attraction mechanism is the Strategic Investment Incentive Program (SIIP) which provides financial assistance to particular firms and projects (see below). Invest Australia, the key Commonwealth investment agency, also undertakes investment promotion and attraction activities, and provides a 'Major Project Facilitation' service to fast track large investment projects through government approval processes.

From its inception in 1998 until June 2002, the SIIP has offered investment incentives totalling $663.8 million to particular projects (table 5.3).

In addition to the assistance estimates provided in table 5.3, the Government has noted that it also provided assistance via reductions in crude oil excise rates, following recommendations of the Strategic Investment Coordinator. Details of these excise concessions are not disclosed, but the total excise revenue forgone was estimated at $56 million as at 31 July 2002. The Commission is unable to ascertain which projects have received assistance under these exemptions.

The Commission reported the details of the first six investment incentives in last year's *Review* (PC 2001). Assistance to Rio Tinto's HIsmelt project and Methanex's methanol plant are discussed below.

HIsmelt

In April 2002, the Commonwealth Government announced an investment incentive offer of $125 million to Rio Tinto for its HIsmelt project — a proposed $1.2 billion iron ore processing plant to be located in Kwinana, Western Australia (Macfarlane 2002a).

In addition to Commonwealth assistance, the Western Australian Government is spending $30 million for acquisition of land and port facilities in Kwinana to assist the HIsmelt project (Gallop 2002a).

The Commonwealth Government noted that Rio Tinto had considered the United States as an alternative location for building the HIsmelt plant and the investment incentive was to induce the commercialisation of the iron ore processing technology in Australia rather than overseas (Macfarlane 2002a).

Table 5.3 **SIIP assistance**

$ million

Project assisted	*Incentive Offer*	*Form of assistance*	*Assistance provided to July 2002*
Visy Pulp and Paper Mill	36.1	Grant and other programs	29.9
Syntroleum	70.0	Loan and licence purchase	15.0
IBM Asia Pacific e-Business & Innovation Centre	3.2	Grant	2.4
Holden Aluminium Engine Plant	12.5	Grant for R&D and training	8.5
Asia Pacific Space Centre	100.0	Grant and subsidised infrastructure	1.5
Comalco Alumina Refinery	137.0	Loan	..
Hismelt Direct Iron Reduction Plant	125.0	Grant	..
Methanex Syngas and Methanol Plant	85.0	Grant	..

.. Nil.

Source: Howard (2002d).

The HIsmelt technology is intended to allow the production of iron and steel using cheaper and lower quality raw materials. It is also expected to generate some environmental improvements, via the potential to reduce greenhouse gas emissions and to increase the recycling of wastes from steel plants.

The HIsmelt technology is also expected to generate opportunities for export and market development with the potential for adoption of the technology in China and by other steel makers (Macfarlane 2002a).

The investment incentive offer includes a requirement that the intellectual property of the Hismelt technology remain with an Australian incorporated entity and the licence fees of the Hismelt technology be repatriated to the Australian entity (DITR 2002a).

Construction of the project is scheduled to commence late in 2002. The plant is expected to start operation late in 2004.

Methanex

Methanol is a liquid petrochemical used in the production of several manufacturing products (such as silicone and laminated wood products) and clean burning gasoline. Methanol production involves processing of synthesis gas, which is its highest cost component.

Methanex, a Canadian company and the world's largest supplier of methanol, is planning to build a methanol production facility on the Burrup Peninsula in Western Australia. Methanex had earlier planned to build the facility near Darwin in the Northern Territory. However, uncertainty over natural gas supply from major gas fields in the Timor Sea[1] was reported to have caused the company to switch to the Western Australian location (AFR 2001).

In the May 2002 budget, the Commonwealth Government announced that it would provide an investment incentive of $85 million to the Methanex Corporation for the development of the methanol plant. In providing the assistance, the Government commented that:

> The Methanex syngas and methanol project will bring forward public and private sector infrastructure investment in the Pilbara. … The Methanex syngas and methanol project will provide direct employment for 1000 people during the construction period and provide 150 full-time positions during operation[2]… (Anderson and Tuckey 2002).

In addition to the Commonwealth incentive, the Western Australian Government is providing assistance of $136 million to the project in the form of 'multi-use infrastructure' (Gallop 2001).

Methanex have already signed a 'gas sales and purchase agreement' and plans to make its final investment decision in late 2002. Current plans are to begin construction in early 2003 and to complete construction and begin producing methanol in late 2005 (Methanex 2002b).

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1 Following the separation of East Timor from Indonesia, the pre-existing agreement between Indonesia and Australia regarding the sharing of the gas reserves in the Timor Sea has been abandoned and a new agreement is being negotiated with the East Timor Government. This process has created some uncertainty about gas supply from the Timor Sea. This uncertainty has been exacerbated by competition between several companies seeking to develop the resource. (BRW 2000)

2 Methanex has noted that, while 150 positions will be created at the plant, it is likely that a number of these positions will be filled with experienced staff from existing Methanex operations overseas (Methanex 2002a).

Other project-specific assistance

Magnesium and Mitsubishi

The Government has noted that it has provided assistance to two projects which were previously assessed as *not* meeting the SIIP criteria for an incentive. These projects were:

- Australian Magnesium Corporation's magnesium smelter at Stanwell in Queensland, which receives Commonwealth assistance via funding of $50 million for CSIRO research and a $100 million loan guarantee; and
- Mitsubishi's upgrade of its Adelaide plant and global research and development centre in South Australia, which is to receive Commonwealth assistance of $35 million.

Aspects of the assistance to Mitsubishi are discussed in section 4.4. The Commission discussed aspects of the assistance to the magnesium smelter in last year's *Review* (PC 2001).

Stuart shale oil project

Since 1991, an excise exemption has operated to assist shale oil plants in Australia, including the Stuart project in Gladstone.

Due to its environmental impacts, the Stuart shale oil project has attracted considerable public attention. The construction of the first stage of the Stuart plant has been accompanied by local community complaints about noise pollution, high odour emissions and noise. More broadly, Greenpeace has instigated a campaign targeting the effects of shale oil production on greenhouse gas emissions.

In February 2002, Southern Pacific Petroleum, the proponent of the Stuart project, approached the Commonwealth Government seeking financial assistance. The company had reportedly been having difficulties in obtaining contract sales for 'naphtha'[3] from its plant to Australian refineries, due to the Greenpeace campaign (DITR 2002b).

In May 2002, the Government announced a grant for sales of naphtha from approved shale oil demonstration plants to cover the Stuart project. The grant is to be paid, up to a maximum of $36.4 million, at the rate of $54.58 per barrel of eligible naphtha produced and sold before 12 May 2003. The Government noted

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3 A fuel produced from petroleum.

that the grant is intended to provide the same level of assistance as had been available under the excise exemption:

> The maximum assistance available under the grant is equal to the maximum assistance that would be available under the effective excise exemption. The total amount of assistance has not changed. The mechanism to provide that assistance, however, was altered to overcome Greenpeace's campaign against shale oil (DITR 2002b).

The Blackburne review

In December 2000, the Commonwealth Government commissioned a review (Blackburne 2001) of the Commonwealth's investment attraction policies and programs. The review was concerned mainly with the most effective ways to pursue investment attraction activities and did not examine broader questions relating to the costs and benefits to the wider community of investment attraction.[4] The Blackburne report was finalised in August 2001.

The report noted that there is a range of Commonwealth and State and Territory agencies involved in investment promotion and attraction, but that they are largely 'uncoordinated' and 'duplicative' and 'lack a national framework'. The report stated:

> Such complexity and inefficiency needs to be rectified. Boundaries between the Commonwealth and states and territories must be seen as seamless by investors, and Commonwealth resourcing of investment activities needs to add value to the national outcomes, without creating another layer of bureaucracy (p. iv).

Among other things, the report recommended that:

- the formation of a 'National Investment Advisory Board', comprising heads of Commonwealth and State investment agencies;
- Invest Australia be organised as an autonomous agency with an expanded budget to incorporate investment attraction activities by other Commonwealth agencies;
- Invest Australia and all agencies involved in investment attraction prepare annually a statement on performance outcomes and objectives to be tabled in parliament; and
- the use of financial incentives to attract investment be seen as only one of a number of initiatives, be kept to a minimum, and be applied using rigorous criteria.

4 The Commission commented on these broader matters, and on program design principles to reduce the risks that SIIP grants may involve net community costs, in *Trade & Assistance Review 1998-99* (PC 1999).

In the 2002-03 Budget, the Government announced that it has broadly accepted the recommendations of the Blackburne report (Macfarlane 2002b). In December 2002, the Government elaborated on the role of Invest Australia in the *National Strategic Framework for Attracting Foreign Direct Investment* (Invest Australia 2002).

Firstly, Invest Australia will be expanded and funded by an additional $44 million over 4 years. The agency will be set up as an autonomous agency in the Department of Industry, Tourism and Resources, under the oversight of the Employment and Infrastructure Committee of Cabinet.

Second, the National Investment Framework sets out Invest Australia's assistance priorities in certain industries. Invest Australia will:

- undertake 'extensive' investment attraction and promotion of information and communications technology (ICT), biotechnology (including pharmaceutical) and nanotechnology industries through industry-specific research, developing marketing strategies (such as organising investment events and missions) and targeting specific companies with industry development potential;
- provide primarily facilitation services for mining and energy, as well as all other sectors in the economy;
- provide limited promotion services for renewable energy, environment, light metals and forest wood products industries; and
- gives support to other agencies' investment attraction in the heavy engineering and infrastructure, spatial information, film, food and finance industries.

Third, a National Investment Advisory Board will be established to comprise States' investment agencies with Invest Australia as its chair. The Board will coordinate Commonwealth and State investment attraction activities and agencies (including the State overseas network), particularly in the targeting of ICT, biotechnology and nanotechnology industries.

Fourth, Invest Australia will use the overseas posts of the Department of Foreign Affairs and Trade to launch high level representations to establish investment leads. Austrade will provide Invest Australia with a referral service for investment leads, but will undertake no other investment activities beyond the referral role (except under a fee-for-service arrangement).

Fifth, Invest Australia will continue to provide support service to the Strategic Investment Coordinator and ensure that the SIIP will reflect the new industry priorities. In addition, it will modify SIIP assessment procedures to secure strategic investments in short lead times.

Sixth, Invest Australia's programs are to be modified and new ones added:

- the threshold for investment greater than $50 million to receive facilitation service has been 'recast' to allow for smaller investments;
- a new Supported Skills Program will be developed to replace the Regional Headquarters Program to provide streamlined immigration procedures; and
- Invest Australia will help foreign investors to access a range of other existing programs.

5.6 State and Territory investment attraction and firm-specific assistance

State governments also provide selective assistance to attract investment projects or firms to locate within their jurisdictions. State investment attraction is delivered via a number of schemes. Examples include the Queensland Investment Incentive Scheme, the NSW Industry Assistance Fund and the ACT Business Incentive Scheme. Some States have also established dedicated agencies, such as Invest SA, to administer and attract investment projects and footloose firms, although mostly they are administered through the jurisdiction's industry or state development department.

State investment incentives take a combination of different forms. They can include cash grants, payroll tax exemptions, stamp duty waivers, discounted land and rent waivers, and the provision of infrastructure such as roads and rail access.

Examples of investment incentives provided by State governments in recent years include the following.

- In 1997-98, the ACT Government offered $36.2 million to EDS Australia to locate an office in Canberra. In 1999-2000, Prime Television received a payroll tax concession of $1.5 million to establish a digital broadcasting facility in Canberra.
- In 1998, the NSW Government provided incentives to Lockheed Martin to establish a space tracking station in Uralla.
- As noted earlier, in 1999, Queensland provided undisclosed assistance to entice Virgin Blue to locate its headquarters in Brisbane, while the ACT Government offered $10 million to attract Impulse Airlines to base its operations in Canberra.
- In 2000, the South Australian Government provided undisclosed incentives to attract Email (now Electrolux) to relocate from Victoria to South Australia.

Earlier, in 1994, the Government had provided incentives to entice Motorola to the State.

- In 2001, the Queensland Government provided undisclosed incentives for Berri Fruit Juice to relocate its export production operations from NSW and South Australia to Queensland. Earlier, South Australia had provided incentives to Berri to retain manufacturing operations in their State, after the company had been persuaded to shift its headquarters to Melbourne.
- The South Australian and Victorian Governments have also provided a number of selective incentives to car makers (see section 4.4).

State governments also provide subsidies for specific sporting events and/or facilities which, it is contended, will benefits local industry development and economic activity. Recent examples include the provision of subsidies for the V8 Supercar Series in the ACT, the Formula One Grand Prix in Melbourne and the development of Hindmarsh Football Stadium in Adelaide.

In addition to investment attraction policies, State governments also provide a combination of investment 'facilitation' and 'promotion' services. Facilitation and promotion services involve publicity on the benefits that a State can offer companies and fast-tracking of government regulatory and approval processes on investment proposals. In Victoria, for example, the Government's facilitation service provides prospective investors with information and advice on regulatory requirements, identifies infrastructure needs and coordinates the development approval process.

Policy-related developments

The Industry Commission's 1996 inquiry

The Industry Commission examined State government investment attraction policies in a public inquiry in 1996. Often it is difficult to determine the merits of particular assistance packages due to the lack of transparency. In this context, the Commission observed that, frequently, neither the extent of the assistance provided, nor the analysis that underpins a government's decision to provide a selective incentive, are made publicly available — governments often citing commercial confidentiality for non-disclosure. The Commission found that individual States could benefit economically from the provision of selective incentives in some instances. However, it also found that the provision of selective investment incentives entails several significant economic risks. Among other things:

- large incentives can be at the expense of more fundamental improvements to the jurisdiction's business climate, and the provision of other community services;
- there is a risk that incentives will be provided to firms which would have chosen to invest in the jurisdiction anyway and, hence, the jurisdiction will incur costs to taxpayers and businesses for no additional benefits;
- where incentives do lure new projects from elsewhere, these projects may draw resources, such as skilled labour, away from more productive uses in other local industries and firms; and
- the long-term gains in terms of output and employment in the state or territory are likely to be limited, particularly when the prospect of retaliatory action by other state and territory governments is considered.

From a national viewpoint, the Commission considered that inter-State competition for investment through selective incentive packages will generally have adverse net effects.

The Commission examined several options to develop an intergovernmental agreement on industry assistance provided by the States. Such an agreement could involve a transparency and monitoring mechanism, limits on some assistance or a comprehensive arrangement to limit all assistance. The Commission also saw a legitimate role for the Commonwealth to encourage the states to limit their selective industry assistance (IC 1996).

The implications of continued inter-State 'bidding wars' were highlighted in a recent speech by the Productivity Commission's chairman (Banks 2002).

Recent developments

In recent years, several independent State-based agencies and parliamentary committees have also called for greater transparency in industry assistance and have recommended reforms to the administration, evaluation and monitoring of assistance programs. For example:

- In 1998, the NSW Auditor-General (1998) recommended that accountability and transparency for the provision of assistance be increased, and information not be classified as commercial-in-confidence unless it was demonstrably necessary.
- In 2000, the Tasmanian Auditor-General (2000) recommended that there be public disclosure of the details of government assistance, and that commercial confidentiality should not take precedence over governmental accountability.

- The South Australian Economic and Finance Committee (2000) recommended that information on individual assistance packages be tabled and reported to the State Parliament annually.
- In 2001, the NSW Public Accounts Committee (2001) similarly found no valid reason why government assistance should remain confidential and recommended several ways for greater disclosure of information on industry assistance.
- The Victorian Auditor-General (2002a) recommended annual reporting of details of assisted investment projects, their progress and the performance of the sectors targeted by investment incentives.
- In 2002, the ACT Auditor-General (2002) recommended that all agencies review their procedures for developing and verifying the veracity of input to Cabinet submissions and public announcements, as well as reviewing their record-keeping processes.
- The Queensland Auditor-General (2002) recommended that the provision of investment incentives be given 'probity checks', that changes of incentive criteria by the administering agencies first receive Cabinet approval, and that there be detailed assessment procedures for major strategic projects and further disclosure of incentive packages.

In February 2000, the Commonwealth Government indicated that it had reached a non-prescriptive agreement with state and territory governments to cooperate on investment attraction activities (Minchin 2000). The Commonwealth, State and Territory governments are signatories to the *Operating Guidelines for Commonwealth, States and Territories on Investment Promotion, Attraction and Facilitation*. Under this agreement, all governments will meet annually to review the efficiency and effectiveness of investment incentives (Costello 2001).

In March 2001, the NSW and Victorian Governments announced that they had established a joint working party on investment. The governments aim to 'eliminate unnecessary bidding wars and will work to contain fiscal incentives'. Through the working party, the NSW and Victorian Governments undertook to:

- establish protocols to share information on investor approaches (having regard to commercially sensitive information) on a case-by-case basis;
- share information on investment evaluation methodologies; and
- examine opportunities to co-locate their overseas business offices and share resources to attract new international investment to Australia.

The NSW and Victorian Governments also called on other State governments to join the agreement and on the Commonwealth Government to establish more effective investment attraction procedures (NSW and Victorian Ministries 2001).

In August 2002, the South Australian Government announced that it will join with NSW and Victorian Governments to reduce cross-border bidding for investment and restrict the use of financial incentives to attract investment (Foley 2002).

As noted earlier, the Blackburne review has also called for greater inter-governmental cooperation in relation to investment incentives. The Commonwealth Government has responded by, among other things, establishing a National Investment Advisory Board.