
3 Recent developments in assistance arrangements

In this chapter, the Commission documents key policy changes and developments affecting assistance to industry over the past year or so, and provides some background to them. The chapter covers:

- drought relief;
- agricultural adjustment;
- tourism;
- ethanol;
- pharmaceuticals;
- textiles, clothing and footwear;
- medical indemnity arrangements;
- investment attraction and project-specific assistance; and
- anti-dumping arrangements.

3.1 Drought relief

Droughts, like floods, are common occurrences in Australia. The last major drought occurred during the first half of the 1990s. While less prolonged, the current drought has been one of the driest on record, causing the net value of farm production in 2002-03 to fall by 75 per cent — to a level similar to that experienced during the 1991–95 drought (box 3.1).

The Australian Government has committed more than \$1 billion in assistance for the farming community (Truss 2003a). This represents a significant increase compared to the \$590 million in drought relief provided during the 1991–95 drought (ABS 2003a). State Governments have also provided drought relief.

Box 3.1 The drought of 2002 and 2003

The current drought is one of the driest on record. Total annual rainfall for Australia in 2002 averaged 339 mm or around 30 per cent below the long-term annual average. Following useful rain in February 2002, rainfall during the March to December period was the lowest for all equivalent periods on record (BoM 2003). The drought spread across much of the country, especially the eastern half and south-west corner of Australia, where most agricultural production occurs.

Reflecting the severity of the current drought, the volume of agricultural production in Australia declined by 23 per cent in 2002-03. This, together with price falls and cost increases also associated with the drought, caused the net value of farm production to fall by around 75 per cent to \$2.7 billion (ABARE 2003).

Broadacre and dairy farms were hit hardest. In 2002-03, grain production fell by around 60 per cent to 17.8 million tonnes, while incomes of livestock producers fell because of forced sales of livestock at discounted prices and the increased costs of purchasing hay and grain to supplement depleted pastures. Total milk production declined by around 8 per cent in 2002-03, because of substantial reductions in milk supply in the irrigation districts of northern Victoria.

Even so, compared with the two most recent droughts, in 1982-83 and 1991-95, the net value of farm production in 2002-03 was higher in real terms than in 1982-83 and roughly the same as the annual average value over the 1991-95 period (ABARE 2003). This is partly because the effects of other (non-drought) factors. For example, during the 1982-83 drought, farm incomes were further eroded by lower prices received for farm products on world markets and high domestic interest rates. The ratio of prices received to prices paid by farmers declined by 5.2 per cent in 1982-83, compared with a fall of 1.5 per cent in 2002-03.

Improvements in farm productivity since 1982-83, particularly in the broadacre cropping sector, have also helped to alleviate the impact of the current drought. Crop growers now make wider use of conservation tillage techniques and better designed cultivation and sowing equipment. Farmers also have more choice of plant varieties to sow, while improvements in plant breeding have increased the number of varieties that are able to withstand adverse seasonal conditions.

While seasonal conditions improved in many parts of Australia the second half of 2003, ABARE expects the effects of the drought to continue for some time. Producers of winter grains are unlikely to reap the benefits of their crops until they are harvested in late 2003, while the recovery for livestock producers will be slowed by their need to hold stock back from sale to rebuild their herds and flocks. With limited water availability in many of the major irrigation storages, 2003-04 is also likely to be a difficult year for producers of irrigated crops such as rice and cotton.

While having a significant impact on the farm sector, ABARE has estimated that the drought reduced total economic growth in Australia by only around 1 percentage point, or \$7 billion, in 2002-03 (ABARE 2003). This reflects the limited contribution that agriculture now makes to Australia's GDP — less than 5 per cent before the drought.

Sources: BoM (2003), ABARE (2003).

Australian Government drought relief

Exceptional circumstances assistance

The Exceptional Circumstances (EC) program is the main Australian Government program providing assistance to drought-affected farmers. \$279.1 million was distributed under the EC program in 2002-03. The Australian Government estimates that it will provide more than \$1 billion in EC assistance during the drought and drought recovery phase (Truss 2003a).

Before assistance can be provided under the EC program, however, an area must receive an EC declaration. State and Territory Governments are responsible for lodging applications for EC assistance with the Australian Government Minister for Agriculture, Forestry and Fisheries, once they consider that the EC criteria have been met. EC applications must demonstrate that the event (whether a drought or other occurrence) must be rare (a one in 20 to 25 year event); results in a severe downturn in farm incomes over a prolonged period; affects a significant number of farmers in a region or industry; and not be predictable or part of a process of structural adjustment.

Once an area has received an EC declaration, assistance provided under the EC program is available for a period of up to two years and is provided in the form of:

- family income support (Exceptional Circumstances Relief Payments); and
- business support for farm enterprises.

Exceptional Circumstances Relief Payments (ECRPs) are paid fortnightly at a rate equivalent to the Newstart Allowance.¹ ECRPs are subject to some of the income and assets tests applying to Newstart Allowance, but 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.

Business support is provided in the form of interest subsidies up to a maximum of 50 per cent of interest payments. The arrangements are administered by State and Territory rural adjustment authorities. To be eligible for business support, the State administering authority must be satisfied that an applicant's farm enterprise is experiencing financial difficulty because of the EC event, and that the business also has prospects of long-term profitability and sustainability. The applicant must also have disposed of all non-essential farm assets and may only, as at 1 July 2003, have

¹ The NewStart Allowance is a fortnightly payment available to unemployed people who are activity looking for work. Subject to income and assets tests, the payment for a single person with no dependents is \$385 per fortnight.

off-farm assets with a net value of no more than \$212 500. Business support is funded jointly by the Australian Government (90 per cent) and State and Territory governments (10 per cent).

By mid-August 2003, 53 EC applications had been lodged by State and Territory Governments. Of these applications, 42 areas had been EC declared and therefore eligible for the EC assistance, while the remaining 11 areas were still being assessed but have access to assistance under the interim drought relief program (see below). In EC-declared areas, more than 20 600 applications for EC income support have been approved, while 5778 farming businesses received interest rate subsidies. Accounting for around 65 per cent of Australia's agricultural land, EC-declared areas mainly cover the eastern states, southern Western Australia and pastoral South Australia (Truss 2003a).

Other initiatives

In September 2002, as part of reforms to the EC program, the Australian Government announced it would provide interim income support payments for drought-affected farmers. The payments are available for a period of six months commencing from the date on which the Minister for Agriculture, Fisheries and Forestry announces that an application for exceptional circumstances for an area has a prima-facie case.

In November 2002, the Australia Government announced a number of additional measures to assist drought-affected farming communities.² These included earlier access to Farm Management Deposits for farmers in EC-declared areas; additional funding of \$2 million for personal counselling services in drought-affected areas; a re-allocation of \$10 million in funding from the Natural Heritage Trust to target works protecting the land, water, vegetation and biodiversity resource base; a \$1 million pest management grant; and \$1 million in emergency funding for the Country Women's Association to assist it in helping and supporting farmers.

In December 2002, the Australian Government also announced that it would provide a one-off drought relief package of \$368 million over three years. Subject to eligibility, the package included interim income support for farmers for a period of six months, an interest rate subsidy on new and additional commercial loans up to \$100 000 for stock support and drought recovery, an interest rate subsidy on

² This was in addition to the assistance available under the Agriculture Advancing Australia (AAA) package (section 3.2). For example, the AAA FarmHelp program provides short-term financial support, professional advice, reestablishment grants and retraining grants to farmers experiencing financial difficulty and those who decide to exit farming.

existing or new commercial loans up to \$100 000 for small businesses in EC-declared areas, an extension of the Work for the Dole scheme (Drought Force³), and improvements to the Incentive for Rural and Regional Skills Shortages Program.

In February 2003, the Australian Government announced that it would give special consideration to assisting regional tourism ventures that have been affected by the drought. Assistance will be provided from the Government's \$8 million Regional Tourism Program (RTP). Individual grants of between \$25 000 and \$75 000 will be available from the program (Hockey 2003a).

In June 2003, the Australian Government announced that drought-affected farmers in areas where EC applications have been submitted will continue to receive interim income support payments until 30 September 2003, subsequently extended to 30 October 2003, or until their application is decided (Truss 2003b). As discussed above, the support payments were initially intended to be available for a maximum period of six months, or until early June 2003.

In July 2003, the Australian Government announced changes to the eligibility criteria for the Small Business Interest Rate Relief program. The program had been announced in December 2002 (see above) as part of the Australian Government's one-off drought relief package. The program provides interest relief to eligible businesses of up to \$10 000 over a two year period in EC-declared areas. The changes to the eligibility criteria include:

- a lowering of the required reduction in turnover (from 50 to 30 per cent), when compared with the average of the same six-month period in the previous three years;
- a reduction in the minimum average annual turnover requirement for the past three years, from \$50 000 to \$30 000;
- a reduction (from 75 to 50 per cent) in the proportion of turn-over that small businesses *outside* an EC-declared area must derive from an EC-declared area (previously 75 per cent); and
- the removal of the requirement for small businesses *inside* an EC-declared area to have at least 60 per cent (75 per cent if the owner resides outside an EC-declared area) of turnover from EC-declared areas (Howard 2003a).

³ The Drought Force initiative is an extension of the Work for the Dole scheme that gives people who lose their job because of the drought, and other suitably skilled unemployed people from the local area, the opportunity to work on properties or community projects in drought affected areas. Participants have immediate access to a training credit of \$800.

In October 2003, the Australian Government announced that it would conduct a review of Australia's drought policy, including drought assistance measures. The review panel is to conduct consultations with farmers, rural organisations and other interested bodies in each State. The panel's report is to be considered by a national round-table of Primary Industry Ministers from the Australian and State and Territory Governments (Truss 2003c; 2003d).

State Government drought relief

State and Territory Governments have also introduced measures to help drought-affected farming communities, including both targeted and non-targeted cash grants, transport subsidies, additional funding for rural counselling services and deferment of interest payments on loans. The Queensland Government, for example, has a number of arrangements in place including freight subsidies, electricity tariff relief, the deferment of interest payments on loans from the Queensland Rural Assistance Authority and assistance for financial counselling.

State governments announced several drought-relief initiatives during 2002.

- In July 2002, the NSW Government announced a package of 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. In 2002-03, funding for drought assistance in NSW was around \$80 million.
- In August 2002, the NSW Government announced it would provide assistance to regional businesses that had been severely affected by the drought. Subject to eligibility, the Business Drought Assistance Program provides assistance in the form of payroll tax relief and individual grants of up to \$3000 for business and credit management strategies.
- In October 2002, the Victorian Government announced a funding package for drought assistance of \$27.7 million (revised to over \$55 million in May 2003 (Cameron 2003b)). The package includes (non-targeted) grants of up to \$20 000, subject to appropriate business management procedures being in place. The assistance package ended on 7 May 2003.
- In October 2002, the Western Australian Government announced a \$6.8 million funding package comprising 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.
- In October 2002, the South Australian Government announced a funding package of \$5 million including cash grants of up to \$10 000 for assistance in

reseeded crops, restocking and for domestic water supplies, an additional \$300 000 for rural counselling support, \$150 000 for grants for rural community groups, and \$1 million in additional funding for the FarmBis program.

In January 2003, the Victorian Government announced it would spend an additional \$2.5 million to help Victoria's worst affected rural communities overcome and recover from the effects of drought. The program, the Drought Social Recovery Strategy, funds a number of welfare and support services including:

- a rural health promotion officer to help drought-affected communities;
- an extension of eligibility for preschool fee subsidies to farming families who were successful in obtaining a Farm Business Grant; and
- improved eligibility of families with school-aged children for the Education Maintenance Allowance (Cameron 2003a).

In February 2003, the Queensland Government announced that it would fund new drought assistance measures for eligible farmers. The new measures comprise three schemes, Drought Carry-on Finance, Drought Recovery and Mortgage Duty Relief. The Drought Carry-on Finance and Drought Recovery schemes provide concessional loans for on-going operations and recovery action after the drought, respectively. The Mortgage Duty Relief scheme provides assistance to farmers whose mortgages are re-financed with an existing or new financial institution. To be eligible for assistance under the Mortgage Duty Relief scheme farmers must currently be receiving EC assistance (Palaszczuk 2003).

In April 2003, the South Australian Government announced it would reallocate \$280 000 from the State's contribution to the EC program to the Murray Mallee region to provide additional relief and community support under the State's \$5 million drought assistance package (see above) (Rann 2003).

In September 2003, the Victorian Government announced that it would provide a \$250 000 package of grants for Victoria's drought-affected regions. The grants are intended to support a wide range of community and economic development projects in Local Government Areas hit hardest by the drought. Projects will include sporting events, arts and heritage festivals, community mentoring and leadership programs, market days and family workshops. The grants will be provided through the Victorian Rural Leadership and Community Events Program (Brumby 2003c).

In December 2003, the NSW Government announced the provision of \$100 Christmas support grants to drought-affected farmers in NSW. To help fund the grants, the NSW Government had donated \$300 000 to the Community Disaster Relief Fund. To be eligible, farmers must have received a Drought Household Payment from the NSW Department of Community Services (Refshauge 2003).

3.2 Agricultural adjustment assistance

Another component of Australian Government budgetary assistance to Australian agricultural industries has been measures designed to facilitate structural adjustment.

In 1997, the Government introduced the *Agriculture — Advancing Australia* (AAA) package to replace the Rural Adjustment Scheme and other rural programs. The package had an initial budget allocation of \$500 million over four years and, in the 2000-01 Budget, was extended for an additional four years at a estimated funding cost of \$309 million. The Commission reported on these measures in previous *Reviews* (see PC 1998 and 2000b).

In July 2003, the Australian National Audit Office completed a review of the administration of the AAA package (ANAO 2003). The ANAO review specifically examines the three AAA programs that have drawn the most funding to date:

- the Farm Management Deposits (FMD) scheme;
- Farmbis II; and
- FarmHelp.

Overall, the ANAO review found that many aspects the AAA programs examined are well managed and have been well promoted to primary producers. Even so, it concluded that there are some weaknesses in program administration. The ANAO findings that have assistance implications are outlined below.

Farm Management Deposits scheme

The Farm Management Deposits (FMD) scheme was introduced in 1999, replacing the Income Equalisation Deposits and Farm Management Bonds schemes.

The FMD scheme provides an income tax concession to eligible primary producers. It allows the full tax deduction of primary production income deposited in FMD accounts in years of high income when primary producers are subject to the highest marginal tax rates. In years of lower income, primary producers can withdraw the deposits with a lower income tax rate. Farmers can make FMD deposits of up to \$300 000. The deposits earn market interest rates offered by financial institutions.

Since its inception, the FMD scheme has grown to become one of the most important industry assistance measures to primary production activities. The tax revenue forgone under the scheme has increased from \$35 million in 1999-2000 to \$150 million in 2001-02, and is projected to rise to \$470 million in 2002-03. This far exceeds the original forecast of the revenue forgone (\$12 million in 1998-99 and

\$24 million per year for later years), made when the measure was introduced (Costello and Anderson 1998).

The number of primary producers participating in the scheme rose from 7500 in June 1999 to 39 537 in December 2002. Over the same period, the value of FMD holdings has increased from \$280 million to some \$2 billion.

Similarly, there has also been a proliferation of FMD-related financial products and institutions offering such products since 1999, when the government devolved administration of FMD accounts to financial institutions. An ANAO survey of primary producers found that the main reasons for using FMD included ‘taxation arrangements’ as well as ‘putting money away in case of a bad year’.

The ANAO found that the scheme predominantly provides benefits to primary producers with the highest marginal tax rates. According to the ANAO analysis, in 2000-01, the average taxable primary production income of users of the FMD scheme (\$64 776) was more than three times that of those who did not use the scheme (\$19 335).

The industry incidence of the FMD scheme varies widely. Usage of the scheme by grain and mixed livestock-crop producers was three times that of vegetable growers.

The value of assistance provided by the FMD scheme is the tax revenue forgone in each year (called ‘tax expenditures’). The effect of the FMD scheme is equivalent to an industry assistance measure provided via a ‘taxable grant’. The ANAO noted that, in the absence of the scheme, primary producers may use other tax concessions that are in place (such as income tax averaging provisions), leading to a lower revenue loss. Even on this basis, the revenue loss from the FMD scheme was estimated to be \$410 million in 2002-03 (table 3.1).

Table 3.1 Estimates of tax expenditures and other revenue losses
\$ million

	1999-00	2000-01	2001-02	2002-03
Tax expenditures	35	50	150	470
Revenue loss — taking into account the possibility of farmers using other tax concessions	—	45	120	410

Source: ANAO 2003.

In October 2002, the *Taxation Laws Amendment Act 2002* was passed in response to concerns that primary producers were holding money in FMD deposits rather than using it for drought-related purposes. The Act allows primary producers in EC drought declared areas to withdraw FMD funds without the loss of tax benefit.

In July 2003, the eligibility rules for the administration of FMD accounts were amended. The changes were in response to concerns about the effects of the proliferation of financial institutions (banks, building societies and credit unions) providing FMD products. Under the new arrangements:

- Eligible financial institutions are defined as those authorised deposit-taking institutions under the Banking Act 1959, or those having State and Territory guarantees for their deposits.
- Primary producers with FMD deposits in ineligible financial institutions will have until June 2004 to transfer their deposits to eligible financial institutions and retain FMD status. For some deposits, the transfer period can be up to four years.

FarmBis II

FarmBis II provides funding to support training for primary producers in natural resource management, business and financial planning, farm performance benchmarking, risk management, skills auditing, leadership and marketing.

FarmBis II is administered under an Commonwealth-State agreement which provides for a cap on the percentage of total expenditure that can be allocated to State government program administration. This administration cost is set at 22 or 25 per cent (depending on the State) of total program expenditure over the three year life of the program. The ANAO review noted that most States were exceeding the cap at the halfway point of the program and that, in some States, there is a risk that the caps will be exceeded over the full three year life of the program.

3.3 Tourism

The tourism 'industry', as defined by the ABS, comprises parts of several other industries, such as *Accommodation, cafes & restaurants* and *Transport services*. It includes expenditure by both domestic travellers and visitors from abroad. So defined, tourism is an important part of the Australian economy, accounting for 4.5 per cent of GDP in 2001-02 (ABS 2003b).

After strong growth in previous years, the economic contribution of tourism contracted following 2000-01 due to a downturn in international air travel following the September 2001 terrorist attacks in America. International air travel has also been affected by matters such as the Bali bombings of October 2002 and concerns about SARS.

International tourism in Australia is yet to recover fully from this downturn, although tentative signs of growth are emerging. Visitor numbers from Korea, New Zealand and the United Kingdom are up on last year. However, the traditional markets of Japan, Singapore and the United States have not recovered. Patchy global economic conditions, concerns about terrorism and the residual concerns about SARS in some countries has limited a full return to trend growth (DITR 2003a). On the other hand, more Australians holidayed within Australia during this period.

As reported in last year's *Review*, Australian governments have provided a number of measures to assist the tourism industries in recent years, particularly in 2002.⁴ Developments since then are set out below.

Australian Government initiatives

In addition to a range of general tourism assistance measures, including extra funding for the Australian Tourist Commission, the Regional Tourism Program and the 'See Australia' campaign, the Australian Government introduced a number of assistance measures in 2001-02 following the collapse of Ansett Airlines. The Government has since closed the Travel Compensation Fund and the Ansett Holiday Package Relief Fund schemes, and on 1 July 2003 it terminated the Air Passenger Ticket Levy — a \$10 levy on airline tickets introduced in October 2001 to fund the entitlements of former Ansett employees (Anderson 2003b).

In December 2002, the Australian Government announced \$26.7 million in additional funding for the Cooperative Research Centre for Sustainable Tourism to help tackle the lack of research and development by the tourism industry (Hockey 2002).

The Australian Government announced a number of initiatives in May and June 2003 to counter the negative impact of the threat of terrorism, the war in Iraq and the SARS virus:

⁴ The Commission has not previously published estimates of assistance to tourism in *Trade & Assistance Review* or, until recently, elsewhere. However, in its recent study of the *Industries, Land Use and Water Quality in the Great Barrier Reef Catchment* (PC 2003b), the Commission developed preliminary estimates for the industry. The estimates incorporate funding for the Australian Tourist Commission, the Regional Tourist Program, the Domestic Tourist Campaign and the Regional On-line Tourism Program. The estimates also include a proportion of the net tariff and budgetary assistance received by other tourism-related industries, as defined by the ABS. While the estimates suggest that net assistance to tourism may be negligible, the Commission emphasised, among other things, that it has yet to investigate all measures that may benefit or penalise tourism. The Commission is currently undertaking a more detailed study of assistance to tourism.

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- a \$7 million domestic tourism campaign — a joint initiative between the ‘See Australia’ campaign, state and territory tourism organisations and the tourism industry — to encourage Australians to holiday locally (Hockey 2003c);
 - a \$7.9 million international marketing campaign targeting Japan and New Zealand (Hockey 2003d);
 - a \$13.2 million international marketing campaign targeting Australia’s most important tourist markets, starting with the United States (Hockey 2003f); and
 - a \$20 million marketing campaign — jointly funded by the Australian Government and industry partners — to promote Australia as a tourist destination in Asia, Europe, the Middle East, New Zealand and the United States (Hockey 2003g).

In addition, the Minister for Small Business and Tourism led a trade delegation to Singapore, Japan, the United Kingdom and the United States in July to promote the Australian tourism industry after the SARS outbreak.

In response to the drought and bushfires in January and February 2003 in south-eastern Australia, the Australian Government announced:

- that special consideration would be given to assisting affected regional tourism businesses under the \$8 million Regional Tourism Program (Hockey 2003a);
- cash grants of \$3000 for affected small businesses (including tourism operators) under the \$2 million Small Business Bushfire Relief Program⁵ (Hockey 2003b); and
- a one-off \$0.5 million payment to the ACT Government in May for a tourism promotion initiative following the January 2003 bushfire (Hockey 2003e).

The Australian Government’s White Paper initiatives

Following an extensive consultation process, in November 2003 the Australian Government released its *Tourism White Paper: A Medium to Long Term Strategy for Tourism* (Australian Government 2003c). According to the White Paper, it sets out:

...a foundation for Australian tourism to capture, maintain and grow future market share. The strategy is based on expectations of a highly competitive international environment requiring flexibility, innovation and responsiveness at all levels of the Australian tourism industry. (Australian Government 2003c, p. xi)

⁵ Small businesses are also eligible for assistance under the Australian Government’s \$500 million drought relief package.

The White Paper seeks to shift the focus of the industry away from visitor numbers (the demand side) towards the ‘tourism product’ (the supply side) and to make the industry better able to manage future external shocks. It includes measures that aim to reinforce Australia’s international and domestic marketing efforts, boost the growth and development of tourism in regional Australia, enhance niche tourism, and develop a better tourism research base.

As part of the White Paper initiatives, the Australian Tourist Commission, the ‘See Australia’ national tourism initiative, the Bureau of Tourism Research and the Tourism Forecasting Council will be merged to form a new organisation called ‘Tourism Australia’.

The additional measures announced in the White Paper will cost \$235 million over the next four-and-a-half years, with many to be jointly funded with the industry, local and state governments. Details on the Paper’s initiatives are set out below.

International marketing

According to the White Paper, Tourism Australia will be responsible for international marketing and will work closely with other government agencies to develop a revitalised ‘Brand Australia’, and leverage promotion of Australia through strategic partnerships with state and territory marketing bodies. Its base level funding for international marketing will increase by \$120.6 million over four-and-a-half years and will focus on higher yielding tourists. This will take the total budget for international marketing to over \$500 million over the same period (Howard 2003c). The Australian Government will also support the development of an International Tourism Ambassador Program.

Domestic marketing

The White Paper includes a \$45.5 million increase in funding to ‘See Australia’ to promote generic domestic tourism and to encourage Australians to holiday at home. ‘See Australia’ is also to work with individual regional and local tourist organisations to support regional tourism marketing and development. An additional \$19 million is earmarked for the Tourism Development Programme focusing on regional Australia.

Research and statistics

Tourism Australia will receive an additional \$21.5 million to provide an enhanced research and statistics base to assist government and industry. ‘See Australia’ is to provide market research to identify new and high yield markets, and to guide development of tourism product in regional areas.

Events and niche markets

Tourism Australia is to focus on promoting Australia as a high quality business and events destination, and will develop partnerships with Asia-Pacific regional tourism agencies. Tourism Australia is to work with industry and the states to identify strategic market development plans for high yielding niche markets and establish a National Events Calendar and web-based register of events.

Other initiatives

The White Paper contains a range of other initiatives, including:

- developing a national, voluntary tourism accreditation system;
- establishing a National Centre for Language Training;
- establishing an Indigenous Tourism Business Ready Program to develop the management skills of individuals involved in Indigenous tourism;
- upgrading efforts to meet passenger safety and security requirements, and working towards more streamlined, efficient processing of international visitors;
- pursuing nationally consistent tourism signage;
- conducting a review of the Passenger Movement Charge;
- expanding benefits for tourists under a revised duty free allowances regime; and
- developing a new Intergovernmental Agreement to set out the roles and responsibilities of the various levels of government and areas for collaboration and cooperation on tourism matters.

State and Territory Government initiatives

A number of new State and Territory initiatives were announced in the past year:

- In February 2003, Tourism New South Wales signed a \$1 million agreement with Visa International to help promote the state as a destination to Australians and the global market. The NSW Government also announced \$0.4 million to promote regions affected by the 2002-03 bushfires. Tourism New South Wales utilised \$5.5 million of the \$15 million two year package announced in 2001-02 to provide assistance and support measures to aid the recovery of the tourism industry during 2002-03 (NSW Government 2003, Tourism New South Wales 2003a, 2003b).
- The Victorian Government announced in its May 2003 budget that it will provide \$41 million over four years to promote Victoria as a tourist destination,

boost its profile as a host of major events and open up new tourism opportunities in regional areas (Brumby 2003a). In September 2003, the Government announced \$1.6 million in marketing funding to boost the tourism industry across the state (Pandazopoulos 2003b). Earlier, in April 2003, the Government announced that tourism operators in Victoria's North East are eligible for advertising assistance as part of its \$2 million bushfire recovery package (Pandazopoulos 2003a).

- In June 2003, the Queensland Government announced that Tourism Queensland would spend more than \$35 million marketing the state in domestic and international markets in 2003-04 (Rose 2003).
- In its 2003-04 budget, the South Australian Government announced \$4.2 million over four years for regional tourism infrastructure (Government of South Australia 2003).
- The Western Australian Government announced in its May budget that it would make the final payment of \$74.4 million to the developer of the Perth Convention and Exhibition Centre in 2003-04 (scheduled to open in July 2004). It also announced an additional \$1 million in 2003-04 for regional tourism and allocated \$12 million to EventsCorp for the hosting of major events in Western Australia, including the Hopman Cup Tennis Tournament, the Perth International Golf Tournament, Rally Australia, the Rugby World Cup and the 2003 World BMX Championship (Government of Western Australia 2003).
- In May 2003, the Tasmanian Government announced the purchase of two Bass Strait ferries for \$290 million to promote tourism in, and improve freight links with, Tasmania (Parliament of Tasmania 2003, p. 5).⁶ The May budget also provided a further \$1 million for Tourism Tasmania to implement the 'Tasmanian Experience Strategy'. Following the announcement in July of a new fast ferry service between Sydney and Devonport, the Tasmanian Government announced that it would provide Tourism Tasmania with an additional \$3.2 million to market Tasmania in New South Wales, the Australian Capital Territory and southern Queensland (Bacon 2003).
- Building on initiatives announced in the May Budget, the Northern Territory Government announced a \$27.5 million tourism package spread over three years in October 2003 to 'enhance destination development and to build on the Northern Territory Tourist Commission's intensive marketing campaign. The

⁶ The Australian Government subsidises the cost of transporting passenger vehicles and freight between Tasmania and the mainland under the Bass Strait Passenger Vehicle Equalisation Scheme and the Tasmanian Freight Equalisation Scheme. These schemes cost \$26.6 million and \$77.1 million, respectively, in 2002-03, and are expected to cost \$30.8 million and \$80.1 million, respectively, in 2003-04 (Anderson 2003a).

package has a major focus on growing regional tourism and support for Indigenous, cultural and nature based tourism' (Burns 2003b). In August 2003, the Chief Minister announced a \$100 million revitalisation of the Darwin waterfront with a new convention and exhibition centre as its foundation project (Martin 2003b). The Government also announced a further \$1.4 million in its May budget to facilitate Virgin Blue air services to the Territory (Burns 2003a) and a further \$13.5 million for the Alice Springs to Darwin railway (Martin 2003a).

- The ACT Government announced in its 2003-04 budget that it would redirect the \$4 million that had previously been allocated to the V8 Supercar race to the Canberra Tourism and Events Corporation to 'adopt a targeted approach to both the international and domestic markets, focussing on research, product and industry development, marketing, logistics and community programs'. It also announced its intention to provide \$40 million in 2004-05 for the planning or construction of a new or upgraded convention centre. In addition, the Government allocated an extra \$696 000 to the Canberra Convention Bureau to 'attract more conventions and exhibitions' (Quinlan 2003a).

3.4 Ethanol

Ethanol is an alcohol-based fuel that is produced primarily from the fermentation of sugars derived from grains or sugar cane. In Australia, ethanol is produced mainly as a by-product of existing activities, such as grain production. Domestic production of ethanol is currently 135 million litres per year, of which around 50 million litres is blended with petrol for use in motor vehicles (DPL 2003).

In recent years, a series of initiatives have been announced to increase the production of ethanol (and other biofuels) in Australia.

Assistance for ethanol production dates back to 1980 when imports were declared duty free and 'experimental' licensing arrangements were put in place to encourage research into its use as a fuel. Ethanol also attracts a zero-rating for fuel excise.

In 1994, further assistance was introduced for ethanol production in the form of a bounty, although this was discontinued in 1996, following a government report which found that it was ineffective in achieving its objective '... to assist in the development of a competitive, robust and ecologically sustainable fuel ethanol industry' (DPIE 1996).

In April 2001, two ethanol-based projects in Queensland were allocated assistance under the Australian Government's Greenhouse Gas Abatement program. BP was allocated \$8.8 million to replace petrol production with an petrol-ethanol blend at its

Bulwer Island refinery, and the Mossman sugar mill received \$7.4 million for an ethanol production facility.

In October 2001, the Australian Bureau of Agricultural and Resource Economics (ABARE 2001) released a report (commissioned by the Australian Government in September 2000) on the viability of sugar cane based fuel ethanol. Among other things, the report found that the fuel excise exemption for ethanol (see above) provides a very high rate of subsidy on ethanol production relative to petrol — 35–54 per cent of ethanol production costs (although slightly less in Queensland due to that State’s fuel rebate). The report found that the commercial viability of existing and new ethanol production is dependent on the continuation of significant levels of government assistance.

In March 2002, the Fuel Tax Inquiry (commissioned by the Australian Government in July 2001) released its report on tax arrangements for fuel in Australia. The report recommended, among other things, that tax should apply to all liquid fuels, irrespective of their derivation. The report stated:

... the use of fuel taxation concessions to encourage the production and use of alternative fuels has significant resource allocation effects that can no longer be justified (Fuel Tax Inquiry 2002, p. 42).

In its response in May 2002, the Government did not accept this recommendation. The Treasurer stated:

The proposal to tax all fuels based on their relative energy content would impose tax on previously unexcised fuels such as ethanol and LPG. This would have implications for the LPG retail fuel industry and LPG conversion businesses, and is also contrary to the Government’s election commitment to maintain excise exemptions for fuel ethanol and biodiesel (Costello 2002).⁷

In addition, the Australian Government commissioned a \$5 million study to address market barriers to the increased use of biofuels in transport. Part of the study involved vehicle testing and a technical assessment of the effects of 20 per cent ethanol-blended fuel in motor vehicles (Kemp and Truss 2002).

In September 2002, following representations from ethanol producers, the Australian Government introduced a production subsidy for ethanol produced domestically. At the same time, regulations were developed to extend the excise on petrol (of 38.142 cents per litre) to both domestically-produced and imported ethanol. The subsidy fully offsets the excise on domestic ethanol production. These arrangements are similar in effect to a tariff on imported ethanol. These

⁷ Prior to the 2001 election, the Australian Government stated an intention to increase biofuel production in Australia to 350 million litres per annum by 2010.

arrangements were introduced ahead of the intended importation of a shipment of ethanol from Brazil, and the production subsidy was initially scheduled to run for 12 months. By September 2003, the total subsidy payments amounted to \$25 million, comprising around \$24 million to the Manildra Group and \$0.89 million to CSR Distilleries (Macfarlane 2003b).

In March 2003, the Australian Government foreshadowed the appointment of a trade facilitator to assist the domestic ethanol fuel industry to broker agreements with potential buyers of ethanol for transport use (Minchin 2003).

In April 2003, the Australian Government announced it would set a 10 per cent limit on the amount of ethanol that can be added to petrol and also introduce mandatory labelling of ethanol levels in petrol under the *Fuel Quality Standards Act 2000* (Kemp 2003a). This followed the release of preliminary vehicle testing results that found that petrol blends containing 20 per cent or more ethanol may cause engine problems. The 10 per cent limit came into effect on 1 July 2003. The Government said:

While 10% ethanol blends are widely supported and considered 'safe', there are conflicting claims about the safety and reliability of ethanol/petrol blends above 10%. To resolve these conflicting claims, the Government is funding an extensive testing program to determine the impact of 20% ethanol blends on small engines and motor vehicles. The preliminary testing results show that 20% ethanol could cause deterioration of metal, plastic and rubber components (Kemp 2003b).

In May 2003, the Australian Government announced as part of a package of fuel tax reforms that it would extend the existing production subsidy and excise arrangements on ethanol to 30 June 2008.⁸ The subsidy is estimated to rise from \$34 million in 2003-04 to \$62 million in 2006-07. Commencing in July 2008, the subsidy is to be reduced in five annual equal steps. The final excise rates were to be determined by the Australian Government in consultation with industry groups and other stakeholders, but were intended to be related to the energy content of fuels (Costello 2003).

In July 2003, the Australian Government announced further arrangements for the biofuels industry:

- It foreshadowed amending its ethanol assistance arrangements to allow producers to receive the production subsidy in advance of the payment of excise. The

⁸ Similar assistance arrangements apply to the domestic production of biodiesel, except that the subsidy (the rebate of excise) also extends to importers of biodiesel. Biodiesel is an ester (similar to vinegar) that can be made from several different types of oils, including soybean, canola, recovered vegetable oils and animal fats. Ethanol and biodiesel are the two most commonly produced biofuels in Australia. The subsidy for both domestically produced and imported biodiesel is estimated to rise from \$15 million in 2003-04 to \$99 million in 2006-07.

Government stated that this was ‘an adjustment measure to assist in the transition to the recently introduced E10 fuel standard’. The new arrangement was to cease on 31 December 2003 or when the subsidy provided reached a \$10 million cap (Hockey 2003h).

- It also announced project-specific assistance for biofuel production in the form of capital subsidies. \$37 million will be made available for projects that provide new or expanded biofuels capacity, including ethanol. The subsidy will be paid at a rate of 16 cents per litre for projects producing a minimum of 5 million litres of biofuel, with the maximum grant limited to \$10 million per project. To be eligible, applicants must demonstrate that the projects will be viable after the phase out of the current production subsidy in 2012 (see above) (Hockey 2003i).

The Australian Government also announced a further study of its 350 million litre target for biofuel supply by 2010 ‘in light of the latest evidence on the environmental and other benefits of replacing fossil fuels with biofuels’. The study is being conducted by CSIRO together with the Bureau of Transport and Regional Economics and ABARE (Hockey 2003i). The study is yet to be released.

In December 2003, the Prime Minister announced additional fuel tax reform measures, including excise rates on fuel that are to be phased in from 2008 to 2012 (Howard 2003d). As noted above, in May 2003, the Australian Government proposed moving towards setting fuel excise tax rates based on energy content. Of the decisions announced in December 2003, ethanol and other alternative fuels will attract an excise which is 50 per cent lower on an energy content basis than that for petrol and diesel (see table 3.2). The excise rates on alternative fuels were set having regard to a range of industry, regional and other factors’ (Howard 2003d). Arrangements applying to fuel products other than ethanol include:

- gaseous fuels (such as LPG) will be excise free for domestic uses (such as, heating and cooking) and business uses in non-transport production (for example, power generation); and
- from 2008, a \$1000 subsidy will be available to consumers who buy a new LPG vehicle, to provide ‘assistance for the LPG sector to assist its transition into the excise net’ (Howard 2003d).

Table 3.2 Announced excise rates for fuel products
cents per litre

<i>Excise rates</i>	<i>Petrol & diesel</i>	<i>Bio-diesel</i>	<i>Ethanol, LPG^a & LNG^b</i>	<i>Methanol</i>
2003-08	38.143	0	0	0
2008 ^c	38.143	3.8	2.5	1.7
2012	38.143	19.1	12.5	8.5

^a liquefied petroleum gas. ^b liquid natural gas ^c First of five increases in the excise rate for alternative fuels.

Source: Howard 2003d.

3.5 Pharmaceuticals

Most prescription medicines sold in Australia are listed on the schedule of the Pharmaceutical Benefits Scheme (PBS), which provides substantial subsidies to users of pharmaceuticals. The government's ability to grant or withhold listing provides it with strong countervailing buyer bargaining power, which has allowed it to keep Australian drug prices lower than those in most developed countries. While this has helped to limit the budgetary costs associated with the subsidised provision of pharmaceuticals, the pharmaceutical manufacturing industry perceives that the low prices received under the PBS are a deterrent to production activity in Australia.

The Pharmaceutical Industry Investment Program (PIIP) is the most recent of several Commonwealth industry assistance measures aimed at offsetting the perceived influences of the PBS on domestic pharmaceutical activity. The PIIP, introduced in 1999 to replace the Factor f scheme, is due to expire in 2004.

In August 2002, the Government requested the Commission to review the PIIP. The terms of reference required the review to assess whether the program:

- has a credible rationale;
- is effective in achieving its objectives of increasing value added and R&D activity, and assisting the development of a pharmaceutical industry in Australia;
- generates overall benefits for Australians (the efficiency test); and
- should be continued or modified.

In its report released in February 2003 (PC 2003a), the Commission found that although the PIIP has been effective in stimulating R&D and, to a lesser extent, value added in pharmaceuticals production, the program is unlikely to make Australia better off overall. Its major rationale — to help counter the effects of low PBS prices on pharmaceutical activity — is, by itself, insufficiently strong to justify a tax-funded program, with the costs that this entails. Among other things the Commission noted that it is difficult to target the program to avoid significant transfers of public funds to foreign-owned pharmaceutical companies.

Nevertheless, the Commission considered that the industry faces some policy impediments — particularly the inability of many pharmaceutical firms to access the R&D Tax Concession, as well as the persistence of some PBS-related effects — which provide grounds for policy action. The Commission proposed a replacement program — re-oriented to R&D only — to target the prospects of high 'additionality'⁹ and spillover benefits that are most likely to generate net benefits for Australia.

⁹ The additional R&D that would not otherwise take place in the absence of government subsidy.

In May 2003, the Government announced a new program for the pharmaceutical industry — the Pharmaceuticals Partnerships Program (P³) — aimed at supporting pharmaceutical R&D activity. P³ will provide funding of \$150 million over five years from 1 July 2004 to 30 June 2009 (Australian Government 2003a).

Eligible pharmaceutical companies will include biotechnology, originator and generic medicine companies that have undertaken pharmaceutical R&D in Australia in the previous three years. The program's eligibility will not be restricted to companies that sell products on the PBS: it will also cover those owning pharmaceutical intellectual property (AusIndustry 2003).

Assessment of applications for program funding will be undertaken by the Industry Research and Development Board based on a competitive process. The selection criteria include:

- the track record and capabilities of the applicant — for example, the availability of research facilities and personnel, an R&D plan and commercialisation strategies;
- the scope and nature of the applicant's partnerships, and linkages between the applicant and research and medical institutions/companies;
- the technical merit of the proposed activities — for example, the extent to which new activity is generated for the company in Australia;
- the level of benefit to the Australian economy — for example, the extent the R&D enhances industry's capabilities, uses Australian inputs (such as intellectual property) and 'improves health outcomes for Australians'; and
- the applicant's likely contribution to a sustainable, internationally competitive pharmaceuticals industry in Australia — for example, the extent to which the assistance contributes to a longer-term business or R&D hub in Australia.

The subsidy payments are to be made at a rate of 30 cents for each dollar on R&D that eligible companies spend above a base level — calculated as an average of their R&D expenditure of the previous three years. The grant will be taxable and capped at \$10 million per company over the life of the scheme.

Eligible companies will not be precluded from also applying for the R&D Tax Concession (subject to its standard clawback provisions). However, State and Australian Government grants programs for R&D activities will be deducted from the P³ payments. Funding from government assistance programs that provide equity injections, such as the Innovation Investment Fund, will not be deducted.

3.6 Textiles, clothing and footwear

Although assistance to the textiles, clothing & footwear (TCF) industries has declined significantly since the mid-1980s, the effective rate of assistance to TCF remains the highest among the manufacturing industries (see chapter 2). Under the current assistance package, which commenced in 2000 and runs until 2005:

- current TCF tariffs are to be maintained until 2005, when further reductions will occur — from 25 per cent to 17.5 per cent for apparel and certain finished textiles; from 15 per cent to 10 per cent for cotton sheeting and woven fabrics, carpets and footwear; and from 10 per cent to 7.5 per cent for sleeping bags, table linen, tea towels and footwear parts; and
- the TCF Strategic Investment Program (SIP) is to provide \$700 million of transitional budgetary assistance to 2005.

The Commission's review

In November 2002, the Australian Government referred TCF assistance arrangements to the Commission for a public inquiry. The terms of reference required the Commission to bear in mind the Government's objectives of encouraging the TCF sector to adjust into activities where it will be internationally competitive with lower levels of assistance, and to improve the overall performance of the economy.

In its report finalised in July 2003 (PC 2003c), the Commission found that major structural change has occurred in the Australian TCF industries, mainly in response to global competitive pressures affecting producers in all developed countries. It noted that more adjustment and job losses are inevitable, regardless of future assistance arrangements. Even so, some Australian TCF producers are internationally competitive and others have the capacity to become so, particularly if industry and workplace impediments can be addressed. Nevertheless, the Commission noted that large labour cost disadvantages remain in standardised clothing and footwear production and that workers displaced by change in the sector will need help.

Under the Commission's preferred option, all TCF tariffs would be maintained at the new legislated 2005 levels until 2010, and most then be reduced to 5 per cent. Higher tariffs on clothing and certain finished textiles would not be reduced to 5 per cent until 2015. To facilitate industry adjustment, the Commission also proposed that the SIP be modified and extended for a further eight years from 2005, but with funding levels reducing over time.

The Government's response

In its response in November 2003 (Australian Government 2003d, Macfarlane 2003c), the Australian Government agreed with the Commission's key policy proposals, including the preferred tariff option for scheduling reform. In relation to post 2005 assistance arrangements, the Government announced that:

- TCF tariffs at 2005 levels will be maintained to 2010. At that time, the 10 per cent tariff for cotton sheeting, woven fabrics, carpet and footwear, and the 7.5 per cent tariff for sleeping bags, linen and footwear parts will be reduced to 5 per cent. The 17.5 per cent tariffs on clothing and certain finished textiles will be reduced to 10 per cent in 2010 and paused until 2015 when they will be reduced to 5 per cent.
- The post-2005 assistance package will provide transitional budgetary support worth \$747 million (see below) to help the sector adjust to tariff reform, with additional support for those parts facing the largest change.
- The post-2005 assistance package will be the last tranche of sector-specific assistance to be made available to the TCF sector. There will be no further reviews of the TCF sector and sector-specific assistance will cease after that provided under the post-2005 package. Tariff changes will be incorporated into legislation and new assistance will be contingent on the passing of these changes into law.

In relation to other policy issues affecting TCF industries, the Australian Government decided:

- (in principle) to remove the 3 per cent revenue duty imposed under the Tariff Concession System as soon as possible having regard to its fiscal position;
- to pursue reductions in market barriers under bilateral, WTO and APEC processes;
- to ensure that the most efficient regulatory system is in place for industrial chemicals in its response to the recommendations of the Chemicals and Plastics Action Agenda.

The \$747 million of transitional budgetary assistance package, to accompany the post-2005 tariff changes, is to be delivered through the following programs:

- the TCF Strategic Investment Program (SIP) will be modified with:
 - \$500 million to extend the program from 2005 to 2010 — the simplified scheme will provide an 80 per cent innovation subsidy and a 40 per cent capital investment subsidy;

-
- \$100 million will be made available for clothing and finished textiles firms only from 2010 to 2015;
 - a \$25 million grant program will be developed for TCF small businesses, to run for ten years;
 - a \$50 million structural adjustment program will operate for ten years to assist displaced TCF workers;
 - a \$50 million import credits scheme will operate for ten years to assist TCF innovation, technology adoption and export expansion;
 - a \$20 million supply chain program will run from 2010 to 2015 to support companies that are not already receiving assistance through SIP; and
 - \$27 million of assistance, in the form of duty revenue forgone, will be provided to extend the Expanded Overseas Assembly Provisions scheme to 2010.

3.7 Medical indemnity arrangements

Medical indemnity cover in Australia is provided by medical defence organisations, which are mutual associations of medical practitioners. As at June 2003, seven such organisations operated in Australia. The largest entity, United Medical Protection (UMP), covered around half of the medical profession.

In April 2002, UMP filed for provisional liquidation, following reported financial difficulties despite substantial increases in indemnity premiums for medical practitioners. Over the course of a series of negotiations with representatives of the medical profession, the Australian Government (Abbott 2003a) introduced several financial measures to assist medical practitioners and their defence organisations:

- *UMP guarantee.* In April 2002, the Australian Government announced a guarantee to assist medical practitioners and UMP. The guarantee is to pay UMP and/or its insolvency representative to provide the same type of insurance cover as UMP originally offered before the company was put into provisional liquidation. Although initially scheduled to run until June 2002, the guarantee was extended to until 31 December 2003 to allow the provisional liquidator time to restructure the UMP business.
- *Medical Indemnity (Premium) Subsidy Scheme.* This scheme subsidises the costs of premiums for medical practitioners undertaking high risk procedures — namely, obstetricians, neurosurgeons and procedural GPs. The subsidy commenced in January 2003 and will be subject to ongoing review in the light of reforms, availability of other financial assistance and the costs of medical insurance.

-
- *High Cost Claims Scheme.* This subsidy reimburses medical indemnity insurers for 50 per cent of the cost of insurance payouts, for claims between \$500,000 and \$20 million.
 - *Exceptional Claims Scheme.* This scheme, previously called the '*Blue Sky*' Scheme, provides protection for doctors against personal liability for claims that exceed their own level of insurance and the High Cost Claims Scheme threshold.
 - *IBNR Scheme.* The scheme is a response to the problem that some medical defence organisations have not made provision for liabilities arising from incurred-but-not-reported (IBNR) claims. Under this arrangement, the Australian Government has taken over responsibility for IBNR liabilities. The scheme covers only UMP at this stage, because other medical insurers have taken steps to manage their unfunded IBNR claims. When announced, the cost of the scheme was to be met by a levy on doctors. However, in October 2003, an eighteen month moratorium was announced for levy payments above \$1000.

In commenting on the assistance provided, in October 2003 the Government stated:

The Medical Defence Organisation UMP was run in ways that excluded scrutiny from the regulator and premiums were set at such a low level that insufficient thought had been given to how liabilities would be met in the future.

The Government was asked to rescue the doctors' Medical Defence Organisation UMP rather than let it go into liquidation leaving doctors personally liable and the injured facing the prospect of not getting any compensation.

The taxpayer has underpinned the rescue package through the Government's assumption of responsibility for the \$460 million in UMP's unfunded liabilities and through \$353 million of subsidies and exemptions for doctors (Coonan 2003).

In addition, the Australian Government indicated that it will pursue reforms to the medical indemnity insurance system. Measures are to include a quality and safety improvement program to help doctors reduce adverse events, and efforts to achieve nationally-consistent tort law reform and to ensure that the benefits are passed on the medical practitioners and the wider community.

Also in October 2003, a review panel was established to report on the medical indemnity insurance system. The Government received an undertaking from medical representatives that there would be no further claims for financial assistance during the course of the review (Abbot 2003b).

In November 2003, the NSW Supreme Court decided to terminate the provisional liquidation status of UMP. The Court noted that it was persuaded in its decision by the prudential supervision measures taken by the Australian Prudential Regulation Authority (APRA), regulatory measures taken by the Australian Securities and Investments Commission and the support of the Australian Government. In

particular, the Minister for Health and Aging had provided written assurance to the Court that the present Medical Indemnity Policy Review Panel will not affect the indemnity assistance provided to UMP (Abbott, cited in NSW Supreme Court 2003).

In December 2003, the report of the Medical Indemnity Policy Review Panel (2003) was released. The report found that recent prudential measures have put medical indemnity insurers on a sound commercial footing. Noting that recent resignations of doctors from public hospitals in NSW and Queensland were a major factor that had prompted the review, the report stated:

The recommendations of this Report are designed to ensure that doctors have no reasonable justification for letting their resignations take effect (p. 1).

In its response, the Australian Government has largely adopted the recommendations of the review to provide additional assistance to medical practitioners and their insurers. The new measures are estimated to cost \$180 million over four years, in addition to existing government commitments of \$438 million over the same period (Abbot and Coonan 2003). The Australian Government stated:

The Government considers that this is fair to doctors, patients and taxpayers and believes that, on this occasion, doctors have no reason to proceed with the resignations submitted in September and October (Abbot and Coonan 2003).

The new arrangements underwrite medical indemnity costs by a significant margin (from \$85 000 down to \$43 000 for a typical NSW surgeon). Among other things, they include:

- \$100 million for the *Medical Indemnity (Premium) Subsidy Scheme*. The subsidy is payable for 80 per cent of medical indemnity costs when those costs exceed 7.5 per cent of doctors' incomes. Payment is provided through medical insurers.
- \$41 million for the *High Cost Claims Scheme*. The subsidy will pay for high cost claims at the new *lower* threshold of \$300 000 (previously \$500 000). The subsidy rate is unchanged at 50 per cent of claims costs.
- \$13 million to fund premiums paid by procedural practitioners in rural areas.
- *IBNR Scheme*. The present UMP IBNR liability stands at \$483 million, of which the Government contribution amounts to \$231 million. Under the new arrangements:
 - the Australian Government will contribute towards half of the remaining liability (\$120 million) that doctors are expected to pay;

-
- the rest of the IBNR liability is to be paid by doctors through the Premium Subsidy and the Run-off Reinsurance Vehicle (also underwritten by the Government, see below).
 - doctors’ contributions to IBNR liabilities are to be treated as standard medical insurance premiums that will attract assistance through the Premium Subsidy scheme; and
 - the 18-months moratorium on levy payments will continue.
- *Run-off Reinsurance Vehicle (RRV)*. At present, doctors who cease practising must purchase ‘run-off’ cover against future claims of past alleged negligence. A new RRV organisation is to provide run-off cover at no cost to doctors when they cease practising. The RRV operates via complex arrangements. It is to receive a government guarantee, which the Review Panel expected would mean that it would not have to meet APRA’s capital adequacy measures. The run-off cover is financed by a charge on medical insurers, which in turn is funded by premiums on currently-practising doctors. (These premiums are also eligible for the Premium Subsidy scheme.)

The Australian Government also announced that it will initiate, within 18 months, a review of the arrangements’ effectiveness as well as the progress of tort law reforms and the feasibility of setting up a monopoly medical insurer owned by doctors.

3.8 Investment attraction and project-specific assistance

As well as providing broad-based assistance for industries and activities, Australian governments also assist specific projects or specific firms. At the Australian Government level, the Strategic Investment Incentives Program (SIIP) provides an administrative umbrella and guidelines under which such assistance is distributed¹⁰, often with the aim of attracting foreign multinationals to Australia. State governments also provide firm- and project-specific assistance, often in competition against other State governments to attract a target firm to invest or locate in their particular State.

The Commission has examined issues surrounding the provision of firm- and project-specific assistance in several inquiries, including *State and Local Government Assistance to Industry* (IC 1996) and *Telecommunications Equipment*,

¹⁰ Funding for investment incentives comes from a ‘notional’ allocation in the contingent reserve of the budget, rather than from the annual budget appropriation process that normally applies to other industry assistance programs. In June 2003, the Australian Government announced that, in the future, it will move to the budget appropriation reporting standard for the investment incentives when it grants assistance to particular projects (Senate Economics Legislation Committee 2003b).

Systems and Services (IC 1998). It has also commented on some aspects of this assistance in the last four years' *Trade & Assistance Review* (PC 1999, 2000b, 2001b, 2002b).

In this section, the Commission reports on selected developments in investment attraction and firm-specific assistance over the last year.

Methanol and gas-to-liquids projects

As noted in last year's *Review*, a number of investment incentives offered by the Australian Government target the development of gas-to-liquid (GTL) processing projects, such as those producing methanol products, located on the Burrup Peninsula in Western Australia. The incentives and offers of assistance to date include:

- a \$70 million package for a Syntroleum GTL sweetwater plant;
- offers of assistance for a Methanex methanol plant; and
- a more recent offer of \$35 million for a GTL Resources methanol plant.

In addition, the Western Government has offered more than \$130 million in infrastructure funding to the Burrup Peninsula to assist the development of several projects, including the above gas processing plants (Brown 2003a).

However, some of these developments have not proceeded.

Syntroleum began developing its sweetwater project in early 2000. The Australian Government's investment incentive offer comprised a payment of \$30 million to acquire the GTL technology and an interest-free loan of \$40 million. In October 2002, the company announced that it will not proceed with the construction of the project, noting significant increases in capital costs. The Australian Government has paid \$15 million to Syntroleum in return for the Government ownership of the GTL technology licence. The GTL technology can be transferred to another party, subject to the consent of Syntroleum. The company cannot claim the remaining \$55 million in investment incentives unless the sweetwater project recommences by 31 August 2004 (Senate Economics Legislation Committee 2003a).

In the case of Methanex's methanol plant, the Australian Government initially offered \$110 million of assistance for the project at the time when the company planned to locate the plant in Darwin. In 2002, the company decided to switch to the Western Australian location. The Australian Government then offered \$85 million to Methanex. However, Methanex subsequently revised the scale of the project and

later, in September 2003, announced its decision to cancel the proposed Burrup methanol plant, because of rising capital costs (Brown 2003b).

In October 2003, the Australian Government announced an investment incentive of \$35 million to GTL Resources for its proposed project — a \$700 million methanol plant to be located in the Burrup Peninsula (MacFarlane 2003a). The incentive comprises infrastructure funding for the development of the project, including a seawater supply pipeline, a desalination plant, electricity connection and a contribution towards port services. The Australian Government stated that the infrastructure facilities may also attract other projects to the Burrup Peninsula, noting that several companies are currently considering locating major gas processing projects in this region.

Magnesium

In *Trade & Assistance Review 2000-01* (PC 2001b), the Commission reported on a series of assistance measures provided by the Australian and Queensland Governments to Australian Magnesium Corporation's (AMC) Stanwell magnesium smelter in Queensland. Since 2000, the assistance measures have comprised a combination of infrastructure provision, research funding and equity-raising measures.¹¹

In June 2003 AMC — which had earlier experienced difficulties in raising sufficient finance to proceed with the project — announced its decision to terminate the Stanwell project and restructure the company, reporting substantial increases in project costs.

The cancellation of the Stanwell project has implications for the assistance package that the Australian Government provided to AMC:

- As part of the package, the Australian Government, through the CSIRO, provided \$50 million to an AMC subsidiary to conduct research on the magnesium smelting process to be used by the Stanwell smelter. The grant was to be paid back by AMC in the form of royalties to the CSIRO upon commencement of commercial production. The research funding has been

¹¹ The Australian and Queensland Governments have a long history of involvement in assistance to the Australian Magnesium Corporation (AMC — previously the Queensland Metals Corporation). In the early 1990s, these Governments provided \$25 million to a consortium including the Queensland Metals Corporation and CSIRO. The consortium was to attract funds to develop the Kunwarra magnesite deposit in central Queensland. The Commonwealth funding formed part of the then Light Metals Industry Development Strategy. In July 1990, the Queensland Investment Corporation commenced investment in AMC and, as at 30 April 2003, held over 22 million shares in the company (Mackenroth 2003).

expended. In its latest annual report, AMC stated that due to the termination of the Stanwell project, this 'liability is not currently able to be reliably measured' (AMC 2003, p. 34).

- The Australian Government also guaranteed a \$100 million loan to AMC. The loan remains in place and, as at October 2003, the loan balance stood at \$82 million.

There were also implications for the assistance package provided by the Queensland Government:

- The package included a \$70 million cost overrun facility to address the contingency of actual construction costs exceeding the budgeted costs. This facility was not drawn on and has now been terminated.
- The Queensland Government also offered to provide a \$50 million infrastructure supply facility at the Stanwell Industrial Estate. The infrastructure was to include a \$9 million railway siding and a pipeline to transport gas from PNG. This assistance has not been drawn on and has since been cancelled.
- The Queensland Government also provided a \$100 million loan facility. The loan is a guaranteed dividend payment (the Distribution Entitled Security) to shareholders who took up investments in the Stanwell project. At July 2003, \$32 million had been paid, with further distributions due in 2003 and 2004.

In June 2003, the Australian and Queensland Governments entered into a new agreement with AMC. The Queensland Government said:

[this] will allow AMC a further opportunity to test the feasibility of the replacement magnesium product project. Of course, should AMC's efforts in this regard not be successful, the two governments can require AMC to repay the balance of monies to them (Beattie 2003).

Stuart oil shale project

Last year's *Review* (PC 2002b) reported on Australian Government assistance for the Stuart oil shale project in Gladstone.

Since 1991, the Stuart project had been eligible for an excise exemption. In recent years, due to its environmental effects, the 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 and odour emissions. Greenpeace has instigated a campaign targeting the effects of shale oil production on greenhouse gas emissions.

In May 2002, following a request from Southern Pacific Petroleum for financial assistance, the Australian Government announced a temporary assistance measure in the form of a grant of up to \$36 million per year until 2005 for sales of naphtha that are unable to take advantage of the excise exemption. However, in July 2002, the company successfully secured a long-term domestic sales contract for naphtha. The Department of Industry, Tourism and Resources has noted that, as these purchases proceed, the assistance available under the grant will not be required (Australian Government 2003b).

In November 2003, Southern Pacific Petroleum announced that the company had been put into receivership. To date, the Australian Government has provided \$7 million in R&D grants and \$18 million in the form of excise exemption to the Stuart project (Australian Government 2003b).

State and Territory Governments agreement on investment attraction

For many years, State and Territory governments have provided an array of selective assistance to attract investment projects or firms to locate within their jurisdictions. Some States have established formal schemes, such as 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.

As reported in last year's *Review*, in recent years a number of State-based Auditors-General and parliamentary committees have called for greater transparency in industry assistance and have recommended reforms to the administration, evaluation and monitoring of assistance programs. The Productivity Commission has also called for reforms, including an agreement between the States to limit inter-state bidding wars.

Following preliminary agreements between the NSW, Victorian and South Australian governments, in September 2003 six State Governments signed an interstate agreement to reduce cross-border bidding for investment and events, and to restrict the use of financial incentives to attract investment. The *Interstate Investment Co-operation Agreement* covers NSW, Victoria, South Australia, Western Australia, Tasmania and the ACT. The Queensland and Northern Territory governments declined to join the investment cooperation agreement (Brumby 2003b, Egan 2003, Quinlan 2003b, Foley 2003).

The Investment Agreement comprises three components.

- *Financial incentives* — state governments will cooperate (a) with a view to declining to offer any incentive in relation to footloose investment where there is no national benefit (such as relocation of business between states) and (b) to minimise incentives when it is clear that investment projects and major events are already committed to Australia.
- *International markets* — state governments will support joint measures to promote Australia as an investment destination. This will include the exchange of information, co-location of international offices and promotion of Australia in international markets.
- *Communication and coordination* — the agreement provides for annual reports on investment and event attraction activities to be provided to State Treasurers; nomination of day-to-day point of contact; and periodic review of co-operation.

The agreement will apply for three years from September 2003.

3.9 Anti-dumping arrangements

Dumping is said to occur when a foreign supplier exports goods at a price below the ‘normal value’ of the goods in the supplier’s home market. The price of the good in the exporter’s home market is generally used to determine the normal value, but in certain prescribed circumstances, alternatives such as the good’s price in another export market or a constructed price are sometimes used.

Under WTO rules, a country can apply anti-dumping measures on dumped imports if they cause, or threaten to cause, material injury to a competing domestic industry. The domestic chemical and plastics industries have been the largest users of anti-dumping actions in Australia in recent years (see appendix C).

Like other measures that raise the price of imports, anti-dumping measures assist particular industries, but can also impose higher costs on other domestic industries and consumers. For example, anti-dumping measures on imported chemicals from China assists local chemical producers, but raises costs for Australian farmers and other industries that use chemicals as inputs.

Australia’s current anti-dumping and countervailing system, which took effect in July 1998, was described in *Trade & Assistance Review 1997-98* (PC 1998). A national competition policy review of anti-dumping legislation was scheduled to be completed before June 2002, but this has been delayed.

Some legislative changes to the anti-dumping system have been introduced recently. Their background and details are reported below.

Economies-in-transition rules

In recent years, the Australian Government has introduced changes in anti-dumping provisions relating to ‘economies-in-transition’ — that is, those countries that previously had central planning characteristics and are moving towards a market-based economic system. China, Vietnam and Russia are examples of countries deemed to be transitional economies.

In 1999, the *Customs (Anti-Dumping) Amendments Act 1999* introduced special rules for determining the normal value of goods from transitional economies. Among other things, the changes provide a ‘price control’ test — that is, where the Australian Customs Services (ACS) considers that the domestic selling price of the exported goods is substantially controlled by the foreign government, then the ‘normal value’ would be determined by the Minister for Justice and Customs, rather than by reference to the price of sales in the country of export.

Different views have been expressed on the effects of the change. The Bill Digest on the 1999 Act indicated that the policy change was in response to industry pressure to apply some degree of differential treatment for transitional economies. More recently, the Law Institute of Victoria (2003) commented that:

This is a very wide discretion and means that sales in the country of export are disregarded, which is contrary to normal ‘Anti-Dumping’ practice.

In December 2000, the Government issued guidelines to the Australian Customs Services on the criteria to determine whether a ‘price control’ situation exists (ACS 2000 and 2001). The guidelines stipulated that the onus fell upon an exporter to establish that a price control situation did *not* exist and that a failure to respond adequately to ACS’s request for information meant that a price control situation was deemed to exist (and, thus, that the normal value of the goods would be determined by the Minister). Further, the guidelines indicated that a price control situation would exist if any of following criteria were *not* met.

- The pricing takes place according to market signals and without significant state interference.
- The producer/exporter has appropriate accounting records and auditing procedures.
- The producer/exporter’s financial situation is not subject to any distortions carried over from the previous non-market economic system.
- The producer/exporter is subject to bankruptcy and property laws.

Some interested parties have questioned aspects of the guidelines. As the Law Institute of Victoria (2003) noted that:

Questions were raised as to the legal basis of the Guidelines as they appeared to go beyond the types of 'directions' which the Minister is entitled to issue pursuant to the relevant provisions of the Customs Act. Questions were also raised as to the relevancy of some of the tests.

In December 2002, the *Customs Legislation Amendment Bill (No. 2) 2002* was introduced, proposing legislative changes to the anti-dumping provisions in relation to economies in transition, to:

- replace the 'price control' test with a 'price influence' test for economies in transition; and
- put the onus on exporters to provide the relevant information for the investigation of 'dumping' practices *within a time frame of 30 days*.

According to the Explanatory Memorandum accompanying the Bill, the new provisions are to remove the uncertainty in relation to whether a price control situation covers the indirect effects on domestic price of government intervention:

It is unclear whether the current test of price control covers indirect government interference. The amendments recognise that something less than actual control may still result in significant distortion in the calculation of normal value. Therefore, the test of price control is being replaced with a test of price influence (Ellison 2002).

The effect of the new price influence provisions would be to apply a broader test than price control to apply anti-dumping actions to economies in transition. In addition, the price influence test would also apply where the ACS considers that the exporter does not provide adequate information for the anti-dumping investigation. In this case:

... the presumption, in the absence of the necessary information, will be that the domestic selling price has been significantly affected by government (Ellison 2002).

The provision is intended to shift the onus of proof of dumping on to the exporters in transitional economies rather than local producers. If exporters cannot demonstrate that the government does not significantly affect prices, the Minister would be responsible for determining normal value. If, on the other hand, exporters can demonstrate that the government does not significantly influence prices, then the price paid on the domestic market would become the normal price.

The proposed economies-in-transition rules were a matter of concern for domestic user industries, exporters and foreign governments. In November 2003, the *Customs Legislation Amendment Act (No. 2) 2002* was passed in parliament with the following amendments:

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- the ‘price influence’ test is replaced with a ‘market conditions do not prevail’ test, the interpretation of which will be set out in the regulations;
 - The Minister is to determine the ‘normal value’ based only on the matters prescribed in the regulations; and
 - the exporter can request for an extension of time beyond the 30 days deadline.

Other changes

The *Customs Legislation Amendment Act (No. 2) 2002* also introduced some other (relatively minor) changes to the anti-dumping assessment process, including the following:

- To be consistent with WTO rules, the Minister would need to consider only accumulated exports from several countries and not accumulated exports from one country in determining the effect of exports.
- For the continuation of anti-dumping measures, the ACS would be able to invite applications only from the original applicants or domestic industry producing like goods, and *exclude* importers. The Explanatory Memorandum accompanying the Bill stated that ‘importers are scarcely likely to seek the continuation of the duty’.
- The Chief Executive Officer of the ACS would be given increased power to reject an application for review of interim duty, if the CEO believes that the applicant/exporter has not provided sufficient information. The role of the Trade Measures Review Officer would be expanded to include review of the CEO’s decision in relation to the review of interim duties.