
1 Introduction

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

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

Assistance thus takes many forms. It extends beyond direct government subsidies targeted to particular firms or particular industries, and includes tariffs, quotas, anti-dumping duties and regulatory restrictions on imported goods and services, as well as tax concessions and subsidies for domestic producers. Assistance also arises from the provision of underpriced services by government agencies and from government procurement policies.

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

In some cases, particular types of industry assistance — most notably R&D funding — can deliver net community benefits. Similarly, some policies that have industry assistance effects may be justified on other grounds, such as the achievement of cultural, environmental or equity objectives.

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

This edition of *Trade & Assistance Review* contains the Commission's latest estimates of Australian Government assistance to industry (chapter 2). The estimates are the first in a new series and incorporate revisions in the coverage of assistance programs as well as to underlying data sources and methodologies. The estimates in this edition cover the years 2001-02 to 2005-06.

The *Review* also reports on a number of recent developments with ramifications for Australia's assistance structure generally or for particular sectors or industries (chapter 3). The developments covered relate to:

- drought relief;
- specific assistance for various industries;
- small business support;
- regional adjustment support;
- selective investment incentives; and
- anti-dumping arrangements.

The estimates and related information help to reveal who gains and who loses from industry assistance. They can also provide a broad indication of the resource allocation effects of the assistance measures covered, and highlight some of the costs of industry support.

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

This year's *Review*, as well as reporting on industry assistance, covers selected developments in international trade policy over the last year (chapter 4). It reports on the impasse in the current round of World Trade Organisation negotiations, and on mechanisms to help alleviate the underlying domestic constraints on trade liberalisation. It also reports on Australia's involvement in preferential trading arrangements, and discusses recent changes to the rules of origin in Australia's preferential agreement with New Zealand.