# 2 Assistance estimates

Assistance to industry is provided by a wide array of government programs and policies. Each year, the Commission updates and publishes estimates of the assistance provided by:

- import tariffs, which mainly assist the manufacturing sector while raising costs to consumers and to industries that use manufactured and other tariff-assisted inputs;
- Australian Government budgetary measures — divided into government outlays and tax concessions — applying to the agricultural, mining, manufacturing and service sectors; and
- agricultural pricing and regulatory measures.

As well as providing estimates for these three categories, the Commission aggregates them to provide an estimate of the 'combined' assistance for four broad sectors of the Australian economy — 'primary production', 'mining', 'manufacturing' and 'services' — along with effective rates of assistance for all sectors except services. For each category of assistance, the Commission provides more detailed estimates of assistance by 35 industry groupings. In addition, the Commission disaggregates its estimates of budgetary assistance into special sub-categories (such as R&D and export assistance) to facilitate more detailed assessments of changes in the composition and nature of assistance.

Nonetheless, the estimates do not aim to capture all Australian Government support for industry (box 2.1); nor, apart from some minor agricultural assistance, do they include State government assistance.

The following sections outline the coverage of the Commission's assistance estimates, present the most recent (2007-08) assistance estimates and reflect on the broad changes in the structure of industry assistance over the last three decades.

Box 2.1 **Coverage of the Commission’s assistance estimates**

The Commission’s assistance estimates cover only those measures which selectively benefit particular firms, industries or activities, and which can be quantified given practical constraints in measurement and data availability. Exclusions from the annual estimates include:

- for agricultural industries, any assistance effects that may be associated with quarantine restrictions, the pricing of water resources or the impact of measures to address land degradation resulting from farming practices;
- capital depreciation subsidies and the impact of tariffs on capital items;
- the effects of government purchasing preferences — for example, as they affect the manufacturing sector and IT industries;
- regulatory restrictions on competition — for example, relating to pharmacy, air services, and media and broadcasting;
- anti-dumping and countervailing measures;
- certain differential tax arrangements, including in relation to excises, the GST and superannuation, as well as particular arrangements affecting the mining sector where resource rent taxation issues make it difficult to determine assistance impacts;
- State and Territory government assistance to industry, other than designated agricultural marketing arrangements and rural support programs;
- government programs affecting a range of service industries, mainly relating to the provision of health, education, sport and the arts;
- government programs affecting national security and public safety, including police and defence programs; and
- government programs affecting the labour market.

## 2.1 Tariff assistance

Tariffs have direct effects on the returns received by Australian producers. The Commission’s estimates of tariff assistance are divided into three main categories — ‘output’ assistance, ‘input’ assistance and ‘net’ assistance.

- Tariffs on imported goods increase the price at which those goods are sold on the Australian market, and thus allow scope for domestic producers of competing products to increase their prices. These effects are captured by the Commission’s estimates of output assistance.
- On the other hand, tariffs also increase the price of local and imported goods that are used as inputs and thus penalise local user industries. This ‘penalty’ is

reduced if tariff concessions are available to Australian producers. The penalties are reflected in the Commission's estimates of input assistance.

- Net assistance represents the 'effective' tariff assistance provided to industry, and is calculated as output tariff assistance less the input penalty imposed by tariffs.

The Commission estimates that the gross dollar value of tariff assistance to domestic production was $9.2 billion in 2007-08 (table 2.1). The general increase in the nominal value of output tariff assistance over the five year period to 2007-08 reflects growth in domestic industries and *not* an increase in tariff rates. However, significant tariff reductions occurred for motor vehicles and parts and textiles, clothing and footwear products in January 2005. Others things being equal, these reductions lowered the level of output assistance from 2004-05.

Table 2.1 **Tariff assistance, 2002-03 to 2007-08**

$million (nominal)

| | *2002-03* | *2003-04* | *2004-05* | *2005-06* | *2006-07* | *2007-08* |
|---|---|---|---|---|---|---|
| Output assistance | 8 280.2 | 8 933.2 | 8 638.2 | 8 421.8 | 8 757.0 | 9 161.2 |
| Input assistance | -6 963.5 | -7 600.4 | -7 521.9 | -7 069.6 | -7 588.6 | -8 125.2 |
| Net tariff assistance | 1 316.7 | 1 332.8 | 1 116.3 | 1 352.2 | 1 168.4 | 1 036.0 |

*Source*: Commission estimates.

The estimated cost penalties to user industries of tariffs was $8.1 billion in 2007-08. Over the five-year period to 2007-08, the nominal value of the input penalty has increased with general growth in the economy. Nevertheless, the 3 per cent duty on a range of imports for which there was no competing domestic production, much of which were used as business inputs, was removed on 11 May 2005. This lowered the input penalty of tariffs from 2004-05.

After deducting the tariff input penalty from the output assistance, net tariff assistance (for the Australian economy) was estimated to be around $1 billion in 2007-08, compared with $1.2 billion in 2006-07 and $1.3 billion in 2002-03. This represents a decline of around 21 per cent in nominal terms and 36 per cent in real terms since 2002-03.[1]

[1] The 'real' estimates in this chapter have been calculated by deflating the current value series to a 'real value' series, indexed to the reference year 2002-03, using the GDP deflator.

The Commission's tariff assistance estimates are not adjusted to reflect tariff preferences granted under Australia's preferential trading agreements on the basis that countries subject to lower (preferential) tariffs generally receive the full price benefits while domestic prices in Australia remain unchanged (box 2.2).

### Box 2.2 **Treatment of preferential tariffs**

The tariff preferences provided under Australia's preferential trading agreements need not result in any change in prices in the domestic market and, thus, in assistance to Australian industry provided by the general (Most Favoured Nation (MFN)) tariff regime. This would be the case if producers in the partner country effectively 'pocketed' the tariff concessions, rather than reduced their prices below the prevailing (tariff-inflated) price of rival imports.

However, to the extent that tariff concessions provided by preferential trading agreements (PTAs) result in a reduction in the prices of imported products in the Australian market, assistance to the relevant industry's outputs will be lower than that implied by the MFN rate. At the same time though, to the extent that the price of imported inputs falls as a result of PTA preferences, the penalties (or negative assistance) on the industry's inputs will also be lower than implied by the MFN rate. Whether this leads to a net overstatement or understatement of assistance to the Australian industry in question would depend on trade patterns with the PTA partner countries, which products are subject to price reductions, and their relative magnitudes.

A further discussion of these effects and estimates of assistance conferred by tariff preferences is provided in a supplement to the Commission Research Report *Rules of Origin under the Australia–New Zealand Closer Economic Relations Agreement (PC 2004d)*.

*Sources:* PC (2004b); PC (2004c); PC (2008i).

## Tariff assistance by sector and industry

Although aggregate net tariff assistance is positive, the sectoral experience is quite different. Most tariff assistance on outputs is directed towards the manufacturing sector, and in particular in the *Food, beverages & tobacco*, *Motor vehicles & parts*, and *Metal product manufacturing* groups (table 2.2 left hand column). Mining and primary production industries receive little tariff assistance on outputs, and tariffs are not levied on services.[2] On the other hand, because of their cost-raising effects on inputs, tariffs impose penalties on all industries (table 2.2 middle column).

[2] Due to ABS industry-of-origin classification conventions, a small amount of output tariff assistance is recorded for some service industries.

## Table 2.2 **Tariff assistance by industry grouping,[a] 2007-08**

$million (nominal)

| *Industry grouping* | *Output assistance* | *Input assistance* | *Net tariff assistance* |
|---|---|---|---|
| **Primary production** | **62.1** | **-55.7** | **6.3** |
| Dairy cattle farming | 0.0 | -3.6 | -3.6 |
| Grain, sheep & beef cattle farming | 0.1 | -16.0 | -15.9 |
| Horticulture & fruit growing | 45.3 | -8.9 | 36.5 |
| Other crop growing | 0.0 | -4.7 | -4.7 |
| Other livestock farming | 0.0 | -2.0 | -2.0 |
| Fisheries | 0.0 | -8.4 | -8.4 |
| Forestry & logging | 16.6 | -3.8 | 12.9 |
| Other primary production[b] | 0.0 | -8.4 | -8.4 |
| **Mining** | **4.3** | **-297.6** | **-293.3** |
| **Manufacturing** | **8 759.1** | **-2 932.9** | **5 826.2** |
| Food, beverages & tobacco | 1 588.1 | -396.9 | 1191.2 |
| Textiles, clothing, footwear & leather | 504.1 | -124.0 | 380.1 |
| Wood & paper products | 752.5 | -198.4 | 554.1 |
| Printing, publishing & recorded media | 447.2 | -152.8 | 294.4 |
| Petroleum, coal, chemical & ass. products | 1 166.9 | -326.4 | 840.5 |
| Non-metallic mineral products | 268.9 | -64.4 | 204.4 |
| Metal product manufacturing | 1 294.9 | -362.4 | 932.5 |
| Motor vehicles & parts | 1 374.2 | -732.7 | 641.4 |
| Other transport equipment | 123.1 | -73.0 | 50.1 |
| Other machinery & equipment | 728.8 | -284.5 | 444.3 |
| Other manufacturing | 510.4 | -217.2 | 293.2 |
| **Services** | **335.8** | **-4 839.1** | **-4 503.3** |
| Electricity, gas & water supply[c] | 6.8 | -89.5 | -82.6 |
| Construction | 0.0 | -1 693.8 | -1 693.8 |
| Wholesale trade[c] | 144.8 | -317.8 | -173.0 |
| Retail trade[c] | 184.1 | -744.8 | -560.7 |
| Accommodation, cafes & restaurants | 0.0 | -393.1 | -393.1 |
| Transport & storage | 0.0 | -264.9 | -264.9 |
| Communication services | 0.0 | -143.5 | -143.5 |
| Finance & insurance | 0.0 | -33.5 | -33.5 |
| Property & business services | 0.0 | -354.5 | -354.5 |
| Government administration & defence | 0.0 | -346.1 | -346.1 |
| Education | 0.0 | -85.4 | -85.4 |
| Health & community services | 0.0 | -112.8 | -112.8 |
| Cultural & recreational services | 0.0 | -161.4 | -161.4 |
| Personal & other services | 0.0 | -97.9 | -97.9 |

[a] Tariff assistance estimates are derived using ABS Industry Gross Value Added at current prices data. This information is subject to periodic revision by the ABS. Totals may not add due to rounding. [b] Other primary production includes *Services to agriculture* (including *Hunting & trapping)* and *Poultry farming*. [c] Due to ABS industry-of-origin classification conventions, a small amount of output tariff assistance is recorded for these service industries.

*Source:* Commission estimates.

With the value of tariff assistance on manufacturing outputs outweighing the cost imposts of tariffs on inputs, all manufacturing industries are estimated to receive net-positive tariff assistance (table 2.2 right hand column).

Outside the manufacturing sector, the *Horticulture & fruit growing* and *Forestry & logging* industries are also estimated to receive net-positive tariff assistance in 2007-08. Some imported products in these two particular industry groupings attract tariffs (for example, grapes and softwood conifers). All other primary, mining and service industries incur a net penalty from the level and structure of tariffs in Australia.

Since 2002-03, the value of net tariff assistance for the manufacturing sector has increased by 18 per cent, reflecting the general growth in manufacturing output. At the same time, the net tariff penalty on the service sector has increased by 29 per cent, reflecting the stronger growth of the sector (compared to manufacturing) and the punitive effect of tariffs on inputs.

## 2.2 Australian Government budgetary assistance

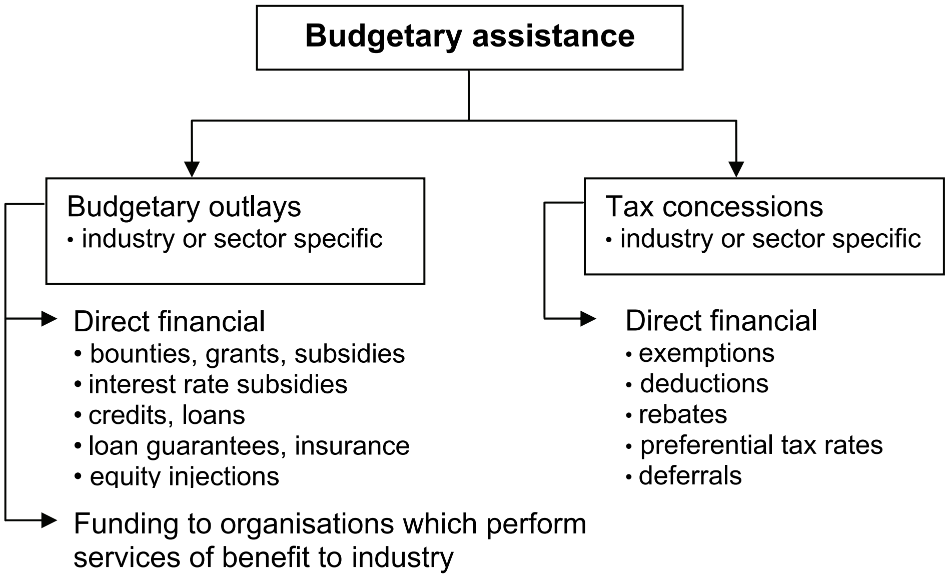
Budgetary assistance comprises outlays and tax concessions (figure 2.1). Recipients include individual firms and those undertaking or using the output of particular activities, such as R&D in particular industries. Some measures provide assistance directly to industry, such as the Automotive Competitiveness and Investment Scheme, while other budgetary support measures are provided indirectly via an intermediate organisation such as the Rural Industries Research and Development Corporation or the Commonwealth Scientific and Industrial Research Organisation (CSIRO).

As well as reporting its budgetary assistance estimates in the aggregate, *Trade & Assistance Review* also reports on:

- the broad kinds of activities — including R&D, export grants, industry-specific support — to which the assistance is directed; and
- the incidence of assistance benefits across four broad sectors and 35 industry groupings.

The budgetary assistance estimates are derived primarily from actual expenditures shown in departmental and agency annual reports, and the Australian Treasury Tax Expenditures Statement. Industry and sectoral disaggregations are based primarily on supplementary information provided by relevant departments or agencies.

Figure 2.1 **Forms of budgetary assistance**

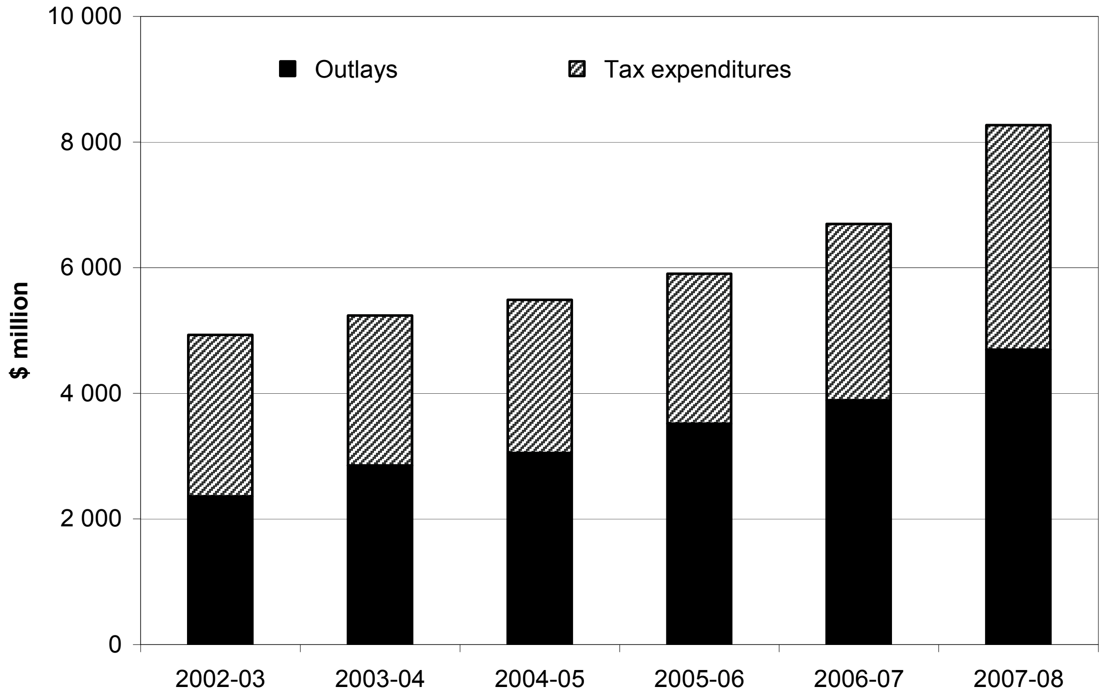



## Aggregate budgetary assistance

The estimated gross dollar value of budgetary assistance to Australian industry was around $8.3 billion in 2007-08, compared with $6.7 billion in 2006-07 and $4.9 billion in 2002-03 (figure 2.2). In *real* terms, this represents an increase of 18 per cent since 2006-07 and 36 per cent since 2002-03. The main sources of increase in the last 12 months (2006-07 to 2007-08) were:

- an increase of around $430 million in 'exceptional circumstances' drought relief payments and interest rate subsidies;
- an increase of around $315 million in Small Business Capital Gains Tax concession measures;
- assistance of around $250 million to activities connected with commercial horse operations in response to the horse 'flu' outbreak;
- a $150 million increase in assistance provided under the Offshore Banking Unit Tax Concession Program;
- grants to Murray Darling Basin irrigators of $145 million to assist adjustment to reduced water allocations; and
- increases of around $80 million, $90 million and $115 million in assistance provided under the R&D Tax Concession, R&D Tax Offset for Small Companies and Premium R&D Tax Concession schemes, respectively.

Figure 2.2 **Budgetary assistance to industry, 2002-03 to 2007-08**
$million (nominal)




*Sources:* Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years); Treasury (2009a); Commission estimates.

## Activities targeted

Budgetary assistance is often designed to encourage particular activities (such as R&D or exports) or to support particular firms, industries or sectors. To provide an indication of the distribution of assistance among activities and to facilitate more detailed assessments of changes in the composition and nature of assistance, the Commission classifies its estimates of Australian Government budgetary assistance into several categories:

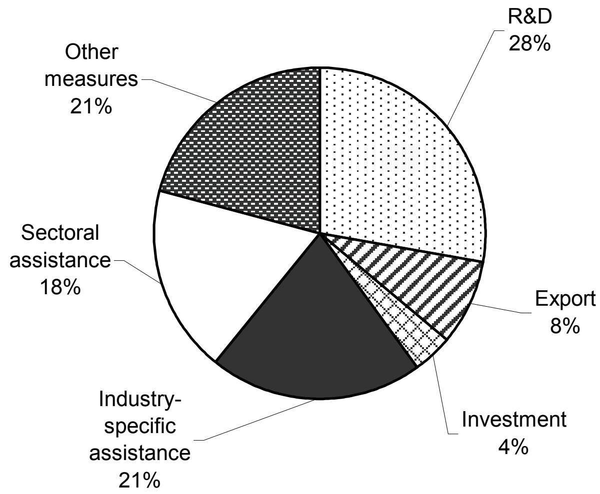
- R&D, including assistance to CSIRO as well as various R&D tax concessions;
- Export measures, including assistance provided through Austrade as well as Export Market Development Grants (EMDG);
- Investment, including Offshore Banking Unit tax concessions;
- Industry-specific measures, including the Automotive Competitiveness and Investment Scheme and the Textiles, Clothing and Footwear Strategic Investment Program;

- Sectoral measures, such as 'exceptional circumstances' drought relief payments, as well as tax concessions made under the Farm Management Deposits Scheme; and
- a residual 'other' category, which includes measures such as small business capital gains tax concessions, payments under the Tasmanian Freight Equalisation Scheme, the Structural Adjustment Fund for South Australia and the Regional Partnerships Program.

Budgetary assistance is largely directed towards R&D (28 per cent), with most of the remainder fairly evenly spread between sectoral assistance (18 per cent), industry-specific assistance (21 per cent) and other measures (21 per cent) (figure 2.3).

Some caution is required when interpreting these estimates. While programs have been allocated to one category only, a number have characteristics of more than one category, for example, the R&D category includes rural R&D, which could also be considered sector specific.

Figure 2.3 **Budgetary assistance by category, 2007-08**




*Source*: Commission estimates.

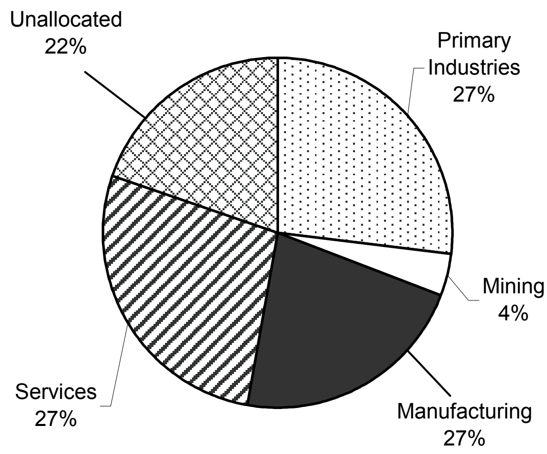
## Sectoral and industry distribution

The Commission estimates the incidence of budgetary assistance by the initial benefiting industry, that is, the industry which receives the assistance first. Estimates are presented for 35 'industry groupings', plus 4 'unallocated' groupings. The groupings are based on the 1993 Australia and New Zealand Standard Industrial Classification (ANZSIC). The 35 groupings comprise 9 in the primary sector, 11 in manufacturing, 14 in services, and one for mining. The four unallocated categories are used for programs where it has not been possible to confidently identify the initial benefiting industry or sector. While the Commission has used detailed information to make allocations, the need for judgment means that there remains some scope for imprecision. More detailed discussion of the budgetary assistance methodology is available in a methodological annex (PC 2008i). Reporting budgetary assistance by broad sectors and industries helps highlight the incidence of assistance and facilitates comparisons on the basis of a common classification.

In 2007-08, manufacturing, primary production and the (much larger) services sector each received around one quarter of total estimated budgetary assistance, while the mining sector received relatively little measured budgetary assistance (figure 2.4).

However, around 20 per cent of total budgetary assistance is classified as 'unallocated' because of a lack of appropriate industry distribution data. The principal unallocated items are the small business tax concessions, Austrade funding and the 25 per cent entrepreneurs' tax offset.

Figure 2.4 **Budgetary assistance by sector, 2007-08**




*Source*: Commission estimates.

Over the seven years 2001-02 to 2007-08 (appendix A), estimated budgetary assistance has grown the most for the services sector, mainly due to growth in the Offshore Banking Unit tax concession, introduction of the LPG Vehicle Scheme in 2006-07 and the Equine Influenza Emergency Assistance Package in 2007-08, and growth in the various R&D support schemes. Primary sector budgetary assistance has also increased over the period, mainly through drought related payments. At the same time, budgetary assistance to manufacturing and mining changed little.

At the industry level in 2007-08, estimated budgetary assistance was highest for *Grain, sheep & beef cattle farming* ($1.05 billion), mainly in the form of drought assistance payments and R&D support (table 2.3). *Motor vehicles & parts* received the second largest amount of budgetary assistance ($603 million), mainly through the Automotive Competiveness and Investment Scheme.

Within the services sector, *Cultural & recreational services*, *Finance & insurance* and *Property & business services* receive the largest amount of measured budgetary support (over $400 million each). However, while more than 95 per cent of the *Finance & insurance* support is in the form of tax concessions (the Offshore Banking Unit Tax Concession program, R&D tax concessions and venture capital programs), the majority of budgetary assistance for *Cultural & recreational services* and *Property & business services* is delivered in the form of outlays, such as the Equine Influenza Emergency Assistance Package, film industry programs, and the R&D Tax Offset for Small Companies.

## Table 2.3 Budgetary assistance by industry grouping, 2007-08

$ million (nominal)

| *Industry grouping* | *Outlays* | *Tax concessions* | *Total budgetary assistance* |
|---|---|---|---|
| **Primary production** | **2 009.2** | **210.9** | **2 220.1** |
| Dairy cattle farming | 300.3 | 21.8 | 322.1 |
| Grain, sheep & beef cattle farming | 937.7 | 107.2 | 1 044.8 |
| Horticulture & fruit growing | 102.1 | 34.5 | 136.6 |
| Other crop growing | 148.0 | 17.3 | 165.3 |
| Other livestock farming | 26.9 | 6.5 | 33.3 |
| Fisheries | 178.3 | 9.8 | 188.1 |
| Forestry & logging | 35.6 | 1.1 | 36.7 |
| Other primary production[a] | 18.6 | 12.7 | 31.3 |
| Unallocated primary production[b] | 261.8 | 0.0 | 261.8 |
| **Mining** | **147.8** | **175.1** | **322.9** |
| **Manufacturing** | **862.3** | **954.8** | **1 817.1** |
| Food, beverages & tobacco | 88.4 | 37.5 | 125.9 |
| Textiles, clothing, footwear & leather | 126.4 | 12.8 | 139.2 |
| Wood & paper products | 62.5 | 36.3 | 98.7 |
| Printing, publishing & recorded media | 30.2 | 9.9 | 40.0 |
| Petroleum, coal, chemical & ass. products | 189.6 | 35.5 | 225.1 |
| Non-metallic mineral products | 8.4 | 11.9 | 20.3 |
| Metal product manufacturing | 45.4 | 33.3 | 78.7 |
| Motor vehicles & parts | 16.1 | 587.0 | 603.1 |
| Other transport equipment | 10.1 | 12.1 | 22.1 |
| Other machinery & equipment | 98.0 | 62.0 | 160.1 |
| Other manufacturing | 136.2 | 12.7 | 148.9 |
| Unallocated manufacturing[b] | 50.9 | 103.9 | 154.8 |
| **Services** | **1 356.1** | **917.7** | **2 273.7** |
| Electricity, gas & water supply | 53.1 | 7.7 | 60.8 |
| Construction | 12.0 | 20.3 | 32.4 |
| Wholesale trade | 31.0 | 69.6 | 100.6 |
| Retail trade | 178.2 | 37.8 | 215.9 |
| Accommodation, cafes & restaurants | 4.3 | 26.4 | 30.7 |
| Transport & storage | 39.1 | 19.4 | 58.6 |
| Communication services | 137.5 | 32.3 | 169.7 |
| Finance & insurance | 16.2 | 437.8 | 454.0 |
| Property & business services | 249.7 | 162.3 | 412.0 |
| Government administration & defence | 3.8 | 0.2 | 4.0 |
| Education | 13.6 | 4.2 | 17.8 |
| Health & community services | 62.8 | 10.3 | 73.0 |
| Cultural & recreational services | 407.6 | 79.4 | 487.0 |
| Personal & other services | 9.0 | 6.0 | 15.0 |
| Unallocated services[b] | 138.3 | 4.0 | 142.3 |
| **Unallocated other[b]** | **318.3** | **1 314.9** | **1 633.2** |
| **TOTAL** | **4 693.6** | **3 573.4** | **8 267.0** |

[a] Other primary production includes *Services to agriculture* (including *Hunting & trapping)* and *Poultry farming*.
[b] Unallocated includes programs where details of beneficiaries cannot be readily identified.

*Source:* Commission estimates.

## 2.3 Agricultural pricing and regulatory assistance

Historically, the bulk of measured assistance to the agriculture sector has been maintained through a range of statutory marketing arrangements, regulations and price support schemes. However, most of these measures have now ceased. While the dairy industry received support in 2007-08 through the Dairy Structural Adjustment Program, the program ceased in April 2008 (table 2.4). The estimated agricultural pricing and regulatory assistance to *Dairy cattle farming* is therefore expected to be negligible in 2008-09.

Table 2.4 **Agricultural pricing and regulatory assistance by industry grouping, 2002-03 to 2007-08**

$million (nominal)

| *Industry grouping* | *2002-03* | *2003-04* | *2004-05* | *2005-06* | *2006-07* | *2007-08* |
|---|---|---|---|---|---|---|
| Dairy cattle farming | 170.3 | 150.4 | 143.5 | 136.6 | 124.3 | 120.1 |
| Grain, sheep & beef cattle farming (including rice) | 8.4 | 6.4 | 5.2 | 4.6 | - | - |
| Other crop growing (including sugar) | 17.6 | 9.1 | - | - | - | - |
| **Total** | **196.3** | **165.9** | **148.7** | **141.2** | **124.3** | **120.1** |

*Source*: Commission estimates.

## 2.4 Combined assistance

This section presents the results of combined tariff, budgetary assistance, and agricultural pricing and regulatory assistance. Combined assistance is reported in terms of the net value of assistance and its components, and the effective rate of assistance (box 2.3).

### Aggregate estimates

Total estimated gross assistance was $17.5 billion in 2007-08, having increased by roughly $2 billion from 2006-07 (table 2.5). This represents an increase of around 13 per cent in *nominal* terms and 8 per cent in *real* terms. While relatively stagnant in the middle years of the series, gross assistance has increased by 31 per cent in *nominal* terms and 7 per cent in *real* terms between 2002-03 and 2007-08.

## Box 2.3 **Summary measures of combined assistance**

In reporting its estimates of combined net assistance, the Commission adopts two summary measures. First, it reports total net assistance (otherwise known as the *net subsidy equivalent (NSE)),* which is the dollar value of net assistance to the land, labour and capital resources used in a particular industry or activity. It indicates the level of transfers of income to benefiting producers from consumers, taxpayers and other firms, although it does not indicate the ultimate 'economic welfare' costs or benefits to the community of the assistance. NSE estimates are reported for the four sectors and 35 industry groupings.

The second summary measure is the effective *rate* of assistance (ERA). It measures the NSE of combined assistance to a particular industry in proportion to that industry's unassisted net output (or unassisted value added). It can provide an indication of the extent to which assistance to an industry allows it to attract and hold economic resources. That is, where there is some competition between industries for resources, those industries with relatively high effective rates of assistance are more likely, as a result of their assistance, to be able to attract resources away from those with lower rates. ERA estimates are reported for industries in the primary production, mining and manufacturing sectors. Effective rates of assistance are not published for the services sector.

After considering the negative effects of tariff assistance on industry inputs, total estimated net assistance amounted to around $9.4 billion in 2007-08, representing an increase of around $1.4 billion from 2006-07. This represents an increase of around 18 per cent in *nominal* terms and 13 per cent in *real* terms. Between 2002-03 and 2007-08, total estimated net assistance to industry has risen by 46 per cent in *nominal* terms and 19 per cent in *real* terms.

## Table 2.5 **Combined assistance, 2002-03 to 2007-08**

$million (nominal)

| | *2002-03* | *2003-04* | *2004-05* | *2005-06* | *2006-07* | *2007-08* |
|---|---|---|---|---|---|---|
| Tariff output assistance | 8 280.2 | 8 933.2 | 8 638.2 | 8 421.8 | 8 757.0 | 9 161.2 |
| Budgetary outlays | 2 359.5 | 2 851.2 | 3 053.3 | 3 519.3 | 3 890.9 | 4 693.6 |
| Tax concessions | 2 572.8 | 2 387.3 | 2 437.1 | 2 382.7 | 2 807.9 | 3 573.4 |
| Agricultural marketing & pricing assistance | 196.3 | 165.9 | 148.7 | 141.2 | 124.3 | 120.1 |
| **Gross combined assistance** | **13 408.8** | **14 337.6** | **14 277.3** | **14 464.9** | **15 580.1** | **17 548.4** |
| Tariff input assistance | -6 963.5 | -7 600.4 | -7 521.9 | -7 069.6 | -7 588.6 | -8 125.2 |
| **Net combined assistance** | **6 445.4** | **6 737.2** | **6 755.4** | **7 395.3** | **7 991.5** | **9 423.1** |

*Source*: Commission estimates.

## Sector and industry estimates

### *Value of assistance*

Table 2.6 summarises, at the industry level, all the tariff and budgetary assistance information for 2007-08. Reflecting the earlier discussion on the individual elements, the manufacturing sector receives the highest level of combined industry assistance because of significant tariff assistance to its output. Although the services sector receives the most budgetary assistance (around $2.3 billion in identifiable support), such assistance is outweighed by the input tariff penalty (around $4.8 billion). A time series for the period 2001-02 to 2007-08 for net combined assistance (column 7) is presented in appendix A.

### *Estimated effective rates of combined assistance by sector and industry*

The estimated effective rate of assistance — value of assistance as a proportion of value added by a particular sector — has remained stable around 5 per cent since 2002-03 for the manufacturing sector. The effective rate for the primary sector has been a little more volatile, ranging from 4.8 to 7.5 per cent (table 2.7). The effective rate of assistance for mining is negligible.[3]

### *Textiles, clothing, footwear & leather* and *Motor vehicles & parts*

The estimates by industry grouping indicate that both Textiles, clothing, footwear & leather and Motor vehicles & parts continue to have relatively high effective rates of combined assistance — roughly three times the manufacturing sector average. While remaining relatively high, the estimated effective rates of assistance to both Textiles, clothing, footwear & leather and Motor vehicles & parts industry groups have declined significantly over recent decades following significant reductions in tariffs and the removal of import quotas.[4] Within these groups, some activities, such as passenger motor vehicle production and the manufacture of certain items of clothing, attract higher assistance raising the sector average, while others receive relatively low assistance.

---

[3] An effective rate is not calculated for the services sector. This reflects technical matters relating to the treatment of services in transportable goods in the calculation of effective rates for the primary, mining and manufacturing sectors.

[4] Whereas today automotive tariffs are at 10 per cent, and tariffs on TCF are at 17.5 per cent or lower, in the late-1980s automotive tariffs were 45 per cent, and the highest tariff rate for any one TCF line item (inclusive of the effect of tariff quotas) was 125 per cent. The effective rates of assistance for the automotive industry and TCF (as estimated in the 1983-84 series) were 140 per cent and 157 per cent, respectively, in 1984-85.

## Table 2.6 **Combined assistance, summary by industry grouping, 2007-08**[a]

$million (nominal)

| *Industry grouping* | *Tariffs* | | *Net tariff assistance* | *Budgetary* | | *Net combined assistance* |
|---|---|---|---|---|---|---|
| | *Output* | *Input penalty* | | *Outlays* | *Tax concess* | |
| **Primary production**[b] | **62.1** | **-55.7** | **6.3** | **2 009.2** | **210.9** | **2 346.6** |
| Dairy cattle farming[b] | 0.0 | -3.6 | -3.6 | 300.3 | 21.8 | 438.7 |
| Grain, sheep & beef cattle | 0.1 | -16.0 | -15.9 | 937.7 | 107.2 | 1 028.9 |
| Horticulture & fruit growing | 45.3 | -8.9 | 36.5 | 102.1 | 34.5 | 173.1 |
| Other crop growing | 0.0 | -4.7 | -4.7 | 148.0 | 17.3 | 160.6 |
| Other livestock farming | 0.0 | -2.0 | -2.0 | 26.9 | 6.5 | 31.3 |
| Fisheries | 0.0 | -8.4 | -8.4 | 178.3 | 9.8 | 179.7 |
| Forestry & logging | 16.6 | -3.8 | 12.9 | 35.6 | 1.1 | 49.6 |
| Other primary production | 0.0 | -8.4 | -8.4 | 18.6 | 12.7 | 22.9 |
| Unallocated primary | 0.0 | 0.0 | 0.0 | 261.8 | 0.0 | 261.8 |
| **Mining** | **4.3** | **-297.6** | **-293.3** | **147.8** | **175.1** | **29.6** |
| **Manufacturing** | **8 759.1** | **-2 932.9** | **5 826.2** | **862.3** | **954.8** | **7 643.3** |
| Food, beverages & tobacco | 1 588.1 | -396.9 | 1191.2 | 88.4 | 37.5 | 1 317.1 |
| Textiles, clothing & footwear | 504.1 | -124.0 | 380.1 | 126.4 | 12.8 | 519.3 |
| Wood & paper products | 752.5 | -198.4 | 554.1 | 62.5 | 36.3 | 652.8 |
| Printing, publishing & media | 447.2 | -152.8 | 294.4 | 30.2 | 9.9 | 334.5 |
| Petroleum, coal & chemicals | 1 166.9 | -326.4 | 840.5 | 189.6 | 35.5 | 1 065.6 |
| Non-metallic mineral products | 268.9 | -64.4 | 204.4 | 8.4 | 11.9 | 224.8 |
| Metal product manufacturing | 1 294.9 | -362.4 | 932.5 | 45.4 | 33.3 | 1 011.2 |
| Motor vehicles & parts | 1 374.2 | -732.7 | 641.4 | 16.1 | 587.0 | 1 244.6 |
| Other transport equipment | 123.1 | -73.0 | 50.1 | 10.1 | 12.1 | 72.2 |
| Other machinery & equipment | 728.8 | -284.5 | 444.3 | 98.0 | 62.0 | 604.4 |
| Other manufacturing | 510.4 | -217.2 | 293.2 | 136.2 | 12.7 | 442.1 |
| Unallocated manufacturing | 0.0 | 0.0 | 0.0 | 50.9 | 103.9 | 154.8 |
| **Services** | **335.8** | **-4 839.1** | **-4 503.3** | **1 356.1** | **917.7** | **-2 229.6** |
| Electricity, gas & water | 6.8 | -89.5 | -82.6 | 53.1 | 7.7 | -21.8 |
| Construction | 0.0 | -1 693.8 | -1 693.8 | 12.0 | 20.3 | -1 661.4 |
| Wholesale trade | 144.8 | -317.8 | -173.0 | 31.0 | 69.6 | -72.4 |
| Retail trade | 184.1 | -744.8 | -560.7 | 178.2 | 37.8 | -344.7 |
| Accomm., cafes & restaurants | 0.0 | -393.1 | -393.1 | 4.3 | 26.4 | -362.4 |
| Transport & storage | 0.0 | -264.9 | -264.9 | 39.1 | 19.4 | -206.3 |
| Communication services | 0.0 | -143.5 | -143.5 | 137.5 | 32.3 | 26.2 |
| Finance & insurance | 0.0 | -33.5 | -33.5 | 16.2 | 437.8 | 420.5 |
| Property & business services | 0.0 | -354.5 | -354.5 | 249.7 | 162.3 | 57.5 |
| Government admin. & defence | 0.0 | -346.1 | -346.1 | 3.8 | 0.2 | -342.1 |
| Education | 0.0 | -85.4 | -85.4 | 13.6 | 4.2 | -67.6 |
| Health & community services | 0.0 | -112.8 | -112.8 | 62.8 | 10.3 | -39.8 |
| Cultural & recreational | 0.0 | -161.4 | -161.4 | 407.6 | 79.4 | 325.5 |
| Personal & other services | 0.0 | -97.9 | -97.9 | 9.0 | 6.0 | -82.9 |
| Unallocated services | 0.0 | 0.0 | 0.0 | 138.3 | 4.0 | 142.3 |
| **Unallocated other** | 0.0 | 0.0 | 0.0 | 318.3 | 1 314.9 | 1 633.2 |
| **TOTAL**[b] | **9 161.2** | **-8 125.2** | **1 036.0** | **4 693.6** | **3 573.4** | **9 423.1** |

[a] Read in conjunction with notes to tables 2.2 and 2.3. [b] Net combined assistance includes $120.1 million agricultural pricing and regulatory assistance (table 2.4).

*Source:* Commission estimates.

### *Dairy cattle farming*

*Dairy cattle farming* continues to record a relatively high estimated effective rate of assistance of around 17 per cent in 2007-08. However, this represents a significant decline compared with the rate that prevailed prior to the dairy industry's deregulation in July 2000, when the effective rate of combined assistance was estimated to exceed 30 per cent. Further, under the new arrangements, assistance to dairy farmers has been 'decoupled' from dairy output and farm activity levels, thus diluting its effects on production incentives. As noted, payments made under the Dairy Structural Adjustment Program ceased in April 2008 and, as a result, the estimated effective rate of assistance to *Dairy cattle farming* will fall further.

### *Grain, sheep & beef cattle farming*

As noted above, drought related payments have increased noticeably in the primary sector in recent years, particularly for the grain, sheep and beef cattle sub-grouping and is reflected in a rise in the effective rate for this group from 3.9 per cent in 2005-06 to 7.2 per cent in 2007-08.

### *Fisheries and Forestry & logging*

*Fisheries* recorded an ERA of 17 per cent in 2007-08, following a rate of 31 per cent in 2006-07. These recorded rates are primarily due to payments made under the Fisheries Structural Adjustment Program since 2006-07. *Forestry & logging* recorded an ERA of around 8 per cent in 2007-08.

Notwithstanding these estimates, the forms of assistance covered in the combined estimates are likely to play a relatively minor role in these two industries compared with other government measures. Specifically, key government measures affecting fisheries and forestry relate to resource management issues, such as the pricing of forest products, and certain tax provisions relating to investments in plantation forestry by managed investment schemes, and the use of mechanisms such as quotas and licenses to control fisheries harvesting rates to protect the resource stock.

### *Mining*

*Mining* recorded a negligible ERA in 2007-08. That said, the mining industry is more affected by other government measures not captured in the combined estimates, such as environmental regulation, prescribed royalty levels and accelerated depreciation provisions.

Table 2.7 **Effective rate of combined assistance by industry grouping,[a] 2002-03 to 2007-08**
per cent

| *Industry grouping* | *2002-03* | *2003-04* | *2004-05* | *2005-06* | *2006-07* | *2007-08* |
|---|---|---|---|---|---|---|
| **Primary production[b]** | 5.7 | 4.8 | 4.5 | 4.9 | 7.0 | 7.5 |
| Dairy cattle farming | 17.5 | 16.2 | 11.9 | 13.4 | 17.8 | 17.3 |
| Grain, sheep & beef cattle | 5.8 | 4.3 | 3.1 | 3.9 | 6.3 | 7.2 |
| Horticulture & fruit growing | 4.9 | 3.9 | 3.8 | 3.6 | 3.3 | 3.3 |
| Other crop growing | 3.6 | 5.7 | 6.9 | 7.7 | 6.7 | 5.7 |
| Other livestock farming | 3.4 | 2.6 | 1.5 | 2.2 | 2.3 | 3.2 |
| Fisheries | 2.6 | 2.8 | 6.0 | 5.3 | 30.9 | 17.4 |
| Forestry & logging | 9.7 | 4.8 | 10.0 | 9.2 | 11.5 | 7.6 |
| Other primary production | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 | 0.6 |
| **Mining** | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| **Manufacturing[b]** | 4.8 | 4.8 | 4.6 | 4.5 | 4.5 | 4.5 |
| Food, beverages & tobacco | 3.5 | 3.6 | 3.6 | 3.7 | 3.7 | 3.7 |
| Textiles, clothing & footwear | 16.7 | 15.9 | 14.1 | 12.9 | 12.2 | 12.5 |
| Wood & paper products | 4.7 | 4.7 | 4.8 | 4.9 | 4.9 | 5.2 |
| Printing, publishing & media | 1.7 | 1.8 | 1.7 | 1.8 | 1.8 | 1.9 |
| Petroleum, coal, & chemicals | 4.3 | 4.0 | 3.7 | 4.0 | 4.0 | 4.1 |
| Non-metallic mineral products | 2.7 | 2.7 | 2.7 | 2.7 | 2.8 | 2.8 |
| Metal product manufacturing | 3.6 | 3.7 | 3.6 | 3.6 | 3.6 | 3.5 |
| Motor vehicles & parts | 16.1 | 15.5 | 13.7 | 12.0 | 12.1 | 11.9 |
| Other transport equipment | 2.1 | 1.9 | 1.5 | 1.8 | 1.6 | 1.7 |
| Other machinery & equipment | 3.4 | 3.2 | 3.2 | 3.6 | 3.6 | 3.7 |
| Other manufacturing | 5.0 | 6.2 | 6.1 | 6.7 | 6.5 | 6.6 |

**a** 'Combined assistance' comprises budgetary, tariff and agricultural pricing and regulatory assistance. **b** Sectoral estimates include assistance to the sector that has not been allocated to specific industry groupings. **c** Other primary production includes *Services to agriculture* (including *Hunting & trapping*) and *Poultry farming*.

*Source:* Commission estimates.

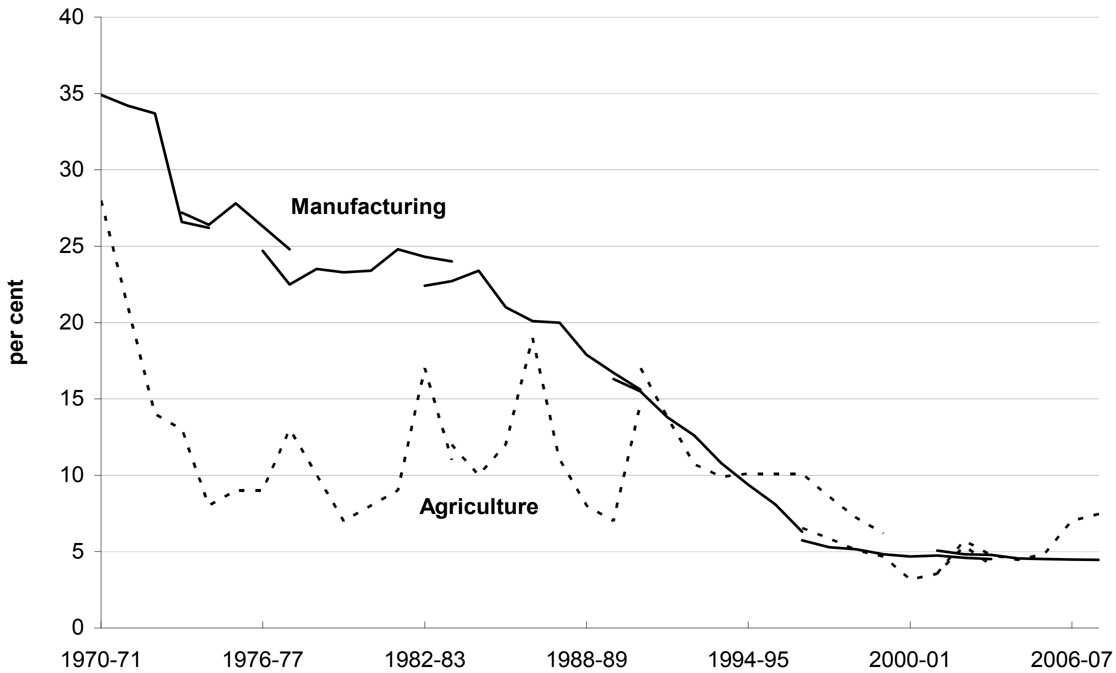
## 2.5 Effective rates of industry assistance since 1970

The Commission has estimated assistance to the manufacturing and agricultural sectors since the early 1970s. The estimates have been derived in several 'series', each spanning a number of consecutive years with each series retaining a common methodology, coverage of measures and data sources across those years. Nevertheless, some caution is required in comparing estimates from the different series, as there can be changes in the coverage of assistance measures, methodologies and data sources between them. Despite such differences, taken together, the successive series do provide a broad indication of directions and trends in assistance at the sectoral level over time.

Figure 2.5 presents ERA estimates from the different series from 1970-71. Breaks in the series are represented by gaps in the chart, and overlaps are included to show the effects, for particular years, of the changes made in moving between series.

### Figure 2.5 Effective rates of assistance to manufacturing and agriculture, 1970-71 to 2007-08

per cent




*Source:* Commission estimates.

The estimates indicate a significant decline in measured assistance to the manufacturing sector over the last 35 or so years. The estimated effective rate of assistance for manufacturing (as calculated in the first series) was around 35 per cent in 1970-71, whereas since 2000, the rate (as calculated in the new 2001-02 series, as well as in the previous 1996-97 series) has been around 5 per cent. This decline has been driven in particular by the 25 per cent across-the-board tariff cut of 1973, the abolition of tariff quotas and the broad programs of tariff reductions that commenced in the late 1980s.

For agriculture, the estimated effective rate of assistance (as calculated in the first series) was over 25 per cent in 1970-71 and by 1974-75, it had fallen to about 8 per cent. Today the estimate for primary production is in the order of 7 per cent. The increase in 2006-07 reflected large increases in drought relief payments and interest rate subsidies. The volatility in the agricultural estimates relative to the manufacturing sector is significantly influenced by variations in the relative value of agricultural products due to world price changes (used for assistance benchmarks) as well as the impact of drought and other fluctuations in output.

## 2.6 Summing up

In real terms, the total amount of measured net assistance to Australian industries has increased by 20 per cent over the period 2002-03 to 2007-08.

The mix of industry assistance has changed considerably. Net tariff assistance has continued to decline in both nominal and real terms, and agricultural pricing and regulatory assistance is relatively small and likely to fall to negligible amounts with the completion of the Dairy Structural Adjustment Program in April 2008. In contrast, budgetary assistance increased by 35 per cent in real terms between 2002-03 and 2007-08.

Moreover, the trend towards increased estimated budgetary assistance is likely to continue. Chapter 4 reports on some additional budgetary assistance amounts that have been announced in 2008-09 and, thus, are not captured in the 2007-08 estimates. Increased assistance has also been recommended by several major industry reviews (chapter 3) and substantial amounts of assistance have been proposed as part of the Carbon Pollution Reduction Scheme (chapter 5).