Overview

Industry assistance provides benefits to people associated with the businesses that receive it, but generally comes at a cost to people in other sections of the economy. Transparency and careful analysis are required to ensure that industry assistance schemes, either individually or cumulatively, do not impose an unwarranted burden on the community.

In *Trade & Assistance Review 2000-01*, the Commission:

- reports its latest estimates of assistance to Australian industries;
- documents recently announced or introduced changes in assistance arrangements; and
- describes and comments on selected trade policy developments.

The purpose of the *Review* does not extend to assessing the merits of specific assistance programs or trade policy initiatives.

Key messages

- Most Australian industries receive limited rates of tariff and/or budgetary assistance.
- Exceptions are the *passenger motor vehicles* industry, the *textiles, clothing, footwear & leather* industry and the *dairy* industry. Particular firms or projects can also receive high rates of assistance.
- In the services sector, budgetary assistance is limited but trade in some services is restricted through regulation.
- Transparency and careful analysis are required to ensure that industry assistance and regulation do not impose an unwarranted burden on the community.
- A number of aspects of the recent WTO decision at Doha on multilateral trade negotiations proffer benefits for Australia, although the extent to which these are realised will depend on the course of the detailed negotiations that lie ahead.
- While bilateral and other regional trade agreements can offer benefits in some cases, their potential effects need to be assessed carefully.

Manufacturing

Assistance to the manufacturing sector has declined significantly over the last decade, largely due to a program of phased reductions in tariffs on manufactured goods.

- The effective rate of tariff assistance for manufacturing (which takes into account the effects of tariff assistance on industries' inputs as well as on their outputs) is estimated to have fallen from 14 percent in 1991-92 to under 5 percent in 2000-01.
- Budgetary assistance to the sector, while less significant, has remained at around 2 percent of sectoral gross value added since 1991-92.

In total, the sector is estimated to have received tariff and budgetary assistance equivalent to a (net) subsidy of $5.4 billion in 2000-01.

These aggregate figures hide significant variations in assistance to the different industries within the manufacturing sector.

- At the high end, the *passenger motor vehicles* and the *textiles, clothing, footwear & leather* industries attracted effective rates of tariff assistance of 14 percent and 23 percent, respectively, in 2000-01.
- By contrast, most other manufacturing industries receive effective tariff assistance of less than 5 percent.
- Budgetary assistance also varies significantly among manufacturing industries.

Australian firms initiated 21 anti-dumping cases in 2000-01, all related to imported manufactured products. This was comparable to the previous two years. 53 anti-dumping and countervailing measures were in force in 2000-01, much the same as in the last few years but down from 103 measures in 1993-94. Nevertheless, relative to its share of world trade, Australia continues to be one of the most intensive users of anti-dumping and countervailing measures.

Agriculture

Effective assistance to the agriculture sector has also declined over the last decade, in part due to the unwinding of various statutory marketing arrangements.

- The average effective rate of assistance for the agriculture sector — which is not directly comparable with the effective rate for the manufacturing sector — is estimated to have fallen from around 12 percent in 1991-92 to around 6 percent in 1999-2000 (the latest year for which data are available).

- Budgetary assistance for primary producers has declined from the equivalent of 6.5 percent of their gross value added in 1991-92 to less than 3.5 percent in 2000-01.

In total, the sector is estimated to have received assistance equivalent to a (net) subsidy of $657 million in 1999-2000.

Again, these aggregate figures hide significant variations in assistance to the different industries within the agriculture sector.

- At the high end, the *dairy* industry has historically received assistance well above the average, with an effective rate of 52 percent in 1999-2000. The total quantum of support to the *dairy* industry has declined by more than half since its deregulation in July 2000. Nevertheless, dairy farmers continue to receive substantial support in the form of an adjustment package totalling around $2 billion over 8 years, funded by a levy on milk consumers.
- When *dairy* industry assistance is excluded, the sectoral effective rate for all other agricultural activities taken together falls to 2 percent.

Mining

The total of tariff and budgetary assistance to the *mining* sector is small, equivalent to a net subsidy of $131 million in 2000-01. Government policies on native title, the environment and royalties have a more substantial impact.

Services

The *services sector* receives limited budgetary assistance and, because of the nature of services trade, is not subject to tariff protection. Rather, trade in services tends to be restricted by regulations, some of which apply only to foreigners wanting to invest or work in Australian services industries, while others apply to both foreign and domestic businesses.

Compared with other economies, Australia has:

- liberal trading regimes for *engineering*, *architecture*, *distribution* (which includes the wholesale and retail industries), *banking* and *telecommunications*;
- moderately restrictive trading regimes in *legal*, *accountancy* and *maritime* services; and
- a high level of bilateral restrictions on *international air passenger transport*.

Budgetary assistance

Despite some fluctuations, total Commonwealth budgetary assistance has remained broadly at its early 1990s level. Budgetary assistance worth $3.7 billion was provided to industry in 2000-01.

There are significant variations in budgetary assistance at the industry grouping level.

- *Primary production*, the *passenger motor vehicles* industry, the *petroleum, coal, chemicals & associated products* industry (which includes pharmaceuticals), and *mining* are the largest recipients of budgetary assistance.
- A similar pattern emerges when budgetary assistance is measured as a proportion of industry size, except that *mining* is replaced by *textiles, clothing, footwear & leather*.
- In 2000-01, *passenger motor vehicles* received by far the highest level of measured budgetary assistance as a proportion of industry size (although there is considerable overlap between the Commission’s estimates of budgetary and tariff assistance for this industry).

The incidence of assistance may also vary significantly between different firms within a particular industry.

The Government announced and/or introduced a range of budgetary assistance initiatives during 2000-01, including measures related to *research & development, film production, food processing,* the *textiles, clothing & footwear* industry, and the *passenger motor vehicles* industry. It also provided a number of firm- and project-specific assistance packages. Unless applications for selective assistance are vetted carefully and transparently, a proportion of such assistance could impose an unwarranted burden on the community.

Trade policy issues

Australia’s approach to trade reform over recent decades has focussed mainly on unilateral trade liberalisation, supported and reinforced by participation in the multilateral trading system. Australia also has regional trade arrangements with some small neighbouring countries, and pursues regional initiatives to encourage trade liberalisation though the Asia Pacific Economic Cooperation (APEC) forum.

A broad-ranging round of multilateral trade negotiations was launched recently by WTO member governments. Some aspects of the mandated negotiating agenda appear promising for Australia, not least the agreement to negotiate on substantive reductions in agricultural support. However, given the ambitious scope of the agenda, uncertainties surrounding some of the language in the declaration and the political considerations that can influence trade negotiations, the extent to which the potential gains are realised will depend on the course of the detailed negotiations that lie ahead.

Over the last year, the Australian Government has also been exploring bilateral trade agreements with some trading partners. Such agreements are not always desirable: they can have either positive or negative economic effects. For Australia to gain substantial benefits from joining a regional trading agreement, its coverage would have to be comprehensive, and include agricultural products. While it may be possible to obtain some net benefits from a more limited agreement, continuing unilateral reform and multilateral liberalisation offer the greatest gains.