
3 Selected developments in assistance

Government assistance to industries and activities, particularly budgetary assistance, is typically provided in ‘packages’ which contain a number of measures and span a number of years. Sometimes existing assistance packages, or individual measures, are terminated or allowed to lapse; in other cases they are modified and/or extended. New assistance packages and measures are also introduced from time to time, in response to changes in industry circumstances or to address emerging policy concerns.

In this chapter, the Commission documents key government announcements and policy developments affecting assistance over the last year. The developments relate to:

- drought relief;
- the sugar industry;
- research, development and commercialisation;
- energy;
- the automotive industry; and
- agriculture, wine and film production.

3.1 Drought relief

Background

The current drought has been one of the most widespread on record, causing an estimated 70 per cent reduction in the net value of farm production from \$10.9 billion in 2001-02 to \$3.6 billion in 2002-03 (ABARE 2004). The drought is estimated to have reduced GDP growth by around 1 per cent in 2002-03, or around \$6.6 billion (Truss 2004b).

The Australian Government has provided substantial support to farmers and communities affected by the drought. To the end of 2003-04, it had provided around \$500 million in drought relief (Truss 2004h), and it has estimated that around \$1 billion in direct support is expected to be provided by the end of 2006-07 (Truss 2004e). This support has been delivered predominantly under the

Exceptional Circumstances (EC) program (see box 3.1). At the end of 2003-04, around two-thirds of agricultural land in Australia, including about 90 per cent of NSW and more than half of Victoria and Queensland, was 'EC declared' (Truss 2004b). In these areas, more than 30 000 applications for drought income assistance had been approved, while 10 000 applications from farming businesses for interest rate subsidies had been approved (Truss 2004e).

Box 3.1 Exceptional circumstances drought relief

Introduced in 1992, the Exceptional Circumstances (EC) program is the main (Australian Government) program providing support to drought-affected farmers. Before such support can be provided under the program, however, an area must receive an EC declaration. State and Territory Governments are responsible for lodging applications for EC support 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): is rare (a one in 20 to 25 year event); has resulted in a severe downturn in farm incomes over a prolonged period; affects a significant number of farmers in a region or industry; and was not predictable or part of a process of structural adjustment. Once an area has received an EC declaration, support provided under the EC program is available for a period of up to two years and takes two forms:

- *Family income support*, or Exceptional Circumstances Relief Payments (ECRP), are paid fortnightly at a rate equivalent to the Newstart Allowance.¹ The payments are available for a period of up to two years while the exceptional circumstances declaration is in force. Where an area continues to be affected by drought, an EC declaration, and in turn EC relief payments, can be extended.
- *Business support* is provided in the form of interest rate subsidies up to a maximum of 50 per cent of interest payments. Business support is funded jointly by the Commonwealth (90 per cent) and State and Territory governments (10 per cent). Like the family support payments, business support is also available for a period of up to two years and can be extended.

A requirement for EC drought relief payments to be triggered is that a drought be rare — a one in 20 or 25 year event. Significant drought relief payments were also triggered during the major drought of 1991–1995. In the previous major drought, which occurred in the early 1980s, drought relief was provided under the National Disaster Relief Arrangements.

¹ The Newstart Allowance is a fortnightly payment available to unemployed people who are actively looking for work. Subject to income and assets tests, the payment for a single person with no dependants is \$394.60 per fortnight. The ECRP are subject to the same income and assets tests applying to Newstart Allowance, although farm assets are exempt from the assets test and proceeds from the forced sale of livestock due to drought are excluded from the income test.

The support provided by the Australian Government during the current drought is expected to significantly exceed that provided during the 1991–1995 drought, in relation to which it is estimated that the Australian Government spent around \$590 million in total drought relief (ABS 2003).

At the State/Territory level, direct support during the current drought is expected to be around \$200 million, with the amount of expenditure expected to vary significantly between jurisdictions (DRP 2004).

Other Australian and State/Territory Government support arrangements for drought affected farmers and rural communities were discussed in more detail in last year's *Review* (PC 2003b).

Recent developments

In October 2003, the Australian Government announced the establishment of a Drought Review Panel to examine Australia's drought policy, including drought assistance measures. The Panel consulted widely with industry and community stakeholders, and presented its report to the Government in March 2004. The Panel found significant support for some elements of current drought assistance policy, but some confusion and limited support for others (see box 3.2). The Panel also found that a more comprehensive review of the effectiveness of government drought assistance may be warranted, noting:

A significant level of Government assistance has been committed to farmers affected by the drought, but no comprehensive evaluation of the effectiveness of Government drought assistance has yet been conducted. The Panel believes there would be merit in a review (perhaps conducted by the Productivity Commission) of the impact of this assistance on agricultural productivity and other outcomes, as well its effects on the pace of structural adjustment (p.6).

In April 2004, the Australian Government convened a National Drought Roundtable, comprising governments and rural industry representatives, to consider the Drought Review Panel's report and to discuss the future of drought policy in Australia. The main outcomes of the roundtable are outlined in box 3.3.

In July 2004, the Australian Government announced that it would streamline the re-application process for extending EC drought applications for farmers who have not experienced a break in the drought over the past 18 months. Instead of going through the EC application process for a second time, the new procedures involve the Drought Taskforce examining the climatic conditions in a particular area and assessing how the drought has affected farm production since the last EC application. This information will be referred to the National Rural Advisory Council

Box 3.2 The Drought Review Panel: stakeholders' views

In late 2003 and early 2004, the Drought Review Panel conducted consultations with producers, peak industry associations, community representatives, other interested bodies and local, Australian Government and State/Territory Government representatives about issues concerning drought assistance. Among other things, the Panel found:

- strong support for Governments to encourage greater drought preparedness and for appropriate preparedness measures to be the focus of future drought policy;
- limited support for business support measures where, overall, stakeholders considered these types of assistance measures encouraged greater debt and supported the less prepared producer;
- that family income support (or ECRP) is highly valued by recipients and considered to be 'necessary' during a drought;
- some confusion among stakeholders regarding the wide range of available drought assistance measures and their associated eligibility requirements;
- a general perception that there was scope to improve the timeliness and accessibility of Australian Government and State/Territory Government drought assistance measures; and
- support for greater co-operation between the Australian and State/Territory Governments in determining drought declarations.

Source: DRP (2004).

which will make a recommendation to the Australian Government on whether a case for an extension of EC has been established. By mid-July 2004, 33 EC declared regions, over half of all EC declarations, were eligible to apply for an extension of their EC assistance — the expiry date for eligibility for EC benefits in these areas was 9 December 2004 (Truss 2004g).

In late July 2004, at a meeting of Australian and State/Territory agricultural ministers, the Australian Government announced that agreement had been reached to develop a 'simpler and more responsive' approach to providing EC drought support. The new procedures remove the requirement for the application (of an EC declaration) to establish that a majority of producers in the application/region have experienced a severe downturn in income as a result of the drought. This requirement will be replaced with an assessment of the impacts on production and a range of event factors such as rainfall, temperature, soil moisture and remote sensing information. Producers will, mostly, not be required to provide State agencies with their income details as part of the EC application and assessment process. An

Box 3.3 The National Drought Roundtable

In April 2004, a National Drought Roundtable, comprising Australian Government and State/Territory Government officials and rural industry representatives, was held to discuss the report of the Drought Review Panel and future drought policy in Australia. Reflecting the main findings of the Panel's report, the key outcomes of the roundtable were reported as being:

- continued support for the main elements of the current drought policy;
- recognition of the importance of drought preparedness as the focus in future drought policy;
- continued support for a welfare safety net;
- recognition of the need for the Australian and State/Territory Governments to reach agreement on new national criteria for EC declarations;
- support for reform of the EC system to make it more efficient, effective and equitable;
- recognition of a need to better target and reduce the distortionary nature of drought assistance measures such as business support;
- support for new programs that reflect the broader impacts of severe drought on rural communities and businesses, non-farm rural small businesses and the environment; and
- support for young farmers.

Source: Truss (2004c).

objective of the new arrangements is to speed-up access of EC support to eligible farmers (Truss 2004h).

At the meeting, it was also agreed that the Primary Industries Standing Committee would undertake further investigation into how governments could play a greater role in helping farmers to better prepare for drought. The Australian Government intends to use a Rural Producer Survey, scheduled for early 2005, to gain information as to how farmers could be better prepared for drought. The Minister for Agriculture, Fisheries and Forestry noted, however, that it had been agreed with State/Territory Governments not to introduce new (drought preparedness) policies until the current drought is over (Truss 2004h).

3.2 Assistance to sugar

Background

The Australian sugar industry, which is centred mainly in north-east Queensland, has been subject to a number of reforms since the mid 1990s.

In July 1997, following a National Competition Policy Review of the industry, tariffs on imported sugar were removed, and domestic price supports were partly removed by the Queensland Government. These arrangements had provided significant assistance to domestic canegrowers and sugar millers. As then measured by the Commission, assistance to the industry fell from \$66 million in 1996-97 to \$13 million the following year.

To help offset the reduction in those forms of assistance, in July 1998 the Australian Government introduced a \$14 million Sugar Industry (Research) Assistance Package.

In 2000, in response to adverse climatic and farming conditions in the industry, the Australian Government introduced a Sugar Industry (Cane Growers) Assistance Package with funding of up to \$83 million. The Queensland Government also allocated \$10 million for concessional loans for the replanting of sugar cane crops.

In September 2002, the Australian Government announced further assistance in the form of the Sugar Industry Reform Program 2002. The program was worth up to \$120 million in Australian Government funding and was expected to last for five years. It was to be funded by a levy of 3 cents per kilogram on domestic sugar sales (including sales of imported sugar and sugar for retail sale, food services and food processing), which was put in place from 1 January 2003 with a five year sunset date. The Queensland Government also announced that it would contribute an additional \$30 million to the assistance package.

Details of these assistance arrangements were discussed in the 2001-02 *Review* (PC 2002b).

Recent Australian Government assistance

In April 2004, against a background of no expansion in access to the US market for the sugar industry in the Australia-United States Free Trade Agreement, the Australian Government announced the Sugar Industry Reform Program (SIRP) 2004 with funding of \$444 million (Truss 2004d). While this assistance was announced as a separate package, the Department of Agriculture, Fisheries and Forestry has indicated that it essentially expanded and built upon the Australian

Government components of the 2002 package which had final expenditure to growers of only \$20 million of Australian Government funding. The elements of the 2004 SIRP are described below.

It includes a one-off '*sustainability*' grant to cane growers and millers, amounting to \$146 million. The sustainability grant, which is to be provided in two instalments, is divided between operating mills and growers. As a condition for receiving the first instalment, peak industry groups signed a Statement of Intent on behalf of the industry to undertake reform (Truss 2004f). To receive the second instalment, due in January 2005, the Australian Government will need to be satisfied with the progress the industry has made on reform (DAFF 2004).

The SIRP also provides \$21 million for *income support* for eligible growers and harvesters. The support, having commenced in March 2004, will be available until 1 March 2005. Income support payments are made fortnightly and are equivalent to the Newstart Allowance.² To receive income support, recipients are required to undertake business planning. Income support recipients will be provided with up to \$2500 to obtain professional advice on ways to improve their sugar operation's financial position or to help them move to an alternative operation. (DAFF 2004).

Under the SIRP, farmers choosing to remain in the industry may also be eligible for *grower restructuring grants*. The grants, payable in two instalments in 2004-05 and 2005-06, will be paid at a rate of \$75 per hectare under cane production — capped at \$7 500 per instalment per farm enterprise. The grants are intended to be used for a range of activities including:

- improving farm management practices;
- enhancing productivity and reducing costs of production;
- engaging in alternative business structures; and
- assisting in diversifying the enterprise base.

Before accessing the restructuring grants, growers are required to undertake business planning (see below) and also satisfy a number of other program-specific criteria.³ The SIRP contains \$40 million for these restructuring grants.

² As noted earlier, the Newstart Allowance is a fortnightly payment available to unemployed people who are actively looking for work. Subject to income and assets tests, the payment for a single person with no dependants is \$394.60 per fortnight. The income support payments available to sugar producers are also subject to income and assets tests, similar to those for the Newstart Allowance, except that farm assets are excluded from the assets test (DAFF 2004).

³ For the first instalment, growers will be required to indicate, from a 'menu' of restructuring activities determined by the government, the activities they intend to undertake. Growers will then be required to demonstrate their use of funds in 2004-05 to qualify for a payment in 2005-06.

Under the SIRP, growers, harvesters and millers can also access *business planning assistance*, totalling \$15 million. Growers and harvesters who are also receiving income support have access to up to \$2500 for business planning (see above), while other growers and harvesters are allowed up to \$1500. Eligible sugar mills will receive up to \$100 000 in assistance to obtain accredited professional advice on their financial viability and to develop business plans to help identify an appropriate strategy to improve their financial position (DAFF 2004). This assistance will be provided for cooperative and smaller single-site mill businesses.⁴

Funding of \$75 million has been allocated for *regional and community projects* to assist the medium- and longer-term restructuring of the sugar industry. According to the Minister for Agriculture, Fisheries and Forestry, initiatives funded under this aspect of the SIRP are likely to include:

- rationalisation of transport and harvesting systems;
- alternative uses for sugarcane;
- diversification into alternative crops and other income streams such as cogeneration, ethanol and other new products; and
- cane farm aggregation, where considered appropriate by regional advisory groups (Truss 2004).

There is also funding of \$8 million for *industry oversight and regional advisory groups* to help ensure the industry's long-term economic, social and environmental sustainability.

The SIRP also contains a \$23 million sugar industry *intergenerational transfer scheme*. The scheme is to provide eligible sugarcane growers with a three year period in which to 'gift' their farm to the next generation without attracting the disposal, or gifting, of assets rules that apply to income support payments (the age pension). Farmers accessing this scheme will be ineligible to receive a re-establishment grant (see below).

For growers and harvesters wishing to leave the industry, the SIRP will provide *re-establishment grants*, totalling \$96 million. One-off grants of \$50 000 and up to \$100 000 will be available for harvesters and growers, respectively. Re-establishment grants will be available until 30 June 2007 (DAFF 2004). The SIRP also contains \$7 million in *re-training assistance* for growers, harvesters and mill workers made redundant through the reforms, and \$5 million for *crisis counselling* for families in the industry.

⁴ Income and business planning support were originally announced in March 2004 (Truss 2004a).

The Australia Government also announced that the sugar levy, introduced for the 2002 Sugar Industry Assistance Package (see above), will continue as scheduled, but will not be increased or extended to fund the SIRP (Truss 2004d). The package will be funded primarily through the Australian Government budget.

Recent Queensland Government developments

In March 2004, the Queensland Government signed an agreement with Queensland Canegrowers and the Australian Sugar Milling Council to pursue industry reform, including changed legislation and a new dispute resolution system. The agreement met a condition for Queensland sugar producers to be able to access the Queensland Government's assistance package, originally announced in September 2002 (see above), now worth up to \$33 million (Beattie 2004a). The package comprises:

- a *Sugar Industry Innovation Fund* — \$10 million to support new management systems and new technologies, increase export-oriented production of value-added sugar products and develop more efficient supply chains;
- a *Sugar Industry Change Management Program* — \$13 million to assist farm viability and address environmental, water and training issues; and
- *Farm Consolidation Loans* — \$10 million to assist cane growers to expand their operations by purchasing other sugar farms. The loans will be available at concessional interest rates over a period of 20 years, and can be combined with private finance.

In May 2004, the Queensland Government announced that it would provide additional assistance in the form of stamp duty relief for sugar producers who consolidate their properties. The scheme is designed to improve farm viability by encouraging eligible producers to amalgamate their properties with smaller adjoining cane farms. The scheme will operate for two years and is expected to cost between \$2 million and \$5 million (Beattie 2004b).

3.3 Research, development and its commercialisation

Support for R&D and commercialisation is a significant component of the Australian Government's budgetary assistance to industry, representing one-third of total budgetary support in 2003-04 (chapter 2).

In its *Backing Australia's Ability (BAA) — Building our Future through Science and Innovation* Statement released in May 2004, the Australian Government announced a new assistance package for R&D and related activities to 2011 (Australian Government 2004a). The package modifies and extends a number of

existing schemes, and introduces new programs for R&D; commercialisation⁵; and related skills development. According to the Government, the new package will cost \$5.3 billion and, together with the original *Backing Australia's Ability* plan announced in 2001, constitutes a funding commitment for science and innovation of \$8.3 billion for the period from 2001 to 2011. Details of the measures announced by the Government are outlined below.

Research and development

Business R&D

The Statement indicated that the existing tax concessions that support business R&D will be maintained. Existing schemes include the 125 per cent R&D Tax Concession, which costs up to \$360 million per year in tax revenue forgone. In addition, business R&D is also supported via the Tax Offset provisions and the 175 per cent Premium R&D Tax Concession. The number of companies registered for the tax concessions is shown in table 3.4.

Table 3.4 Number of companies registered for R&D tax concessions

<i>Tax concession measures</i>	<i>2001-02</i>	<i>2002-03</i>
125% tax concession	2626	2458
175% incremental tax concession	484	619
Tax Offset at 125%	1524	1828
Tax Offset at 175%	109	147
Total registrations	4745	5052

Source: Senate Economics Legislation Committee (2004b) and DITR.

Information and communications technology

The information technology sector has been a focus of public support in recent years. The Statement outlined funding commitments for future years for the following programs.

- *The ICT Centre of Excellence.* The Centre was established in 2002 to undertake ICT research. The Statement indicated that the Centre will be supported by funding of \$126 million from the Department of Communications, Information Technology and the Arts, and \$125 million from the Australian Research Council (see below), from 2006-07 to 2010-11.

⁵ 'Commercialisation' in this context refers to the development of new commercial products, processes and services resulting from the application of R&D activities.

-
- *The Advanced Networks Program*. This program funds research and the commercialisation of broadband technologies. \$21 million has been allocated to extend the program from 2004-05 to 2006-07.

Public sector research

The Statement also announced funding, generally for the period from 2004-05 to 2010-11, for public sector research which is of benefit to industry, including:

- \$1189 million for the Australian Research Council to maintain funding for the National Competitive Grants Program (from 2006-07 to 2010-11);⁶
- \$555 million to maintain university Research Infrastructure Block Grants support (from 2006-07 to 2010-11);
- \$542 million to develop major industry-related research infrastructure. Previous support covers, for example, funding of the National Wine Industry Research Centre, the Australian Maritime Hydrodynamic Research Centre and the International Livestock Research and Information Centre.
- \$305 million for the CSIRO to support large-scale collaborative research partnerships in six priority areas including agrifood, light metals, energy, water, preventative health, and oceans and marine industries (for example, oil, gas and fisheries);
- \$200 million for overhead infrastructure costs of health and medical research institutes;
- \$56 million for Australian researchers and firms to develop partnerships with overseas research institutions and to access overseas technologies (from 2006-07 to 2010-11); and
- \$12 million for regional universities to undertake research deemed to be of benefit to regional areas (from 2004-05 to 2007-08).

Commercialisation programs

Commercial Ready

The Commercial Ready Program is designed to assist R&D and commercialisation activities of small- and medium-sized enterprises. The program combines and replaces previous firm-specific support for R&D, early-stage commercialisation and aspects of technology adaptation provided under the R&D Start Program, the

⁶ \$275 million was also allocated to the program, for 2006-07, in the 2003-04 budget.

Biotechnology Innovation Fund and elements of the Innovation Access Program respectively. The limited support afforded to large companies under previous programs is to be reallocated to small- and medium-sized enterprises under the Commercial Ready program (Senate Economics Legislation Committee 2004a).

The Commercial Ready Program has been allocated funding of around \$200 million a year for the period to 2010-11. Assistance is provided as grants, applications for which will be assessed by the Industry Research and Development Board. The grants range from \$50 000 to \$5 million per project. AusIndustry's regional office staff is being increased to help deliver the assistance.

Eligible activities cover many aspects of the development of a new 'product, process or service', including activities related to:

- R&D and other activities that involve innovation, technology transfer into Australia or technical risk;
- demonstration of the commercial and technical viability of a product, process or service; and
- 'early-stage' commercialisation — including product design, market research, intellectual property protection costs, product trials and costs incurred for regulatory compliance.

Where directly related to a project, some costs associated with certain technology acquisition and its adaptation, may also be claimable under Commercial Ready.

To be eligible, applicants must have an annual turnover of less than \$50 million and be able to fund half of the project's costs. An applicant also needs to show that it has rights over the intellectual property that is needed to commercialise the assisted project. Up to 1700 small and medium-sized companies are expected to be supported under the Commercial Ready Program. An applicant must also be a non-tax exempt company.

Other programs

The Statement also announced the extension of assistance for several commercialisation programs.

- *Commercialising Emerging Technologies (COMET) program.* The COMET program assists the commercialisation of new technologies and products that are developed by individuals, small Australian companies and researchers in universities. Eligible innovators receive financial assistance and business advice and services for marketing and business planning to develop and commercialise

a product. \$100 million has been allocated to extend the COMET program from 2004-05 to 2010-11.

- *Pre-seed Fund program.* This program assists the commercialisation of public sector R&D. Under the program, venture capital funds are established to invest in university or government agency ‘spin-off’ research companies. Venture capital funds also provide management and technical advice on the commercial exploitation of a technology developed by these agencies. While no new funds have been allocated for this program, the Government indicated that the period for distributing the \$79 million, that was originally provided for the Pre-seed Fund in the 2001 BAA plan, has been extended to 2010-11.
- *Cooperative Research Centres (CRCs).* The CRC program supports research partnerships and joint ventures between the public sector (universities and government research agencies) and private firms and industry organisations. CRCs seek to develop research results into commercial products and/or transfer new know-how to industry users. The centres also train researchers in the skills needed to work in industry. The Statement indicated that, commencing in 2004, the program will have a stronger commercial focus and be allocated additional funding of \$65 million. In total, \$926 million is to be provided as administered grants under the program between 2006-07 and 2010-11.
- *New Industries Development Program.* This program assists commercialisation projects in agricultural and food processing industries. \$14 million has been allocated to extend the program from 2006-07 to 2010-11.
- *Biotechnology Centre of Excellence program — the Australian Stem Cell Centre.* The Centre, in partnership with institutions and companies, undertakes stem cell research with commercial applications in the biotechnology industry. The centre will receive \$30.4 million in funding from the Department of Industry, Tourism and Resources, and \$27.5 million in funding from the Australian Research Council, from 2006-07 to 2010-11. (The Government announced that it will also provide \$20 million from 2004-05 to 2007-08 to continue the National Biotechnology Strategy and Biotechnology Australia.)
- *ICT Incubators program.* The program assists ‘start-up’ ICT firms by providing finance and business advice. \$36 million has been allocated to extend the program from 2004-05 to 2007-08.

Skills development

The Statement also includes measures designed to develop greater skills in sciences and technology. The funding generally applies from 2004-05 to 2010-11, and includes:

- \$199 million to maintain support for 5470 university places focussed on ICT, mathematics and science (from 2006-07 to 2010-11);
- \$373 million to foster the scientific, mathematical and technological skills of Australian school students (from 2004-05 to 2007-08);
- \$39 million for school teaching in science, technology and mathematics; and
- \$11 million to fund Questacon to raise awareness on science and \$26 million for the Science Connections program .

3.4 Energy

In June 2004, the Australian Government released an *Energy White Paper: Securing Australia's Energy Future*, which foreshadowed new funding measures for the commercialisation of energy technologies, including greenhouse abatement measures (Australian Government 2004b). The measures cover industries specialising in production of existing energy resources (such as oil, gas and coal) as well as renewable energy sources (for example, wind and solar power). The White Paper measures and some other recent energy assistance initiatives are outlined below.

Petroleum exploration

Existing Australian Government support to petroleum exploration is provided through research activities undertaken by a range of Commonwealth and State geoscientific research organisations, including Geoscience Australia, CSIRO Division of Petroleum Resources, Australian Petroleum CRC and university geoscience research units. In addition to R&D, support is also delivered via Geoscience Australia's provision of data on exploration activity.

In May 2003, the Australian Government announced funding of \$61 million to be allocated to Geoscience Australia over four years to provide data for offshore oil exploration (Macfarlane 2003). Of this funding, \$36 million is to be used to provide, free of charge, geological data on Australia's offshore petroleum reserves. The remaining funding of \$25 million is to finance Geoscience Australia's acquisition of seismic data for remote frontier areas.

In the May 2004 Budget, taxation incentives were announced for exploration expenditure incurred in offshore frontier areas. The incentives take the form of an increase, from 100 to 150 per cent, in allowable exploration deductions on the petroleum resource rent tax (PRRT) in designated frontier areas.⁷ Under the arrangement, the Minister for Industry, Tourism and Resources may designate up to 20 per cent of the annual offshore acreage releases for 2004 to 2008 as areas eligible for the incentive. These designated frontier areas are to be more than 100 kilometres from an existing commercialised oil discovery and are not to be adjacent to an area designated in a previous year's acreage release.

Commenting on the incentive, the Department of Industry, Tourism and Resources stated:

The purpose of the PRRT concession is to increase the chance of finding a significant new oil province, such as another Bass Strait, by providing a strong signal to the global petroleum industry that Australia's untested frontier areas deserve their attention. This measure is needed, as despite the increased profitability of the oil sector and the prospects of sustained higher oil prices, the industry is reluctant to diversify their exploration to unexplored areas. This is because these areas carry higher geological risk (and higher exploration and development costs if the area is in deep water) and are generally distant from domestic markets (Senate Economics Legislation Committee 2004c, ITR 22).

Climate change measures

Developing low-emission technologies

The White Paper announced the creation of a Low-Emission Technology Development Fund, which will provide \$500 million to support low-emission technology projects. Assistance will not be limited to renewable energy projects, but will also be available for technologies that reduce the demand for energy as well as to 'carbon capture' technologies. Eligible applicants can apply for support for technologies relating to renewable and fossil-fuel supply as well as energy efficiency measures in transport and non-transport industries. According to the Government:

These technologies must have the potential to lower Australia's emissions by at least 2 per cent in the long term at a realistic uptake rate, and be commercially available by 2020 to 2030 (Australian Government 2004b, p. 144).

⁷ The PRRT applies on the economic profits from the exploration and use of Australia's natural resources. The PRRT is designed to return to the community a share of the net income derived from extraction of its non-renewable resources. The PRRT is assessed at the rate of 40 per cent on the taxable profits of a petroleum project — the net amount received from the sale of all petroleum products after deducting capital or operating costs, including exploration expenditure.

The Government indicated that the program is intended to facilitate \$1 billion of investment from industry. Financial support will be delivered to 2020. Applications for support will be assessed against criteria, including:

- potential scale and cost of abatement;
- likelihood of success/risk assessment;
- benefits for Australian industry development; and
- other considerations, including links with overseas developments, partnerships with research organisations, the likely level of technological advance and the ability to preserve and enhance the value of Australia's resource endowments.

Solar Cities

Under the Solar Cities initiative, trials of solar energy applications in urban Australia will be eligible for support at a cost to government of \$75 million from 2004-05 to 2012-13. The trials will subsidise specific solar and energy efficiency technologies and their installation into residential and commercial buildings. The trials are intended to showcase the market viability of solar energy and energy efficiency technologies, and their economic and environmental benefits.

According to the White Paper, the initiative will also involve the development of energy pricing mechanisms, in consultation with industry and governments. Savings on transmission and distribution costs will be assessed and monitored. The trials will be located in major urban centres and are to involve the cooperation of industry, state, territory and local governments.

Other measures

The Energy White Paper also contained other measures to support energy technologies, including:

- *Renewable energy development initiative.* Funding of \$100 million over seven years (commencing in 2004-05) will be used to assist the development of renewable technologies, systems and processes deemed to have strong commercial potential. Half of this fund will be financed by the Commercial Ready Program (see section 3.3).
- *Intermittent energy storage.* Certain renewable technologies, such as wind and solar technologies, produce electricity intermittently, which may make them appear less attractive for commercial electricity adoption. \$20 million over four years will be used to support the development of advanced electricity storage

technologies for renewable energy. Examples of these technologies include batteries, electro-mechanical storage and chemical storage.

- *Wind forecasting.* Funding of up to \$14 million over five years has been allocated for the development and installation of wind forecasting systems to facilitate greater penetration of wind power in energy markets and allow planning of wind farms.

In addition, it was announced that existing public support for greenhouse technology projects will be maintained. This includes funding of \$203 million to the Australian Greenhouse Office (AGO)⁸ for provision of programs such as the Remote Renewable Power Generation Program and the Greenhouse Gas Abatement Program.

From 1 July 2006, fuel excise credits of more than \$3 million per year will be available to businesses that are large energy users, provided that they join the Greenhouse Challenge Program. Under this arrangement, recipients of the excise credits will measure their greenhouse emissions, develop possible abatement options and report on progress.

The Australian Government also announced a new mandatory scheme under which certain businesses must undertake energy efficiency opportunity assessments every five years and report publicly on their energy efficiency performance. The scheme applies to all businesses using more than 0.5 petajoules of energy per year.

The Australian Government indicated that it will also seek to address impediments in the national electricity market to promote the perceived benefits of smaller-scale local energy generation and production (distributed generation), including renewable energy sources. In addition, the Government indicated that it will introduce measures to improve the availability of information on energy efficiency, such as information on the energy performance of appliances, buildings and vehicles, and to expand the range of appliances and buildings subject to minimum energy performance standards.

Fuel excise reform

In the Energy White Paper, the Australian Government announced reforms of the fuel excise system, which it considered were needed because:

While imposing a relatively low burden overall, Australia's fuel excise regime is in need of reform. The current system has a number of inconsistencies and anomalies. The result has been a system that imposes unnecessary costs on business and households (p. 95).

⁸ In October 2004, the Australian Government announced that the AGO will become a division of the Department of Environment and Heritage (Howard 2004b).

The fuel excise reforms, which are to be phased in over the period from July 2006 to July 2015, are intended to move towards a system that:

- applies in a consistent and transparent way to all fuels and all relevant fuel users;
- avoids instances where taxed fuels compete with untaxed fuels;
- minimises tax on business inputs to production;
- minimises the compliance and administration costs of levying fuel excise; and
- takes account of the government's environmental, social and fiscal objectives.

Among other things, the fuel excise reforms include the following commitments.

- All off-road business use of all fuel will receive an excise credit (relief). Excise relief will be extended, for the first time, to manufacturing, quarrying and construction activities as well as previously ineligible farming and mining activities. Excise credit will also be provided to local, state and territory governments. The excise credit will be phased in, with newly eligible off-road activities receiving a half credit from July 2008 to June 2012, and the full credit from July 2012.
- The existing partial excise on fuel used in heavy vehicles will be 'formally recognised' and set as a non-hypothecated road-user charge from July 2006. The charge will be set according to the National Transport Commission's charging determination process. The excise arrangements for heavy vehicles will apply to all fuels; not just diesel. The existing urban-rural boundaries applying to excise relief for heavy vehicles will be removed from 1 July 2006 to reduce compliance costs for businesses claiming on-road excise credits.
- Diesel and fuel oil used in commercial power generation will be excise free from 1 July 2006 (and gaseous fuels used for electricity generation will continue to be excise free). The measure is designed to ensure competitive neutrality between all fuels used to generate electricity for business and household use. Also, the current excise on burner fuels such as heating oil and kerosene will be removed from 1 July 2006 (except when used in a vehicle). The change is intended to place the use of burner fuels on the same excise basis as the use of electricity and gas for heating needs.
- A single business credit system will be introduced from July 2006. Fuel excise credits will be claimable through the Business Activity Statement in the same way as GST credits.

3.5 Automotive assistance

Background

Although assistance to both motor vehicle producers and parts suppliers has declined significantly since the mid-1980s, the automotive industry remains one of the most highly assisted industries in the manufacturing sector. This assistance derives largely from tariffs and tariff concession schemes, particularly the Automotive Competitiveness and Investment Scheme (ACIS):

- Tariffs on imported new passenger motor vehicles (other than 4WDs) have been fixed at 15 per cent since January 2000, but are scheduled to fall to 10 per cent on 1 January 2005.
- Participants in ACIS, which commenced in January 2001, receive transferable credits based on their domestic production, investment in plant and equipment, and in some cases investment in research and development. These credits can be used to reduce the customs duty payable on eligible imports. Total import duty forgone under ACIS is estimated at \$2.8 billion for the five year period (2001–2005) for which the scheme was initially to run.

In addition to tariffs and tariff concession schemes, the automotive industry also receives assistance from other sources including government procurement programs and the luxury car tax that applies mainly to imported vehicles. There is also a specific tariff of \$12,000 on imported second hand vehicles, to be levied in addition to the prevailing vehicle tariff.

In December 2002, the Australian Government announced a new assistance package for the automotive industry. Under the package, after their scheduled reduction in January 2005, automotive tariffs are to remain at 10 per cent until January 2010, when they will be reduced to 5 per cent and remain at that level until (at least) 2015. The package also included an extension of the ACIS scheme from January 2006 to December 2015, albeit with modifications including a phasing down of assistance between 2011 and 2015. The post-2005 assistance arrangements for the automotive industry, together with other Australian and State Government assistance projects, were discussed in more detail in the 2001-02 *Review* (PC 2002b).

Recent developments

In May 2004, the Australian Government announced a \$50 million structural adjustment package in response to the foreshadowed closure of Mitsubishi's engine plant in Lonsdale, South Australia. The package comprises:

-
- up to \$10 million, equivalent to more than \$14 000 on average per displaced worker, for a labour market assistance program for the approximately 700 displaced Mitsubishi workers; and
 - up to \$40 million, to be delivered through Invest Australia, for investment facilitation and structural adjustment measures in South Australia, particularly southern Adelaide.

The labour market assistance program will provide Mitsubishi workers with access to personalised consultancy services including:

- job search training and advice;
- access to job vacancies;
- access to the Job Seeker Account and the Training Account for mature age and Indigenous job seekers; and
- access to the New Enterprise Incentive Scheme to provide assistance to displaced workers to take up attractive small business opportunities (Howard 2004a and Macfarlane 2004a).

At the same time, the South Australian Government also announced a workplace assistance package to assist Mitsubishi workers who lose their jobs following the closure of the Lonsdale engine plant. The South Australian package will include career and personal counselling, help with finding placement in new jobs, priority access to job vacancies, as well as the establishment of a register of Lonsdale factory workers. The package is to complement the Australian Government's labour market assistance program outlined above (Rann 2004a).

The South Australian Government also announced that it would provide a \$5 million industry development rescue package for the southern suburbs of Adelaide, where the plant is located. The package is designed to help broaden the economic base of the area by attracting new industries to the area (Rann 2004b).

As part of its May 2004 statement, the Australian Government re-affirmed that \$35 million in assistance remained available to Mitsubishi in 2004-05 for the establishment of an international R&D centre. The Government also estimated that, at current production levels, Mitsubishi could expect to receive around \$300 million in assistance from the Government's extension of ACIS beyond 2006.

In August 2004, the Japanese company Hirotec announced that it would invest \$70 million in South Australia to build a manufacturing plant for the production of car doors, bonnets and boot lids. In response, the Australian Government announced that it would grant Major Project Facilitation (MPF) status to the venture. MPF status will enable Hirotec to obtain information, advice and support to gain all

government approvals for the project. Invest Australia will also identify areas where other government assistance may be available such as: to meet immigration requirements; to access local procurement opportunities; to avail the firm of customs concessions; and to access R&D programs (Macfarlane 2004b).

3.6 Other developments

Agricultural adjustment assistance

Introduced in 1997 to replace the Rural Adjustment Scheme and other rural programs, the *Agriculture — Advancing Australia (AAA)* package provides adjustment assistance, income support and taxation benefits to primary producers.

Of the current outlay measures, the AAA package comprises FarmBis, FarmHelp, the Rural Financial Counselling Service, the International Agricultural Cooperation Program, an Industry Partnerships and an Industry Leadership program. The Commission reported on these programs in the 1999-2000 and 2002-03 *Reviews* (PC 2000b and 2003b). These outlay measures assist eligible primary producers to obtain income support, improve their business skills, access financial information and referral, pursue new export opportunities and adjust to import competition. In the May 2004 Budget, the Australian Government indicated that the outlays component of the AAA package will be extended at a cost of \$236 million from 2004-05 to 2007-08.

The AAA package also includes the Farm Management Deposits (FMD) scheme, which provides a tax deduction benefit for eligible primary producers. Preliminary estimates indicate that around \$180 million of tax revenue was forgone under the FMD scheme in 2003-04 (Treasury 2004). The FMD scheme is ongoing.

Wine industry assistance

In the May 2004 Budget, the Australian Government announced a new wine industry assistance package. Under the package, wine producers receive a rebate from the wine equalisation tax (WET)⁹ of up to \$290 000 per year, compared with a maximum rebate of \$42 000 per year under the previous Australian Government Cellar Door Rebate scheme. The new measure applies on all wholesale sales of wine and its effect is to exempt \$1 million of each producer's domestic wholesale

⁹ As part of the tax reform package in 1999, the WET was introduced to replace the difference between the then 41 per cent wholesale sales tax and the proposed GST.

wine sales from the WET on an annual basis. The new measure replaces accelerated depreciation provisions for grapevine plantings and the previous Australian Government Cellar Door Rebate Scheme. There have also been changes to State government cellar door rebate schemes.

Film

Introduced in 2002, the Refundable Film Tax Offset is an incentive for large budget film productions to locate in Australia. The measure provides a benefit of 12.5 per cent of a film's qualifying Australian production expenditure. To be eligible, a company must spend a minimum of \$15 million on qualifying Australian production. In the May 2004 Budget, the Government announced that it would extend the offset to apply to large-budget television series at a cost of \$12 million over 4 years.