
2 Assistance estimates

Each year the Commission publishes estimates of the assistance to industry provided by a range of government programs and measures. Typically the estimates cover:

- tariff assistance, which assists mainly the manufacturing sector;
- Australian Government budgetary assistance applying to all sectors; and
- agricultural regulatory and pricing assistance.

As well as providing estimates for each of these categories, the Commission provides estimates of the ‘combined’ assistance for all sectors, and effective rates of combined assistance for the manufacturing, primary production and mining sectors.

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. Quantification constraints also limit the precision of some of the estimates, and care is needed when drawing inferences from them.

Box 2.1 Coverage of the Commission’s 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;
- government programs affecting a range of service industries, mainly relating to the provision of health and welfare, where funding predominantly benefits consumers and individual citizens;
- capital depreciation subsidies and the impact of tariffs on capital items;
- various tax expenditures affecting the mining sector, in particular, where resource rent taxation issues make it difficult to determine assistance impacts;
- the effects of government purchasing preferences — for example, as they affect the manufacturing sector and IT industries; and
- various Australian Government budgetary outlays on defence, health, education, sport, the arts and the labour market.

The estimates reported in this chapter cover the years 2001-02 to 2005-06. They are the first in a new series and incorporate revisions in the coverage of assistance programs as well as to underlying data sources and methodologies (box 2.2). As such, they differ to the estimates published in previous editions of the *Trade & Assistance Review*, and any comparisons of estimates from the different series should be carefully qualified. Further guidance on the derivation and interpretation of the estimates is provided throughout this chapter and in a (forthcoming) Methodological Annex to this *Review*.

Box 2.2 The 'new series' of assistance estimates: key changes

Estimation of tariff assistance

The Commission's previous tariff estimates (last published in *Trade & Assistance Review 2003-04*) were calculated using 1996-97 input-output data — which at that time were the latest suitable data available. For the new series, the Commission has used newly released input-output data (for 2001-02). It has also updated the Customs import data, used in weighting the tariff assistance estimates, to the same year.

Coverage of budgetary programs

In compiling the new series, the Commission has broadened the coverage of programs included in its budgetary assistance estimates. The changes reflect the introduction of new programs by the government, the inclusion of some previously unidentified or omitted assistance measures, and improvements in data availability. In total, some \$1.5 billion of additional programs have been included in the estimates (for 2005-06). Appendix A contains a list of the programs covered.

Estimation of automotive assistance

Modifications have been made to the way that tariff concessions provided under the Automotive Competitiveness and Investment Scheme (ACIS) are reflected in the Commission's estimates. The previous methodology did not fully reflect the value of the scheme to firms in the automotive sector, due principally to the transferable nature of duty credits provided under the scheme. For the new series, the effects of the ACIS have been removed from the tariff assistance estimates, and are included as tax concessions in the budgetary estimates.

Calculation of effective rates

The Commission's previous estimates of the effective rate of assistance (published in *Trade & Assistance Review 2003-04*) were calculated using 1996-97 input-output data to determine the 'value added' for different manufacturing industries, and a three year average of 1995-96, 1996-97 and 1998-99 input-output data to determine value added for primary production industries. For the new series, the Commission has used newly released input-output data (for 2001-02) to determine value added by industry.

2.1 Tariff assistance

Tariffs have direct effects on the returns received by Australian producers. 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 similar products to increase their prices. On the other hand, tariffs also increase the price of goods that are used as inputs and thus penalise local industries. This ‘penalty’ is reduced if tariff concessions are available to Australian producers. These effects are captured in the Commission’s estimates of tariff assistance.

The Commission estimates that the gross dollar value of tariff assistance on outputs was around \$8.2 billion in 2005-06 (table 2.1). This compares to an estimate of around \$8.5 billion in 2004-05 and \$9 billion in 2003-04. This decline partly reflects the scheduled reductions in tariffs on automotive and textiles, clothing and footwear (TCF) products, which took effect on 1 January 2005 (see PC 2006a).

Net tariff assistance to industry was estimated to be around \$1.2 billion in 2005-06. Since 2001-02, net tariff assistance has fallen in *real* (ie price-adjusted¹) terms by around 8 per cent.

Table 2.1 Total tariff assistance, 2001-02 to 2005-06
\$ million

	2001-02	2002-03	2003-04	2004-05	2005-06
Output assistance	7594.8	8278.5	8960.6	8474.2	8161.7
Input assistance	-6434.0	-6962.7	-7604.5	-7415.9	-6926.5
Net assistance	1160.7	1315.8	1356.1	1058.3	1235.2

Source: Commission estimates.

Most tariff assistance is directed towards industries in the manufacturing sector (table 2.2). Indeed, the sector derives around three-quarters of its total measured assistance from this source.

Mining and primary production industries receive little tariff assistance on outputs, and tariffs cannot be levied on services. On the other hand, because of their cost-raising effects on inputs, tariffs impose net penalties on all industries in these sectors, other than *Horticulture & fruit growing* and *Forestry & logging*.

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 2001-02, using the GDP deflator.

Table 2.2a **Net tariff assistance by industry grouping,^a
2001-02 to 2004-05**

\$ million

<i>Industry grouping</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
Primary production	-22.3	-13.8	-16.7	-11.1
Dairy cattle farming	-4.1	-2.8	-2.9	-3.3
Grain, sheep and beef cattle farming	-25.6	-17.9	-22.0	-20.3
Horticulture and fruit growing	27.3	23.1	26.2	28.0
Other crop growing	-6.4	-5.4	-5.8	-5.6
Other livestock farming	-3.2	-2.8	-2.8	-3.0
Fisheries	-22.2	-21.3	-21.2	-19.8
Forestry and logging	23.1	22.2	22.1	22.9
Other primary production ^b	-11.1	-8.9	-10.1	-9.9
Mining	-146.8	-147.5	-136.9	-180.2
Manufacturing	4544.3	4957.4	5351.5	5148.6
Food, beverages & tobacco	905.3	978.6	1038.4	1096.8
Textiles, clothing, footwear & leather	548.0	569.4	620.9	430.7
Wood & paper products	355.4	418.2	465.5	483.6
Printing, publishing & media	195.4	214.0	226.8	246.0
Petroleum, coal, chemical & ass. products	560.9	615.5	657.8	724.7
Non-metallic mineral products	142.9	168.7	187.4	172.2
Metal product manufacturing	682.0	729.2	750.9	775.3
Motor vehicles & parts	625.1	689.6	772.8	603.0
Other transport equipment	30.1	33.2	37.2	35.5
Other machinery & equipment	275.7	312.5	337.2	327.7
Other manufacturing	223.6	228.5	256.7	253.1
Services	-3214.5	-3480.3	-3841.9	-3899.1
Electricity, gas & water supply ^c	-70.5	-76.5	-79.9	-77.3
Construction	-911.6	-1022.8	-1192.6	-1267.8
Wholesale trade ^c	-151.4	-168.7	-181.5	-176.1
Retail trade ^c	-530.6	-568.8	-615.2	-573.7
Accommodation, cafes & restaurants	-306.3	-315.6	-342.8	-370.7
Transport & storage	-211.2	-224.9	-243.2	-240.2
Communication services	-146.8	-155.9	-163.1	-158.2
Finance & insurance	-21.7	-22.8	-25.0	-26.5
Property & business services	-256.0	-272.6	-290.9	-296.4
Government administration & defence	-265.7	-280.5	-302.6	-303.4
Education	-65.3	-70.1	-74.5	-75.9
Health & community services	-85.9	-92.6	-101.3	-101.6
Cultural & recreational services	-114.1	-129.6	-145.7	-144.9
Personal & other services	-77.3	-78.9	-83.8	-86.4

^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. ^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. ^d Totals may not add due to rounding.

Source: Commission estimates.

Table 2.2b **Tariff assistance by industry grouping,^a 2005-06**

\$ million

<i>Industry grouping</i>	<i>Output assistance</i>	<i>Input assistance</i>	<i>Net tariff assistance</i>
Primary production	66.4	-63.4	3.0
Dairy cattle farming	0.0	-3.1	-3.1
Grain, sheep and beef cattle farming	0.1	-16.7	-16.6
Horticulture and fruit growing	37.6	-7.3	30.3
Other crop growing	0.0	-4.5	-4.5
Other livestock farming	0.0	-2.5	-2.5
Fisheries	0.0	-14.5	-14.5
Forestry	28.6	-6.5	22.1
Other primary production ^b	0.0	-8.3	-8.3
Mining	3.3	-228.3	-225.1
Manufacturing	7789.7	-2586.3	5203.4
Food, beverages & tobacco	1460.0	-364.9	1095.1
Textiles, clothing, footwear & leather	423.2	-104.1	319.1
Wood & paper products	658.9	-173.7	485.2
Printing, publishing & media	387.9	-132.5	255.3
Petroleum, coal, chemical & ass. products	1013.6	-283.5	730.1
Non-metallic mineral products	246.1	-59.0	187.1
Metal product manufacturing	1260.6	-352.8	907.8
Motor vehicles & parts	1162.3	-619.7	542.5
Other transport equipment	104.1	-61.8	42.4
Other machinery & equipment	637.0	-248.7	388.3
Other manufacturing	436.0	-185.6	250.4
Services	302.3	-4048.5	-3746.1
Electricity, gas & water supply ^c	6.1	-80.2	-74.1
Construction	0.0	-1272.6	-1272.6
Wholesale trade ^c	128.4	-281.8	-153.4
Retail trade ^c	167.8	-678.8	-510.9
Accommodation, cafes & restaurants	0.0	-362.9	-362.9
Transport & storage	0.0	-213.3	-213.3
Communication services	0.0	-140.3	-140.3
Finance & insurance	0.0	-28.3	-28.3
Property & business services	0.0	-287.4	-287.4
Government administration & defence	0.0	-301.9	-301.9
Education	0.0	-79.1	-79.1
Health & community services	0.0	-101.9	-101.9
Cultural & recreational services	0.0	-138.2	-138.2
Personal & other services	0.0	-81.7	-81.7

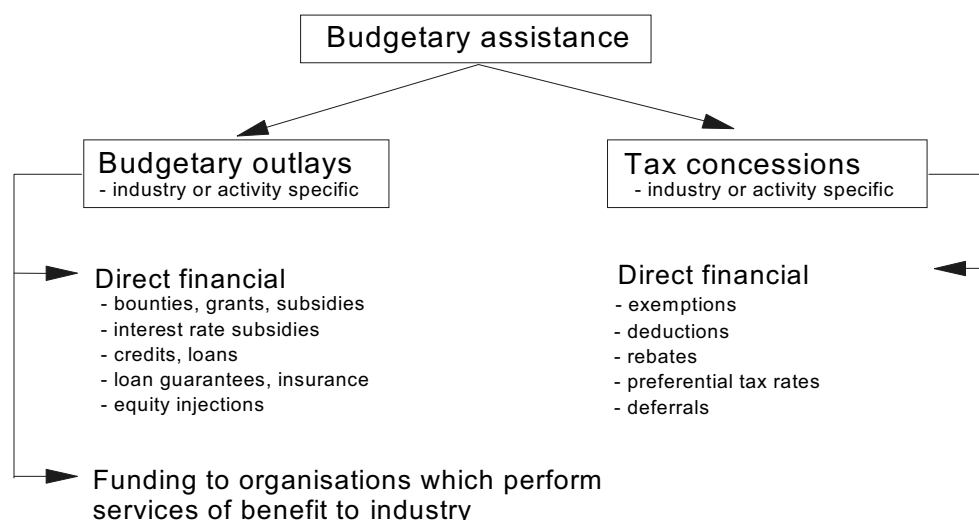
^a Tariff assistance estimates are derived using ABS Industry Gross Value Added at current prices data. This information is subject to periodic revision by the ABS. ^b Other primary production includes *services to agriculture* (including *hunting & trapping*) and *poultry farming*. ^c Due to ABS industry-of-origin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

Source: Commission estimates.

2.2 Australian Government budgetary assistance

Budgetary assistance comprises a range of outlays and tax concessions (figure 2.1). Recipients include individual firms, including those undertaking or utilising particular activities such as R&D, as well as particular industries or sectors.

Figure 2.1 Forms of budgetary assistance



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

- the activities — R&D, export, industry-specific support etc — to which the assistance is directed; and
- the incidence of the assistance across different sectors and industry groupings.

The assistance estimates in this section and in appendix A are derived primarily from the Australian Government Budget Papers, departmental annual reports and Treasury's 2006 Tax Expenditure Statement. The estimates incorporate revisions to outlays and tax concessions for previous years.

Aggregate estimates

Estimates of the assistance — in *nominal* terms — provided by the budgetary measures covered in this *Review*, for the period 2001-02 to 2005-06, are shown in table 2.3 and figure 2.2. That assistance totalled around \$6.1 billion in 2005-06, compared to \$5.6 billion in 2004-05 and, at the start of the series, \$4.7 billion in 2001-02. This represents an increase in *real* terms since 2001-02 of 12 per cent.

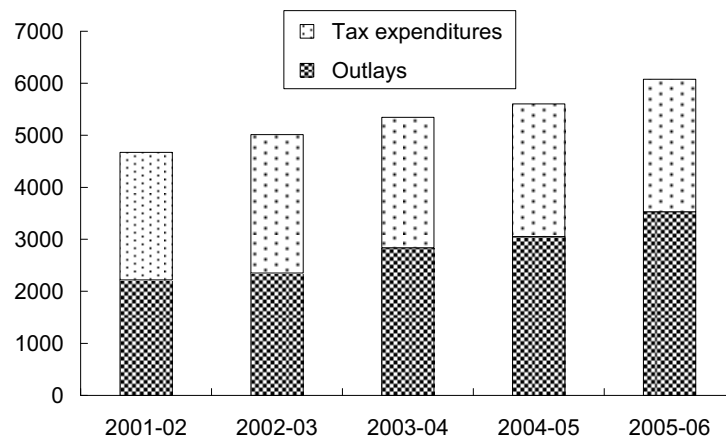
The increases in estimated budgetary assistance over the period reflect in part the substantial drought relief provided by the Australian Government in recent years (see section 3.1 of chapter 3). The amount allocated under the ‘exceptional circumstances’ drought schemes increased by around \$170 million from 2004-05 to 2005-06. Significant increases in the year to 2005-06 were also recorded in relation to capital gains tax concessions for small business (a net increase of more than \$100 million) and R&D tax concessions and offsets (a net increase of \$55 million). \$135 million was also allocated for businesses affected by Cyclone Larry. Budgetary outlays constituted around 60 per cent of estimated budgetary assistance in 2005-06.

Table 2.3 Total estimated budgetary assistance, 2001-02 to 2005-06
\$ million

	2001-02	2002-03	2003-04	2004-05	2005-06
Budgetary outlays	2221.4	2353.9	2836.5	3051.3	3530.2
Tax concessions	2450.6	2658.8	2508.3	2553.4	2547.3
Total	4671.9	5012.7	5344.8	5604.7	6077.5

Source: Commission estimates.

Figure 2.2 Total estimated budgetary assistance, 2001-02 to 2005-06
\$ million



Sources: Australian Government Budget Papers; Treasury (2006); Commission estimates.

Activities targeted

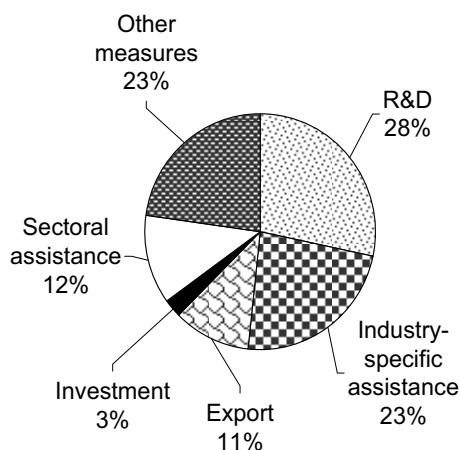
Budgetary assistance is often designed to encourage particular activities undertaken by firms across various industries and/or sectors. To provide an indication of the distribution of assistance among activities, the Commission classifies its estimates of Australian Government budgetary assistance into several

categories: R&D, export, investment, and sectoral assistance, as well as industry-specific assistance and a residual ‘other’ category.

A degree of caution is required in interpreting these estimates because particular programs may be designed to encourage more than one type of activity. In such cases, the Commission has allocated the program’s total funding to the activity deemed to be the main target of the assistance. A further qualification is that the extent to which an activity that appears to be targeted by a program actually benefits from the assistance is not always clear.

As shown in figure 2.3, the largest share of budgetary assistance is provided for R&D activities.

Figure 2.3 **Estimated budgetary assistance by activity^a, 2005-06**



^a The assistance categories include general as well as specific schemes targeting an activity within an industry. For example, the *R&D assistance* category includes broad-based measures (such as the general R&D tax concession) as well as industry-specific measures (such as government funding for the Grape and Wine R&D Corporation). The *sectoral assistance* category covers programs specifically benefiting producers in a sector or facilitating adjustment. The other general assistance category covers measures (such as the regional assistance program) not already included in the above categories.

Source: Commission estimates.

Sectoral and industry distribution

The Commission estimates the incidence of budgetary assistance by the initial benefiting industry. It reports the incidence using a four sector classification of the Australian economy and a multiple ‘industry grouping’ classification.

While reporting of budgetary assistance by broad sectors and industries helps highlight the incidence of assistance and facilitates comparisons, the estimates of the sectoral and industry distribution of assistance included in this edition of the *Review* are subject to a number of qualifications (box 2.3).

Box 2.3 Sectoral and industry distribution estimates: the need for caution

The methodology for allocating budgetary assistance among the sectors and industry groupings is discussed in Methodological Annexes to the earlier Reviews (PC 2000d, 2002c 2006b). While the Commission has used detailed information to make these allocations, the need for judgment means that there remains some scope for imprecision.

A further consideration for the estimates presented in this edition of the *Review* is that, at this stage, the assistance provided by a number of the programs introduced into the new series has not been allocated among sectors and industry groupings. Rather, they have been assigned to the ‘unallocated’ category.

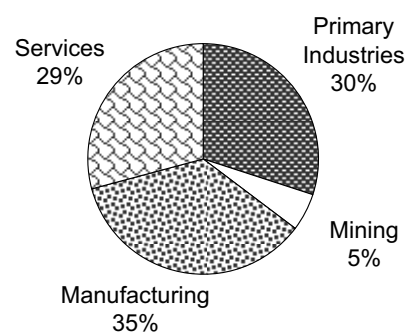
There can be significant variations in assistance between firms within a sector or industry grouping. Indeed, many firms do not make any use of government programs. For example, a study by Commission staff (Revesz and Lattimore 2001) found that the use of R&D and certain export programs between 1994 and 1998 ranged from 2 to 23 per cent of firms in the targeted activities.

Finally, the various sectors and industry groupings are of course not equivalent in size. The Commission’s ‘effective rate’ estimates (section 2.4) give an indication of the assistance received by different sectors and industries relative to their size.

As figure 2.4 shows, manufacturing, primary production and the (much larger) services sector each received around one third of estimated budgetary assistance.

Table 2.4 (on pages 2.10 and 2.11) details the incidence of estimated budgetary assistance by the Commission’s ‘industry grouping’ classification. These estimates indicate that *Grain, sheep and beef cattle farming* received the most budgetary assistance in 2005-06, in part due to the substantial drought assistance provided. *Motor vehicles & parts* also received significant budgetary assistance, mainly from ACIS duty credits which are included as tax concessions.

Figure 2.4 Estimated budgetary assistance by sector^a, 2005-06



^a Shares of estimated budgetary assistance allocated by the Commission. Excludes assistance not allocated by sector.

Source: Commission estimates.

Table 2.4a **Total estimated budgetary assistance by industry grouping, 2001-02 to 2004-05**

\$ million

<i>Industry grouping</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
Primary production	1014.8	1401.4	1365.0	1311.0
Dairy cattle farming	71.1	135.0	142.5	118.8
Grain, sheep and beef cattle farming	476.3	721.4	663.7	489.3
Horticulture and fruit growing	111.7	157.0	140.6	138.1
Other crop growing	90.8	77.5	148.5	192.2
Other livestock farming	28.6	40.6	31.7	23.6
Fisheries	81.6	71.2	73.6	130.5
Forestry and logging	41.3	95.0	35.6	94.2
Other ^a and unallocated primary production ^b	113.3	103.7	128.9	124.5
Mining	238.4	211.5	220.6	257.4
Manufacturing	1952.0	1842.0	1934.8	1770.7
Food, beverages & tobacco	80.5	78.2	108.6	111.7
Textiles, clothing, footwear & leather	255.3	209.3	202.9	199.0
Wood & paper products	43.7	44.0	43.5	52.8
Printing, publishing & media	24.3	26.7	33.7	20.1
Petroleum, coal, chemical & ass. products	180.5	216.5	182.6	140.1
Non-metallic mineral products	20.7	10.5	10.7	10.1
Metal product manufacturing	120.6	141.8	191.0	143.1
Motor vehicles & parts	750.0	688.6	706.3	657.4
Other transport equipment	101.7	43.1	37.7	20.9
Other machinery & equipment	181.3	161.6	138.7	129.6
Other manufacturing	53.5	57.8	131.2	121.6
Unallocated manufacturing ^b	139.9	163.7	147.8	164.4
Services	909.9	955.4	1135.0	1410.6
Electricity, gas & water supply	55.1	54.3	54.0	37.3
Construction	17.8	21.5	25.0	23.4
Wholesale trade	51.7	50.8	62.1	71.2
Retail trade	10.0	21.8	25.8	34.3
Accommodation, cafes & restaurants	14.9	24.9	26.3	26.8
Transport & storage	69.0	67.5	73.7	71.5
Communication services	77.0	92.9	129.0	137.8
Finance & insurance	104.8	103.3	160.3	245.7
Property & business services	159.6	210.3	261.1	302.3
Government administration & defence	1.2	7.2	6.4	3.6
Education	12.3	11.7	13.0	11.7
Health & community services	34.1	29.3	43.4	46.6
Cultural & recreational services	92.5	112.5	127.6	213.6
Personal & other services	5.4	5.2	5.8	8.4
Unallocated services ^b	204.5	142.2	121.6	176.3
Unallocated other^b	556.7	602.5	689.5	855.0

^a Other primary production includes *services to agriculture* (including *hunting & trapping*) and *poultry farming*.

^b Unallocated includes general programs where details of claimants and/or beneficiaries are unknown.

Source: Commission estimates.

Table 2.4b **Estimated budgetary assistance by industry grouping, 2005-06**
\$ million

<i>Industry grouping</i>	<i>Budgetary outlays</i>	<i>Tax concessions</i>	<i>Total assistance</i>
Primary production	1154.4	343.1	1497.6
Dairy cattle farming	124.7	34.9	159.6
Grain, sheep and beef cattle farming	461.9	158.2	620.1
Horticulture and fruit growing	100.4	49.7	150.1
Other crop growing	196.4	19.9	216.3
Other livestock farming	17.6	10.3	28.0
Fisheries	102.7	11.3	114.0
Forestry and logging	40.2	45.6	85.8
Other ^a and unallocated primary production ^b	110.5	13.2	123.8
Mining	132.4	137.1	269.6
Manufacturing	870.5	906.2	1776.7
Food, beverages & tobacco	99.6	28.5	128.0
Textiles, clothing, footwear & leather	152.6	57.2	209.8
Wood & paper products	30.1	26.0	56.2
Printing, publishing & media	17.5	7.0	24.5
Petroleum, coal, chemical & ass. products	161.7	26.0	187.7
Non-metallic mineral products	3.4	8.4	11.8
Metal product manufacturing	70.8	28.3	99.1
Motor vehicles & parts	43.1	542.0	585.1
Other transport equipment	19.9	8.4	28.3
Other machinery & equipment	101.9	44.1	146.0
Other manufacturing	127.0	9.1	136.1
Unallocated manufacturing ^b	43.0	121.1	164.1
Services	897.3	566.2	1463.5
Electricity, gas & water supply	48.5	16.5	65.0
Construction	9.2	15.9	25.2
Wholesale trade	25.6	50.3	75.9
Retail trade	8.3	31.0	39.3
Accommodation, cafes & restaurants	4.9	22.9	27.8
Transport & storage	38.7	28.2	66.8
Communication services	116.6	24.4	140.9
Finance & insurance	46.0	190.9	236.9
Property & business services	210.9	118.6	329.4
Government administration & defence	1.6	0.2	1.7
Education	13.5	3.1	16.6
Health & community services	38.1	8.6	46.7
Cultural & recreational services	154.8	50.9	205.8
Personal & other services	5.4	4.9	10.3
Unallocated services ^b	175.2	0.0	175.2
Unallocated other^b	475.6	594.7	1070.2

^a Other primary production includes *services to agriculture* (including *hunting & trapping*) and *poultry farming*.

^b Unallocated includes general programs where details of claimants and/or beneficiaries are unknown.

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.

While many of these schemes were dismantled in the 1980s, as recently as 1997 the Commission's estimates incorporated assistance derived from statutory marketing arrangements for dairy, sugar, rice and eggs, a local content scheme for tobacco leaf and loan guarantees for borrowings by the wheat and wool boards.

However, for the last few years, the assistance included in this category has been limited to just three measures, namely:

- the ongoing payments to dairy farmers under a structural adjustment package introduced in conjunction with the deregulation of the industry in 2000, which are funded by a levy on milk;
- some payments to sugar producers under the Australian Government's 2002 Sugar Industry Reform Program, which was to be funded by a levy of 3 cents per kilogram on domestic sugar sales;² and
- assistance to rice farmers through statutory marketing arrangements which allow the NSW Rice Growers Co-operative to vest and market all rice grown in the state, enabling the domestic price of rice to be maintained at higher levels than would otherwise prevail. (Arrangements to introduce competition in the domestic rice market, through an 'authorised seller scheme', were to commence on 1 July 2006 — see PC 2006a.)

Total estimated assistance in this category for 2005-06 was \$142 million (table 2.5).

² Assistance provided under the new Sugar Industry Reform Program, announced in 2004, is included in the Commission's budgetary assistance estimates.

Table 2.5 **Agricultural pricing and regulatory assistance by industry grouping, 2001-02 to 2005-06**

\$ million

<i>Industry grouping</i>	2001-02	2002-03	2003-04	2004-05	2005-06
Dairy cattle farming	261.2	170.3	150.4	143.5	136.6
Grain, sheep and beef cattle farming (inc. rice)	6.6	8.4	6.4	5.2	5.7
Other crop growing (inc. sugar)	-	17.6	9.1	-	-
TOTAL	267.8	196.3	165.9	148.7	142.3

Source: Commission estimates.

2.4 Combined tariff, budgetary and agricultural pricing and regulatory assistance

The Commission compiles ‘combined’ estimates of the key forms of national assistance covered in this chapter, namely:

- tariff assistance;
- Australian Government budgetary assistance; and
- agricultural pricing and regulatory assistance.

The combined estimates exclude State budgetary assistance and assistance provided through restrictions on services trade and anti-dumping measures, as well as other forms of assistance that are not captured in the Commission’s estimates (as outlined in box 2.1).

Measures

Tables 2.6 and 2.7 report the dollar value of estimated combined assistance in current dollar terms, both in total and for different industry groupings, for the five years to 2005-06. This *net subsidy equivalent* is a measure of the net assistance to the land, labour and capital resources used in a particular industry or activity. It measures the transfers of income to benefiting producers from consumers, taxpayers and other firms, although it does not indicate the ‘economic welfare’ costs to the community of the assistance.

Table 2.8 reports estimates of the *effective rate of assistance* for the manufacturing, primary production and mining sectors for the five years to 2005-06.³ Technically,

³ Effective rates of assistance (ERA) have not been published for the services sector. Among other things, this reflects technical matters associated with the treatment of services in

effective rates are a measure of the net assistance to an industry divided by the industry's unassisted value added. They 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.

Aggregate estimates

The total assistance to industry covered by the estimates in gross terms was \$14.4 billion in 2005-06. With the deduction of the negative effects of tariff assistance on industry inputs, estimated net assistance amounted to around \$7.5 billion (table 2.6).

Following increases in the first three years of the series, gross assistance has remained broadly stable in *nominal* terms since 2003-04, with a reduction in tariff output assistance offsetting an increase in budgetary assistance.

Estimated net assistance to industry has increased since 2001-02, by about 20 per cent in *nominal* terms and 5 per cent in *real* terms.

Table 2.6 **Estimated combined assistance, 2001-02 to 2005-06**

\$ million

	2001-02	2002-03	2003-04	2004-05	2005-06
Tariff output assistance	7594.8	8278.5	8960.6	8474.2	8161.7
Budgetary outlays	2221.4	2353.9	2836.5	3051.3	3530.2
Tax concessions	2450.6	2658.8	2508.3	2553.4	2547.3
Agricultural marketing and pricing assistance	267.8	196.3	165.9	148.7	142.3
Total gross assistance	12534.5	13487.5	14471.3	14227.6	14381.5
Tariff input assistance	-6434.0	-6962.7	-7604.5	-7415.9	-6926.5
Total net assistance	6090.6	6524.8	6866.8	6811.7	7455.0

Source: Commission estimates.

Sectoral results

At the sectoral level, the estimates in tables 2.7 and 2.8 indicate that, in 2005-06:

transportable goods sectors. Because of these technical issues, ERA for services would involve double-counting of services value added in the formation of economy-wide ERA measures.

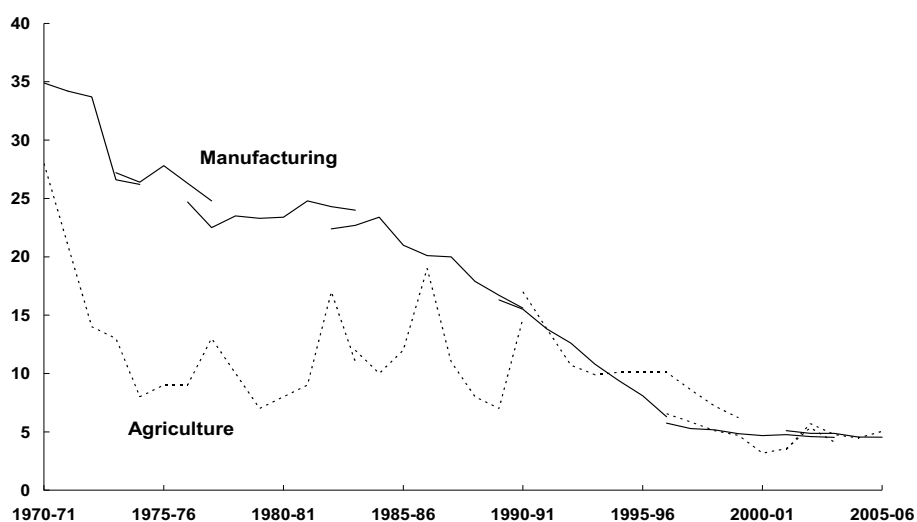
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- the manufacturing sector attracted the most estimated assistance in absolute dollar terms;
 - primary production received a slightly higher effective rate of measured assistance;
 - mining received virtually no net measured assistance;
 - combined assistance as measured to the services sector was negative; and
 - compared to the levels of assistance recorded in earlier periods for some sectors, the goods-producing sectors recorded low average rates of assistance (see box 2.4).

Box 2.4 Estimated effective rates of assistance to manufacturing and agriculture 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. Each series retains a common methodology, coverage of measures and data sources across those years. However, 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. That said, taken together, they do provide a broad indication of directions and trends in assistance at the sectoral level over time.

The chart below presents 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.

The estimates indicate that there has been a significant decline in measured assistance to the manufacturing and agricultural sectors over the last 35 or so years. For example, 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, whereas today the estimate for primary production is in the order of 5 per cent.



Industry estimates

These sectoral averages hide significant variation in assistance between industries.

At the high end are TCF and parts of MVP. The effective rates for these industry groupings are 15 and 13 per cent, respectively. It should be noted that the MVP industry grouping covers a broader range of activities than just passenger motor vehicle production. Some of the activities in this industry grouping receive relatively low assistance; others attract high levels of assistance. That said, reflecting a series of reforms, assistance to both these industry groupings has declined significantly over recent decades.⁴

The dairy industry continues to record the highest level of assistance among agricultural industries, with an effective rate of around 13 per cent in 2005-06. However, this represents a significant decline compared with the level that prevailed prior to the 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.

All other industry groupings covered in the estimates recorded an effective rate of less than 10 per cent in 2005-06, with most recording a rate of less than 5 per cent.

While mining recorded a negligible effective rate and fisheries and forestry recorded effective rates of around 6 and 10 per cent respectively, the forms of assistance covered in the 'combined' estimates are likely to play a relatively minor role in these industries compared with other government measures. Specifically:

- the mining industry is more affected by environmental regulation, prescribed royalty levels and accelerated depreciation provisions. Native title legislation can also affect land access and tenure; and
- key government measures affecting forestry and fisheries include measures relating to resource management and the use of mechanisms such as quotas and licenses to control harvesting rates to protect the resource stock.

The assistance implications of these measures, whether positive or negative, are not captured in the Commission's estimates.

⁴ Whereas today automotive tariffs are at 10 per cent, and tariffs on textiles, clothing and footwear (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 2.7 Combined^a assistance by industry grouping, 2001-02 to 2005-06
\$ million

<i>Industry grouping</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>
Primary production^b	1260.3	1583.8	1514.2	1448.7	1642.8
Dairy cattle farming	328.2	302.5	290.0	258.9	293.1
Grain, sheep and beef cattle farming	457.2	711.9	648.1	474.1	609.2
Horticulture and fruit growing	138.9	180.1	166.7	166.1	180.3
Other crop growing	84.4	89.7	151.8	186.6	211.7
Other livestock farming	25.4	37.7	28.9	20.6	25.4
Fisheries	59.4	49.9	52.4	110.6	99.5
Forestry and logging	64.5	117.2	57.7	117.1	108.0
Other primary production ^c	13.1	13.1	15.1	15.5	19.8
Mining	91.7	64.0	83.7	77.2	44.5
Manufacturing^b	6486.4	6799.4	7286.3	6919.3	6980.1
Food, beverages & tobacco	985.8	1056.8	1147.1	1208.5	1223.1
Textiles, clothing, footwear & leather	793.4	778.8	823.9	629.7	528.9
Wood & paper products	399.1	462.2	509.0	536.3	541.4
Printing, publishing & media	219.7	240.8	260.5	266.1	279.8
Petroleum, coal, chemical & associated products	741.4	832.0	840.4	864.8	917.9
Non-metallic mineral products	163.6	179.2	198.0	182.3	198.9
Metal product manufacturing	802.5	870.9	941.9	918.4	1006.9
Motor vehicles & parts	1375.1	1378.2	1479.1	1260.4	1127.6
Other transport equipment	131.8	76.3	75.0	56.4	70.6
Other machinery & equipment	457.0	474.2	475.9	457.3	534.4
Other manufacturing	277.1	286.3	387.8	374.7	386.6
Services^b	-2304.6	-2524.9	-2706.9	-2488.5	-2282.7
Electricity, gas & water supply	-15.4	-22.2	-26.0	-40.0	-9.1
Construction	-893.8	-1001.3	-1167.6	-1244.4	-1247.4
Wholesale trade	-99.7	-117.9	-119.4	-104.8	-77.5
Retail trade	-520.7	-547.0	-589.4	-539.4	-471.6
Accommodation, cafes & restaurants	-291.4	-290.7	-316.5	-343.9	-335.2
Transport & storage	-142.2	-157.4	-169.4	-168.7	-146.5
Communication services	-69.8	-63.0	-34.1	-20.5	0.6
Finance & insurance	83.1	80.5	135.3	219.3	208.6
Property & business services	-96.4	-62.3	-29.8	5.9	42.0
Govt. administration & defence	-264.5	-273.3	-296.1	-299.9	-300.2
Education	-53.0	-58.4	-61.5	-64.2	-62.5
Health & community services	-51.8	-63.3	-57.9	-55.0	-55.2
Cultural & recreational services	-21.6	-17.1	-18.0	68.8	67.6
Personal & other services	-71.9	-73.8	-78.0	-78.0	-71.4
Unallocated other	556.7	602.5	689.5	855.0	1070.2

^a 'Combined assistance' comprises budgetary, tariff and agricultural pricing and regulatory assistance.

^b Sectoral totals 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.

Table 2.8 Effective rate of combined^a assistance by industry grouping, 2001-02 to 2005-06
per cent

<i>Industry grouping</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>
Primary production^b	3.6	5.8	4.8	4.5	5.1
Dairy cattle farming	13.2	18.0	16.6	12.2	13.3
Grain, sheep and beef cattle farming	2.6	5.9	4.3	3.2	4.1
Horticulture and fruit growing	3.3	5.1	4.2	3.9	4.2
Other crop growing	2.9	3.7	5.7	6.9	7.9
Other livestock farming	2.0	3.4	2.6	1.7	2.1
Fisheries	3.0	2.6	2.8	5.7	5.6
Forestry and logging	5.1	9.7	4.8	9.6	9.6
Other primary production ^c	0.3	0.4	0.4	0.4	0.5
Mining	0.2	0.1	0.2	0.1	0.1
Manufacturing^b	5.1	4.9	4.9	4.6	4.5
Food, beverages & tobacco	3.5	3.5	3.6	3.6	3.7
Textiles, clothing, footwear & leather	18.6	17.6	17.1	16.0	15.2
Wood & paper products	4.8	4.7	4.7	4.8	4.9
Printing, publishing & media	1.8	1.8	1.8	1.7	1.8
Petroleum, coal, chemical & associated products	4.2	4.3	4.1	3.7	4.1
Non-metallic mineral products	3.0	2.7	2.7	2.7	2.7
Metal product manufacturing	3.5	3.6	3.8	3.6	3.5
Motor vehicles & parts	17.8	16.1	15.4	14.6	12.8
Other transport equipment	4.2	2.2	1.9	1.6	2.0
Other machinery & equipment	3.8	3.5	3.2	3.3	3.7
Other manufacturing	5.0	5.1	6.1	6.1	6.7

^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.