
3 Recent developments in general industry assistance

This chapter documents a number of recent developments in industry assistance that have ramifications for Australia's assistance structure generally or for particular sectors or industries. The coverage is generally restricted to areas where new assistance measures were introduced or foreshadowed, or where there were policy reviews or changes to existing arrangements, by the (then) Australian Government following the last edition of *Trade & Assistance Review* and prior to the commencement of the caretaker period on 17 October 2007. Following the election of a new Government on 24 November 2007, some of the measures reported here have been or may be changed or at least reviewed. As such, the material in this chapter does not necessarily represent the policies or intentions of the current Government.¹

A key development during the reporting period was the release, in May 2007, of the Industry Statement *Global Integration: Changing Markets, New Opportunities*, with funding of more than \$1.4 billion over ten years. The statement's measures included assistance to improve firm performance, to increase business research and development (R&D) and its commercialisation, and to increase the level of exports. While most of the funding was for new programs, the statement also extended some existing programs. The measures were to be implemented by the industry, education, primary industry and trade portfolios, and details are provided throughout this chapter.

Together with the measures contained in the Industry Statement, the assistance developments reported here relate to:

- R&D and its commercialisation;
- development and application of new technologies;
- export marketing and international business integration;
- specific industries, including energy, tourism, automotive and film;
- regional adjustment;
- small business; and
- anti-dumping activity.

¹ Changes to the policies and initiatives reported here made since the election, together with new initiatives, will be reported in the 2007-08 edition of *Trade & Assistance Review*.

3.1 Research and development and its commercialisation

Australian Government support for business R&D and its commercialisation accounted for around one third of total budgetary assistance to industry in 2006-07 (chapter 2). The R&D Tax Concession is a major element of this support.

In its May 2007 Industry Statement, the (then) Australian Government announced a number of measures aimed at increasing business R&D and its commercialisation.

Several reports with ramifications for future assistance in this area have also been released recently. These include the Productivity Commission's study on *Science and Innovation*, an Australian Government evaluation of 'new elements' of the R&D tax concession, and an Australian National Audit Office (ANAO) audit of the Pharmaceutical Partnerships Program.

The details of these developments are set out below.

R&D Tax Concession

The R&D Tax Concession was introduced in 1985, providing a 150 per cent concession on eligible expenditure incurred on R&D activities. In 1996, the rate was reduced to 125 per cent. In 2001, two new elements were introduced:

- an R&D Tax Offset, which gives small firms, in tax loss, the option of receiving an early cash payment based on their eligible R&D expenditure (rather than a future entitlement to a deduction). The offset is available to companies with an annual group turnover of up to \$5 million, and an R&D expenditure threshold of less than \$1 million; and
- a 175 per cent Premium R&D Tax Concession for labour-related expenditure above the average of a firm's previous three-year expenditure.

The 125 per cent concession provides assistance at the rate of 7.5 cents per dollar of eligible R&D expenditure, whereas the 175 per cent concession equates to an assistance rate of 22.5 cents per dollar spent (based on Australia's 30 per cent corporate tax rate). In 2006-07, the combined budgetary assistance of the 125 per cent and 175 per cent concession was \$570 million, and assistance through the tax offset was \$245 million² (Treasury 2008, ATO 2007). As at 30 June 2007, over 6000 firms were registered for the tax concession (Innovation Australia 2007).

² Offset payments include the tax value of the normal 30 cents in the dollar deduction for business expenses as well as the additional assistance provided by the R&D tax concession.

As part of its 2007 study into *Public Support for Science and Innovation* (box 3.1), the Commission found public support for business R&D may be justified where the R&D activity has high social benefits beyond the firm (spillovers) and is additional to the level of such activity that would have occurred without public support. However, it also found that current business programs were likely to generate smaller net returns than publicly conducted research.

The Commission proposed a set of changes to the tax concession that could induce more R&D and generate more spillovers:

- allowing only small firms access to the 125 per cent concession;
- changing the thresholds for the tax offset to address perverse incentives;
- changing the base for the 175 per cent concession, to a firm's ratio of R&D-to-sales at a given, fixed date³; and
- adopting a narrower, more appropriate, definition of R&D (PC 2007b).

The Commission also noted that the 'beneficial ownership requirement' for the tax concession effectively prevented subsidiaries of foreign-owned companies from accessing the concession, and proposed relaxation of the requirement, although only for the 175 per cent concession (PC 2007b).

At the time, there was no formal Government response to the Commission's report. However, in the May 2007 Industry Statement the (then) Australian Government announced that it would make the recommended change to the beneficial ownership provisions, to extend access to the 175 per cent tax concession to Australian subsidiaries of multinational enterprises that do their R&D in Australia but hold the intellectual property overseas (Australian Government 2007b). This measure is expected to cost, in terms of tax revenue foregone, in the order of \$50 million in 2007-08 and subsequent years (Australian Government 2007a). Legislation to implement this change was passed in September 2007.

³ In 2007, the (then) Department of Industry, Tourism and Resources (DITR) released a report *High variation in R&D expenditure by Australian firms*, which found that 75 per cent of Australian firms examined had moderate to highly variable patterns of year-to-year R&D expenditure and 92 per cent had moderate to highly variable R&D intensity. The report assessed this as limiting the incentive effect of a concession based on increases in R&D expenditure in 12 month intervals (DITR 2007). The Commission took these considerations into account in its report, but noted that: "it is simply not possible to design a program that will treat all firms consistently at all times and in all circumstances. The aim is to improve on the current arrangement — one where robust evidence exists questioning its effectiveness" (PC 2007b, p. 409).

Box 3.1 **The Commission's *Science and Innovation Study***

In March 2006, the Government asked the Productivity Commission to undertake a research study on *Public Support for Science and Innovation*, including evaluation of the decision-making principles and program design elements that influence the effectiveness and efficiency of Australia's innovation system and that guide the allocation of funding. The Commission's final report was released in March 2007.

Public support of science and innovation includes direct assistance to firms (such as the R&D tax concession); some public sector activity (such as CSIRO) and multi-sector support (such as for the cooperative research centres and the rural R&D corporations).

Overall, on the basis of the available evidence, the Commission concluded that the level of public support for science and innovation is not notably inadequate or excessive, and that the benefits of Australia's \$6 billion funding of science and innovation are likely to exceed the costs. However, it also found scope for significant improvements in net benefits, and in program evaluation and governance.

Underlying these assessments, the Commission concluded that there are two strong rationales for public funding of science and innovation: to provide research relevant to government's own activities, and to ensure that research is undertaken where the benefits (*spillovers*) cannot be fully captured by the innovator — where ideas can be used, mimicked or adapted cheaply by others without payment.

The Commission emphasised, however, that many R&D investments that produce spillovers still provide a sufficient private return for business to invest without assistance. Public support is justified for investments that are *additional* (that is, investments that would not have taken place without public support), and where private and spillover returns exceed the total economic costs of the measure.

Considering these two principles — spillovers and additionality — the Commission concluded that existing assistance for business R&D was likely to have generated smaller net returns to Australia than publicly conducted R&D (such as by CSIRO), reflecting lower additionality and likely lower spillovers, and the disproportionate assistance to a few relatively declining sectors, such as the automotive industry.

While the Commission recognised that it is difficult to design policies that completely avoid subsidising some activities that would take place anyway, it proposed changes to the tax concession to increase spillovers and the amount of additional R&D.

The Commission also concluded that strong public support of rural R&D corporations with a public good orientation is justified, but that the level of subsidies for some narrower, industry-focused arrangements was likely to crowd out private activity and produce weaker external benefits outside the supported rural industry.

More generally, the Commission found shortcomings in existing program evaluation and governance including, at times, a lack of transparent and independent evaluation, and of rigorous methods to determine program effects.

Source: PC (2007b).

In July 2007, the Government released a report — *New Elements of the R&D Tax Concession: Evaluation Report* — which examined the 175 per cent tax concession and the tax offset. For the 175 per cent concession, the evaluation found that it was associated with additional R&D expenditure of \$379 million a year, but that it was not possible at that stage to determine whether growth in R&D would be sustained, given the possibility that at least some of this growth represented planned R&D brought forward to take advantage of the new element.⁴ For the offset, the evaluation found that it had resulted in about 1000 additional firms using the concession and was associated with an additional \$310 million R&D expenditure a year, a doubling of the levels of R&D by eligible small firms. However, the additional R&D may not all be new to the economy — part of the additional R&D expenditure claimed under the concession may instead reflect the stronger incentive to register. The evaluation also found that the offset’s \$1 million cap on R&D expenditure was affecting the incentive provided by the offset to expand expenditure beyond this level (Australian Government 2007c).

Commercial Ready Program

In its 2007-08 Budget, the (then) Australian Government announced ongoing funding (of around \$200 million per year) for the Commercial Ready Program (Macfarlane 2007d). This competitive grants program for small and medium-sized enterprises (SMEs) supports a wide range of project activities, extending from initial R&D, through proof-of-concept, to early-stage commercialisation activities. Under the program, grants of up to 50 per cent of project costs, and in value from \$250 000 to \$5 million, are available for projects of up to three years duration (AusIndustry 2007).

In its *Science and Innovation* study, the Commission noted that the program’s objectives specify a national benefit test ‘that is clearly and appropriately related to the spillover rationale’ (PC 2007b, p. 91). However, the Commission found evidence of low inducement by the program, and uncertain spillovers, noting:

There is robust evidence that the Commercial Ready program supports too many projects that would have proceeded without public support, and that the national benefits from the program are, at best, uncertain. This is unsatisfactory given the quantum of funding involved. (PC 2007b, pp. 371, 420)

While recognising the inherent trade-offs involved in administrative simplicity and program effectiveness, the Commission suggested that consideration be given to

⁴ Data published on the 175 per cent tax concession for the two years following the end of the evaluation period indicate continued growth in both business R&D and use of the 175 per cent concession (Innovation Australia 2007).

new funding arrangements for the program, to address the risk of firms applying for support they do not need to proceed with projects:

The introduction of a repayment mechanism in the Commercial Ready program offers scope to improve the inducement rate associated with the program. (PC 2007b, p. 424).

Since then, in its Industry Statement, the Government announced the Commercial Ready Plus Program as a new element for the Commercial Ready Program. This measure aims to assist emerging companies and spin-offs from public research organisations with grants from \$50 000 to \$250 000 for up to 50 per cent of the cost of projects of up to 18 months duration involving R&D, proof-of-concept and early stage commercialisation (AusIndustry 2007; Australian Government 2007b).

Applicants for Commercial Ready Plus will not need to be an incorporated company until the stage of signing the grant contract, facilitating access for micro-businesses and commercial spin-offs from public research. Commercial Ready Plus is intended to provide greater flexibility in allowing investment in entrepreneurial skills training as eligible expenses. The application process has also been simplified to reduce the costs involved and provide faster access to funding (Macfarlane 2007h). The funding allocation for 2007-08 is \$4.4 million (Australian Government 2007a).

Intermediary Access Program

As part of the May 2007 Industry Statement, a new five-year Intermediary Access Program was announced. The program aims to assist around 150 SMEs a year wanting to access new technologies and partnerships, through use of intermediaries to connect them with relevant researchers, other SMEs and large companies. Grants of up to 50 per cent of eligible costs are available up to a limit of \$50 000. The funding allocation for 2007-08 is \$1.1 million (Ausindustry 2007, Australian Government 2007a, 2007b).

The Government had previously provided assistance to firms for the transfer of technology through a \$4 million intermediary access pilot program. The pilot program started on 31 December 2006 and will conclude on 30 June 2008 (AusIndustry 2007).

Australian Industry Productivity Centres

A further Industry Statement measure, the Australian Industry Productivity Centres, also addressed the application of new technologies. Announced as a 10-year program, this measure was aimed at assisting trade-exposed manufacturing and

service firms to review their business performance and upgrade their skills or find solutions to technical or process issues, through provision of a free initial diagnostic service and, if recommended, eligibility to a grant, of up to 50 per cent of approved costs up to the value of \$20 000, to undertake improvements or introduce new technologies and processes (Australian Government 2007b).

The total funding allocation for this measure in 2007-08 is \$27.1 million (Australian Government 2007a).

Pharmaceutical Partnerships Program

The Pharmaceutical Partnerships Program commenced in 2004, following design changes to the forerunner program (the Pharmaceutical Industry Investment Program). The new program provides for \$150 million over 5 years and aims to induce high-quality pharmaceuticals R&D in Australia and associated partnerships, and collaborations with multinational firms and local companies. Under the program, for each dollar spent on ‘additional’ eligible R&D activity, eligible companies receive 30 cents in Rounds 1 and 2 of the program, and 50 cents in Round 3.

A management audit of the program recommended improvements to compliance monitoring and risk management, which was agreed to by the (then) Department of Industry, Tourism and Resources (DITR). The audit also noted that current program reporting only covers expenditure, and that industry-wide data for future program evaluation does not address the quality of the R&D activity being undertaken (ANAO 2007a).

3.2 Development and application of new technologies

The Australian Government has provided various forms of assistance for the development of platform technologies like nanotechnology and biotechnology. According to DITR:

Specific programs have been developed to promote each of these platform technologies [biotechnology, nanotechnology and ICT]. They are designed to overcome information failures impeding the uptake of these new technologies, establish a critical mass in R&D and commercialisation and attract leading edge researchers and companies to Australia. (DITR 2006, p. 54)

Nanotechnology

Nanotechnology is a group of emerging technologies in which the structure of matter is controlled at the nanometer scale — the scale of small numbers of atoms — to produce novel materials and devices with unique properties (Australian Nano Business Forum nd). In 2007, there were sixty-five nanotechnology companies and around ninety individual research groups, faculties, facilities and centres from research institutes across Australia (AzoNano.com 2007).

Previous Government assistance for the development of nanotechnology capability in Australia includes support for the CSIRO, which has undertaken over 70 nanotechnology-related projects, support for Australia's nanotechnology companies through Australian Government innovation programs, and support for research through the Australian Research Council and universities (DIISR pers. comm., 21 February 2008, Australian Government 2007b).

In the May 2007 Industry Statement, the (then) Australian Government announced several measures to further assist the development of nanotechnology capability and emerging industries using this technology:

- funding over four years for the National Nanotechnology Strategy, to address issues such as regulations and standards, with initial funding in 2007-08 of \$3.7 million (Australian Government 2007a, 2007b);
- funding of \$36.2 million for a new National Research Flagship for Niche Manufacturing within the CSIRO, which aims to 'help drive a new wave of niche industries based on nanotechnology' and 'assist existing niche high-value manufacturing industries which are currently flourishing' (Australian Government 2007b).

Biotechnology

As at the end of 2006, there were 427 biotechnology companies operating in Australia — with almost half in the human therapeutics field, 16 per cent in agriculture and 13 per cent in medical diagnostics (DIISR 2007a). Past Australian Government support for biotechnology includes: the \$40 million Biotechnology Innovation Fund (BIF), a competitive grants program providing grants of up to \$250 000 to firms; further assistance through its successor, the Commercial Ready Program, which provides grants across all sectors; and part-funding of the Biotechnology Centre of Excellence (DITR 2006).

In 2006-07, the (then) Australian Government called for applications for a one-off grant of \$10 million to support the establishment of a small-scale mammalian cell

production facility in Australia (Macfarlane 2007a). According to the Minister, ‘biotech research and development worth around \$35 million a year is undertaken in other countries ... because there is no mammalian cell production facility here in Australia ... The facility will help attract this R&D back to Australia and build upon our world-class medical research base.’ (Macfarlane 2007a).

3.3 Export marketing and international business integration

The Australian Government has, over a number of decades, provided a range of support for Australian businesses exporting or attempting to secure export markets. This includes grants to firms under the Export Market Development Grants (EMDG) scheme, insurance and finance services through the Export Finance and Insurance Corporation (EFIC), and funding for Austrade.

Two additional measures in the May 2007 Industry Statement aim to support Australian SMEs in accessing international supply chains, and in accessing export opportunities arising from the Australia-US Free Trade Agreement.

Export Market Development Grants scheme

The EMDG scheme is the Australian Government’s principal financial assistance program for Australian exporters. Established in 1974, the scheme focuses on SMEs and provides taxable grants to reimburse up to 50 per cent of designated export promotion expenses. Its purpose is ‘... [to provide] financial assistance primarily to small and medium enterprises as an incentive for them to seek out and develop export markets’ (Parliamentary Library 1999b).

In 1997, the Government capped funding for the EMDG scheme at \$150 million a year until 2005-06 (Parliamentary Library 2006). In the 2004-05 budget, the Government announced an additional \$30 million for the scheme, to be provided for 2005-06 and 2006-07. Grants to the value of \$146.6 million were provided under the scheme in 2006-07 (Austrade 2007).

The number of grant recipients has traditionally represented a relatively small proportion of Australian exporters. EMDG grants were provided to around 3800 eligible companies in 2006-07. In 2006-07, less than one-third of grant recipients were first-time recipients (Austrade 2007).

As reported in *Trade & Assistance Review 2004-05*, Austrade conducted a review of the scheme in 2004-05 (PC 2006c). While an examination of the scheme’s effects,

undertaken by independent consultants as part of the review, found that its net benefits were uncertain, Austrade noted that the scheme had several positive effects on exporting and recommended its continuation (box 3.2).

In January 2006, the (then) Australian Government announced that the scheme would continue until the end of 2010-11 (Vaile 2006). Legislation to continue the scheme was passed in June 2006 (Austrade 2006).

Box 3.2 The Austrade review of the EMDG scheme

As part of Austrade's 2004-05 review of the EMDG scheme, the Centre for International Economics (CIE) was commissioned to examine the scheme's effects on export activity and also its economy-wide effects.

Based on a survey of recipient firms together with economic modelling, the CIE (2005a) found uncertain results. While 63 per cent of the grant recipients surveyed considered that the scheme had either 'no' or a 'small' influence on their export marketing, 37 per cent of recipients indicated that the scheme was a 'major' influence. The CIE found that the EMDG scheme could induce considerable additional export marketing and exports by recipient firms, particularly when they are 'capital-constrained' and the returns from their exports are increasing. However, the CIE study also indicated that the scheme would displace non-EMDG exports, may not generate significant spillover benefits and that it is difficult to be categorical about the net benefits of the scheme.

In its report on the review, Austrade stated that:

... the scheme is effective in increasing the number of SMEs that develop into new exporters, in increasing the number of SMEs that achieve sustainability in export markets, in generating additional exports, and in further developing an export culture in Australia. In arriving at this conclusion, Austrade took into account:

- strong business and industry views, expressed in public submissions and through the review facilitation process
- the independent survey of recent EMDG scheme recipients and analysis of the results
- Austrade's own experience as the administrator of the scheme. (Austrade 2005, p. 9)

Austrade recommended that the scheme be continued, with some changes to the details of the scheme.

Export Finance and Insurance Corporation

The Export Finance and Insurance Corporation (EFIC) aims to assist Australian exporters by providing internationally competitive insurance and finance services in areas the commercial sector is unable or unwilling to cover due to risk or other factors (Parliamentary Library 1999a).

In its May 2007 Industry Statement, and following a review of EFIC's operations, the (then) Australian Government announced that it would grant EFIC additional powers to provide financial services to help Australian SME exporters to establish global supply and distribution chains (Australian Government 2007b, EFIC 2007).

International business measures

In the May 2007 Industry Statement, the (then) Australian Government announced the Global Opportunities Program to assist Australian industry to link into global supply chains and bid for work on major international projects worth over \$500 million. As announced, the measure aimed to identify major off-shore opportunities and projects and to assist firms to realise these including by: facilitating the establishment of consortia, addressing impediments faced by Australian small and medium sized firms, and supporting the development of databases and directories of Australian capabilities and global opportunities. The program also aimed to encourage multinational enterprises already in Australia to make further investments, as well as partnering with Australian small and medium sized firms and research institutions. The total funding allocation for 2007-08 is \$17.7 million (Australian Government 2007a, 2007b).

In the Industry Statement, the Government also announced funding of \$11.1 million over two years to extend the appointment of 30 export facilitators — 23 located across the United States and seven based in Australia — to pursue export opportunities arising from the Australia–US Free Trade Agreement (Australian Government 2007a, 2007b, Austrade pers. comm., 6 March 2008).

3.4 Energy-related assistance

The Australian Government *Energy White Paper — Securing Australia's Energy Future* (Australian Government 2004), released in June 2004, has set the framework for energy-related industry assistance in recent years. The paper's focus included energy market reform and improved energy efficiency, ensuring the security of energy supply, and reducing greenhouse gas emissions through the development of new technologies (DITR 2005). The White Paper also foreshadowed new funding measures for the commercialisation of energy technologies, including greenhouse gas abatement measures (PC 2007d). These measures cover industries specialising in the production of existing energy resources (such as oil, gas and coal) as well as renewable energy sources (for example, solar and wind power).

As outlined in previous editions of *Trade & Assistance Review*, Government measures to implement the White Paper have provided assistance to petroleum

exploration, ethanol production, the liquefied petroleum gas (LPG) industry and the recycling of oil. More recent measures are documented below.

Coal

Greenhouse gas abatement measures are particularly relevant to the coal industry. In its 2007-08 Budget, the (then) Australian Government announced two related measures:

- a new five-year program to reduce the emission of waste methane from underground coal mining activities, with funding of \$18.5 million (partly drawn from the Greenhouse Gas Abatement program) (Turnbull 2007c); and
- the establishment over four years of a new regulatory system for carbon capture and storage, with funding of \$18.2 million, to establish the methods for selecting storage sites and then regulating and monitoring the storage activity (covering the assessment and approval of proposed activities, risks and site analysis and the monitoring required for long-term storage and data analysis) (Australian Government 2007a, Macfarlane 2007f).

Alternative fuels

Government assistance for the development of alternative fuels has been driven by a range of concerns including regional development, environmental and health benefits, and reduced reliance on imported fossil fuels (Biofuels Taskforce 2005). Assistance has been provided in relation to various fuels including biofuels (in particular ethanol) and LPG, and has included support for production and distribution, and assistance for R&D.

As noted in the previous edition of *Trade & Assistance Review*, in 2001, the (then) Australian Government set an objective that ethanol and other biofuels would contribute at least 350 million litres to the total fuel supply by 2010.

In 2005, the Biofuels Taskforce reported that the estimated cost to the economy of meeting that objective, driven by the biofuels excise advantage⁵, is around \$90 million in 2009-10 reducing to \$72 million a year (2004-05 dollars) after 2015 (Biofuels Taskforce 2005). The taskforce also found that subsidised grain ethanol plants have the potential to raise feed grain prices in the short and medium term.

⁵ This excise advantage is provided by the Ethanol Production Grants, a production subsidy for ethanol produced domestically that exactly offsets the 38.143 cents per litre excise on ethanol, and the Cleaner Fuels Grants Scheme, under which grants are provided to offset the excise duty and excise-equivalent customs duty payable on certain renewable fuels (currently biodiesel and renewable diesel) (Australian Government 2007a).

The effects of such policies in Australia and overseas on world feed grain prices are already becoming apparent. The Productivity Commission's December 2007 accelerated report on safeguards measures for the pigmeat industry (see chapter 4) described recent increases in feed grain prices as 'extraordinary', and found that:

Major factors behind recent price increases are bad weather (particularly the drought in Australia) and growing worldwide demand (and government support) for ethanol, and strong economic growth in China and India. (PC 2007c, p. 44)

In relation to LPG, in August 2006 the Government announced funding to support the conversion of private motor vehicles to use LPG through the LPG Vehicle Scheme. The scheme provides a grant of \$2000 for an approved and fitted LPG conversion of a new or used motor vehicle, and \$1000 for a factory-fitted LPG-dedicated vehicle. By September 2007, more than 81 000 motorists had received a grant under the scheme, claiming more than \$162 million (DIISR pers. comm., 25 February 2008).

Renewable Energy

The White Paper's programs to develop renewable energy have been reported in previous editions of *Trade & Assistance Review*, and include:

- the \$500 million Low Emissions Technology Development Fund, covering renewable energy projects, technologies to reduce the demand for energy, and 'carbon capture' technologies (PC 2007d). The fund is designed to address the technical risk and capital costs of demonstrating low emissions technologies to ensure they are commercially viable in the longer term (DCC 2007b);
- the \$75 million Solar Cities Program, which among other things involves trials of solar energy applications in urban Australia by subsidising specific solar and energy efficiency technologies and their installation into residential and commercial buildings. These trials are intended to showcase the market viability of solar energy and energy efficiency technologies and their economic and environmental benefits, including the use of smart meters and energy pricing trials to reduce energy consumption and change consumer behaviour (DEWHA 2008);
- the \$100 million Renewable Energy Development Initiative; and
- a \$20.4 million program over five years to fund the development of Advanced Electricity Storage Technologies, to increase the contribution of renewable energy-based electricity generation to Australia's electricity supply system.

The (then) Australian Government also funded the Renewable Remote Power Generation Program (RRPGP), and the Photovoltaic Rebate Program (PVRP).

Further measures relating to these two programs were announced during the reporting period.

The RRP GP commenced in 2000-01 and provides financial support to increase the use of renewable generation, such as solar and wind power, in remote parts of Australia that presently rely on fossil fuel for electricity supply (Environment Australia 2000).

In August 2006, the (then) Prime Minister announced that the RRP GP would be extended from July 2007, with an additional \$123.5 million over four years (Howard 2006b). Taken together with previous program funding, this would amount to around \$328 million in assistance under this program (DCC 2007c).

In its 2007-08 Budget, the Government announced that the PVRP would be extended and expanded over 5 years, with additional funding of \$150 million:

- the additional funding would support a doubling of the rebate for solar panels on homes; a new competitive grants scheme for schools and communities to install solar panels; a targeted scheme to support the design and installation of solar systems on commercial, industrial and iconic buildings; and training and accreditation of solar panel installers to meet the skills needs of the expanded program (Turnbull 2007a);
- this would bring the Government's total funding of photovoltaic rebates to \$201.8 million (DCC 2007a).

In its 2007-08 Budget, the Government also announced an additional \$12.7 million over six years for a range of energy market initiatives, including for the development of:

- a Geothermal Industry Development Framework, to identify the industry's R&D needs and deal with issues such as skills development, legislation, regulation and improving knowledge about geothermal resources (Macfarlane 2007i); and
- a technology roadmap relating to the development of hydrogen technologies (Macfarlane 2007e).

Other climate change measures announced in the 2007-08 Budget, which would directly or indirectly assist the alternative fuels and renewable energy industries, include \$59.6 million over four years to accelerate the production of greenhouse friendly transport fuels, \$52.8 million over five years to encourage greenhouse action by individual households and small businesses, and \$7.9 million over five years to phase out energy-inefficient light bulbs (Turnbull 2007b).

In May 2007, the Government also announced initial funding under the Advanced Electricity Storage Technologies program of five projects, to the value of \$17.6 million (Macfarlane 2007b).

In July 2007, the Government announced funding of \$225 million over 5 years for the Solar Hot Water Rebate Program. The program will provide a \$1000 rebate per household upgrading to a solar hot water system, with the aim of accelerating the domestic uptake of solar technologies and reducing household energy costs (Howard 2007d).

In addition to these budgetary assistance measures, in September 2007 the Government announced a new national Clean Energy Target (CET). The CET would require that 30 000 gigawatt hours each year come from low emissions sources by 2020, and would come into effect from 2010, replacing existing and proposed state and territory schemes. In announcing the target, the Prime Minister noted that ‘The CET will drive additional investment in renewable and other low emissions electricity generation’ (Howard 2007b).⁶

3.5 Assistance to tourism

Governments throughout Australia have traditionally provided significant support for tourist activities in the form of expenditures on tourism promotion, the maintenance of high profile sites, the funding of events that attract tourists and the provision of infrastructure services that benefit travellers more generally (as well as local residents). The 2003-04 and 2004-05 editions of *Trade & Assistance Reviews* have reported on various government initiatives to assist the tourism industry.

In its 2005 study *Assistance to Tourism: Exploratory Estimates* (PC 2005a), the Commission found that the bulk of assistance to tourism is provided by State and Territory Governments. It estimated that the assistance to tourism provided by these governments was around \$780 million per year, for the three years to 2002-03

⁶ In a further announcement, the (then) Prime Minister indicated that the target would complement his Government’s proposed national emissions trading scheme, to commence in 2011 (Howard 2007c). The new Government has since announced a 2020 mandatory renewable energy target of 45 000 gigawatt hours (up from the current target for 2010 of 9500 gigawatt hours), with the expanded measure to be phased out between 2020 and 2030 as its proposed emissions trading scheme matures and itself drives the deployment of renewable generation technologies (DCC 2008).

covered by the study. This ‘base line’ estimate⁷ was equivalent to some 7.5 per cent of the industry’s ‘gross value added’ (as measured by the Commission⁸).

Alongside this assistance, the Australian Government appears to be providing increasingly substantial assistance to tourism. The Commission’s base line estimates of net Australian Government assistance to tourism amounted to an average of about \$145 million per year, equivalent to 1.4 per cent of the tourism industry’s gross value added, for the three years from 2000-01. Moreover, in April 2007, the (then) Australian Government assessed that it had increased its funding for tourism by almost 60 per cent between 2000-01 and 2005-06 (Bailey 2007a).

In *Trade & Assistance Review 2004-05*, the Commission reported on (among other things) the development of the National Tourism Investment Strategy, and the Australian Government’s interim response in March 2006 to a number of its recommendations (PC 2006c).

In January 2007, the Government gave its final response, indicating that it had accepted 34 of the 44 recommendations. In the response, the Minister identified a number of Government initiatives addressing these recommendations:

Australian Government initiatives ... include efforts to enhance natural experiences in national parks, the *Skills for the Future* initiative, extending the working holiday visa scheme, research into innovation, [and] making tourism statistics available online ... (Bailey 2007d).

In its 2007-08 Budget, the Government announced that, over the next four years, it would invest a further \$193.3 million in tourism, including:

- \$34.9 million to extend and enhance the Australian Tourism Development Program, which offers grants of 50 per cent of the cost of projects that focus on providing or enhancing tourism projects and/or services, and grants for large-

⁷ While the estimates were based on the Commission’s normal assistance measurement methodology, the unusual nature of the tourism industry and the assistance it receives, in conjunction with data limitations, made measuring assistance to tourism more problematic than estimating assistance to conventional industries. Reflecting the difficulties entailed, the Commission presented both ‘base line’ and ‘upper bound’ estimates of tourism assistance, and cautioned that the estimates, particularly the State and Territory Government estimates, should be treated as ‘exploratory’ (see PC 2005a).

⁸ In the study, the Commission estimated that the tourism industry accounted for between 1.6 and 2.2 per cent of GDP for the three years to 2002-03. The Commission’s upper bound estimate is around half of the estimate contained in ABS Tourism Satellite Account (TSA) for those years (ABS 2004). The higher estimate in the TSA reflects the very broad definition of tourism used in most official tourism statistics (which includes the activities of people travelling for a variety of purposes, including for ordinary business travel, for family get-togethers and for personal appointments; not just for tourism), and the inclusion of value added from upstream industries, such as manufacturing, as tourism output (PC 2005a).

scale, multi-faceted, cross-regional activities towards strategies for tourism market development. The total funding allocation in 2007-08 is \$5 million (Australian Government 2007a);

- ongoing funding of \$46.4 million from 2008-09 for Tourism Australia; and
- \$15 million to complete a new sunrise viewing area for Uluru-Kata Tjuta National Park (Bailey 2007c).

3.6 Automotive assistance

Although assistance to both motor vehicle producers and component suppliers has declined significantly since the mid-1980s, the automotive industry remains one of the most highly assisted manufacturing industries. This assistance derives largely from long-standing tariffs and tariff concession schemes, particularly the Automotive Competitiveness and Investment Scheme (ACIS). Assistance to automotive producers is also available from other sources, including government procurement programs and the luxury car tax that applies mainly to imported vehicles.

Tariffs and ACIS assistance

Automotive tariffs are currently at 10 per cent. Under legislated tariff reforms, automotive tariffs are scheduled to be reduced to 5 per cent in 2010 and remain at that level until 2015.

The ACIS Program commenced in 2001 to provide transitional assistance and encourage competition and innovation in the automotive industry during the move to a lower tariff environment (AusIndustry 2007, PC 2007b). Automotive producers are eligible for ACIS transferable duty credits based on their domestic production, investment and R&D activities, which can be used to reduce the customs duty payable on eligible imports (PC 2007b). In July 2007, the Government projected that, by 2015, ACIS will have provided \$7.3 billion of assistance to the industry (Macfarlane 2007g).

During 2007, aspects of the ACIS program were examined in two separate studies.

First, as part of its *Public Support for Science and Innovation* study, the Commission examined the rationale and impact of the ACIS Program. It considered that the amount of R&D induced by the program was likely to be low:

... the type of automotive 'R&D' activity that has been supported by public funding — modification of existing products, processes and production systems — is likely to have been undertaken without public support as the majority of benefits from this kind of

development work are captured by either individual automotive firms or the wider automotive industry. (PC 2007b, pp. 439-440)

However, the study noted the complications in attempting to separate the impacts of the R&D subsidy from other elements of the ACIS package (such as the significant production subsidy provided to the vehicle producers) and the more competitive business environment as tariff protection has declined. This made it difficult to draw definitive conclusions about the extent of inducement.

Second, the administration of ACIS was subject to audit by the ANAO. While the ANAO found that its administration was generally effective, the report noted several areas for improvement. In particular, it noted that:

... only limited information has been reported publicly for the benefit of external stakeholders, including the Parliament ... the absence of performance information has limited the transparency of ACIS, which is the Government's key assistance measure for the automotive industry. (ANAO 2008, p. 20)

A related recommendation to address this has been accepted by DIISR.

Other assistance

In addition to formal tariff and ACIS assistance arrangements, ad hoc assistance has been provided to automotive producers. This assistance often involves project or firm-specific support by both the Australian and the relevant state governments. For example, as reported in last year's *Trade & Assistance Review*, the (then) Australian Government announced in October 2006 that it would provide \$6.7 million over four years to General Motors Holden (with matching funding from each of the South Australian and Victorian Governments) (PC 2007d). This funding is for R&D and training for re-engineering on selected models, towards the introduction of improvements in safety and fuel management and reduced greenhouse gas emissions on Commodore vehicles. More recently, in addressing structural adjustment in the sector, in July 2007, the Government also announced a \$15 million contribution to the Geelong Investment and Innovation Fund (see section 3.8).

3.7 Support for film and television production

In May 2007, the (then) Australian Government announced the Australian Screen Media Support Package, with funding of \$282.9 million over the next four years, to assist both domestic and offshore television and film production. Part of the package includes the Australian Screen Production Incentive. Eligible productions

under the scheme include feature films, documentaries, television series, telemovies and short form animation. The main elements of the package include:

- a producer offset to encourage Australian film and television productions;
- a location offset to attract large budget productions from offshore; and
- an offset for post, digital and visual effects production (PDV) done in Australia as part of large-budget productions, regardless of where the filming occurs.

All elements of the package take the form of a refundable tax offset where a portion of qualifying Australian production expenditure (QAPE) is refunded or offset against other tax payable.

For example, under the producer offset, companies producing feature films are entitled to a 40 per cent refund of expenditure, first offset against other tax payable, where a minimum of \$1 million has been spent on the production. To qualify for assistance, feature films must have a genuine Australian cinema release, while documentaries, series, telemovies and short form animation may be for exhibition for media other than for cinema release, such as television. To be eligible for the producer offset, projects must first meet a test of significant Australian content or be an official co-production with another country. The producer offset replaces the Division 10BA and 10B schemes.

The location and PDV offsets are both designed to attract offshore film and television productions to locate to Australia. The two measures offer a refund of expenditure made in Australia.

- Under the location offset, eligible productions that spend at least \$15 million in QAPE can receive either a 15 per cent refund of the QAPE, first offset against other tax payable. The location offset replaces the Refundable Film Tax offset scheme.
- For the PDV offset, a similar 15 per cent offset is available for PDV projects that spend at least \$5 million in qualifying PDV production expenditure in Australia, regardless of whether the production is shot in Australia or not. Examples of eligible PDV activity include visual effects, audio and visual editing and mixing, and orchestration.

As part of the package, the Government also announced that a new Australian Screen Authority (to be known as Screen Australia) would be established on 1 July 2008 to replace the Australian Film Commission, Film Finance Corporation Australia and Film Australia Ltd (Australian Government 2007a, Coonan and Brandis 2007).

3.8 Regional adjustment assistance

Regional adjustment funds

During 2006-07, the (then) Australian Government and, in some cases, State Governments provided assistance to particular regions adversely affected by adjustment pressures:

- *Innovation and Investment Fund for South Australia.* In September 2006, the Prime Minister announced the establishment of the Innovation and Investment Fund for South Australia. This followed a decision by Electrolux to close some of its manufacturing operations in Adelaide (Howard 2006a). The fund consists of contributions of \$25 million from the Australian Government and \$5 million from the South Australian Government. Funding is available on a competitive-grants basis, for up to 50 per cent of the projected eligible capital costs for projects that support new investment that would not otherwise proceed and that will create additional sustainable jobs and contribute towards the diversification of the South Australian economy (Invest Australia 2007b).
- *Scottsdale Industry and Community Development Fund.* The fund, announced on 13 April 2007, has an allocation of \$6 million over two years to support, on a competitive grants basis, a range of development initiatives in Tasmania's Dorset region that aim to create or retain long-term employment opportunities. Grants will cover up to 100 per cent of approved project costs (Australian Government 2007a, AusIndustry 2007).
- *Geelong Investment and Innovation Fund.* In July 2007, in response to Ford's decision to close its Geelong engine assembly plant in 2010, the Australian Government announced the joint Geelong Investment and Innovation Fund, with contributions of \$15 million from the Australian Government, \$6 million from the Victorian Government and \$3 million from Ford Australia (Macfarlane 2007c). The fund's focus is on sustainable job creation in the Geelong region, and the subsidy rate and project evaluation criteria are similar to those for the South Australian Fund (Invest Australia 2007a).

Regional Partnerships Program

In February 2006, the ANAO commenced an audit of another major regional assistance program — the Regional Partnerships Program. The audit covered the three years to 30 June 2006 (ANAO 2007b).

The Regional Partnerships Program commenced on 1 July 2003 and is administered by the Australian Government Department of Infrastructure, Transport, Regional

Development and Local Government. Total expenditure between 2003-04 and 2006-07 was \$327.9 million. The program allocation from 2006-07 to 2009-10 is \$270.6 million (Vaile, Lloyd and Kelly 2007).

Under the program, projects are eligible for funding if they contribute to the objectives of strengthening growth and opportunities, improving access to services, supporting planning, and assisting structural adjustments for communities affected by major economic, social or environmental change. The range of projects funded includes community services (activities and facilities supported by non-profit organisations); regional tourism (business and skills planning and development); civic and community infrastructure works; commercialisation of new and emerging technologies; the initiation of new businesses or growth of existing businesses; and ‘industry assistance’ measures. Applicants and their other project partners (if any) are expected to make a financial contribution to the cost of the project.

An ANAO performance audit of the program was recommended in 2005 by the Senate Finance and Public Administration Committee, following its inquiry into several regional programs including the Regional Partnerships Program (Senate Finance and Public Administration Committee 2005).

The ANAO’s report, released in November 2007, highlighted two dimensions of the administration of the Regional Partnerships Program:

- the flexibility in the application assessment and Ministerial approval processes creates challenges in ensuring transparent, accountable and cost-effective administration and in demonstrating the equitable treatment of applicants; and
- the manner in which the program had been administered over the three year period to 30 June 2006 examined by the ANAO had fallen short of an acceptable standard of public administration, particularly in respect to the assessment of grant applications and the management of funding agreements. (ANAO 2007b, pp. 19-20)

Specifically, the audit report noted inadequacies relating to:

- the Department’s departures from the published guidance;
- Departmental assessments of applications against the published eligibility and assessment criteria;
- the application of Ministerial discretion and the distribution of funding;
- the Department’s administration of funding agreements with successful applicants; and
- evaluations and departmental performance reporting (ANAO 2007b).

The ANAO noted that, during the course of the audit and in response to the audit findings and the observations of the administration of the program by the (then) Department of Transport and Regional Services, a number of changes to its administration were introduced, or proposed to (and agreed by) the Ministerial Committee responsible for funding decisions. Nevertheless, the ANAO made a number of further specific recommendations, including that the Department of Finance and Administration, as it then was, assess the merits of proposing amendments to the *Financial Management and Accountability Regulations 1997* that would require approvers to document the basis on which they are satisfied that the proposed expenditure represents efficient and effective use of public money, and is in accordance with the relevant policies of the Government.

The ANAO also considered that structured and competitive funding rounds, as opposed to the program's approach of continuous, non-competitive application and assessment processes, may benefit program administration.

3.9 Small business support

In recent years, Australian Government assistance to small business has included tax concessions, measures to reduce the burden of red tape, and specific programs to increase firm productivity. Some of these are outlined in *Trade & Assistance Review 2005-06*. In 2006-07, total support of this kind included in the Commission's budgetary assistance estimates exceeded \$1 billion. In addition, certain small businesses have been the target of specific assistance programs such as those aiming to commercialise new technology.

In its May 2007 Industry Statement, the (then) Australian Government announced additional funding of \$14.3 million for 2007-08 and 2008-09 to extend the availability of grants under the Building Entrepreneurship in Small Business Program. This program funds third-party service providers to deliver skills development, mentoring, succession planning and advisory services to small businesses (Bailey 2007b).

The Industry Statement also foreshadowed funding of \$89.3 million, over ten years, to develop and maintain an online registration system for both Australian business numbers and business names. This initiative's potential benefits include reduced compliance costs and easier trademark searching (Australian Government 2007b). It is expected to be of particular value to small business.

3.10 Anti-dumping and countervailing measures

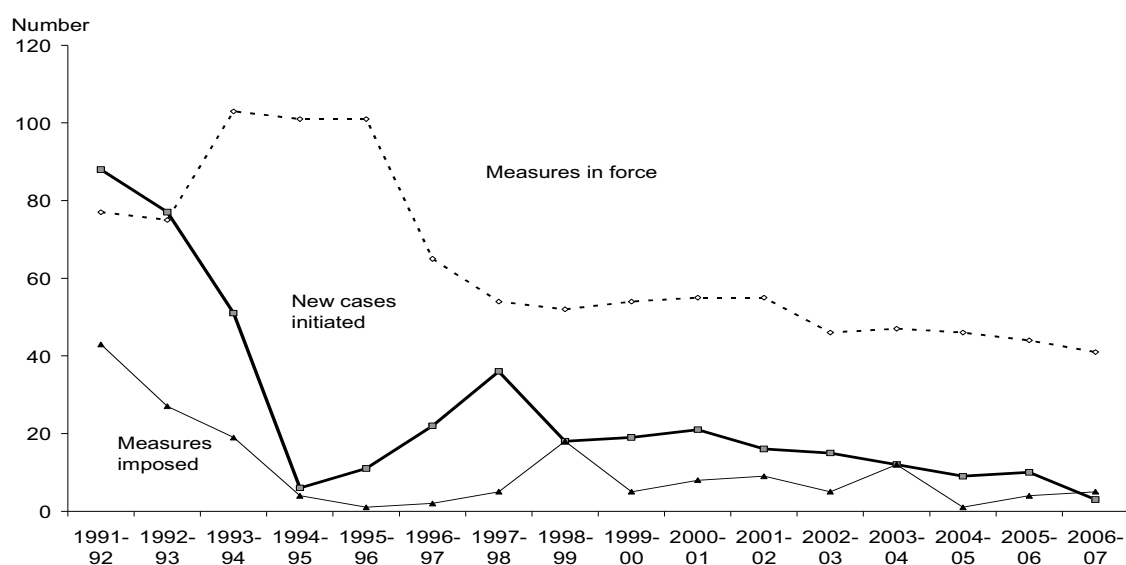
Dumping is said to occur when a foreign supplier exports goods at a price below the ‘normal value’ of the goods in the supplier’s home market. Under Australia’s anti-dumping rules, local companies can apply to have anti-dumping and countervailing measures — mainly special customs duties — imposed on ‘dumped’ imports if the imports cause, or threaten to cause, material injury to the local industry.

Recent activity levels

The number of new anti-dumping and countervailing cases *initiated* in Australia has been relatively low over recent years, compared with the early 1990s (figure 3.1). In 2006-07, three new cases were initiated. Two of these cases were in the chemicals and plastics industry, the other in the food and beverages industry. Over the ten years to 2006-07, the chemicals and plastics industry continued to be the largest initiator of anti-dumping and countervailing actions, accounting for more than one third of total initiations.

Five new measures were *imposed* by the Government in 2006-07, compared to four in the previous year, while nine measures expired. Overall, the number of measures *in force* dropped slightly, to 41 (figure 3.1).

Figure 3.1 Anti-dumping and countervailing activity,^a 1991-92 to 2006-07



^a A measure or case is counted as an action applying to one commodity from one economy. If multiple economies are involved, they are counted as separate actions.

Source: ACS (2006, 2007), PC (2006d).

More detailed information on the number and nature of recent anti-dumping and countervailing cases in Australia and the level of such activity overseas is presented in appendix B.

Reviewing anti-dumping arrangements

Anti-dumping arrangements are intended to promote ‘fair’ trade and to guard against predatory pricing behaviour that may work against long-term efficiency in affected industries (PC 2005c). Anti-dumping and countervailing measures provide immediate relief for the protected industries, but, like other trade barriers, can also restrict competition and, through enabling higher prices, penalise consumers and domestic downstream industries. Here, as in competition law, distinguishing between normal competitive pricing behaviour and predatory behaviour is difficult.

Australia’s anti-dumping and countervailing regime was scheduled for review by 2000 under the legislation review element of the 1995 National Competition Policy Agreement. However, such a review has not yet taken place.

In its *Review of National Competition Policy Reforms*, the Productivity Commission recommended that an independent review be undertaken as soon as practicable, noting that:

... the potential for the inappropriate application of anti-dumping arrangements to jeopardise the benefits that wider trade and competition reform have delivered, makes this one of the more important remaining trade policy issues to be addressed. (PC 2005c, p. 261)

Following this, the Australian Customs Service and DITR jointly undertook an ‘administrative’ review of Australia’s anti-dumping regime (the Joint Study), which recommended a number of changes to administrative procedures (PC 2007d).

In November 2006, the (then) Australian Government responded to the Joint Study, noting that it also intended to commission a comprehensive public review of both the policy and administration of Australia’s anti-dumping system (Ellison and MacFarlane 2006). This intention had previously been announced by the Government in its response to the *Report of the Taskforce on Reducing Regulatory Burdens on Business*, with the findings of the Joint Study to form part of the input to this review (Australian Government 2006b).