
4 Recent developments in industry assistance

This chapter provides an overview of the numerous policy announcements with implications for industry assistance that have been made since November 2007, the reporting date for *Trade & Assistance Review 2006-07*. These announcements have involved the introduction of new programs with a business or activity focus, as well as the abolition of some existing programs and the redirection of funding to other priorities. In addition, this chapter refers to a number of significant infrastructure and regional development programs including Infrastructure Australia, the Building Australia Fund and the National Broadband Network, that will impact on various industries and are likely to provide some industry assistance.

The industry assistance landscape has also changed materially as a result of a range of measures to address economic dislocation associated with the global financial crisis. Such measures include support for particular businesses or activities including through government guarantees on bank deposits and the Australian Business Investment Partnership, Economic Security Strategy, Nation Building Plan and the National Building and Jobs Plan.

In addition to this increase in program activity, a number of policy reviews with potential implications for assistance to Australian industry have been announced or have been conducted during the year. Four major reviews with industry assistance implications were reported in chapter 3. In addition to these reviews, matters under examination with potential assistance implications include: Australia's taxation system; drought policy; quarantine and biosecurity; the pigmeat industry; the outbreak of equine influenza in Australia; the removal of the levy on retail sales of fresh milk; and the review of Australia's anti-dumping and countervailing system.

The broad range of recent developments in Australian Government programs and policy settings are likely to have ramifications for Australia's assistance structure generally or for particular industries or sectors. The developments are reported on in the following groupings: research, development and innovation (R&D); rural sector; manufacturing and services sectors; infrastructure provision and regional development; responses to developments in global financial markets; and policy reviews with potential implications for industry assistance.

4.1 Research, development and innovation

Support for R&D, including innovation and commercialisation, forms a significant component of the Australian Government's budgetary assistance to industry. It accounted for around one third of budgetary assistance in 2007-08 (chapter 2). In the May 2008 Budget, the Australian Government made a number of announcements in relation to support for R&D and its commercialisation. These announcements, together with other recent government R&D initiatives, are discussed in this section.

Enterprise Connect

In May 2008, the Australian Government announced funding of around \$250 million over five years for the establishment of eleven Enterprise Connect centres. The centres aim to provide Australia's small and medium sized enterprises (SMEs) with access to technology, research, and business and management advisory services.

Enterprise Connect will comprise two components, a manufacturing network and innovation centres. The manufacturing network will consist of six centres located in Adelaide, Dandenong (Victoria), Burnie (Tasmania), Brisbane, Sydney and Perth. It is intended that these centres will work with companies to: improve business strategies and operations; benchmark against best practice; improve products and efficiency; access prototyping and testing facilities; and reduce red tape and improve access to government programs.

The five innovation centres will be: mining technology (located in Mackay, Queensland), remote enterprise (located in Alice Springs, Northern Territory), innovative regions (in Geelong, Victoria), creative industries (in Sydney) and clean energy (located in Newcastle, New South Wales). In November 2008, the Government announced an additional \$20 million for a Defence Innovation Centre, to be located in Dandenong. It is intended that the innovation centres will assist SMEs access new ideas, technologies and markets (Carr 2008e).

Commercial Ready, Commercial Ready Plus and Renewable Energy Development Initiative programs

In its 2007 *Science and Innovation* study, the Commission noted that the Commercial Ready program supported too many projects that would have proceeded without public support and that the national benefits of the program were at best uncertain. The Commission suggested that the introduction of a repayment

mechanism within the CR program would offer scope to improve the inducement rate associated with the program (PC 2007a).

In the May 2008 Budget, the Australian Government announced that the Commercial Ready (CR), Commercial Ready Plus (CRP) and the Renewable Energy Development Initiative (REDI) would be closed to new applicants. The Government estimated that cost savings from closing the programs would amount to around \$550 million over four years (Carr 2008d). Of these cost savings, \$160 million will be used to offset the costs of the Government's Clean Business Australia Initiatives (see chapter 5).

Intermediary Access (pilot) program

The Intermediary Access (pilot) program was announced in May 2007. The program was intended to support SMEs wanting to access new technologies and partnerships through the use of intermediaries to connect them with relevant researchers, other SMEs and large companies. Grants of up to 50 per cent of eligible costs were available up to a limit of \$50 000.

In the May 2008 Budget, the Australian Government announced that the program would not continue beyond the pilot phase. The pilot program concluded on 30 June 2008, and a review of the program was released in early 2009. The review was based on a survey of participating companies and feedback from the two intermediary service providers that delivered the program. The review found that the program achieved its policy objectives for the majority of program participants. It found that government funding was a key incentive for companies to participate in collaborative projects, as was access to relevant technology and partners and project development activities requiring specialised skills, both of which were provided by the intermediaries (Carr 2008d).

North East Tasmania Development package

In August 2008, the Australian Government, together with the Tasmanian State Government, announced that they would establish a North East Tasmania Development package, following the closure of the Tonganah sawmill. The package is intended to increase employment opportunities in the area. Funding is around \$4.3 million and will be delivered over two years commencing in 2008-09 (Carr 2008g).

The Australian Government will provide funding of \$4.0 million — \$3.7 million for the North East Tasmania Innovation and Investment Fund (NETIIF) and \$300 000,

a co-contribution to the Business Micro Capital Scheme (NETMicro). The Australian Government will deliver NETIIF and the Tasmanian Government will deliver NETMicro.

NETIIF is a competitive granting program providing minimum funding of \$50 000 towards business investments in Tasmania's north-east. Applicants are expected to contribute funding towards projects and the extent of co-investment will be a factor in assessing applications. NETMicro provides grants up to \$25 000 to develop new opportunities or expand existing businesses (Carr 2008h).

Small Business Advisory Services program

In the May 2008 Budget, the Australian Government announced the provision of \$42 million over four years to fund 36 nominated Business Enterprise Centres (BECs) to deliver low-cost small business advisory services (Emerson 2008a).

In October 2008, the Australian Government increased funding by \$4 million (\$2 million to be expended in 2008-09 and \$2 million in 2009-10) to provide additional support and advisory services, in the 2009 calendar year, to *existing* small businesses in response to the global financial crisis (Emerson 2008b).

Building Entrepreneurship in Small Business program

In the May 2008 Budget, the Australian Government announced the closure of the Building Entrepreneurship in Small Business program. The program, initiated in 2005, funded third party service providers to deliver incubation, skills development, mentoring, succession planning and advisory services to small business operators throughout Australia (see *Trade & Assistance Review 2006-07*).

4.2 Rural sector

Australian Government support for the rural sector is substantial, comprising around 25 per cent of total budgetary assistance in 2007-08 (chapter 2). The Australian Government has made a number of announcements in relation to the sector since November 2007.

Caring for Our Country

In March 2008, the Australian Government announced that it would invest more than \$2 billion over five years in natural resource and environmental management

through the Caring for Our Country program. The program is intended to provide a coordinated approach to environmental management in Australia supported by transparent and consistent national five-year objectives. It will integrate the delivery of previous Australian Government natural resource management programs including: the Natural Heritage Trust; the National Landcare program; the Environmental Stewardship program; and the Working on Country program. The amalgamation of the natural resource management programs is also designed to reduce associated administrative costs and allow more funding to be directed towards farmers and other land managers (Garrett and Burke 2008a).

The Australian Government is required to prepare an annual Caring for Our Country business plan, to ensure that funding is delivered in accordance with the five year outcomes. Six priority areas have been identified to receive funding under the program:

- Australia's National Reserve System;
- biodiversity and natural icons;
- coastal environments and critical aquatic habitats;
- sustainable farm practices;
- natural resource management in remote and northern Australia; and
- community skills, knowledge and engagement.

In the May 2008 Budget, the Australian Government announced the \$200 million Great Barrier Reef Rescue Plan (GBRRP) would form part of the integrated Caring for Our Country program. The GBRRP is intended to help protect the Great Barrier Reef while providing benefits for local conservation and Indigenous groups, agricultural production, tourism, fishing and aquaculture industries. The main elements of the plan are:

- Great Barrier Reef Water Quality Grants program — provides matching grants to landowners and managers that commit to reducing the amount of nutrients and sediment run-off from the land (\$146 million);
- Healthy Reef Partnerships program — to promote partnerships between government, state agencies and non-government organisations that support landowners with local expertise and extension staff (\$12 million);
- Great Barrier Reef Water Quality R&D program — to research the link between land management practices and environmental impacts, and to develop new water-quality monitoring techniques (\$10 million);
- Water Quality Monitoring and Reporting program — to expand existing monitoring and reporting of water quality in the Reef (\$22 million); and

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- Land and Sea Country Indigenous Partnerships program — to employ Sea Country Officers in Indigenous communities and provide additional funding for the Great Barrier Reef Marine Park Authority to strengthen partnerships with indigenous communities (\$10 million) (Garrett and Burke 2008b).

National Weeds Research and Productivity Program

In the May 2008 Budget, the Australian Government committed \$15.3 million over four years to establish a National Weeds and Productivity Research Program (Burke 2008v). The centrepiece of the program will be an Australian Weeds Research Centre to improve collaboration and coordination on weeds research and oversee the funding of research projects. The program will focus on investigating and addressing significant invasive plant problems and improving advice to the farm and forestry sectors on managing invasive plants in forests, pastures and native vegetation. This measure includes funding of \$0.3 million over two years from 2008-09 for research into the control of fireweed.

Agriculture—Advancing Australia

The Agriculture—Advancing Australia (AAA) package, first introduced in 1997, comprised a number of sector-wide programs intended to facilitate structural adjustment. The AAA package included the Farm Help, Farm Management Deposits, FarmBis, Advancing Agricultural Industries and the Rural Financial Counselling Service programs. More than \$1.7 billion in government funding was provided under the AAA package to 2007-08.

In November 2007, the Australian Government announced that it would end the AAA package (DAFF 2009f). This involved closing the Farm Help, FarmBis and Advancing Agricultural Industries programs, while the Rural Financial Counselling Service program, the International Agricultural Cooperation program and the Farm Management Deposits scheme were continued independently. Funds saved from closing the AAA package were diverted to the \$130 million Australia's Farming Future program (see below).

Australia's Farming Future program

In the May 2008 Budget, the Australian Government announced the Australia's Farming Future (AFF) program with funding of \$130 million over four years. The program, which commenced in July 2008, is intended to assist primary producers in adapting and responding to climate change. It consists of a number of elements

including the Climate Change Research Program, FarmReady, Climate Change Adjustment Program, and Community Networking and Capacity Building (Burke 2008j).

Climate Change Research

The Climate Change Research Program funds research projects and on-farm demonstration pilots to help prepare Australia's primary industries for climate change. The projects focus on:

- reducing greenhouse gas emissions such as methane and nitrous oxide;
- improving soil management and determining the potential of sequestration of carbon in agricultural soils — in a variety of soil types, locations and under differing management practices; and
- research into alternative management practices and the development of adaptation tools and techniques.

FarmReady

A primary producer reimbursement grant and an industry grant are available under the Farm Ready component of AFF. The FarmReady Reimbursement grant will provide funding of up to \$1500 per financial year for primary producers and indigenous land managers to attend approved training courses. The FarmReady Industry grant will provide funding of \$80 000 per financial year for projects that assist in the development of strategies to manage the impacts of climate change. The industry grant will be available to eligible industry, farming and natural resource management groups.

Climate Change Adjustment Program

The Climate Change Adjustment Program (CCAP) component of AFF will provide funding for adjustment advice and training grants of up to \$5000, re-establishment grants of up to \$150 000, and access to rural financial counsellors (via the existing Rural Financial Counselling Service program). The CCAP will also provide for short-term income support through the Transitional Income Support Program.

Community Networks and Capacity Building

Community networks and capacity building activities are intended to increase leadership and representative capacity of target groups including women, youth, Indigenous Australians and other minority groups. Currently two grant programs are

being administered: Recognising Women Farmers and Next Gen Farmers. These are aimed at promoting the development of leadership and management skills among individuals and groups living in rural, regional and remote Australia and strengthening industry productivity and community resilience (DAFF 2009a).

Water for the Future plan

In the May 2008 Budget, the Australian Government announced details of the ten year \$12.9 billion Water for the Future plan. The plan is intended to develop a single national framework that integrates both rural and urban water issues. It is built on four Government priorities: climate change; water use; water supply; and rivers and waterways health (Wong 2008).

The main elements of the Water for the Future plan are:

- Sustainable Rural Water Use and Infrastructure program — funding of projects that return water to the environment and also provide a long-term future for irrigation communities (\$5.8 billion);
- Restoring the Balance in the Basin program — funding to purchase water entitlements from irrigators in the Murray-Darling Basin to be used to increase environmental flows (\$3.1 billion);
- National Urban Water and Desalination Plan — funding for projects that use desalination, recycling and stormwater harvesting to improve water supply security in towns and cities of 50 000 people or more (\$1 billion); and
- Water Smart Australia program — funding for large-scale projects that increase the development and uptake of new technologies and practices in water use (\$1.6 billion).

Other programs under the Water for the Future plan include: Driving Reform in the Basin program; Improving Water Information initiative; National Water Security Plan for Cities and Towns; National Rainwater and Greywater initiative; Raising National Water Standards program; Living Murray initiative; Great Artesian Basin plan; and Northern Australia Futures Assessment program. Total funding for these programs amounts to around \$1.5 billion (DEWHA 2009a).

Small Block Irrigators Exit Grant Package

In September 2008, the Australian Government announced a \$57.1 million Small Block Irrigators Exit Grant Package designed to assist small block irrigators, particularly horticultural producers, in the Murray-Darling Basin (DEWHA 2009b). The package provides an exit grant of up to \$150 000 to eligible farmers who wish

to cease irrigated farming. Recipients also have access to funds for removal of permanent plantings and other production-related infrastructure and for advice and training. The Package will be available until 30 June 2009, and forms a part of the Australian Government's *Water for the Future* plan.

In February 2009, the Australian Government amended the eligibility criteria for this package to allow small block irrigators on farms up to 40 hectares in the Murray-Darling Basin to apply. In addition, the grant for removal of plantings was increased from up to \$10,000 to up to \$20,000.

Regional Food Producers Innovation and Productivity program

In the May 2008 Budget, the Australian Government announced that it would provide \$35 million over five years for the Regional Food Producers Innovation and Productivity (RFPIP) program. The program aims to increase the productivity and competitiveness of Australia's regional food and seafood industries through innovation and technology improvements. The program replaces the previous Food Innovation Grants (FIG) program (Burke 2008i).

Under the new program, matching funding grants of between \$50 000 and \$2 million will be available to eligible food and seafood businesses to undertake projects that encourage innovation in production, processing and value adding in the regional food industry. Preference will be given to projects which develop new technologies, processing or production methods at the business level, rather than industry-wide consultancies or studies. Around \$10 million from the program will be set aside specifically for the seafood industry (DAFF 2009e).

The Government also announced that it would continue to support the existing National Food Industry Strategy (NFIS). The NFIS is intended to improve international marketing, export market development and market access although, as indicated, the FIG component of the NFIS is being replaced by the RFPIP program. The NFIS was discussed in more detail in *Trade and Assistance Review 2006-07*.

Promoting Australian Produce program

In the May 2008 Budget, the Australian Government announced that it would provide \$5 million over three years for the Promoting Australian Produce program. The program is intended to assist Australian producers in developing and implementing initiatives that raise awareness of the premium quality of Australian produce, including home grown fruit and vegetables, pork and seafood (Burke 2008u).

Under the program, matched-funding grants of between \$50 000 and \$750 000 will be available to eligible food industry organisations to undertake projects in one or more of the following activities: enhancing industry marketing and promotional capabilities; developing new strategies for industry marketing; gaining consumer insights; and strengthening links with domestic and international markets (DAFF 2009d).

Promoting Australian Produce (Major Events)

In December 2008, the Australian Government announced details of the Promoting Australian Produce (major events) program. The program is intended to improve cooperation and collaboration in the food and fibre industries. The program is a discretionary grants program with funding of \$3 million available until 30 June 2009 (Burke 2008u).

Under the program, grants are available to help stage major national events organised by food and fibre industries that aim to:

- bring together food and fibre industry participants to increase information exchange across the production, manufacturing, marketing and distribution chain;
- develop and adapt new technologies and systems to improve productivity; and
- increase industry-wide collaboration to meet challenges presented by climate change and globalisation (DAFF 2009c).

Wheat marketing

Like most other agricultural industries, the Australian wheat industry has had a long history of government intervention. However, a number of reforms to wheat marketing arrangements have been introduced over the last two decades. A discussion of the main reforms to wheat marketing up to November 2007 was provided in *Trade & Assistance Review 2006-07*.

In November 2007, the Australian Government announced that it would introduce new marketing arrangements for wheat exports that would provide for increased choice for wheat growers by allowing multiple accredited exporters through the introduction of the Wheat Export Accreditation scheme. The Export Wheat Commission would also be replaced by a new export regulator — Wheat Exports Australia — which would be responsible for administering the Accreditation scheme. These new arrangements are discussed in more detail below.

In January 2008, the Australian Government announced the establishment of an ‘Industry Expert Group’ to advise on the delivery of industry development functions under the new wheat marketing arrangements. Areas to be addressed by the group included: strategic planning; R&D; quality assurance and varietal development; industry receival standards; industry training; and generic promotion. The group’s report, delivered to the Minister for Agriculture, Fisheries and Forestry in April 2008, was released by the Government in May 2008 (Burke 2008g).

The primary finding from the report was that many of the industry development functions as outlined above could continue effectively under the new wheat marketing arrangements. Other recommendations from the report include:

- the Australian Government should play a role in the collection and distribution of information to growers through the Australian Bureau of Statistics (ABS) and Australian Bureau of Agricultural and Resource Economics (ABARE) collecting and distributing monthly industry information on wheat production, exports and the availability of wheat;
- wheat receival standards should be managed by the National Agricultural Commodities Marketing Association (NACMA) according to existing processes, while individual grain marketers should develop refinements to complement the industry agreed standards. These standards are now being managed by Grain Trade Australia (formerly NACMA); and
- the Grains R&D Corporation (GRDC) should take on responsibility for the establishment and operation of a wheat variety classification panel. GRDC has engaged the Bread Research Institute (BRI) to manage the process (Burke 2008k).

In June 2008, the Australian Parliament passed legislation to bring about the reforms announced in November 2007 to Australia’s bulk wheat export marketing system. Under the new arrangements:

- Wheat Exports Australia, the new industry regulator, will have the power to grant, vary, suspend or cancel accreditation of exporters;
- a new applicant under the accreditation scheme must meet a number of tests, including that it is a ‘fit and proper company’ to trade in wheat and it must be a corporation or cooperative;
- a compulsory wheat export charge of \$0.22 per tonne will continue (as under previous arrangements) to be payable for the control and monitoring by Wheat Exports Australia of all (bulk and non-bulk) wheat exports from Australia; and
- applicants operating a bulk grain port terminal must also provide access to other exporters, by entering into arrangements to be overseen by the Australian Competition and Consumer Commission from October 2009 (Burke 2008o).

In May 2008, the Australian Government also announced that it would provide around \$9 million in funding over three years to assist the industry with the transition to the new marketing arrangements, including grower information sessions, publication of market data and technical market support grants. The Government will also ask the Productivity Commission to commence a review of the new marketing arrangements before 1 January 2010 (Burke 2008l). Information sessions have been held, and the market data project is underway with the first reports received in February 2009.

In August 2008, the Australian Government announced that five companies had been accredited to export wheat under the new marketing arrangements (Burke 2008q). By April 2009, a further 18 had been accredited, including two subsidiaries of AWB Limited — AWB Harvest Finance Limited and AWB Australia Limited. AWB International, a subsidiary of AWB Limited, was the previous holder of the single desk arrangements for the export of bulk wheat (AWB 2008).

Pigmeat

In recent years, the Australian pigmeat industry (both production and processing) has experienced structural change and become increasingly integrated into world pigmeat markets. Based on industry concerns regarding these changes, the implications for the competitiveness of the Australian pigmeat industry and the impact of import competition, the Australian Government has asked the Productivity Commission and its predecessor to undertake a number of policy reviews of the pigment industry (IC 1995, PC 1998a, PC 2005b and PC 2008b).

In October 2007, the Australian Government asked the Productivity Commission to report on whether safeguard action, in accordance with the WTO Agreement on Safeguards, was warranted against imports of certain frozen pigmeat (see box 4.1). The Commission provided an accelerated report to the Australian Government in December 2007. The Commission's main findings from the accelerated report were discussed in last year's *Review* (PC 2008c).

Box 4.1 WTO safeguards actions

Safeguard action is temporary, 'emergency action' (typically employing tariffs, tariff-quotas or quotas) and may be taken by a member country of the WTO where a surge of imports causes or threatens to cause serious material injury to a domestic industry. It allows a country to respond to unexpected and unforeseen increases in imports which have caused serious material injury. The increase in imports must be 'recent enough, sudden enough, sharp enough and significant enough' to cause (or threaten to cause) serious injury.

The 1998 inquiry was also conducted under the WTO Agreement on Safeguards. In that inquiry, the Commission reported on possible safeguard action against imports of pigmeat from Canada. It found that while a tariff of 10 per cent (phasing out over 2 years) could be justified under WTO rules, it questioned whether this would be the most appropriate means of remedying serious injury and facilitating industry adjustment.

Source: PC (2008b)

In April 2008, the Australian Government released the Commission's final report on pigment imports — *Safeguards Inquiry into the Import of Pigmeat*. Consistent with its accelerated report, the Commission concluded that:

Increased imports have not caused and are not threatening to cause serious injury to the domestic industry. The overwhelming cause of serious injury has been higher domestic feed costs. The Commission accordingly finds that safeguard action against imports of frozen pigmeat is not warranted. (PC 2008b, p.XXVIII)

In addition to assessing whether safeguards measures were warranted, the Commission's report also looked at developments in the structure and operating methods of the local pigmeat industry and whether more could be done to ease cost pressures, particularly from high feed grain costs. The Commission found that rises in feed grain prices were in part attributable to the drought, economic growth and changing tastes. It also found that the higher grain prices also reflect the impacts of quarantine restrictions on grain imports (especially during drought) and of government policies encouraging the diversion of land away from feed-crop production in favour of crops for use in the production of ethanol, particularly overseas and to a lesser extent in Australia.

With respect to broader industry development issues, the Commission also made a number of recommendations in its final report, including:

- Commonwealth and State and Territory governments should continue work on promoting consistency of regulations across jurisdictions, including more harmonised implementation and enforcement processes where appropriate;

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- regular independent reviews should be conducted to ensure that government R&D funding directed to the pigmeat industry delivers net benefits to the community, and continues to satisfy program criteria;
 - industry programs that operate in conjunction with government support need to be regularly and transparently reviewed; and
 - there should be a review into the overall economic impact of the current and proposed policies relating to ethanol.

The Australian Government responded to the Commission's report in June 2008. As the Commission is the 'designated' Australian body under WTO rules to determine whether safeguard mechanisms are appropriate, based on the Commission's findings, the Government notified the WTO that the safeguards investigation had been terminated and that it would not impose safeguard measures. The Government also agreed, or agreed in principle, with all of the Commission's recommendations in the report (Australian Government 2008a).

Equine influenza ('horse flu')

The first recorded outbreak of equine influenza in Australia occurred in New South Wales in August 2007. Equine influenza is an acute, highly contagious, viral disease affecting horses, donkeys, mules and other equine species. The disease is not generally fatal, but fatalities may occur especially in old or infirm horses, and foals (DAFF 2009b). Details of the previous Government's response to the outbreak during 2007 were discussed in *Trade & Assistance Review 2006-07*.

In February 2008, the Australian Government announced that assistance provided under the previous Government's Equine Influenza Assistance Package would be extended to 14 March 2008 or until restrictions on horse movements had been lifted. The specific payments extended under the package included:

- Equine Workers Hardship Payment Wage Supplement Payment (administered by the Department of Families, Housing, Community Services and Indigenous Affairs);
- Business Assistance Grant;
- Commercial Horse Assistance Payment; and
- grants for non-profit community groups (Burke 2008c).

Payments in excess of \$260 million were made in 2007-08 under the package.

In March 2008, the Australian Government declared, in accordance with international agreements, that Australia had achieved provisional free status of

equine influenza following the completion of comprehensive disease control and surveillance programs, together with a three-month period since the last recorded incidence of the disease. This declaration was extended, by the Australian Government, to official free status in June 2008 with the Government also lifting the remaining emergency requirement that people notify authorities of their intention to move horses or hold an event. Further, in December 2008, twelve months after the last recorded outbreak of the disease, the Australian Government, in accordance with the World Animal Health Organisation Terrestrial Animal Health Code 2008, declared that Australia had regained its (international) equine influenza free status (Burke 2008e, Burke 2008p and DAFF 2008).

In June 2008, the Australian Government released the Callinan inquiry report into the outbreak of equine influenza in Australia. The report was commissioned by the Government in September 2007. The inquiry was required to report on the circumstances contributing to the outbreak of the disease and on the need for any strengthened biosecurity procedures for the quarantine management of imported horses. All 38 recommendations made by the inquiry were agreed to by the Government. Among other things, the inquiry recommended that the Government:

- review biosecurity policies for horses and carry out an import risk analysis;
- reassess conditions, applied by AQIS, on the importation of horses;
- review pre-export, airport and quarantine station facilities; and
- review fees charged for the export of horses to Australia, looking at the cost of quarantine, auditing and risk factors.

For those recommendations requiring immediate action, the Government has allocated around \$1.3 million for implementation (Burke 2008n).

Emergency Animal Disease Response Agreement

In February 2008, in parallel with other developments concerning the equine influenza outbreak and its management, the Australian Government introduced legislation to Parliament to enable the horse industry to join the current Emergency Animal Disease Response Agreement. Under the agreement, the Australian Government underwrites industry's share of the costs of any emergency disease outbreak and recovers an agreed share of these costs, from the industry. These costs are usually recovered, using an industry levy, over a ten year period. The cattle, pig wool, sheep meat, dairy, bee, poultry and goat industries are already signatories to the agreement (Burke 2008d and 2008m). This legislation failed to pass Parliament in February 2009.

Following agreement at the Primary Industries Ministerial Council meeting in November 2008, the Australian Government announced that it would establish a further panel to consider how to manage the risks of any potential future equine influenza outbreak and potential strategies for dealing with such an outbreak. The panel is to report its findings to the next Primary Industries Ministerial Council meeting in the first half of 2009 (Burke 2008s).

Dairy Industry Adjustment Package

Assistance to the Australian dairy industry has declined significantly since the mid-1980s when the effective rate of assistance was more than 200 per cent. Since 2000, most of its assistance has been derived from the Dairy Industry Adjustment Package (DIAP). Before this, most assistance to the dairy industry was afforded by state government price and regulatory controls, and Australian Government Market Support Payments, which were removed as the industry was deregulated. The DIAP and former assistance arrangements have been discussed in more detail in previous editions of the *Trade & Assistance Review*.

Since the introduction of the DIAP on 1 July 2000, payments from the package up until 2007-08 have amounted to around \$1.8 billion and have been made to around 13 000 dairy farm businesses. The package was designed to help the industry adjust from the previous state-regulated drinking milk arrangements to a more deregulated environment. The DIAP was funded by an 11 cents per litre levy on retail sales of fresh milk (Burke 2008r).

In April 2008, the final quarterly payments were made from the DIAP and action to unwind the package is almost complete. The Dairy Adjustment Levy, which remained in place to recover debts incurred by the Commonwealth in establishing the DIAP, was removed on 22 February 2009. The Dairy Structural Adjustment Fund, which holds the levy receipts, is expected to be closed in 2009 (Burke 2008r and Burke 2009).

Forests

In the May 2008 Budget, the Australian Government announced that it would provide \$20 million over three years for the Preparing Australia's Forestry Industry for the Future package. The package is intended to help Australia's forest industries deal with issues including climate change and skills shortages. The main elements of the package are outlined below.

- The Forest Industries Development Fund is intended to encourage investment in value-adding activities and boost the international competitiveness of Australia's

forest industry. Grants from the fund are expected to represent around 30 per cent of total project costs and are limited to no more than \$500 000. A total of \$9 million has been allocated from the package to fund this measure.

- Research into the impact of climate change on forest systems and industries (\$8 million). It is intended that many of the gaps in knowledge about the impact of climate change on forests and forest industries will be identified by the development of the National Climate Change and Commercial Forestry Action Plan.
- The ForestWorks program is intended to support the establishment of the Forest and Forest Products Industry Skills Council to address skill shortages in the industry (\$1 million).
- The Forest and Wood Products Industry Workforce and Industry Data Collection research project (\$1 million).
- Measures intended to support work with industry, regional governments and overseas countries to restrict the sale of illegally-logged timber (\$1 million) (Burke 2008h).

4.3 Manufacturing and services sectors

Automotive industry

While assistance to the automotive industry, including both motor vehicle producers and component suppliers, has declined significantly since the mid-1980s, the industry remains one of the most highly assisted within the manufacturing sector. This assistance derives largely from long-standing tariffs and tariff concession schemes, particularly the Automotive Competitiveness and Investment Scheme (ACIS). Chapter 3 reports on the Bracks review of the Australian automotive industry. This section outlines the Government response to that review and a number of other measures introduced during 2008 to assist the automotive industry.

South Australian Automotive Assistance package

In February 2008, the Australian and South Australian Governments announced a \$50 million assistance package to help support workers, and also the Tonsley Park region in South Australia following the announcement by Mitsubishi Motor Corporation that it would close its Adelaide vehicle assembly plant from March 2008. The package includes: up to \$10 million for intensive assistance to workers made redundant as a result of the plants closure; and a \$40 million South Australian

Innovation and Investment Fund to assist the expansion of manufacturing in South Australia.

The South Australian Investment and Innovation Fund is to run over three years from 2008-09 through to 2010-11. It is intended that up to \$30 million will be used to support projects that are likely to create full-time employment, with a focus on projects aimed at supporting the introduction of new innovations or technology (including investment in emerging and growth sectors such as defence and ICT), and activities in the southern suburbs of Adelaide. In addition, the fund is to provide up to \$10 million for strategic infrastructure intended to improve the competitiveness of the region (Rudd, Carr and Rann 2008).

The Australian Government had introduced a similar \$50 million structural adjustment package in May 2004. This package was announced in response to the closure of Mitsubishi's engine plant in Lonsdale in South Australia. The package included a \$10 million labour market assistance program and \$40 million towards investment incentives and structural adjustment measures, particularly for the southern suburbs of Adelaide. This program was discussed in more detail in *Trade & Assistance Review 2003-04* (PC 2004a).

Assistance to Automotive Components Limited

In April 2008, the Australian Government announced that it would provide \$2 million in assistance to Tasmanian auto-parts supplier Automotive Components Limited (ACL) (the sole supplier of precision auto bearings to the Australian operations of Ford, Holden and Toyota). A requirement of the support package is that ACL implement an efficiency and productivity strategy to secure the future viability of the company. The Government negotiated clear requirements and milestones with the company to ensure that this outcome occurs. The Tasmanian Government will also provide assistance of \$330 000 to the company (Carr and Wriedt 2008).

A New Car Plan for a Greener Future

In November 2008, following the release of the Bracks review of the Australian automotive industry, the Government announced that it would introduce a \$6.2 billion plan for the automotive industry — *A New Car Plan for a Greener Future*. The main elements of the package include: the continuation of scheduled Motor Vehicle and Parts (MVP) tariff reductions in 2010; the introduction of a new \$3.4 billion assistance program from 2011, the Automotive Transformation Scheme (ATS), to replace ACIS; an expanded \$1.3 billion Green Car Innovation Fund; and the continuation of ACIS through to 2010, but with changes to the scheme as

proposed by the Bracks review to facilitate the transition to the ATS (Carr 2008i). These changes, together with other elements of the plan, are discussed in more detail in chapter 3.

Administration of ABC Learning Centres Limited

In November 2008, ABC Learning Centres Limited (ABC Learning) announced that it would be placed into voluntary administration and a receiver appointed. In response, the Australian Government announced that it would commit up to \$22 million to ensure that 1040 ABC Learning child care centres remained operational until 31 December 2008. ABC Learning was Australia's largest private child care provider with around 120 000 children attending its centres and employing over 16 000 people (Gillard 2008a).

In December 2008, the Receiver of ABC Learning announced that 720 child care centres would remain within the ABC Learning Group, but that 55 centres would close and be consolidated into nearby ABC centres. A further 241 centres were also identified as unviable under the ABC Learning business model, but would remain open in 2009 under an agreement reached with the Government (McGrathNicol 2008). The Australian Government stated that, while under normal circumstances the 241 centres would be closed, it believes a number of these centres could be viable under different arrangements and announced that it would provide an extra \$34 million to keep these centres open until 31 March 2009 (Gillard 2008b, 2009). This was later extended to 15 May 2009, though no additional funding was committed as the Government would draw on unused funds that were previously announced.

4.4 Infrastructure provision and regional development

Since November 2007, the Australian Government has announced significant financial commitments for the provision of infrastructure and regional development. These commitments will have a wide range of impacts on industry. Some of the industry impacts may constitute positive or negative industry assistance. The level of assistance ultimately conferred on industry would depend on factors such as:

- the level of government contributions and risk sharing to business investment, for example though support for the construction and operation of new infrastructure such as a road, rail or port facility;
- the user charges relative to the economic cost of service provision; and
- the public good nature of the infrastructure.

Any assistance afforded would generally benefit the infrastructure industry receiving it, but it could also have flow on benefits (costs) to industries utilising the assisted services, taxpayers and households. However, ascertaining the degree of assistance, and its incidence, can be difficult. Moreover, regulatory arrangements accompanying the construction and operation of infrastructure also affect industry.¹

Infrastructure Australia

In January 2008, the Australian Government formally approved the establishment of Infrastructure Australia with funding of \$20 million over four years. The primary role of Infrastructure Australia is to provide advice to Australian governments (including Commonwealth, state and local Governments), investors in infrastructure and the owners of infrastructure on matters relating to infrastructure, including:

- nationally significant infrastructure priorities;
- policy, pricing and regulatory reforms intended to improve the efficient utilisation of national infrastructure networks;
- options to address impediments to the development and provision of efficient national infrastructure;
- the needs of users of infrastructure; and
- mechanisms for financing investments in infrastructure (Rudd and Albanese 2008a).

Infrastructure Australia is required to conduct regular audits to determine the adequacy, capacity and condition of nationally significant infrastructure. In conducting these audits, Infrastructure Australia is also to take into account future economic growth and the adequacy of the infrastructure to meet these growth targets. Based on the information collected, Infrastructure Australia is then required to develop a national infrastructure priority list for consideration by the Council of Australian Governments (COAG).

¹ While infrastructure provision and regional development measures may confer industry assistance, such measures typically have not been included in the Commission's annual assistance estimates series because of practical constraints in measurement and data availability. However, in recognition of the potential for such measures to have some industry assistance effect, the Commission's approach is to report qualitatively on developments, as details become available and to examine the issues separately in detailed studies or inquiries. For example, the Commission was asked by Government to report on road and rail infrastructure pricing and the price regulation of airport services (PC 2006d and 2006e). It also has reported on assistance to tourism (PC 2005a).

In August 2008, Infrastructure Australia called for public submissions to provide project ideas for evaluation and possible inclusion on the National Infrastructure Priority List. A summary of the information gathered from the submissions, together with input from Infrastructure Australia identifying infrastructure ‘needs’, was presented to COAG in December 2008.

Building Australia Fund

In the May 2008 Budget, the Australian Government announced that it would establish the Building Australia Fund (BAF) with an initial allocation of \$20 billion (Swan 2008a). Funding for the BAF was to be sourced largely from the Commonwealth budget surplus in 2007-08 and the then expected surplus in 2008-09. Both capital and earnings from the BAF are to be used to fund infrastructure projects including roads, rail, ports and broadband (see below).

The first allocations from the fund are expected to be made in 2009-10. Allocations from the fund are to be guided by Infrastructure Australia’s national audit and infrastructure Priority List.

In addition to the BAF, the Australian Government also announced that it would create two sectoral funds:

- the Education Investment Fund (EIF) — to finance capital expenditure in Australia’s higher education institutions (initial allocation of \$11 billion); and
- the Health and Hospital Fund (HHF) — to finance the renewal and refurbishment of Australia’s hospitals and health facilities and fund major medical research projects (initial allocation of \$10 billion).

Like the BAF, the EIF and HHF were to be financed largely from expected Commonwealth budget surpluses.

National Broadband Network

In April 2009, the Australian Government announced that it would establish a company to build and operate a high speed National Broadband Network (Rudd 2009c).

The new company will invest up to \$43 billion over eight years to build the network. The Government will be the majority shareholder of the company, with private investment encouraged from the initial build stage. The Government intends to sell down its interest within five years of the network being built.

This announcement followed the Government's decision to terminate the National Broadband Network Request for Proposals process on the basis of unpublished advice from the independent Panel of Experts that none of the proposals received were sufficiently well developed to offer 'value for money'.²

The Government's objective for the new National Broadband Network is to connect 90 per cent of homes and workplaces to the fibre network within the company's investment of up to \$43 billion. Connecting fibre optic cables directly to people's homes is intended to enable speeds of 100 megabits per second (Mbps) and beyond to be achieved. For the remaining 10 per cent of premises, next generation wireless and satellite technologies is intended to deliver broadband speeds of 12 Mbps.

The rollout schedule, network coverage and mix of technologies will be finalised following an implementation study to be completed in early 2010.

More immediate Government action includes plans to invest up to \$250 million to address 'black spots' throughout regional Australia, through the rollout of fibre optic transmission links connecting cities, major regional centres and rural towns.

Australian Broadband Guarantee program

In the May 2008 Budget, the Australian Government announced that it would provide \$271 million over four years to fund the Australian Broadband Guarantee program.

The program is intended to provide residential and small business premises and Aboriginal or Torres Strait Islander Community Council areas across Australia with access to 'metro-comparable' broadband services where such services are not available on commercial terms. Financial assistance, in the form of incentive payments, are provided to registered internet service providers to supply these services. A metro-comparable broadband service is defined under this program as any internet service that offers a minimum 512 kilobits per second (Kbps) download and 128 Kbps upload data speed, with 3 GB per month data usage at a total cost of

² In April 2008, the Australian Government released a 'Request for Proposals' (RFP) to roll-out and operate a new, open access, high-speed, fibre-based broadband network. It also announced government funding of up to \$4.7 billion for the network in addition to considering any regulatory changes needed to facilitate its construction (Conroy 2008b). In December 2008, the Government announced that five parties — Acacia, Axia, Optus-Terria, TransACT and the Tasmanian Government — had met the requirements for participation. It also announced that Telstra had been excluded because it had not met all of the requirements of the RFP process (Conroy 2008c).

no more than \$2500 (GST inclusive) over three years (including installation and connection fees).

The Australian Broadband Guarantee is intended to provide a higher level of certainty of access for areas in Australia that are not currently well served by broadband services while the National Broadband Network (see above) is being rolled out (Conroy 2008a).

Better Regions program

In the May 2008 Budget, the Australian Government announced funding of \$176 million over four years for the Better Regions Program. The funding will be used to help local communities deliver local infrastructure and other regional projects such as:

- the revitalisation of towns' main streets;
- multi-purpose community and resource centres;
- major sport and recreational venues; and
- community transport infrastructure (Albanese and Gray 2008).

Guidelines for the program were announced in August 2008 (DITRDLG 2008) and designed to meet all relevant requirements of the *Financial Management and Accountability (FMA) Act 1997* and associated regulations, and to reflect the Australian National Audit Office (ANAO) Better Practice Guide and the recommendations from the ANAO audit of the Regional Partnerships program. Under the guidelines:

- the administering department is required to undertake a risk analysis of both proponent and project viability in an effort to ensure that any identified risks are appropriately managed;
- any approval for the provision of funding is dependent on the preparation and execution, by both parties, of a Funding Agreement that sets out the terms and conditions under which the funding is provided;
- each proponent is required to identify (for inclusion in the Funding Agreement) the project's key outputs and the manner in which they will be measured so as to enable an evaluation of the benefits of Australian Government funding; and
- a 'Project Completion Report' is required so as to 'demonstrate that all agreed milestones have been achieved'.

From 1 January 2009, the Department is required to report grants within seven days of their execution (DITRDLG 2008). As at 7 April 2009, eight projects had been publicly listed.

Community Infrastructure program

In November 2008, the Australian Government announced details of the \$300 million Regional and Local Community Infrastructure program (subsequently renamed the Community Infrastructure program). The Government's objective for the program is to support local economic development and employment in the 565 local council areas around Australia. Funding from the program will be delivered by 30 June 2009.

In February 2009, the Australian Government announced, as part of the \$42 billion Nation Building and Jobs Plan, that it would provide an additional \$500 million (over two years) towards the program (Albanese 2009). The program will be divided into two funds. The first is a \$550 million fund for large-scale community infrastructure projects. Grants under this part of the program will be competitively based and only open to projects seeking a minimum Commonwealth contribution of \$2 million.

The second component of the program will provide \$250 million towards a one-off grant allocated to local councils and shires for community infrastructure projects. Allocations from the fund will range from \$100 000 for councils with fewer than 5000 people to \$2.9 million for the largest council. Local councils will also be required to submit proposals that meet the program's guidelines in order to claim their allocation.

Community infrastructure projects that may be eligible for funding under the entire program include:

- social and cultural infrastructure, such as town halls, community centres, libraries, parks, public squares;
- sport and recreation facilities, such as sporting grounds, stadiums, pools, walking tracks and playgrounds;
- tourism infrastructure, such as walkways and tourist information centres; and
- access facilities, such as footbridges, bus shelters, jetties and boat ramps.

Ongoing funding for the program will be determined as part of the May 2009 Budget (Rudd and Albanese 2008b).

4.5 Responses to developments in global financial markets

Associated with the global financial crisis, the Australian Government has introduced a number of large scale measures to support economic activity in Australia. Notwithstanding the broader stimulatory motivation for these packages, some of these measures will benefit particular businesses or activities relative to others. The level of assistance ultimately conferred would depend on the effect of the packages on business costs and prices. Elements of these packages that are not industry assistance-related include one-off cash payments to pensioners, carers, students and eligible families, totalling about \$20 billion.

Financial Claims Scheme

The Financial Claims Scheme was introduced in June 2008 in response to recommendations by the Council of Financial Regulators, the HIH Royal Commission, and the global Financial Stability Forum. The stated aim of the scheme is to assist depositors and policyholders in the event that a general insurer or an authorised deposit-taking institution (ADI), such as a bank, building society or credit union, in Australia, fails. The Australian Government will fund payments under the scheme with these costs to be recovered, to the extent possible, through the liquidation of the failed entity. Where the liquidation fails to fully recover the Government's costs, a levy may be applied to the relevant financial institutions (Swan 2008c)

In October 2008, the Australian Government announced that it would extend the scheme by providing a guarantee on all deposits of ADIs in Australia. The guarantee was introduced in response to developments in global financial markets. As part of the guarantee arrangements, the scheme automatically covers deposits of up to \$1 million, per depositor, per institution. Amounts beyond \$1 million are eligible to be covered by the ADI for a fee, under the Large Deposits and Wholesale Funding Guarantee (see below). The Government expects the deposit guarantee to operate for a period of three years (Rudd 2008a).

Residential Mortgage Backed Securities

In September 2008, in the context of highly unusual conditions in international capital markets and their impact on Australia's mortgage lending market, the Government directed the Australian Office of Financial Management (AOFM) to purchase residential mortgage backed securities with the intention of supporting competition in Australia's mortgage markets (Swan 2008d). Up to \$8 billion is

available for investment, with at least \$4 billion to be allocated to issuer/originators that are non-authorised deposit taking institutions. The Government expects that the RMBS purchased by the AOFM will be held until they are redeemed, or sold into secondary markets, when market conditions improve.

Guarantee for large deposits and wholesale term funding of ADIs

In October 2008, the Australian Government announced that it will guarantee deposits and wholesale funding of Australian banks, building societies and credit unions, Australian subsidiaries of foreign-owned banks, and domestic deposits of Australian residents with branches of foreign banks in Australia. All eligible deposits of up to \$1 million are guaranteed for free. The Government will also guarantee eligible deposits over \$1 million and wholesale funding for a fee. It is intended that this guarantee will enable the eligible institutions to more readily raise funds overseas and help restore confidence in credit markets in Australia. The Government intends to withdraw the wholesale funding guarantee once market conditions have normalised (Rudd 2008a).

Economic Security Strategy

In October 2008, the Australian Government announced a \$10.4 billion ‘Economic Security Strategy’. The Strategy is intended to provide support to the Australian economy and Australian households during the current economic downturn. The Strategy includes nearly \$9 billion in payments to individuals, but the remaining funding from the strategy may provide support for particular businesses or activities (Rudd and Swan 2008). These include:

- an increase in the first home buyers grant from \$7 000 to \$14 000 for established homes and \$21 000 for newly constructed homes — \$1.5 billion;
- 56 000 new training places in 2008-09 — \$187 million; and
- acceleration of the implementation of the Australian Government’s nation building funds (see section on Building Australia Fund) so as to bring forward project funding in 2009.

Assistance to car dealer financiers

In November 2008, the Australian Government announced that it would establish a ‘Special Purpose Vehicle’ (SPV), together with the support of Australia’s major banks, to provide liquidity to car dealer financiers. The SPV has been introduced in response to the decision by General Electric (GE) Money Motor Solutions and

General Motors Acceptance Corporation (GMAC) to exit the Australian dealer floor plan financing market as a result of dislocation in financial markets associated with the global financial crisis.

The SPV will be established as a financing trust and provide liquidity to car dealer financiers through the securitisation of eligible loans provided to car dealers. The overall size of the SPV is expected to be around \$850 million with the Government providing support to the SPV in the form of a guarantee to cover an unspecified proportion of the securities issued. Introduced on 2 January 2009, the SPV is expected to operate with government support for a period of around 12 months after which the government guarantees will be progressively withdrawn (Swan 2008e)

Nation Building package

In December 2008, the Australian Government announced a \$4.7 billion ‘Nation Building’ package. The package is intended to bolster economic activity in Australia and help create up to 32 000 jobs. The package includes funding for road, rail and education infrastructure, as well as tax reductions for businesses (Rudd 2008b). The infrastructure elements of the package include:

- new funding for the Australian Rail Track Corporation — \$1.2 billion;
- bringing forward future funding for road projects and the black spots program — \$711 million; and
- funding for university and TAFE infrastructure projects funded from the Education and Investment Fund (see section on Building Australia Fund) — \$1.6 billion.

The business tax reductions included in the package were:

- a temporary 10 per cent investment allowance (available until 30 June 2009) to encourage capital investment by Australian businesses — \$1.6 billion (Swan 2008f); and
- a 20 per cent cut in the next quarterly pay-as-you-go (PAYG) tax instalments for 1.3 million business entities with aggregated turnover of \$2 million per annum or less — \$440 million (Swan and Emerson 2008).

This temporary investment allowance was subsequently expanded and extended by the Small Business and General Business Tax Break (as part of the National Building and Jobs Plan, see below).

Australia Business Investment Partnership

In January 2009, the Australian Government announced that it would establish the Australian Business Investment Partnership (ABIP) as a temporary, contingency measure intended to provide liquidity support for viable commercial property assets where financiers have withdrawn from debt financing arrangements as a result of the global financial crisis. ABIP may also provide financing arrangements in other areas of commercial lending if circumstances necessitate and provided those arrangements are agreed unanimously by the members of ABIP (the Commonwealth of Australia and Australia's four major domestic banks).

A major Government objective in establishing the scheme is to support employment in the commercial property sector (Rudd 2009a).

ABIP will be initially financed at \$4 billion, with the Australian Government's contribution of \$2 billion matched by a \$0.5 billion contribution from each of the four major banks. This could be extended via the issuance of Government guaranteed debt of up to \$26 billion to create up to \$30 billion in financing.

ABIP will be established under the *Corporations Act 2001* as a public company limited by shares. It will operate in a commercial manner and will only provide funding for commercial property where the underlying assets, and the income streams from those assets, are financially viable. The types of commercial property assets that ABIP may consider providing financing to include, but are not limited to, retail shopping centres, commercial office buildings and industrial property.

In March 2009, the Australian Senate referred for inquiry the Bill for establishing the Australian Business Investment Partnership to the Senate Standing Committee on Economics. The Committee is to report by 7 May 2009 (APH 2009)

Nation Building and Jobs Plan

In February 2009, the Australian Government announced a \$42 billion Nation Building and Jobs Plan. The Government estimates that the plan will support up to 90 000 jobs in 2008-09 and 2009-10 and provide a boost to economic activity of around 0.5 per cent of Gross Domestic Product (GDP) in 2008-09 and to 1 per cent of GDP in 2009-10. The key measures funded by the plan include:

- rebates for installing ceiling insulation in 2.7 million Australian homes and increases in existing rebates for solar and heat pump hot water systems — \$3.9 billion;

-
- new buildings and/or upgrades to existing buildings in both government and non-government schools — \$14.7 billion;
 - 20 000 new social housing dwellings and around 800 new houses for the Australian Defence Force, including upgrades and maintenance for existing social houses — \$6.7 billion;
 - an additional \$2.7 billion temporary Small Business and General Business Tax Break that expands and extends the temporary investment allowance announced in December 2008 as part of the Nation Building package;³ and
 - additional funding for local community infrastructure and local road projects — \$890 million.

In addition, it includes \$12.7 billion one-off cash payments to eligible families, single workers, students and drought affected farmers, much of which are considered not to provide direct benefits to industry (Rudd 2009b).

4.6 Policy reviews

The Government initiated a number of reviews that potentially have implications for government assistance to industry. Some of these have concluded, while others are still in progress, with reports due to be delivered to the Government during 2009.

Quarantine and biosecurity

In February 2008, the Minister for Agriculture, Fisheries and Forestry announced an independent review of Australia's quarantine and biosecurity systems (the 'Beale' review) (Burke 2008a). A panel was appointed to undertake the review and to provide recommendations to the Government by late July 2008 (later extended by two months) (Burke 2008f). The review's terms of reference required the panel to make recommendations on the appropriateness, effectiveness and efficiency of: the

³ Small business entities need to invest a minimum of \$1000 to qualify for the Tax Break. All other businesses need to invest a minimum of \$10 000. The Tax Break is available for new tangible depreciating assets and new expenditure on existing assets. Where an eligible asset is acquired between 13 December 2008 and the end of June 2009, and is installed ready for use before the end of June 2010, it will qualify for a tax deduction of 30 per cent of the cost of the asset, in addition to the normal depreciation deduction for the asset. An eligible asset acquired between the start of July 2009 and the end of December 2009, and installed ready for use by the end of December 2010, will qualify for a tax deduction of 10 per cent of the asset's cost, in addition to the normal depreciation deduction for the asset. The estimated cost of the two business tax concessions announcements (as part of the Nation Building Package and Nation Building and Jobs Plan) is \$3.8 billion.

current arrangements to achieve Australia's 'Appropriate Level of Protection'; public communication, consultation and research and review processes; resourcing levels and systems and their alignment with risk in delivering requisite services; and governance and institutional arrangements to deliver biosecurity, quarantine and export certification services (including the functions of the Australian Quarantine and Inspection Service and Biosecurity Australia).

The panel's report, delivered to the Minister in September 2008, was released by the Government in December 2008 together with its preliminary response to the report's findings. The Government accepted in-principle all 84 recommendations from the report. Further consultation is being undertaken on how best to implement the findings and fund the reforms (Burke 2008t). The key recommendations included:

- share the responsibility between the Commonwealth, states, territories, industry and the broader community across the biosecurity continuum;
- share the costs of biosecurity, including commitment by all industries to share the costs of pest and disease response actions;
- create a new national authority to bring together the major functions of Biosecurity Australia, the Australian Quarantine and Inspection Service and parts of the Department of Agriculture, Fisheries and Forestry;
- establish a national biosecurity standards commission to assess the biosecurity risk of imports, with greater emphasis on risks to human health and the environment;
- develop new biosecurity legislation to replace the Quarantine Act 1908;
- appoint an Inspector-General of Biosecurity with broad powers to audit and investigate the (new) authority's work;
- improve the coordination of the Commonwealth, States, Territories and industry to better monitor biosecurity after goods and people enter the country;
- target strategies and resources based on the biosecurity risk and recognise businesses that maintain an excellent compliance record by reducing regulatory burden;
- establish a new council of experts to advise the government on biosecurity matters; and
- increase funding for biosecurity together with significant information technology upgrades and costs shared between businesses (through cost recovery) and taxpayers (through the Commonwealth budget).

Pharmaceuticals Partnerships Program

The Pharmaceuticals Partnerships Program (P³) was introduced in 2004, following a review by the Productivity Commission of the forerunner program (the Pharmaceutical Industry Investment Program). P³ provided for \$150 million over five years to induce 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 up to 50 cents in government support.

In May 2008, the Department of Innovation, Industry, Science and Research released an evaluation report by Deloitte Insight Economics on the appropriateness, effectiveness and efficiency of the PPP over its first three years (DIE 2008). The report recommended that:

- the program not be renewed in its current form when it is due to end in June 2009; and
- as a pre-condition to the development of any new sector-specific program to support R&D in the pharmaceuticals sector, compelling evidence should be presented to demonstrate why such a program should be developed in preference to a more broadly available program.

In late May 2008, the Australian Government also announced the establishment of the Pharmaceuticals Industry Strategy Group (PISG) to examine the drivers and barriers to attracting new manufacturing, R&D and investment in clinical trials in the pharmaceuticals sector in Australia. The PISGs report, delivered to the Minister for Innovation, Industry, Science and Research in December 2008, was released by the Government in January 2009 (Carr 2008f and Carr 2009). Recommendations specifically relating to the industry included:

- there be a co-investment scheme for strategic projects;
- the Australian Government implement the recommendations of the National Innovation System Review in relation to a Competitive Innovation Grants program and improve access to venture capital; and
- the regulatory and operating environment for clinical trials be streamlined to increase Australia’s attractiveness as a location for this activity.

More general recommendations included: that the Review of Australia’s Taxation System consider reducing Australia’s corporate tax rate to encourage more pharmaceuticals manufacturing; and the Government’s response to the Review of Australian Higher Education examine ways to reduce the skills gaps in the industry and to promote improved collaboration between industry and research sectors.

Australia's taxation system

In May 2008, the Australian Government announced a comprehensive review of Australia's tax and transfer system. A primary objective of the Government in conducting the review is to create a tax and transfer system that positions Australia to effectively deal with the demographic, social, economic and environmental challenges facing Australia. The review follows the 2020 Summit which proposed a comprehensive review of State and Federal taxes to consider measures to harmonise and simplify taxes, reduce inefficient taxes, ensure a progressive system and address negative interaction with the welfare system (Swan 2008b)

The review is required to make recommendations to enhance overall economic, social and environmental wellbeing, with a particular focus on ensuring there are appropriate incentives for:

- workforce participation and skill formation;
- individuals to save and provide for their future, including access to affordable housing;
- investment and the promotion of efficient resource allocation to enhance productivity and international competitiveness; and
- reducing tax system complexity and compliance costs.

With particular significance for the Commission's assistance estimates, the review is required to consider all relevant tax expenditures including those affording assistance to industry. Currently, tax expenditures comprise around 45 per cent of the budgetary assistance estimates compiled by the Commission (chapter 2).

The review panel is to deliver its final report to the Treasurer in December 2009.

Drought policy

In June 2008, the Productivity Commission was asked to undertake a public inquiry into the current government drought support arrangements in Australia. The Commission was asked to identify the most appropriate way for governments to assist farmers, farm businesses and farm dependent rural small businesses to improve their self-reliance and preparedness for drought events. Among other matters the Commission was requested to: report on the appropriateness, effectiveness and efficiency of the Commonwealth, State and Territory governments' business support and income support measures; identify impediments to improving self-reliance and preparedness for periods of financial difficulty and identify the most appropriate, effective and efficient responses by Commonwealth,

State and Territory governments, to build self-reliance and preparedness to manage drought.

The inquiry is part of a national review of drought policy that included:

- an expert panel's assessment of the social dimensions of the impacts of drought and the extent and range of current government and non-government social support services available to farm families and rural communities; and
- the Bureau of Meteorology and Commonwealth Scientific and Industrial Research Organisation's assessment of what a changing climate would mean for drought in Australia and the appropriateness of using the concept of exceptional climatic circumstances to trigger the availability of assistance measures.

The Commission's draft report was released on 30 October 2008. The Commission recommended that the Australian, State and Territory governments should enter into an agreement that: committed the Australian Government to providing specified forms of funding through the Australia's Farming Future initiative; and committed all governments not to re-introduce or maintain reactive business support for farmers and farm-dependent businesses.

Other findings and recommendations included:

- the Exceptional Circumstances (EC) declaration process is inequitable and unnecessary;
- EC interest rate subsidies and state-based transport subsidies are ineffective, can perversely encourage poor management practices, and should not be continued;
- EC household relief payments are limited to those in drought declared areas, and should be replaced with conditional, temporary income support that is available to all farm households in financial hardship;
- the National Drought Policy should be replaced with revised and extended objectives for the Australia's Farming Future program;
- the Farm Management Deposits Scheme has encouraged farmers to save and to be more self reliant, and should be retained; and
- significant public funding should be directed to research, development and extension and to a continuous learning program, to provide advice and training for managing climate variability.

The Commission's final report was delivered to the Australian Government on 27 February 2009.

Film tax offsets

Division 376 of the *Income Tax Assessment Act 1997* (ITAA) provides that companies may be entitled to one of three refundable tax offsets in relation to Australian expenditure incurred in making films. The offsets are designed to support and develop the Australian screen media industry by providing concessional tax treatment for Australian expenditure. The offsets are the producer offset, the location offset, and the post, digital and visual effects production offset. These offsets, together with other support for the film and television production sector were discussed in more detail in *Trade & Assistance Review 2006-07*.

Section 376-275 of the ITAA requires the Minister to:

‘... initiate a review of the effect of this Division in relation to levels of production by the Australian independent production sector compared to levels of production by the Australian television broadcaster’. (Treasury 2008b, p. 1)

The requirement to conduct a statutory review reflects concerns raised by the independent film production sector that the offset would result in a shift towards in-house production by the commercial television broadcasters at the expense of the independent production sector.

The Australian Government initiated this review in October 2008 and a review report was released in April 2009. The report found that it was too early to draw any significant conclusions as to the effect of the film tax offsets on Australian television production. Based on the evidence available, the report found that the introduction of the film tax offsets has not affected the balance of television production between in-house production companies and the independent production sector (Treasury 2009b).

Restrictions on parallel importation of books

In November 2008, the Australian Government announced that it had requested the Productivity Commission to examine the provisions of the *Copyright Act 1968* that restrict the parallel importation of books into Australia. This announcement follows an earlier COAG agreement that the Commonwealth would request the Commission to undertake a review of the restrictions (Bowen 2008).

Under the *Copyright Act 1968*, authors and publishers who create a book are automatically entitled to a number of ‘exclusive rights’ over their work. Copyright protection of a book makes it illegal for others to make copies of that book without the permission of the copyright holder. Other provisions in the Copyright Act — the parallel import restrictions — allow Australian copyright holders to prevent the

importation for sale of copies of their works that have been legally produced and purchased overseas.

The terms of reference for the review require the Commission to examine and provide recommendations in a number of areas in relation to the parallel importation restrictions including: the extent to which the provisions promote and achieve the objectives of the Copyright Act; whether the provisions amount to a restriction on competition; if so, the costs, benefits and effects of the restriction; whether the benefits to the community from the present provisions outweigh any costs from restricting competition; and any identified options for reform, including non-legislative approaches, and any transitional arrangements.

In March 2009, the Productivity Commission released its discussion draft into Restrictions on the Parallel Importation of Books (PC 2009b).

Anti-dumping and countervailing measures

In March 2009, the Australian Government announced that it had requested the Productivity Commission to undertake an inquiry into Australia's anti-dumping and countervailing system. This announcement followed an earlier COAG agreement that the Commonwealth would request the Commission to undertake a review of Australia's anti-dumping system (Bowen 2009).

The terms of reference for the inquiry require the Commission to assess the policy rationale for, and objectives of, Australia's anti-dumping and countervailing system, and to assess the effectiveness of the current system in achieving those objectives. The Commission's study will also involve an examination of the economy-wide costs and benefits of Australia's anti-dumping and countervailing system including its impact on Australian industry, consumers and the broader community. The Commission is also required to make recommendations on the appropriate future role of an anti-dumping and countervailing system within the Government's overall policy framework.

The Commission will issue a draft report in September and a final report to the Government in December 2009.

Information on the number and nature of recent anti-dumping and countervailing cases in Australia is presented in appendix B.

4.7 Summing up

Since November 2007, the Australian Government has announced substantial new spending with potential implications for industry assistance. Most proposed outlays are planned to occur within the next five years, although some will extend further, such as budgetary assistance to the MVP industry.

Of these identified outlays, around \$20 billion is generally associated with traditional forms of Australian Government assistance to industry reported each year in the *Trade & Assistance Review* such as specific support to primary and manufacturing industries, research and development and innovation. Around \$5 billion (of the \$20 billion) is associated with ongoing programs, with the remainder being new expenditures.

A further \$15 billion of proposed new outlays is to support the provision of infrastructure and regional development, including through the Building Australia Fund and Regional and Local Community Infrastructure program. In addition, the Government has made a commitment to support the development of an Australian broadband network. These various commitments will have a range of impacts on industry, some of which would confer assistance either to recipients or user industries. The level of assistance and its incidence, however, is often difficult to determine and would depend on factors such as: the level of government contributions and the risks transferred to the private sector; user charges relative to the costs of service provision; and the public good nature of the infrastructure.

The remaining \$60 billion relates to measures announced in response to the global financial crisis — the Economic Security Strategy, Nation Building package, and Nation Building and Jobs plan. Some elements of these packages would not be considered industry assistance, such as the one-off cash payments to individuals and eligible families totalling about \$20 billion.

Further to the above industry-related proposals, the Australian Government has announced other measures which may benefit industry including the guarantee of bank deposits and wholesale term funding of ADIs, the purchase of residential mortgage backed securities, and assistance to car dealer financiers.