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# 1 Introduction

Assistance is defined in the *Productivity Commission Act 1998* in very broad terms as:

... any government act that, directly or indirectly, assists a person to carry on a business or activity, or confers a pecuniary benefit on, or results in a pecuniary benefit accruing to, a person in respect of carrying on a business or activity.

Assistance to industry takes many forms. It includes tariffs, quotas, anti-dumping duties and regulatory restrictions on imported goods and services, as well as tax concessions and subsidies for domestic producers. Local producers may also benefit from services provided by government agencies which are underpriced.

Assistance generally provides benefits to the firms and industries that receive it, but comes at a cost to other sections of the community or economy. For example, direct business subsidies increase returns to recipient firms and industries, but come at a cost to the public purse. To meet this cost, governments must increase taxes and charges, cut back on other spending, or borrow additional funds. This adversely affects other parts of the economy. On the other hand, in some cases certain forms of industry support — most notably R&D funding — can deliver net community benefits.

The Commission has a statutory obligation to report annually on industry assistance, and this year's *Trade & Assistance Review* contains several elements:

- estimates of effective assistance to industries in the agriculture, manufacturing and mining sectors (chapter 2);
- estimates of trade restrictions in the services sector (chapter 3);
- budgetary assistance estimates for all sectors (chapter 4);
- data on anti-dumping and countervailing activity (section 2.6); and
- information on other developments in assistance arrangements for specific firms, industries and activities (sections 2.3, 2.4 and 4.3).

The estimates and related information help to reveal which groups in the community gain and which groups lose from industry assistance. They provide a broad indication of the resource allocation effects of selective government industry policies, and can highlight the community costs of inappropriate industry support.

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However, caution is required in interpreting the estimates. Among other things, the estimates apply predominantly to Commonwealth assistance schemes, and cover only those measures which selectively benefit particular firms, industries or activities and which can be quantified given practical constraints in measurement and data availability. There are also some methodological and coverage differences between the different sets of estimates, as well as some areas of overlap. Further, while industry assistance can distort resource allocation within the economy, assessing whether the benefits of any particular industry support program exceed its costs involves case-by-case consideration — a task beyond the scope of the *Trade & Assistance Review*.

This year's *Review*, as well as reporting on industry assistance, reports on two key developments in international trade policy over the last year (chapter 5). First, it describes and discusses the outcomes of the Fourth Ministerial Conference of the World Trade Organization (WTO), held recently in the Qatari capital, Doha. The conference launched a new round of multilateral trade negotiations. While this provides only a mandate for detailed negotiations rather than an actual agreement for trade liberalisation, a number of aspects of the conference declaration proffer some benefits for Australia. The second matter is Australia's involvement in regional trading arrangements. Australia has shown renewed interest in entering such arrangements over the last year. The Commission documents these developments and outlines some considerations relevant for determining the merits of entering regional trading agreements.