
Introduction

The *Productivity Commission Act 1998* defines government assistance to industry as:

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

Although assistance generally benefits the firms or industries that receive it, it comes at a cost to other sectors of the economy. For example, direct business subsidies increase returns to recipient firms and industries, but to fund subsidies governments must increase taxes and charges, cut back on other spending, or borrow additional funds. Similarly, while tariffs provide some price relief to domestic producers, they result in higher costs to local businesses (for their inputs) and higher prices for consumers, who then have less money to spend on other goods and services. On the other, in some cases particular types of industry assistance — most notably R&D funding — can deliver net community benefits.

Quantifying industry assistance enables governments to make better informed policy decisions, potentially allowing them to improve the allocation of a community's scarce resources and, thus, improve community welfare.

The Commission calculates estimates of government assistance to industry in a range of contexts. To meet its statutory obligation to report annually on industry assistance, it publishes 'national' estimates of assistance each year in *Trade & Assistance Review*. These estimates cover Commonwealth budgetary and tariff assistance, together with assistance derived from nationally-significant agricultural marketing or pricing arrangements. On occasion, the Commission publishes estimates of State Government budgetary assistance to industry. The Commission also develops more detailed and tailored estimates for particular inquiries or studies — such as its recent review of automotive assistance (PC 2002a) and its study of the effects of industrial activity in the Great Barrier Reef catchment on water quality in the reef (PC 2002b).

This annex discusses the Commission's assistance measurement system with particular focus on its approach for its national estimates, as published each year in *Trade & Assistance Review*.