
2 Manufacturing, agriculture and mining

Historically, industries in the manufacturing and agricultural sectors have received high levels of assistance. Manufacturing assistance has been provided mainly through tariffs on imported goods, while agricultural industries have been assisted through domestic marketing arrangements. Industries in both sectors have also enjoyed budgetary assistance. Assistance to both sectors has declined over the past decade, although some of the industries remain highly assisted.

Tariffs and budgetary assistance do not have a major effect on the mining sector. Other government measures, including native title, environmental regulation and royalties, are far more significant for the sector.

In this chapter, the Commission:

- summarises output and trade data for manufacturing, agriculture and mining;
- outlines the Commission's assistance measurement methodology;
- provides estimates of assistance to the three sectors, analyses trends in assistance to manufacturing and agriculture, and discusses existing and foreshadowed assistance arrangements applying to them; and
- updates data on anti-dumping and countervailing activity in these sectors.

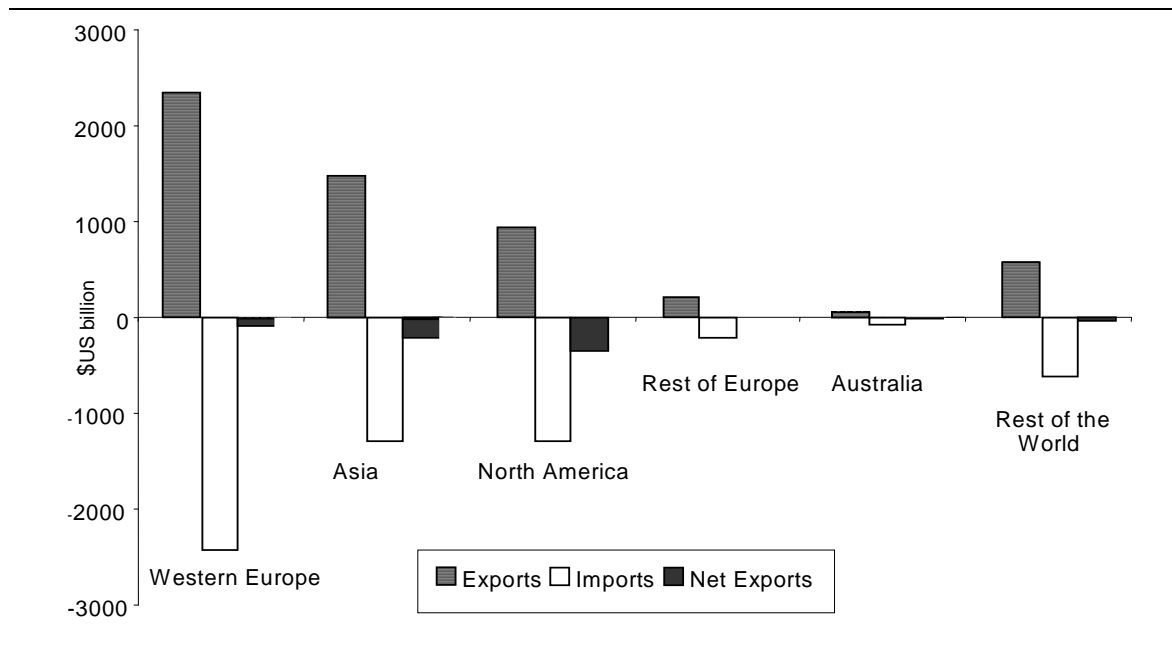
2.1 Trade and production: a snapshot

World agricultural exports totalled US\$544 billion or 8 per cent of total global exports in 1999, while world manufacturing exports totalled US\$4186 billion or 63 per cent of global exports. In that year, world mining exports increased by 12 per cent in value terms in 1999 to US\$556 billion, or approximately 8 per cent of world exports (WTO 2000a).

Asia, North America and Western Europe accounted for over 83 per cent of merchandise exports — which includes manufacturing, agriculture and mining¹. Northern America and Western Europe are the largest net importers of merchandise (figure 2.1). Australia accounts for less than 1 per cent of merchandise trade (WTO 2000a).

Figure 2.1 World exports and imports of merchandise for selected regions, 1999^{ab}

US\$ billion



^a North America includes Canada and the United States. Western Europe includes Croatia, European Union Member States, Iceland, Malta, Norway, Slovenia, Switzerland, Turkey and the former Yugoslavia. The Rest of Europe includes Central and Eastern Europe, the Baltic States and the Commonwealth of Independent States. The Rest of the World includes Africa, Latin America and the Middle East. Asia excludes Australia.

^b Data for some economies are not available.

Data source: WTO (2000a).

Manufacturing accounts for around 13 per cent of Australia's gross domestic product and employment (table 2.1), and around one fifth of Australia's exports (ABARE 1999). Some of the largest manufacturing sectors are machinery and equipment (which includes the passenger motor vehicle industry), the food sector, metal products, and petroleum, coal and chemical products.

¹ The Commission has sometimes used WTO merchandise trade figures in this section due to the lack of reliable disaggregated data on manufacturing, agriculture and mining for the selected regions. Under WTO classifications, 'agriculture' includes food and raw materials.

The agriculture, forestry and fishing sector accounts for less than 4 per cent of Australia's gross domestic product, 5 per cent of employment (see table 2.1), and around one fifth of Australia's exports (ABARE 1999).

Mining accounts for around 5 per cent of Australia's total gross domestic product, 1 per cent of total employment (see table 2.1), and around 35 per cent of Australia's exports (ABARE 1999). Coal, gold, iron ore, alumina, aluminium, copper and nickel are the largest mining industries.

Table 2.1 Manufacturing, agriculture and mining sectors' shares of total gross product and employment, 1999-2000^a

Sector	Gross product ^b		Employment ^c	
	Value	Share of total	Persons employed	Share of total
	\$m	%	'000	%
<i>Agriculture, forestry and fishing</i>				
Agriculture	17669	93.0	383	87.4
Forestry and fishing	1 335	7.0	24	5.6
Total (incl. services)	19 005	100	438	100
Total agriculture as a percentage of total gross product and total employment		3.3		4.9
<i>Manufacturing</i>				
Food, beverages and tobacco	14 823	19.6	179	16.1
Textiles, clothing and footwear	2 831	3.7	86	7.7
Wood and paper products	5 597	7.4	69	6.2
Printing, publishing and recorded media	7 478	9.9	115	10.3
Petroleum, coal and chemicals	10 209	13.5	111	10.0
Non-metallic mineral products	2 849	3.8	50	4.5
Metal products	13 095	17.3	182	16.3
Machinery and equipment	16 264	21.5	234	21.0
Other manufacturing	2 413	3.2	89	8.0
Total	75 560	100	1113	100
Total manufacturing as a percentage of total gross product and total employment		13.1		12.5
<i>Mining</i>				
Mining	25 341	96.8	62.2	79.5
Services to mining	843	3.2	16.1	20.6
Total	26 183	100	78.2	100
Total mining as a percentage of total gross product and total employment		4.6		0.9

^a Figures may not add to totals due to rounding. ^b Gross product data are the industry gross value added at basic prices using 1998-99 chain volume measures. Total output is the total gross value added. ^c Employment is the average number of persons employed during 1998-99.

Sources: ABS (2000a) and ABS (2000b).

2.2 Scope of the Commission's assistance estimates

The Commission has adopted several measures to help quantify and compare the diverse assistance arrangements which affect businesses in the manufacturing, agriculture and mining sectors. These are defined in box 2.1. In brief, the key measures are:

- the *nominal rates of assistance*, which is a measure of assistance to an industry's or activity's outputs, or on its inputs;
- the *effective rate of assistance* and the *net subsidy equivalent*, which are measures of the net assistance to the land, labour and capital resources used in a particular industry or activity; and
- the *standard deviation in nominal rates* and the *standard deviation in effective rates*, which are indicators of the dispersion of output assistance and net assistance, respectively, among the industries within a sector.

These measures help to explain how the overall assistance structure affects the allocation of resources between different industries or activities within the economy, as well as how different types of assistance affect the incentives to produce and, to a lesser extent, to consume, certain commodities.

Notwithstanding the usefulness of these measures, caution is required when using the Commission's assistance estimates to draw inferences about the allocation of resources between different industries or activities. The key qualifications are that:

- the measurement methodology uses a 'static' framework, so the estimates do not take account of the 'dynamic' responses of producers and consumers to the incentives created by the provision of assistance;
- nominal rates of assistance, unlike effective rates, do not take into account the *net* impacts of assistance on various inputs and outputs;
- the net subsidy equivalent simply measures the transfers of income to producers from consumers, taxpayers and intermediate suppliers — it does not indicate the 'economic welfare' costs to the community of assistance;
- differences in calculation of the agricultural, manufacturing and mining estimates, particularly effective rates, mean that caution is required when making intersectoral comparisons; and
- the Commission's estimates do not take into account all forms of assistance.

These issues, and the Commission's assistance measures and methodology, are explained in more detail in appendix A of *Trade & Assistance Review 1998-99* (PC 1999).

Box 2.1 Definitions of assistance measures

The **nominal rate of assistance on outputs** is the percentage change in gross returns per unit of output relative to the (hypothetical) situation of no assistance. The nominal rate measures the extent to which consumers pay higher prices and taxpayers pay subsidies to support local output.

The **standard deviation in the nominal rate of assistance on outputs** measures the dispersion of the nominal rates of output assistance for the different industries in a sector around the sectoral average nominal rate. It is an indicator of the potential for distortions in production and consumption patterns within the sector resulting from the output assistance provided to the sector.

The **gross subsidy equivalent** is an estimate of the change in producers' gross returns from assistance. It is the notional amount of money, or subsidy, necessary to provide an activity with a level of assistance equivalent to the nominal rate of assistance on its output.

The **consumer tax equivalent** is the transfer from final consumers due to the price-raising effects of assistance. It is the sum of the gross subsidy equivalent of assistance, which measures the higher prices paid for domestically produced goods, and the effect of border assistance on the price of imports purchased by final consumers.

The **nominal rate of assistance on materials** (intermediate inputs) is the percentage change in the prices paid for materials used in the production process, due to government intervention.

The **tax equivalent on materials** is an estimate of the net change to user industries' input costs due to government assistance altering the prices paid for intermediate inputs. It is the notional amount of money user industries pay for intermediate inputs to provide the producers of those inputs with a level of assistance equivalent to the nominal rate of assistance on materials.

The **effective rate of assistance** is the percentage change in returns per unit of output to an activity's value-adding factors due to the assistance structure. The effective rate measures net assistance, by taking into account the costs and benefits of government intervention on inputs, direct assistance to value-adding factors and output assistance.

The **standard deviation in the effective rate** measures the dispersion of the effective rates of assistance for the different industries in a sector around the sectoral average effective rate. It is an indicator of the potential for distortions in resource allocation within the sector resulting from the overall assistance structure.

The **net subsidy equivalent** is an estimate of the change in returns to an activity's value added due to assistance. It is the notional amount of money, or subsidy, necessary to provide a level of assistance equivalent to the effective rate of assistance. It is equal to the gross subsidy equivalent plus any assistance to inputs or value-adding factors, less the tax equivalent on materials used in the production process.

2.3 Assistance to manufacturing

The manufacturing sector receives assistance from a wide range of government programs. Tariff assistance — which includes the impact of tariffs on import prices, as well as the effects of duty exemptions and concessions — is the most significant form of assistance received by the sector, accounting for around three quarters (or \$4.8 billion) of *measured* effective assistance for manufacturing in 1998-99. Budgetary assistance accounts for the remaining quarter, or \$1.5 billion, of *measured* effective assistance received by the manufacturing sector. Budgetary assistance includes budgetary outlays, such as production bounties, certain export incentives and input subsidies, as well as ‘tax expenditures’ such as income tax concessions.

Recent Trade & Assistance Reviews have contained estimates and projections of manufacturing tariff assistance made in 1996-97, under the ASIC industry classification structure.

In this year’s Review, the Commission has drawn on work undertaken for its recent *Review of Australia’s General Tariff Arrangements* (PC 2000b) to:

- convert its estimates of tariff assistance to manufacturing activities to the current ANZSIC classification structure²;
- report ANZSIC-based estimates of tariff assistance for selected years starting with 1968-69 — the year the Commission began reporting effective rates of assistance to the manufacturing sector;
- analyse the impact of changing industry production shares and assistance levels on effective rates of assistance to the manufacturing sector since 1968-69; and
- provide new projections of tariff assistance to 2005-06.

Nominal and effective rates of assistance to manufacturing, derived from tariffs, are presented in tables 2.3, 2.4 and 2.5, and the key estimates and related developments in tariff assistance are discussed below. The methodology used to rebase the Commission’s assistance estimates from the ASIC to ANZSIC classification system and to calculate new assistance estimates is discussed in appendix A. Budgetary assistance to manufacturing is reported in chapter 4. Combined budgetary and tariff assistance to manufacturing industries is reported in table 2.2.

² The Australian and New Zealand Standard Industrial Classification (ANZSIC) replaced the Australian Standard Industrial Classification (ASIC) system in 1993 (see appendix A).

Trends in tariff assistance to the manufacturing sector

Tariffs, by raising the price of imports, provide assistance to local producers of items subject to tariffs and impose a tax on the inputs of those producers using imported items and locally made import substitutes. To measure tariff assistance to the manufacturing sector, the Commission has traditionally used the nominal rate of assistance, on inputs and outputs, together with the effective rate of assistance.

Movements in tariff assistance since 1968-69

From 1968-69 to 1998-99, the effective rate of assistance for the manufacturing sector fell significantly, from 34.9 per cent to 5.2 per cent. While effective rates fell steadily over the period for the manufacturing sector as a whole, this was not so for the TCF and PMV industries. For these industries, effective rates of assistance increased between 1968-69 and 1983-84, and decreased between 1983-84 and 1998-99 (figure 2.2).

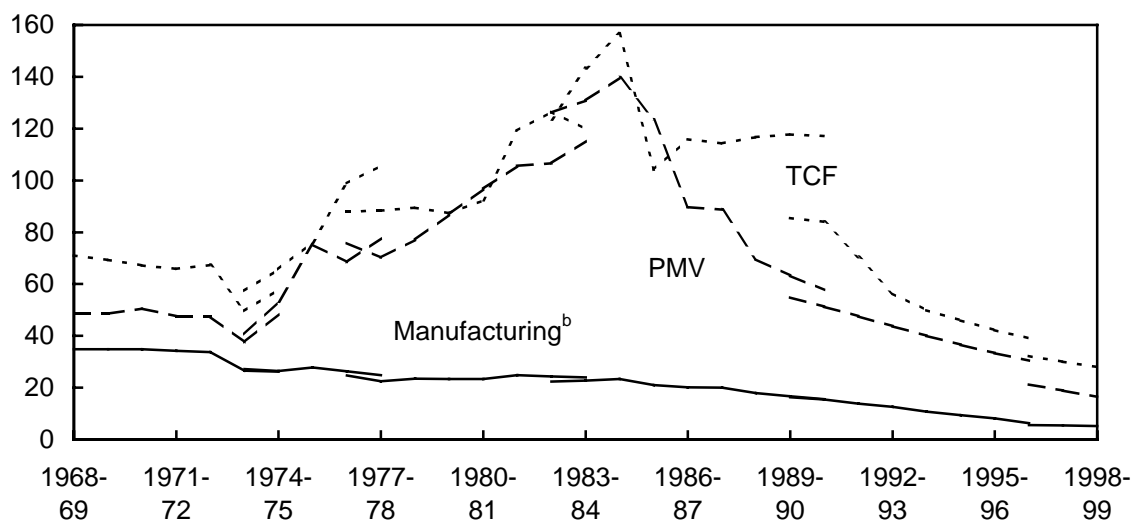
Because measured effective rates of assistance for a sector are weighted averages of the industries comprising the sector, these changes in effective rates of assistance for the manufacturing sector can be divided into two components:

- an ‘assistance’ component, caused by changes in assistance levels; and
- an ‘industry composition’ component, brought about by changing shares of production of those industries comprising a sector (see box 2.2)

Between 1968-69 and 1983-84, the effective rate of assistance for the manufacturing sector as a whole fell by around 12 percentage points, from 34.9 per cent to 22.7 per cent.

Of this decrease, around 10 percentage points, or 85 per cent, is explained by the industry composition effect. This is mainly because the shares of manufacturing production held by the highly assisted TCF and PMV industries fell significantly over the period, while the shares of manufacturing production for the more lowly assisted industries increased.

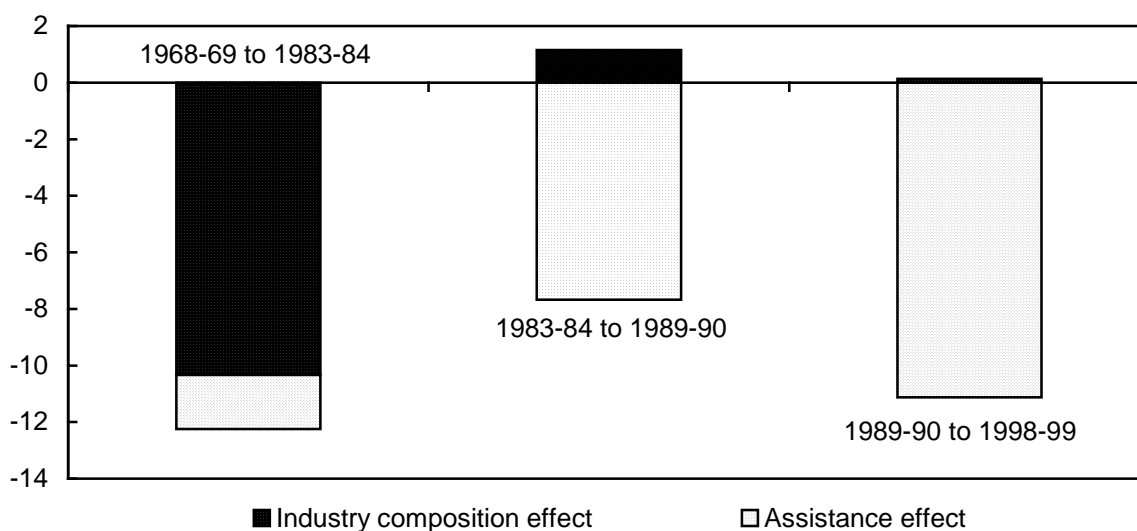
Figure 2.2 Average effective rates of assistance to manufacturing^a, TCF and PMV, 1968-69 to 1998-99
per cent



^a Breaks in the series reflect the effects of periodic revisions to industry inputs and outputs. These changes occur gradually over time, due to factors such as changing technology and relative prices of inputs and outputs. ^b Includes TCF and PMV.

Data source: PC estimates.

Figure 2.3 Contribution of 'assistance' and 'industry composition' effects to changes in effective rates of assistance in manufacturing, 1968-69 to 1998-99
percentage points



Data source: PC estimates.

Box 2.2 Assistance and compositional changes in effective rates: definitions and examples

Any change in effective rates for the manufacturing sector can be divided into an assistance effect and an industry composition effect.

The *assistance* (or shift) effect measures the contribution that changes in levels of assistance, to those industries that comprise a sector, make to a change in assistance at the sector level.

- For example, assuming production shares remain unchanged, a decrease in effective rates of assistance for any of the industries that make-up a sector will involve a reduction in effective rates for that sector.

The *industry composition* (or share) effect measures the contribution that changing production shares, of those industries that comprise a sector, make to a change in assistance at the sector level.

- As an example, assume that the effective rates of assistance for those industries that make-up a sector remain unchanged between two periods, and that the share of production of the more lowly assisted industries increases. In this example, the effective rate of assistance for the sector would fall even though the effective rates for each of the industries that make-up the sector have not changed. This occurs because, in the second period, the more lowly assisted industries carry a greater weight in determining the effective rate of assistance for the sector. In this case, the change in assistance between the two periods is totally explained by the composition or share effect.

The remaining 2 percentage point fall in the effective rate is accounted for by net reductions in assistance levels. The fall in effective rates, accounted for by net reductions in assistance levels, was relatively small despite there being a 25 per cent across the board tariff cut in 1973. This is mainly because increases in assistance levels for TCF and PMV industries, after 1973, marginally off-set³ the reduction in assistance levels for other industries between 1968-69 and 1983-84 (figure 2.3).

In contrast, for the period 1983-84 to 1998-99, changes in assistance levels were the more significant determinant of changes in effective rates of assistance. Between 1983-84 and 1989-90, the ‘assistance effect’ accounted for around 85 per cent of the fall in manufacturing effective rates, and for over 95 per cent of the decline in effective rates between 1989-90 and 1998-99. In other words, since 1983-84, changing production shares have become much less important.

³ Between 1968-69 and 1983-84, the percentage point contribution of TCF and PMV industries to changes in effective rates, accounted for by changes in assistance levels, was 12 percentage points. The remaining manufacturing industries contributed -14 percentage points, giving a total fall in effective rates, accounted for by reductions in assistance levels, of 2 percentage points.

Movements in tariff assistance in the last decade

From the late 1980s to mid-1990s, the proportion of tariff items with general rates greater than 5 per cent fell significantly (figure 2.4). This fall can be attributed to the effects of a series of tariff policy changes over this period. In 1988, the then Government announced a four-year program of phased reductions in tariffs from 1988 to 1992, and in 1991, a further tariff reduction program, to take effect from 1992 to 1996, was announced. A more detailed discussion of tariff reform in Australia since the early 1970s is presented in the Commission's draft report into the *Review of Australia's General Tariff Arrangements* (PC 2000b).

The remaining tariff items with general rates greater than 5 per cent are largely associated with just two industries, TCF and PMV.

The fall in tariff rates over the period is also reflected in declining effective rates of assistance for the manufacturing sector (figure 2.5). Between 1989-90 and 1996-97, the effective rate of assistance to manufacturing decreased from 16.3 per cent to 5.6 per cent. Higher tariff rates on TCF and PMV imports are reflected in higher effective rates of assistance for these sectors, although assistance levels also declined significantly over the period. Between 1989-90 and 1996-97, the effective rates of assistance for the TCF and PMV industries decreased from 85.5 per cent and 54.9 per cent to 32.2 per cent and 21.3 per cent, respectively.

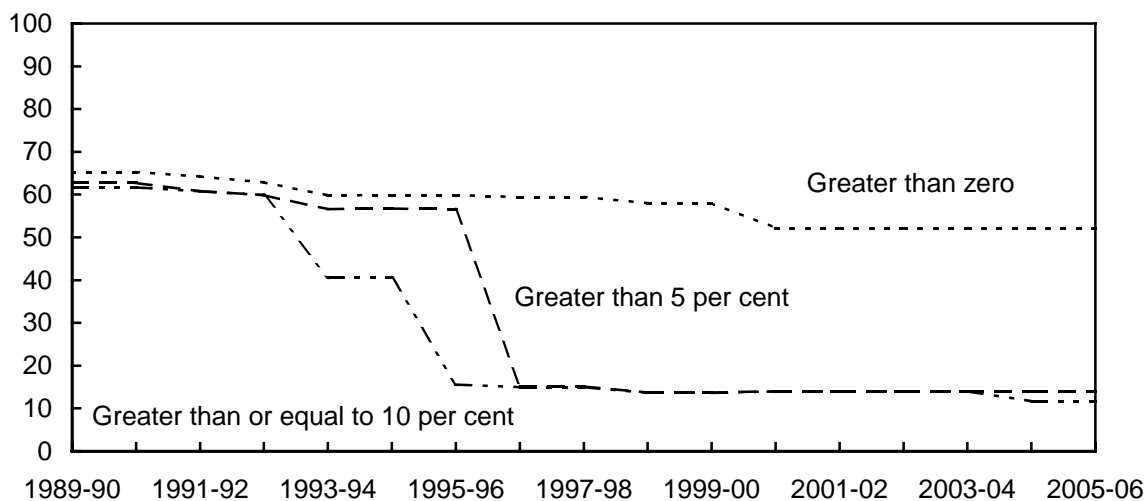
The dispersion of assistance across the manufacturing sector, as measured by the standard deviation of effective rates, has also fallen over this period. The standard deviation in effective rates fell from 20.4 per cent in 1989-90 to 7.8 per cent in 1996-97.

Future movements in tariff assistance

Assistance to manufacturing is expected to fall between 1998-99 and 2005-06. In 1998-99, the nominal and effective rates of assistance to manufacturing were around 3.3 per cent and 5.2 per cent, respectively. In line with *announced*⁴ tariff changes, the nominal and effective rates of assistance are expected to stay at about these levels until 2005-06, when they are expected to fall to 2.8 per cent and

⁴ The projections of effective rates of assistance to 2005-2006, and of the dispersion in those rates, presented in this section have been calculated taking into account those changes in tariff assistance that have already been announced. The Government is yet to announce its decision regarding options for tariffs of 5 per cent or less (other than for TCF and PMV industries) post-2000, following the Commission's *Review of Australia's General Tariff Arrangements* (PC 2000b).

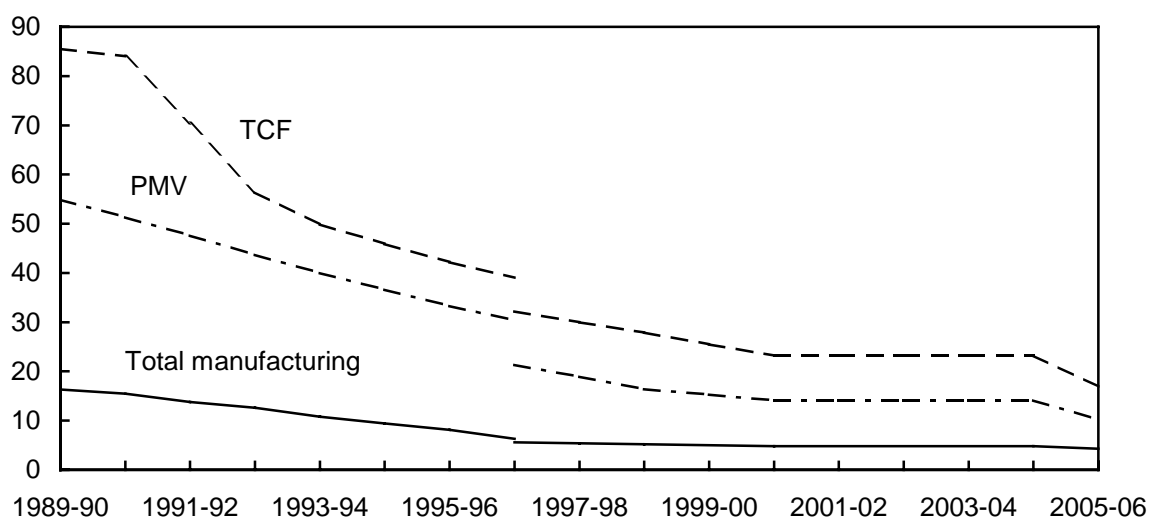
Figure 2.4 Proportion of tariff line items^a for selected general rates^b, 1989-90 to 2005-06^{cd} per cent



^a A tariff line item is defined as an 8-digit import item as outlined in the Australian Customs Tariff Schedule. ^b The general rate is defined as the rate of duty applicable to individual tariff line items. ^c Rates for the years 1989-90 to 1995-96 and 1998-99 are averages for the year. From 1996-97 to 2003-04 and 2005-06, excluding 1998-99, the rates are for 1 July, while for 2004-05 the rates are for 1 January 2005. The rates at 1 July 2000 are assumed to also apply for the periods 2001-02 to 2003-04. The distribution takes no account of the current review of general tariffs. ^d Tariff rates exclude the excise component of general rates on excisable goods.

Data source: PC estimates based on the Australian Customs Tariff.

Figure 2.5 Average effective rates of assistance to manufacturing^a, TCF and PMV, 1990-91 to 2005-06 per cent



^a Breaks in the series reflect the effects of periodic revisions to industry inputs and outputs. These changes occur gradually over time, due to factors such as changing technology and relative input and output prices.

Data source: PC estimates.

4.3 per cent, respectively. These changes primarily reflect the impact of phased tariff reductions to 2000 and further reductions scheduled to occur in 2005 under the TCF and PMV plans (discussed separately below). Other industries to be affected by phasing arrangements are the *Petroleum, coal and chemical products*, *Fabricated metal products* and *Other machinery and equipment* industries.

Declining TCF and PMV tariffs relative to the manufacturing average tariff rate (refer to figure 2.5 above) are expected to result in a decline in the dispersion of assistance across the manufacturing sector in 2005-06. Based on announced changes, the standard deviation of effective rates is projected to fall by 2.3 percentage points - from 6.6 per cent in 1998-99 to 4.3 per cent in 2005-06.

The estimated net subsidy equivalent of tariff assistance to manufacturing was around \$4.8 billion in 1998-99. Following announced tariff changes, the net subsidy equivalent of tariff assistance is projected to fall to \$3.9 billion in 2005-06 (in 1998-99 prices). The TCF and PMV industries accounted for around 45 per cent of the estimated net subsidy equivalent to the manufacturing sector in 1998-99. This share is projected to fall to around 30 per cent by 2005-06.

Combined tariff and budgetary assistance to manufacturing

As noted earlier, as well as tariff assistance, manufacturing industries also receive assistance in the form of budgetary outlays and tax concessions. Budgetary assistance is reported in detail in chapter 4. Total budgetary assistance to the manufacturing sector accounted for \$1.5 billion in 1998-99.

For this year's Review, as well as reporting budgetary assistance at the sectoral level, the Commission has estimated the incidence of budgetary assistance using an ANZSIC-based industry classification system. The methodology used is set out in appendix B. The system includes 11 industry groupings within the manufacturing sector, and enables the comparison, and aggregation, of tariff and budgetary assistance estimates for industries in that sector.

Table 2.2 sets out this information for 1998-99, the latest year for which estimates of both tariff and budgetary assistance are available. The estimates are provided in net subsidy equivalent form — that is, the dollar value of the assistance received. Hence, they do not relate the assistance received to industry size. In these absolute terms, however, the TCF and PMV industries remain the most highly assisted. Other industry groupings receiving high levels of assistance in absolute terms include petroleum, coal, chemicals & plastics (which includes pharmaceutical producers), food, beverages & tobacco, and metal products.

Table 2.2 **Tariff and budgetary assistance net subsidy equivalents^a,
by manufacturing industry subdivision, 1998-99**
\$ million

<i>Industry Grouping</i>	<i>Tariffs</i>	<i>Budgetary</i>	<i>Total^b</i>
Food, beverages and tobacco	870.1	68.9	938.9
Textiles, clothing, footwear and leather (TCF)	1048.8	181.2	1115.2
Wood and paper products	288.5	11.0	297.7
Printing, publishing and recorded media	83.8	6.2	90.0
Petroleum, coal, chemical and assoc. products	534.2	267.4	799.9
Non-metallic mineral products	130.5	27.1	156.8
Metal products	606.2	150.4	752.1
Motor vehicles and parts (PMV)	887.2	349.7	949.0
Other transport equipment	-18.6	35.7	17.1
Other machinery and equipment	232.8	249.5	452.4
Other manufacturing	128.1	31.7	150.9
Unallocated manufacturing ^c	0.0	159.0	63.9
Total	4791.6	1537.9	5783.8

^a The net subsidy equivalent is the dollar value of the net assistance to the land, labour and capital resources used in a particular industry or activity. ^b The total net subsidy equivalent has been adjusted to take account of programs included in both tariff and budgetary assistance. These programs include tariff concessions or tax expenditures such as the PMV export facilitation scheme, the TCF import credits scheme, duty drawback and TEXCO. ^c Unallocated includes general programs where details of claimants and/or beneficiaries is unknown.

Source: PC estimates.

Developments in sectoral or industry-specific assistance

Assistance to the TCF industry

Assistance to the TCF industry is expected to decline between 1998-99 and 2005-06. Tariff phasing arrangements for the TCF industry commenced in 1989, as announced in the then Government's 1987 TCF Industry Plan. Tariff reductions were accelerated in the Government's 1991 *Building a Competitive Australia* statement, so that by 1 July 2000 the maximum TCF tariff had been reduced to 25 per cent. In 1997, the Government confirmed the previously announced schedule for TCF tariff phasing and announced further reductions to take effect on 1 January 2005.

All TCF tariffs (apart from those already at rates of 5 per cent or less) were reduced to rates of 25 per cent, 15 per cent or 10 per cent on 1 July 2000. TCF tariffs are to remain at these levels until 1 January 2005, when tariffs on apparel and certain finished textiles, footwear and fabrics are scheduled to decline immediately to 17.5, 10 and 7.5 per cent, respectively.

A new package of assistance measures for the TCF industry is being applied from 2000 to 2005. These measures, which replace some other arrangements, were outlined in the *Trade & Assistance Review 1997-98* (PC 1998). Recent developments related to these arrangements are reported in section 4.3. While the new arrangements may have implications for the distribution of assistance within TCF and the rates of assistance for individual TCF activities, assistance at the broad industry grouping level is unlikely to change significantly between 2000 and 2005.

The effective rate of assistance for the textiles industry is projected to fall from 27.9 per cent in 1998-99 to 23.2 per cent in 2000-01. The effective rate is then expected to stay at about this level until 2005-06, when it should fall to around 16.9 per cent, still more than three times the manufacturing average.

Assistance to the PMV industry

Tariff phasing arrangements for the PMV industry were announced in the Government's 1991 *Building a Competitive Australia* statement, with tariffs to be phased gradually from 35 per cent in 1992 to 15 per cent on 1 January 2000. The Government announced in 1997 that the tariff will remain at 15 per cent until 1 January 2005, when it is scheduled to fall to 10 per cent.

In January 2001, the current Export Facilitation Scheme for PMV is to be replaced by the Automotive Competitiveness and Investment Scheme (ACIS) which will operate for five years. The ACIS is not expected to have a significant impact on measured assistance to the PMV industry, relative to current assistance arrangements.

As a result of the program of phased tariff reductions, the effective rate of assistance to the PMV industry is estimated to fall from 16.4 per cent in 1998-99 to 14.1 per cent in 2000-01. It is then expected to stay at about this level until 2005-06 when it is projected to fall to 10.2 per cent. At that point, however, effective assistance to PMV is expected to remain equivalent to more than double the manufacturing average.

Table 2.3 **Nominal rates of assistance on materials,^a manufacturing subdivisions, selected benchmark years^b**
per cent

<i>ANZSIC^c Industry grouping</i>		1968-	1974-	1977-	1983-	1989-	1996-	2000-
<i>Code</i>	<i>Description</i>	69	75	78	84	90	97	01
21	Food, beverages and tobacco	10.4	2.5	2.7	8.8	5.2	0.8	0.8
22	Textiles, clothing, footwear and leather	17.4	14.2	16.9	11.2	11.9	4.7	3.6
23	Wood and paper products	11.4	7.2	7.6	8.0	5.8	2.5	2.2
24	Printing, publishing and recorded media	4.7	5.2	6.1	7.9	4.6	2.1	2.1
25	Petroleum, coal, chemical and associated products	13.2	7.0	5.6	3.7	3.8	1.2	1.2
26	Non-metallic mineral products	7.5	2.3	3.6	3.0	1.8	0.8	0.8
271-3	Basic metal products	3.7	2.3	4.2	4.4	1.9	1.0	1.0
274-6	Fabricated metal products	20.0	13.6	12.3	10.8	7.7	3.1	3.1
281	Motor vehicles and parts	28.0	19.0	27.0	29.0	15.2	3.1	2.8
282	Other vehicles	15.0	11.0	15.0	13.0	10.0	3.6	3.6
283-6	Other machinery and equipment	26.6	16.8	13.7	12.9	10.3	2.5	2.2
29	Other manufacturing	19.9	12.4	10.6	12.7	8.8	3.2	3.1
21-29	TOTAL MANUFACTURING	14.4	8.1	8.4	8.6	6.3	1.9	1.7

^a Assistance provided by tariffs and certain non-tariff measures. ^b Excluding 1996-97 and 2000-01, benchmark years represent the years in which industry outputs and inputs were revised. Details of industry outputs and inputs are revised periodically to take account of compositional changes that occur over time. Factors that influence compositional changes include changes in technology and relative prices. ^c Industry subdivision and group from the Australian and New Zealand Standard Industrial Classification (ANZSIC) 1993 edition.

Source: PC estimates.

Table 2.4 **Nominal rates of assistance on outputs,^a manufacturing subdivisions, selected benchmark years^b**
per cent

<i>ANZSIC^c Industry grouping</i>								
<i>Code</i>	<i>Description</i>	1968- 69	1974- 75	1977- 78	1983- 84	1989- 90	1996- 97	2000- 01
21	Food, beverages and tobacco	11.7	8.9	5.5	7.9	5.0	2.2	2.2
22	Textiles, clothing, footwear and leather	38.5	31.8	41.9	46.7	37.6	14.7	10.7
23	Wood and paper products	24.4	13.7	13.0	14.1	9.5	3.9	3.7
24	Printing, publishing and recorded media	20.4	14.6	15.8	10.9	5.8	1.3	1.3
25	Petroleum, coal, chemical and associated products	18.6	12.4	10.6	6.5	6.4	2.3	2.3
26	Non-metallic mineral products	11.1	5.9	4.0	3.1	3.0	1.8	1.8
271-3	Basic metal products	13.9	7.7	6.2	5.6	4.0	1.9	1.9
274-6	Fabricated metal products	38.1	25.3	19.9	17.4	13.3	3.8	3.7
281	Motor vehicles and parts	35.0	29.0	38.0	51.0	28.0	9.5	6.8
282	Other vehicles	30.0	15.0	12.0	14.0	10.0	1.0	1.0
283-6	Other machinery and equipment	33.6	20.5	16.2	17.4	14.9	2.6	2.1
29	Other manufacturing	35.3	24.0	21.0	18.6	16.3	3.9	3.8
21-29	TOTAL MANUFACTURING	22.9	15.6	14.1	13.6	10.5	3.5	3.1

^a Assistance provided by tariffs and certain non-tariff measures. ^b Excluding 1996-97 and 2000-01, benchmark years represent the years in which industry outputs and inputs were revised. Details of industry outputs and inputs are revised periodically to take account of compositional changes that occur over time. Factors that influence compositional changes include changes in technology and relative prices. ^c Industry subdivision and group from the Australian and New Zealand Standard Industrial Classification (ANZSIC) 1993 edition.

Source: PC estimates.

Table 2.5 **Effective rates of assistance,^a manufacturing subdivisions, selected benchmark years^b**
per cent

<i>ANZSIC^c Industry grouping</i>		1968-	1974-	1977-	1983-	1989-	1996-	2000-
<i>Code</i>	<i>Description</i>	69	75	78	84	90	97	01
21	Food, beverages and tobacco	14.0	21.5	10.4	6.0	4.5	4.4	4.6
22	Textiles, clothing, footwear and leather	71.0	65.7	88.4	143.3	85.5	32.2	23.2
23	Wood and paper products	39.5	21.1	19.1	21.8	13.9	5.5	5.6
24	Printing, publishing and recorded media	35.5	21.8	23.3	12.8	6.5	0.9	0.9
25	Petroleum, coal, chemical and associated products	26.6	20.8	20.7	15.7	11.0	3.9	3.9
26	Non-metallic mineral products	13.5	8.7	4.2	3.3	4.1	2.7	2.7
271-3	Basic metal products	28.1	17.2	10.1	8.5	7.5	3.0	3.0
274-6	Fabricated metal products	58.7	38.1	28.4	25.4	20.0	4.6	4.6
281	Motor vehicles and parts	48.6	53.3	70.2	130.8	54.9	21.3	14.1
282	Other vehicles	39.1	16.5	10.8	14.6	10.0	-0.7	-0.6
283-6	Other machinery and equipment	41.9	24.6	18.7	22.4	19.8	2.7	2.1
29	Other manufacturing	54.4	38.1	32.3	25.4	24.7	4.8	4.7
21-29	TOTAL MANUFACTURING	34.9	26.4	22.5	22.7	16.3	5.6	4.8

^a Assistance provided by tariffs and certain non-tariff measures. ^b Excluding 1996-97 and 2000-01, benchmark years represent the years in which industry outputs and inputs were revised. Details of industry outputs and inputs are revised periodically to take account of compositional changes that occur over time. Factors that influence compositional changes include changes in technology and relative prices. ^c Industry subdivision and group from the Australian and New Zealand Standard Industrial Classification (ANZSIC) 1993 edition.

Source: PC estimates.

2.4 Assistance to agriculture

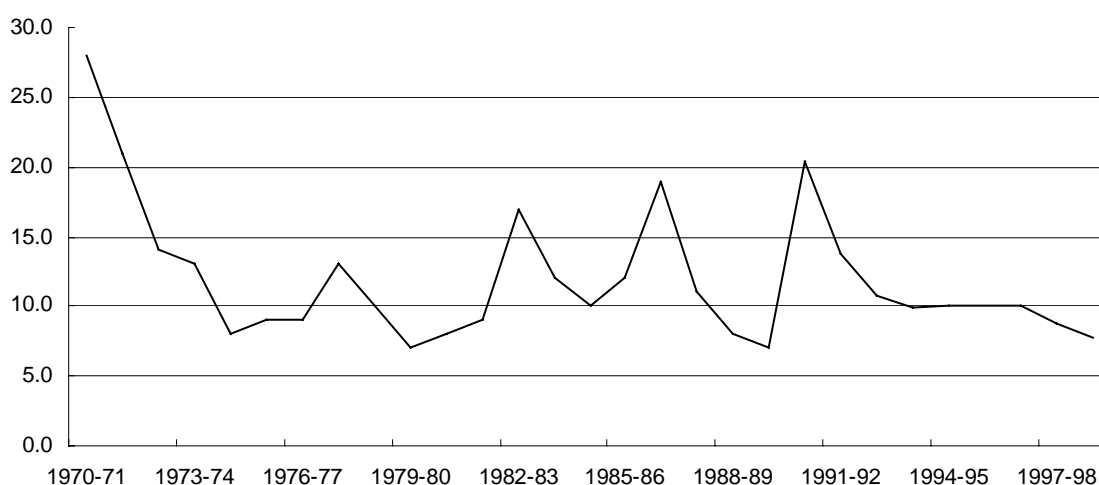
The agriculture sector receives assistance from a wide range of government programs. Statutory marketing and regulatory arrangements form the major component of assistance to agriculture, with budgetary assistance (including R&D, adjustment assistance and tax concessions) and tariffs on outputs being less important. Economic assistance also exists as a by-product of quarantine restrictions for many agricultural products. The assistance associated with the above measures is partly offset by tariffs and other taxes on the inputs used in agriculture.

In this year's Trade and Assistance Review, the Commission has updated the estimates of assistance to agriculture to 1998-99. It also presents revised estimates for 1997-98, along with previously published estimates for earlier years. Nominal and effective rates of assistance for agriculture are reported in tables 2.6 and 2.7, and illustrated in figures 2.6, 2.7 and 2.8. The net subsidy equivalent (NSE) is presented in tables 2.8 and 2.9. The tables appear at the end of this section. The key estimates from these tables, together with related developments, are described and discussed below.

Trends in agricultural assistance

Average effective rates of assistance to agriculture since 1971-72 are presented in figure 2.6.

Figure 2.6 **Average effective rates of assistance for agriculture, 1971-72 to 1998-99**
per cent



Data source: PC estimates.

Assistance afforded by various arrangements for the sector has declined over the past decade, although it has not fallen consistently across commodities. Assistance to agriculture has typically been more variable than assistance to manufacturing, with changes in estimated assistance reflecting more than just changes in assistance policies. They also reflect fluctuations in world commodity prices, the value of output, and the counter-cyclical nature of many agricultural assistance programs. During most of the 1990s, however, assistance to agriculture was relatively stable.

Assistance in 1998-99

Assistance levels

Overall, assistance to agriculture was lower in 1998-99 than in 1997-98

- The average *nominal* rate of assistance to agriculture fell from 2.8 per cent to 2.5 per cent. Only a few agricultural industries had nominal rates of more than one per cent. These were manufacturing milk, market milk, rice, wheat, dried vine fruit, wine grapes and tobacco. Nominal rates rose slightly for manufacturing milk, while rates fell by more than a percentage point in the market milk, tobacco and dried vine fruit industries. (figure 2.7)
- The average *effective* rate of assistance for agriculture fell from 8.6 per cent to 7.7 per cent in 1998-99. All industries had effective rates above one per cent except for poultry, bananas, vegetables, apples and pears and cotton. There were slight rises in effective rates for citrus, manufacturing milk, rice, vegetables and sugar. Effective rates fell by more than a percentage point in the market milk (although its effective rate remained above 200 per cent), tobacco, cotton, dried vine fruit, deciduous canning fruit and wool industries. (figure 2.8)
- The *NSE* for agriculture fell by 10 per cent (\$83 million) to \$744 million. The fall in NSE reflects falls in output assistance (\$54 million) and falls in assistance to value adding factors (\$30 million). Input assistance was virtually unchanged (see table 2.9). Among the different agricultural activities, milk production enjoyed the largest NSE of \$470 million in 1998-99, down from \$514 million in the previous year. Other activities with high NSEs include wheat (\$80 million), beef (\$41 million), wine grapes (\$36 million) and wool (\$35 million) — table 2.8.

The variation in assistance across agricultural commodities declined slightly in 1998-99. The standard deviation of the effective rate fell from 50 percentage points to 32 percentage points and the standard deviation of the nominal rate fell from 10.3 percentage points to 8.6 percentage points.

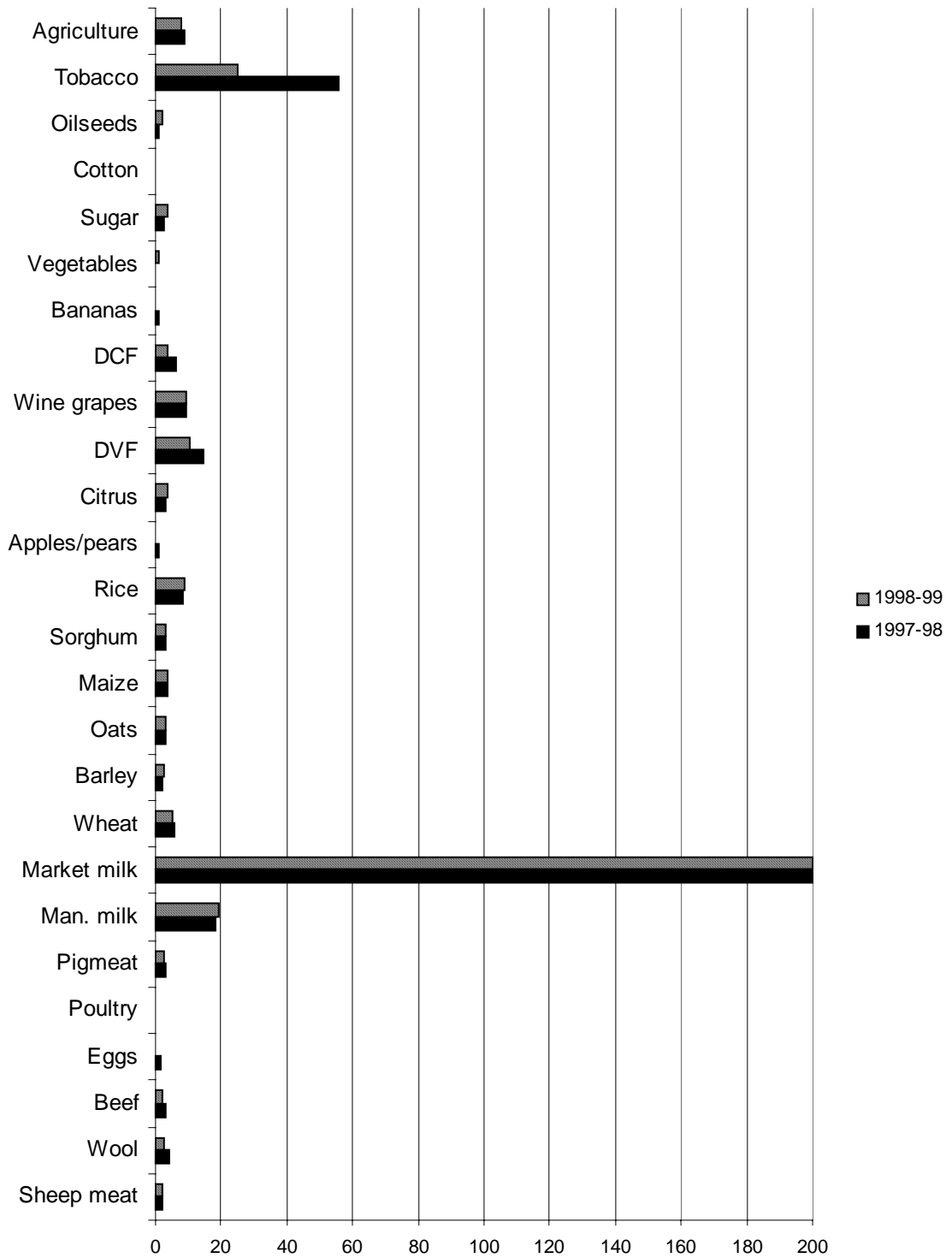
Figure 2.7 Nominal rates of assistance to agricultural commodities, 1997-98 and 1998-99
per cent



a DCF: Deciduous Canning Fruits. b DVF: Dried Vine Fruits. c Man. Milk: Manufacturing milk.

Data source: PC estimates.

Figure 2.8 **Effective rates of assistance to agricultural commodities, 1997-98 and 1998-99**
per cent



a DCF: Deciduous Canning Fruits. b DVF: Dried Vine Fruits. c Man. milk: Manufacturing milk.

Data source: PC estimates.

Forms of assistance

Statutory marketing and regulatory arrangements were the most significant form of assistance in 1998-99. These arrangements accounted for 62 per cent of the total agricultural NSE. Arrangements for market milk accounted for most of this (69 per cent), while the remainder of the NSE was largely for manufacturing milk.

Research assistance accounted for 22 per cent of the NSE, with support for wheat, beef, dairy, wool, sugar, dairy, barley, vegetables and sheep meat accounting for 77 per cent of this total.

Revenue forgone from tax concessions was also a significant source of assistance, accounting for 11 per cent of the NSE. Concessions for wheat, beef, dairy, wool, sugar, barley, and wine grapes accounting for 51 per cent of this total.

Adjustment assistance represented 7 per cent of the NSE, the major beneficiaries being beef, wool, wheat, dairy and sheep meat producers who received 84 per cent of the total.

Other forms of assistance include natural disaster relief, specific industry programs, export incentives, tariffs and government loan guarantees.

Selected developments in assistance to agriculture

Assistance to agriculture has fallen over the last decade, in part due to an unwinding of statutory marketing arrangements applying in many agricultural industries. In several cases, these arrangements have been, or are being, reviewed and reformed under the National Competition Policy (NCP) legislation review processes. Recent changes in assistance arrangements for selected agricultural industries are discussed below.

Dairy

The dairy sector includes the market milk and manufacturing milk industries. Market milk is produced for direct human consumption, while manufacturing milk is used to make a variety of processed food products. In 1998-99, market milk output was valued at \$953 million, while manufacturing milk output was valued at \$1947 million.

Prior to the recent deregulation of the dairy industry, market milk received assistance largely from State marketing arrangements (98 per cent of NSE in 1998-99). Marketing authorities in each State set farm gate prices and production

quotas, as well as regulating other aspects of the industry. The bulk of assistance for manufacturing milk came from the Commonwealth's Domestic Market Support Scheme (DMSS). The scheme assisted manufacturing milk with subsidies financed through levies collected on market milk and manufacturing milk products sold domestically.

The effective rate of assistance for dairy fell from 62 per cent in 1997-98 to 54 per cent in 1998-99. The rate for manufacturing milk rose slightly, from 18 to 19 per cent, but the rate for market milk fell significantly, although remaining above 200 per cent.

The assistance provided to the dairy industry dominates the estimates for the agriculture sector. If the dairy industry were excluded, the 1998-99 effective rate of assistance for agriculture would fall from 7.7 to 3 per cent.

In July 1999, the Victorian Government announced its intention to deregulate all legislative price and supply controls over Victorian milk from 1 July 2000. The announcement followed a NCP review of the Victorian dairy industry which found that reform would deliver a net public benefit.

As the largest Australian milk producing State, the Victorian decision, coupled with the production cost advantage which Victorian producers enjoy, put pressure on other States to deregulate their dairy industries.

After initially phasing down subsidy rates, the Commonwealth removed its DMSS assistance program for manufacturing milk on 1 July 2000. As a part of the deregulation process, the Commonwealth announced in September 1999 that it would provide a Dairy Industry Adjustment Package (DIAP). Under the package, producers in a particular State could receive assistance only if the State's government deregulated its market milk industry — which all of the States have now done.

The DIAP, totalling \$1.78 billion, is funded by a Commonwealth levy of 11 cents per litre on retail sales of all liquid milk. The levy commenced on 8 July 2000 and is expected to operate for eight years.

There are three sub-programs under the DIAP:

- The largest is the Dairy Structural Adjustment Program (DSAP) which provides \$1.63 billion. Up to 20 000 farmers may apply for assistance under the DSAP, which will provide payments to eligible farmers over an eight year period, to compensate them for reductions in their incomes, and to allow farmers to manage the transition to production in a deregulated environment (AFFA 2000a). There is potential for large payments — for example, the Department of

Agriculture, Fisheries and Forestry has indicated that payments in excess of \$350 000 will be allowed under certain conditions.

- A second part of the package is the \$30 million Dairy Exit Program (DEP). Farmers who believe that they would not be viable after deregulation can decide to leave the agriculture industry and accept DEP payments instead of DSAP payments. DEP payments can be up to \$45 000 tax free per exiting farmer. The program runs until June 2002 (AFFA 2000a).
- A third element is a \$45 million Dairy Regional Assistance Program. The program will operate over three years to subsidise the development of businesses in order to provide employment in dairy communities (AFFA 2000a).

Dairy farmers in New South Wales, Queensland and Western Australia are also able to claim capital losses for taxation purposes on milk quotas they held at the time of deregulation. These losses can be off-set against present or future capital gains, and are not affected by any moneys provided to dairy farmers under the Commonwealth's DSAP or DEP schemes (Truss 2000b).

The activities of the Australian Dairy Corporation are scheduled to be reviewed by January 2001 by the Commonwealth Government under the National Competition Policy processes. The Government has also asked ABARE to conduct an investigation into the impact of deregulation.

Sugar

Prior to the 1997 reform of the Queensland sugar industry, assistance was provided by a tariff and through Queensland's statutory marketing arrangements.

The 1995-96 Sugar Industry Review, conducted as a part of the National Competition Policy processes, recommended partial deregulation of the sugar sector. The Queensland Government implemented the review's recommendations, removing the tariff in July 1997 and reforming the Queensland Sugar Corporation's (QSC) pricing arrangements. The Government also announced a ten-year moratorium on further reviews of the sugar industry.

Domestic pricing issues

The National Competition Council (NCC) expressed reservations about aspects of the review panel's approach to the reform of the industry:

It is not clear to the [NCC] that all of the review panel's conclusions are sustainable. In particular, questions arise in relation to the review's conclusion that 'the benefits of full domestic deregulation can be achieved by mandating the provision of export parity

priced raw sugar to the domestic market while, at the same time, avoiding the adverse impact of domestic deregulation on the competitiveness of export arrangements'. Further, the [NCC] has questions about the basis of the estimated 'Far East premium', and the expectation that it will persist over time (NCC 1997, pp. 74-75).

In response to the NCC's concerns, the Queensland Government undertook to reconsider marketing arrangements for sugar within ten years should changes in market conditions suggest that the current arrangements were no longer in the community interest. The NCC considered that this criterion would be satisfied if, among other things, there were evidence that the export parity pricing provisions were not producing the same benefits as would full domestic deregulation (NCC 1997, p. 75).

The NCC is concerned that this may now be the case:

... it is not clear that consumers are receiving the full net benefit which domestic market reform would bring. Further, recent developments in world sugar market conditions have introduced greater competitive pressures, which are forcing down Australian export premia. This raises doubts as to whether the single desk marketing arrangements for sugar continues to be in the public interest. (NCC 1999, p. 56).

Adjustment assistance

To offset reductions in assistance, the Commonwealth Government introduced the Sugar Industry (Research) Assistance Package in July 1998. The program provided \$14 million over four years for R&D aimed at increasing sugar content levels in sugar cane.

In September 2000, the Commonwealth Government introduced a separate package — the Sugar Industry (Cane Growers) Assistance Package. The package was a response to adverse climatic and farming conditions in the industry over the preceding season which reduced production and lessened the financial ability of growers to plant and harvest crop for the next season (AFFA 2000b). The package includes:

- interest subsidies on loans of up to \$50 000 for planting cane crops for this and the next season;
- interest subsidies on new or existing loans of up to \$100 000 associated with the business of producing cane;
- family relief payments from September to assist cane farmers and their families;
- vouchers of up to \$1000 per farmer for access to financial counselling services, where these services are not already provided; and

-
- FarmBis programs to target the cane industry, offering assistance with farm skills and business management training.

The total cost of the package will be approximately \$83 million⁵ (Truss 2000a).

The Queensland Government (Beattie 2000) has provided additional assistance to the industry. It has allocated \$10 million for concessional loans for the replanting and establishment of sugar cane crops. Three-year loans are available up to \$10 000 with an initial interest rate of 6 per cent.

Wheat

An NCP review has been established to examine the *Wheat Marketing Act 1989*. Among other things, the Act gives AWB International Limited a ‘single desk’ monopoly over export sales of wheat. The Committee conducting the review is required to assess whether the current legislation provides a net benefit to the Australian community compared with open competition in wheat marketing. It must also determine preferred options for regulation, if any.

In a submission to the review, the Commission (PC 2000c) argued that the single desk is unlikely to generate net benefits for Australia or, indeed, for wheat producers themselves, because:

- a lack of marketing choice for wheat growers is likely to be impairing efficiency and innovation within the industry; and
- most if not all of any potential benefits of the AWB’s single desk could be achieved under competitive selling arrangements combined with, if necessary, targeted mechanisms that could promote industry-wide activities and exploitation of export premiums in identified markets.

The Commission considered that a desirable outcome of the review would be to limit compulsory arrangements to those markets or activities where benefits of compulsion demonstrably outweigh the costs, and to allow competition in all other markets and activities.

In its draft report, the Committee concluded that it ‘was not convinced ... that the community would suffer a net loss of social benefit in the long term if the current legislation were removed and a fully competitive situation permitted’ (WMARC 2000, p. 17). Nonetheless, it recommended continuation of the single desk at least

⁵ This figure assumes that 50 per cent of sugar cane farmers will utilise the welfare assistance program, 40 per cent take up the interest rate relief for replanting and 30 per cent take up additional interest rate relief.

until a scheduled review by the Wheat Export Authority (WEA) in 2004. However, the Committee also considered that, for a trial period, the marketing monopoly should be narrowed by:

- further deregulating the export of all wheat in containers and bags;
- deregulating the export of durum wheat in bulk; and
- replacing the permit system currently administered by the WEA with an export control system under which the exporter is licensed annually.

The Committee also invited comments on a proposal to allow competitive selling to all export markets except those where the buyer acted as a monopsonist and/or Australia held some market advantage which a single desk could exploit.

The Committee's final report is due to be forwarded to the Minister for Agriculture by the end of December 2000.

Lamb

In July 1999, the United States imposed a tariff-rate quota on imports of fresh, chilled or frozen lamb, indicating that it was taking the action under the World Trade Organisation (WTO) Agreement on Safeguards.

In response, the Government put in place a mechanism to allocate the US quota to lamb producers — 16 339 tonnes are allocated to producers based upon their US exports in 1997-98 and 1998-99. Another 800 tonnes are reserved for exporters who have recently received accreditation to export to the US and for existing producers who are particularly disadvantaged by the allocation formula due to exceptional circumstances. The Government is also exploring whether Australia's share of the quota can be increased by gaining access to unassigned or unused allocations (AFFA 2000c).

In July 1999, the Government also announced an assistance package to assist lamb producers. The total amount provided for in the package is \$18 million. The first component of the package will provide relief of 50 per cent of the levy payment used to fund marketing, R&D, and animal health and residue testing programs. A Lamb Industry Development Program (LIDP) has also been established to assist producers, processors and exporters of lamb. Six million has been provided for the LIDP program over two years. Grants of up to \$500 000 can be obtained by individual producers, processors and exporters in order to enhance performance, improve quality, develop infrastructure and encourage productivity and innovation (AFFA 2000d).

Further, in October 1999, the Government lodged a complaint with the WTO, contending that the United States' measure is inconsistent with various articles of the WTO Safeguard Agreement.

The WTO final report, delivered in December 2000, found that the US should lift restrictions on imported Australian and New Zealand lamb (Allard 2000). The US has 60 days to lodge an appeal, following the ratification of this decision in January 2001.

Beef

In February 1999, the United States lodged a complaint with the WTO, alleging that Korea was using regulation to protect its fresh, chilled and frozen beef industry. Australia, Canada and New Zealand later joined the United States in the dispute.

The complaint alleged that Korea was applying several discriminatory measures to beef imports, including a requirement that imported beef be sold separately from Korean beef, discrimination against grass fed beef, minimum wholesale pricing, restrictions on who can buy and sell imported beef, discriminatory labelling and record-keeping requirements, and subsidies to Korea's beef producers in excess of Korea's agreed WTO subsidy limits. (Korea also maintains a quota on imported beef that will be removed by January 2001, although this was not a part of the dispute) (Vaile 2000c).

The WTO panel report of July 2000 upheld the complaint and recommended that Korea largely cease or modify these practices so as to conform to its WTO commitments (WTO 2000d). However Korea appealed these findings.

In December 2000, the WTO's appellate body submitted a subsequent report. Korea's appeal was unsuccessful regarding its dual retailing system (ie confining the sale of beef to specialised stores and limiting the display of imported beef in supermarkets) but successful regarding its domestic support arrangements (WTO 2000e).

The removal restrictions in place in the Korean market would enhance opportunities for Australian beef exports to Korea, which were valued at \$150 million in 1998-99 (Vaile 2000c).

Table 2.6 **Nominal and effective rates of assistance by agricultural activity, 1994-95 to 1998-99**
per cent

Activity/commodity	Nominal rate of assistance ^a					Effective rate of assistance ^b				
	94-95	95-96	96-97	97-98	98-99	94-95	95-96	96-97	97-98	98-99
<i>Horticulture</i>										
Apples and pears	..	..	..	..	..	..	..	1	1	..
Dried vine fruits ^c	5	5	6	6	4	14	11	18	15	11
Wine grapes	9	7	4	4	4	19	15	10	9	9
Citrus	1	1	1	..	1	4	4	3	3	4
Deciduous canning fruits	..	..	..	..	..	1	2	7	6	3
Bananas	..	..	..	..	..	..	1	1	1	1
Tobacco ^d	50	40	30	20	10	>200	160	98	56	25
Vegetables	..	..	..	..	..	..	1	..	..	1
Average	2	2	1	1	1	5	6	4	4	4
<i>Extensive cropping</i>										
Wheat	2	1	1	1	1	6	4	5	6	5
Barley	..	..	..	..	..	2	1	2	2	2
Oats	..	..	..	..	..	1	1	1	3	3
Maize	..	..	..	..	..	..	1	2	4	3
Sorghum	..	..	..	..	..	1	1	2	3	3
Oilseeds	..	..	..	..	..	5	4	2	1	2
Average	1	1	1	1	1	4	3	4	4	4
<i>Extensive irrigation and high-rainfall crops</i>										
Sugar ^e	4	4	4	..	..	11	15	15	3	3
Cotton	..	..	..	..	..	2	3	..	..	..
Rice ^f	2	2	3	2	3	8	8	10	8	9
Average	2	2	2	..	..	7	10	8	2	2
<i>Extensive grazing</i>										
Beef	..	..	..	..	..	4	5	5	3	2
Wool	1	2	1	1	..	6	9	6	4	3
Sheepmeat	..	..	..	..	..	3	3	3	2	2
Average	..	1	..	..	..	4	6	5	3	2
<i>Intensive livestock</i>										
Pigs	..	..	..	..	..	5	5	4	3	3
Poultry	..	..	..	..	..	9	11	3	..	..
Eggs ^g	4	2	..	..	..	11	8	4	2	1
Milk production	24	19	22	21	18	77	56	70	62	54
Manufacturing milk	9	8	8	7	7	25	21	23	18	19
Fresh milk ^h	58	53	67	64	52	>200	>200	>200	>200	>200
Average	13	11	13	11	10	51	42	47	41	36
<i>Total agriculture</i>										
Average	3	3	3	3	3	10	10	10	9	8
Standard deviationⁱ	(10)	(9)	(11)	(10)	(9)	(41)	(33)	(55)	(50)	(32)

Table 2.6 continued

.. between -0.5 and 0.5 per cent. ^a Average nominal rates on outputs are weighted by the unassisted value of output of each activity. ^b Average effective rates are weighted by the unassisted value added of each activity. ^c The estimates of assistance to sultanas are based on a comparison of the lower of either domestic or constructed import parity returns with the export returns. ^d Based on transfers derived by applying the price differential between Australian green leaf and comparable imported green leaf to the domestic sales of Australian leaf. Following the removal of the local leaf content scheme in January 1995, the methodology used for calculating producer transfers was revised for the 1994-95 and 1996-97 estimates. ^e Producer transfers were estimated in accordance with the industry formula used for dividing raw sugar returns between millers and growers. ^f Estimated by comparing domestic and export prices for medium and long-grain rice. ^g Estimates are derived using a weighted average of retail prices for eggs in the deregulated States to determine a benchmark retail price. This benchmark price is compared with the average retail prices in the regulated States in order to make an estimate of assistance provided to retailers. Finally, this retail-level assistance is estimated on a pro-rata basis from the value of retail prices to provide an estimate of assistance at the farm gate-level. ^h The producer transfer was estimated by multiplying the difference between the fresh milk price and the local manufacturing milk price plus an allowance of 20 per cent of the average Australian manufacturing milk price to represent the cost of assurance of out-of-season supply. ⁱ The standard deviation measures the extent of variation (or dispersion) in a distribution. The larger the variability among individual activities' nominal and effective rates, the larger the standard deviation.

Source: PC estimates.

Table 2.7 **Average nominal and effective rates of assistance, by 3-digit ANZSIC^a, 1994-95 to 1998-99**
per cent

Activity/commodity description	Nominal rate of assistance on output ^b					Effective rate of assistance ^c				
	94-95	95-96	96-97	97-98	98-99	94-95	95-96	96-97	97-98	98-99
Code										
011 Horticulture and Fruit Growing	2	2	1	1	1	4	5	3	3	4
012 Grain, Sheep and Grain Beef Cattle Farming	1	1	1	1	..	5	5	5	4	3
013 Dairy Cattle Farming	24	19	22	21	18	77	56	70	62	54
014 Poultry Farming	1	..	..	..	..	10	10	3	1	1
015 Other Livestock Farming	..	..	..	..	..	5	5	4	3	3
016 Other Crop Growing	3	3	2	..	..	9	12	9	2	2
01 Agriculture	3	3	3	3	3	10	10	10	9	8

.. Between 0 and 0.5 per cent. ^a Industry subdivision and group from the Australian and New Zealand Standard Industrial Classification (ANZSIC). ^b Average nominal rates on outputs are weighted by the unassisted value of output of each activity. ^c Average effective rates are weighted by the unassisted value added of each activity.

Source: PC estimates.

Table 2.8 **Net subsidy equivalents^a by agricultural activity, 1994-95 to 1998-99**

\$ million

<i>Activity/commodity</i>	94-95	95-96	96-97	97-98	98-99
<i>Horticulture</i>					
Apples and pears	-2	..	1	1	..
Dried vine fruits ^b	3	6	4	5	3
Wine grapes	33	38	28	36	36
Citrus	5	6	5	4	5
Deciduous canning fruits	..	..	2	2	1
Bananas	..	1	1	1	1
Tobacco ^c	13	13	11	7	4
Vegetables	2	7	..	1	7
Total	55	71	52	56	57
<i>Extensive cropping</i>					
Wheat	56	75	97	87	80
Barley	5	5	9	10	11
Oats	1	2	2	3	3
Maize	..	..	1	1	1
Sorghum	1	2	2	2	2
Oilseeds	3	4	3	2	3
Total	67	88	113	106	100
<i>Extensive irrigation and high-rainfall crops</i>					
Sugar ^d	49	67	66	13	17
Cotton	4	11	..	1	-3
Rice ^e	8	7	12	11	10
Total	62	85	78	24	25
<i>Extensive grazing</i>					
Beef	79	81	74	54	41
Wool	85	99	77	54	35
Sheepmeat	11	15	14	10	8
Total	175	195	165	118	84
<i>Intensive livestock</i>					
Pigs	10	9	8	6	5
Poultry	9	12	3	1	1
Eggs ^f	7	6	3	2	2
Milk production	456	490	555	514	470
Manufacturing milk	130	167	170	140	145
Fresh milk ^g	326	323	385	374	326
Total	482	518	569	522	477
<i>Total agriculture</i>					
Total	839	958	977	827	744

.. Less than \$0.5 million. ^a The net subsidy equivalent is the dollar value of the net assistance to the land, labour and capital resources used in a particular industry or activity. ^b The estimates of assistance to sultanas are based on a comparison of the lower of either domestic or constructed import parity returns with the export returns. ^c Based on transfers derived by apply-

Table 2.8 continued

-ing the price differential between Australian green leaf and comparable imported green leaf to the domestic sales of Australian leaf. Following the removal of the local leaf content scheme in January 1995, the methodology used for calculating producer transfers was revised for the 1994-95 and 1996-97 estimates. ^d Producer transfers were estimated in accordance with the industry formula used for dividing raw sugar returns between millers and growers. ^e Estimated by comparing domestic and export prices for medium and long-grain rice. ^f Estimates are derived using a weighted average of retail prices for eggs in the deregulated States to determine a benchmark retail price. This benchmark price is compared with the average retail prices in the regulated States in order to make an estimate of assistance provided to retailers. Finally, this retail-level assistance is estimated on a pro-rata basis from the value of retail prices to provide an estimate of assistance at the farm gate-level. ^g The producer transfer was estimated by multiplying the difference between the fresh milk price and the local manufacturing milk price plus an allowance of 20 per cent of the average Australian manufacturing milk price to represent the cost of assurance of out-of-season supply. *Source:* PC estimates.

Table 2.9 Assistance to agriculture by form, 1994-95 to 1998-99 \$ million

	1994-95	1995-96	1996-97	1997-98	1998-99
<i>Assistance to outputs</i>					
Domestic pricing arrangements ^a	479	504	571	509	464
Tariffs	58	66	55	36	36
Local content schemes	0	0	0	0	0
Export incentives	3	3	3	2	2
Export inspection services ^b	6	0	9	0	1
Marketing support	1	1	1	0	0
Government guarantees	58	85	80	60	50
Total^c	605	659	718	607	553
<i>Assistance to value-adding factors</i>					
Adjustment assistance ^d	120	115	105	86	49
Agricultural research	160	155	161	161	161
Income taxation concessions	86	163	97	73	80
Natural disaster relief	1	1	1	0	0
Sugar industry program	4	2	4	3	4
Total	371	436	368	323	294
<i>Assistance to inputs</i>					
Disease control ^e	3	3	2	2	1
Tariffs on inputs ^f	-77	-80	-61	-56	-54
Tariffs on plant and machinery ^f	-62	-61	-50	-50	-50
Total	-136	-138	-109	-104	-102
Net Subsidy Equivalent	839	958	977	827	744

.. Between - 0.5 and 0.5 million. Figures may not add to total due to rounding. ^a For 1994-95, 1995-96, 1996-97 and 1997-98, estimates include transitional assistance to tobacco following the removal of the local content scheme in January 1995. ^b Based on shortfalls from 100 per cent cost recovery. ^c Equal to the Gross Subsidy Equivalent. ^d Figures reflect actual Commonwealth interest subsidies and grants provided to producers. ^e Covers assistance provided by the bovine brucellosis and tuberculosis eradication campaign. ^f The additional costs incurred due to assistance raising the prices of inputs. The current series includes the effect of tariffs on materials used in non-traded inputs. *Source:* PC estimates.

2.5 Assistance to mining

A number of government policies have significant impacts on the mining industry. These include native title legislation which may affect land tenure and land access, environmental regulation, and prescribed royalty levels which vary between firms.

By contrast, tariffs and budgetary assistance do not effect mining substantially.

As reported in chapter 4, budgetary assistance is low for the mining sector — \$220 million, which is equivalent to 1.0 per cent of mining gross value added, in 1999-2000. The mining industry is assisted mainly through the development allowance and the R&D tax concession.

As a capital-intensive industry, tariffs on imported capital inputs have a negative effect on mining. The industry receives only small assistance from import tariffs. Chalk, slate, marble, granite, sandstone, mica, steatite and other monumental and building stones are subject to a 5 per cent import tariff.

Table 2.10 **Tariff assistance to the mining industry**
\$ million (1994-95)

	1996-97	1998-99	2000-01 ^a	2005-06 ^a
Gross subsidy equivalent	1.4	1.6	1.5	1.5
Tax equivalent on materials	112.5	119	117.1	111.5
Net subsidy equivalent	-111.1	-117.5	-115.6	-110.0
Effective rate of assistance^b	-0.6	-0.6	-0.6	-0.5

^a 2000-01 and 2005-06 figures are estimates based on tariff schedules. ^b The effective rate of assistance is measured as a percentage change in returns per unit of output to an activity's value-added factors due to the assistance structure.

Source: PC estimates.

The mining industry's net subsidy equivalent (NSE) for 1998-99 was negative, at \$118 million. This means that the overall effect of tariffs represented a tax on the industry, rather than a subsidy. Based on the tariff schedules outlining future reductions in tariffs, the Commission estimates that, by 2005-06, the NSE will remain negative at \$110 million. This would represent a modest \$7.5 million gain to the mining industry. The effective rate of assistance for mining was marginally negative between 1996-97 and 1998-99 and is expected to remain so up until 2005-06 (refer to table 2.10).

2.6 Anti-dumping and countervailing activity

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. There is no single definition of normal value. The price of the good in the exporter’s home market is generally used to determine the normal value, but alternatives such as the good’s price in another export market or a constructed price are sometimes used.

Under WTO rules, a country can apply anti-dumping measures on dumped imports if they cause or threaten to cause material injury to a competing domestic industry.

Countries may also apply countervailing duties where imports — benefiting from certain forms of subsidies in the country of origin — cause, or threaten to cause, material injury to a domestic industry.

Like other measures that raise the price of imports, anti-dumping and countervailing measures can assist particular industries but can also impose higher costs on other domestic industries and consumers.

Australia’s anti-dumping system

A new anti-dumping and countervailing system — implemented through amendments to the *Customs Act 1901* and the *Customs Tariff (Anti-Dumping) Act 1975* — took effect on 24 July 1998. The new system was described in the *Trade & Assistance Review 1997-98* (PC 1998).

Process

A key feature of the new system is its significantly shorter (155 day) single-stage anti-dumping and countervailing investigation, conducted entirely by the Australian Customs Service (ACS). Previously, the Anti-Dumping Authority was responsible for undertaking a second stage of investigation before the final finding was made.

This change means that Australia’s investigation process is now short relative to those used in other countries. The maximum total investigation time for Canada, Mexico, the European Union and the United States, for example, ranges from 255 days to 427 days. The WTO, in its most recent Trade Policy Review of Australia, questioned ‘whether the shorter investigation period will enable the ACS to conduct as thorough an analysis and review as previously’ (WTO 1998a, p. 57).

While the investigation period has been shortened, there have been some delays in the announcement of the final ruling by the Customs Minister (Pearson 1999). Such

delays can pose problems for producers and users of relevant imported products. This is because the ACS can impose interim duties 60 days after the investigation is initiated, and these duties remain in place until the Minister makes a ruling. In a case of copy paper from Indonesia, a ruling had not been made seven months after the end of investigations. Consequently, the foreign supplier instituted legal action against the Customs Minister. The decision by the Federal Court in January 2000 rejected the claim of unreasonable delay. The Minister has a mandate, according to the *Customs Act*, to take additional time to consider other information deemed to be relevant (*PT Pabrik Kertas Tjiwi Kimia Tbk v Minister for Justice and Customs*).

Review

The new anti-dumping system is to be reviewed under the NCP. The deadline for completing the Commonwealth's legislation review and reform program has been extended from December 2000 to June 2002.

Recent anti-dumping and countervailing activity

The number of Australian anti-dumping cases initiated increased to 19 in 1999-2000, from 18 in 1998-99 (figure 2.9 and table 2.11). This is almost half the number of initiations in 1997-98 and less than a quarter of those in 1991-92. No new countervailing actions were initiated in 1999-2000.

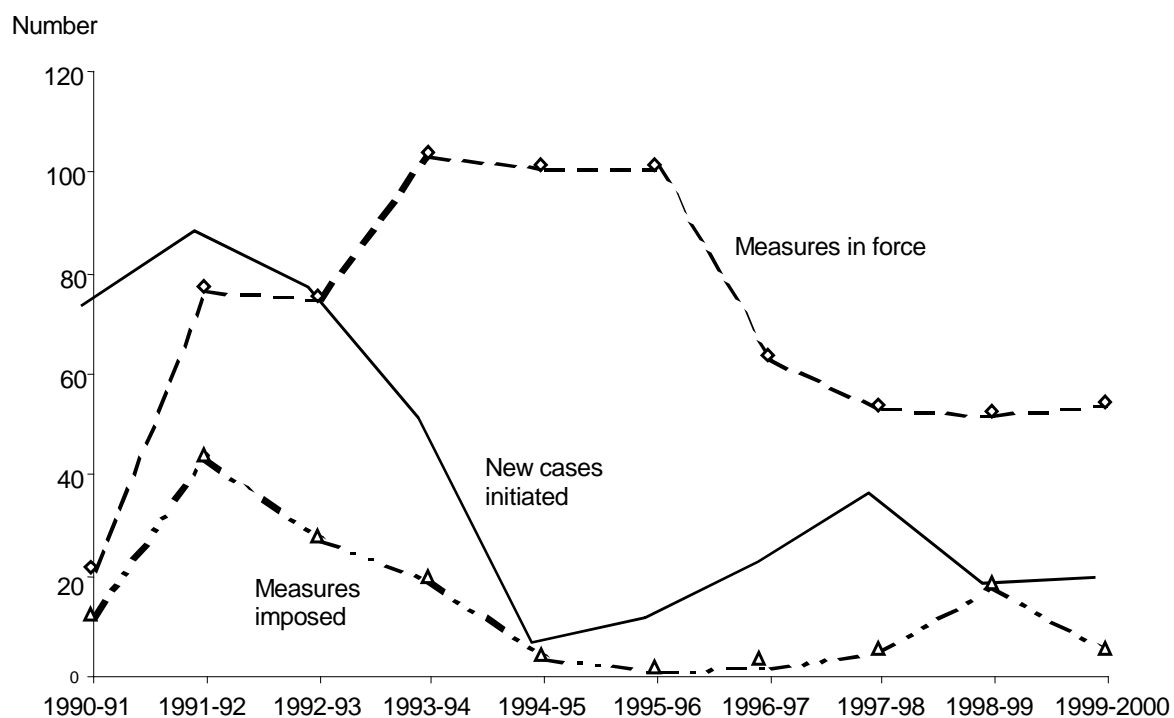
The marginal increase in new anti-dumping cases initiated coincides with a fall in the number of new measures imposed, from 18 in 1998-99 to 5 in 1999-2000.

There was a small increase in the number of measures in force to 54 in 1999-2000, following a six-year fall from 103 in 1993-94 to 52 in 1998-99. The measures in force consisted of 48 anti-dumping measures (nine of which were price undertakings) and five countervailing measures.

Industry incidence

The initiations for 1999-2000 all occurred in industries in the paper and paper products, chemical and petroleum products, non-metallic mineral products and metal products manufacturing subdivisions (table 2.12). These subdivisions had multiple country initiations. Three initiations in particular — Portland cement, high strength structural bolts and triethanolamine — accounted for more than half of the initiations. Over the past six years, the paper and paper products and the chemical and petroleum industries have accounted for 67 per cent of new cases.

Figure 2.9 Anti-dumping and countervailing activity^a, 1990-91 to 1999-2000



^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.

Data sources: ACS and PC estimates.

Table 2.11 New Australian anti-dumping and countervailing initiations, 1999-2000

<i>Commodity</i>	<i>Exporting economy</i>
Ammonium nitrate	The Russian Federation
A4 copy paper	Indonesia
Clear float glass	Indonesia
Coated paper	Austria, Finland
Continuous computer paper	Indonesia
High strength structural bolts	South Korea, Taiwan
Polyvinyl chloride bottle compound	Singapore
Portland cement	China, Indonesia, Thailand, Malaysia
Tinplate	Taiwan, UK
Triethanolamine	India, Japan

^a Complaints formally initiated by industry. Initiations are defined as actions applying to one commodity from one economy.

Source: ACS.

Table 2.12 **Anti-dumping and countervailing cases^a, by industry, 1994-95 to 1999-2000**

<i>Industry^b</i>	1994 -95	1995 -96	1996 -97	1997 -98	1998 -99	1999 -2000	<i>Six-year period</i>	
							<i>Total</i>	<i>Per cent of total</i>
Food and beverages	2	–	–	–	–	–	2	2
Textiles	–	–	–	1	5	–	6	5
Paper, paper products	–	–	–	14	2	5	21	19
Metallic minerals	–	–	–	–	–	–	–	–
Chemical and petroleum products	2	5	11	13	10	5	46	41
Non-metallic mineral products	–	–	2	1	–	5	8	7
Metal products manufacturing	1	2	–	3	1	4	11	10
Transport equipment	–	–	–	–	–	–	–	–
Machinery and equipment	1	3	1	–	–	–	5	4
Miscellaneous manufacturing	–	1	8	4	–	–	13	12
Total	6	11	22	36	18	19	112	100

– Nil. ^a Complaints formally initiated by industry. Cases are defined as actions applying to one commodity from one economy. Cases where dumping and subsidisation are alleged for the same economy and commodity are counted as two distinct initiations. ^b Based on Australian and New Zealand Standard Industry Classification subdivisions.

Source: ACS.

Under the new anti-dumping scheme, the Government repealed the legislative requirement that companies wishing to have a complaint investigated must have at least 25 per cent local content in the product in question. Certain industries, such as textiles, manufacturing, and machinery and equipment, use a high proportion of imported inputs in the production process. There is little evidence to suggest that the relaxation of local content requirements has led to a significant increase in the number of submissions made by these industries. In fact, no complaints were formally initiated by these industries during 1999-2000, though the full effect of the new regulation may not yet have taken effect.

Country incidence

During 1999-2000, Australian firms initiated anti-dumping complaints against firms from 13 economies (table 2.13). Of the 19 initiated complaints in 1999-2000, 18 were against firms from Asian and European countries.

Relative to import shares, the number of initiations against Australia's trading partners in North America and Western Europe have been much lower than against economies in the Asian region. This trend continued in 1999-2000, with the Asian region accounting for over three-quarters of total initiations, but approximately one-third of Australia's merchandise imports.

There have been no Australian initiations against imports from New Zealand since July 1990 when the two countries agreed to eliminate anti-dumping and countervailing actions in trans-Tasman trade under changes arising from the Closer Economic Relations Agreement. Since then, competition laws under the *Australian Trade Practices Act 1974* and the *New Zealand Commerce Act 1986* have covered anti-competitive conduct in trans-Tasman trade.

International trends

Australia accounted for 13 (or 5 per cent) of the 249 anti-dumping and countervailing cases initiated internationally in 1998 (the latest year for which comparable data are available) (table 2.14). This made Australia the sixth largest initiator of anti-dumping and countervailing actions. This is in contrast to 1997 when Australia was the second largest initiator of new actions. South Africa, the United States, India and the European Union were the largest initiators of anti-dumping and countervailing action in 1998.

The United States, the European Union, Mexico, Canada, Australia and South Africa accounted for over two thirds of the total measures in force in 1998. Australia accounted for 6 per cent of measures in force internationally. Relative to its share of world trade (less than 1 per cent), Australia continues to be one of the most frequent users of anti-dumping and countervailing measures.

Table 2.13 **Australian initiations of anti-dumping and countervailing cases, by trading region and economy^a, 1994-95 to 1999-2000**

<i>Region/economy</i>	<i>1994 -95</i>	<i>1995 -96</i>	<i>1996 -97</i>	<i>1997 -98</i>	<i>1998 -99</i>	<i>1999 -2000</i>	<i>Six-year period</i>	
							<i>Total</i>	<i>Per cent^b</i>
North America	–	1	1	2	1	–	5	4
Canada	–	–	–	1	–	–	1	1
United States	–	1	1	1	1	–	4	4
Western Europe	2	3	7	14	3	3	32	29
Austria	–	–	–	1	–	1	2	2
Belgium/Lux	–	1	–	1	1	–	3	3
Finland	–	–	–	1	1	1	3	3
France	–	–	–	2	–	–	2	2
Germany	–	–	3	3	–	–	6	5
Italy	2	–	–	1	–	–	3	3
Netherlands	–	–	1	2	–	–	3	3
Spain	–	–	1	–	–	–	1	1
Sweden	–	–	2	1	–	–	3	3
Switzerland	–	–	–	1	–	–	1	1
UK	–	2	–	1	1	1	5	4
Asia	2	5	9	13	9	15	53	47
China	1	1	3	2	–	1	8	7
Hong Kong	–	–	–	1	–	–	1	1
India	–	–	1	1	–	1	3	3
Indonesia	1	–	1	3	2	5	12	11
Japan	–	–	–	1	–	1	2	2
South Korea	–	2	–	2	1	2	8	7
Malaysia	–	1	1	–	2	1	4	4
Singapore	–	–	–	1	1	1	3	3
Thailand	–	1	1	–	2	1	5	4
Taiwan	–	–	2	2	1	2	7	6
Other	2	2	5	7	5	1	21	19
Saudi Arabia	–	–	–	–	2	–	2	2
South Africa	2	2	–	3	–	–	7	6
Other	–	–	5	4	3	1	12	11
Total	6	11	22	36	18	19	112	100

– Nil. ^a Cases are defined as actions applying to one commodity from one economy. Cases where dumping and subsidisation are alleged for the same economy and commodity are counted as two distinct initiations.

^b The sum of the percentages for the individual economies may not add to the regional totals due to rounding.

Source: ACS.

Table 2.14 International anti-dumping and countervailing actions, 1997 and 1998^a

Country	Initiation		Provisional measures		Definitive duties		Price undertakings		Measures in force at 31 December		Per cent of total measures in force	
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
US	22	34	21	34	19	17	4	1	354	386	37	35
EU	45	29	33	30	24	23	10	10	140	164	14	15
Mexico	7	12	7	7	7	5	–	1	89	95	9	9
Canada	14	9	7	9	7	10	–	1	96	82	10	7
Australia	43	13	17	16	1	15	–	2	52	63	5	6
Turkey	4	1	–	–	–	–	–	–	35	34	4	3
Argentina	16	8	12	4	10	15	1	–	32	42	3	4
Brazil	11	17	–	2	2	14	–	–	29	34	3	3
South Africa	24	42	17	33	18	12	–	–	43	57	4	5
New Zealand	6	1	–	–	2	2	2	–	28	29	3	3
India	13	33	16	22	6	–	–	–	24	49	2	4
South Korea	15	3	5	4	6	6	7	2	20	28	2	3
12 WTO Members	220	202	135	161	102	119	24	17	942	1063	96	96
All WTO Members	256	249	160	184	119	127	24	19	967	1111	100	100

– Nil. ^a The reporting period covers 1 January to 31 December of each year.

Source: WTO (1998b and 1999).