Key Findings

- The Commonwealth Government continues to implement a wide range of policies and programs which assist industry and affect trade. In some cases, these are relatively transparent and assistance can be measured easily, but others are less transparent and, particularly in the growing services sector, difficult to quantify.
- Assistance to the agricultural sector remained largely unchanged in 1996-97, but disparities in assistance widened. While assistance for most commodities is low, pockets of very high assistance remain — most notably for the dairy industry. With the implementation over the next few years of further reforms to assistance arrangements for several commodities, agricultural assistance is expected to fall.
- Manufacturing assistance is projected to continue to fall with the implementation of further scheduled tariff reductions for the passenger motor vehicle and textiles, clothing and footwear industries. However, even in 2000-01, these industries will receive assistance several times higher than all other manufacturing industries.
- With the decline in tariff assistance for manufacturing and the phasing out of statutory marketing arrangements for several agricultural commodities, budgetary assistance is expected to account for an increasing proportion of total assistance afforded to the manufacturing and agricultural sectors.
- The growing importance of Australian and global services trade means that attention is being focused increasingly on restrictions to services trade. These restrictions typically take the form of regulatory controls that, by limiting competition, can protect existing service suppliers at the expense of consumers — in a similar way to measures that restrict trade in goods.
- Australia continues to participate actively in international liberalisation efforts. Important unilateral reforms (including implementation of competition policies) have also been introduced or proposed. However, a wide range of restrictions across many traded service industries are still to be addressed. The next round of negotiations under the General Agreement on Trade in Services (GATS), commencing in 2000, represents an important opportunity to enhance further the transparency of international restrictions and to secure further commitments to liberalisation.

Budgetary assistance

- Assistance through Commonwealth budgetary outlays and tax expenditures fell by 13 per cent to $3.3 billion in 1997-98, but is projected to increase slightly in 1998-99.
- Budgetary outlays remained stable at $1.7 billion in 1997-98. Forward projections suggest that tax expenditures will fall to $1.7 billion in 1997-98 from $2.2 billion in 1996-97, reflecting the tightening of the R&D tax concession and winding down of the development allowance.
- Manufacturing continued to receive the largest share of budgetary assistance in 1997-98 — 43 per cent. Services accounted for nearly 25 per cent, primary production 23 per cent and mining 9 per cent.
- During the past year, significant budgetary assistance initiatives were announced in the *Investing for Growth* Statement (total funding of $1.2 billion allocated over four years). They are expected to affect the level and composition of budgetary assistance in future years. Significant commitments were made for increased R&D support and incentives to attract foreign investment. Details of the new assistance arrangements (post-2000) for the passenger motor vehicle and textiles, clothing and footwear industries were also announced.

Agriculture and manufacturing assistance

- The effective rate of assistance to agriculture remained largely unchanged in 1996-97, at 10 per cent. This was equivalent to a net subsidy to the sector of $1 billion.
- Increases in assistance to dairy, grains, apples and pears, deciduous canning fruit and vegetables were offset by decreases for wool, wine grapes, dried vine fruit, poultry, eggs, cotton and tobacco.
- Disparities in effective rates of assistance across the agricultural sector increased marginally in 1996-97. Dairy remains one of the most highly assisted agricultural activities, with an effective rate nearly 6 times the level for the agricultural sector. If dairy were excluded from the estimates, the effective rate of assistance for agriculture in 1996-97 would fall to 6 per cent.

- Assistance to tobacco is expected to fall substantially over the next few years with the phasing out of statutory marketing arrangements. By 1999-2000, with the completion of the restructuring program for the industry, the effective rate of assistance is expected to fall to only 2 per cent, from around 100 per cent in 1996-97. Recently implemented reforms to the sugar industry will result in significantly lower levels of assistance in 1997-98.
- The effective rate of assistance to the manufacturing sector (which is not strictly comparable to that for agriculture) was estimated at 6 per cent in 1996-97. With further scheduled tariff cuts for the passenger motor vehicle and textiles, clothing and footwear industries, the effective rate of assistance to the sector is projected to fall to 5 per cent in 2000-01.
- The dispersion in rates of assistance across manufacturing industries is declining. However, the PMV and TCF industries are (and in 2000-01 will continue to be) receiving rates of assistance several times higher than all other manufacturing industries.
- While developments in 1997-98 are unlikely to have a significant impact upon measured assistance in the manufacturing sector, recent Government initiatives such as the *Investing for Growth* statement, the Automotive Competitiveness and Investment Scheme and new assistance measures for the TCF industries will have implications for levels of assistance beyond 2000.

Agriculture and manufacturing trade policy issues and developments

- There were 36 new anti-dumping cases initiated by Australia in 1997-98. Initiations have almost doubled in each of the past three years. Internationally, Australia accounted for 8 per cent of total initiations and 6 per cent of measures in force, in 1996. Relative to its share of world trade, Australia continues to be one of the most frequent users of anti-dumping and countervailing measures.
- A new anti-dumping system was introduced on 24 July 1998. It remains to be seen what impact the simpler and faster single stage investigation and the revised review and appeal mechanism will have on the number of initiations and the outcome of investigations. The WTO has questioned whether the shorter investigation period will compromise the thoroughness of dumping investigations and reviews. The Government's scheduled review of anti-dumping

regulation under the Competition Principles Agreement has been postponed to allow for full implementation of the new arrangements.

- The WTO, in its third Trade Policy Review of Australia, acknowledged progress in a number of areas, including unilateral trade liberalisation and structural reform programs. However, the WTO also highlighted several areas for further reform, including the high levels of assistance afforded to a few industries (notably milk production in the agricultural sector and TCF and PMV within manufacturing). The WTO questioned other areas of policy, such as Australia's relatively strict quarantine regime.
- APEC early voluntary sectoral liberalisation (EVSL) arrangements, initiated in November 1996, are expected to be finalised by November 1998, with implementation scheduled to commence in 1999. There are several issues which need to be addressed if EVSL is to achieve its objectives most effectively. Broadening the product and sectoral coverage in EVSL may be necessary to avoid adverse resource allocation effects.
- Similar considerations are relevant to foreshadowed unilateral tariff reform in Australia, involving the elimination of 'nuisance' tariffs.

International trade in services — policy developments and issues

- Trade in services is an important component of Australian and global trade. Over the past year, Australia has continued to participate actively in WTO, APEC and OECD initiatives designed to liberalise trade in services. Several important unilateral reforms with implications for international services trade have also been introduced or proposed. However, a wide range of restrictions remain across many traded service industries, including the professions, maritime transport and international air services.
- Domestically, a range of Commonwealth and State legislation affecting competition and relevant to services trade is scheduled for review over the next few years under the Competition Principles Agreement. This includes laws regulating certain professions and occupations, international air services agreements, intellectual property legislation, and Part X of the *Trade Practices Act 1974* (international liner shipping exemptions). Changes have recently been made to the *Copyright Act 1968* to permit 'parallel' imports of certain goods and

further changes have been proposed to address concerns raised by the growth of electronic commerce. The recent report on internet commerce by the Joint Committee of Public Accounts and Audit recommended that the Productivity Commission conduct an inquiry into the development and regulatory issues arising from the growth of internet commerce.

- A major international development in the past year was the completion of WTO negotiations on financial services in December 1997, forming the basis for the financial services agreement when it comes into effect no later than 1 March 1999. As a party to the agreement, Australia took the opportunity to amend its commitments to reflect important liberalisation of financial services undertaken as part of implementing the recommendations of the 1997 Financial System Inquiry. Australia has a relatively open financial services sector, but still applies more restrictions on trade in financial services than are scheduled in its GATS commitments.
- The WTO Agreement on Basic Telecommunications came into force in February 1998. The Agreement could assist in realising substantial cost savings for international phone calls over the next few years. However, some further issues need to be reviewed, such as international settlement rates (charged by foreign network owners on completion services for international calls).
- The next round of GATS negotiations commencing in 2000 could focus on services sectors with few commitments and where negotiations have been difficult — for example, maritime transport, air services and professional services. Recognising the importance of links between transport modes, there might be benefit in proceeding with transport negotiations on a multimodal basis. Other options for consideration include locking in to a binding multilateral agreement Australia's recent domestic reforms and scheduling remaining restrictions on trade in financial services to improve the transparency of regulation. The negotiations may also provide an opportunity to improve the structure and scope of the GATS for example, by adopting a 'negative list' approach to scheduling services sectors and commitments.