
3 Assistance to agriculture and manufacturing

The effective rate of assistance for agriculture remained at 10 per cent in 1996-97. Increases in assistance to the dairy and wheat industries were offset by decreases for wool, wine grapes, dried vine fruits, eggs and tobacco. Disparities in assistance increased marginally. Dairy remains one of the most highly assisted agricultural activities, receiving nearly 6 times the average level of effective assistance for the agricultural sector.

While not strictly comparable with the agricultural estimates, the effective rate of assistance for the manufacturing sector was estimated at 6 per cent in 1996-97. It is projected to fall to 5 per cent by 2000-01, given further scheduled tariff cuts for the passenger motor vehicle (PMV) and textiles, clothing and footwear (TCF) industries. The dispersion in rates of assistance across manufacturing industries is declining. However, 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.

This chapter reports on developments in agricultural assistance (section 3.2) and in manufacturing assistance (section 3.3). Estimates of the Commission's nominal and effective rates of assistance are provided for these sectors. A brief explanation of the assistance measures and methodology used is presented in section 3.1. While these estimates cover the major Commonwealth interventions, they do not include all budgetary assistance, especially for the manufacturing sector (see chapter 2).

3.1 Measuring assistance

The Commission uses several measures to summarise the level or rate of assistance to industries in the agricultural and manufacturing sectors. The measures used reflect different aspects of the assistance provided and allow diverse forms of assistance to be aggregated under simplifying assumptions. The main measures used by the Commission are defined in box 3.1.

The Commission has a statutory obligation to take an economy-wide perspective when assessing the implications of particular policies or programs, and it is

therefore often interested in the impact of assistance on the allocation of resources between different activities and industries. The effective rate of assistance (ERA), by summarising the impact of various measures on the net returns to value-adding factors, provides a basis for assessing the extent to which assistance may alter the incentives to undertake particular economic activities.

Box 3.1 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 **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 assistance.

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. It measures net assistance, by taking into account not only output assistance and direct assistance to value-adding factors, but also the costs and benefits of government intervention on inputs.

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 **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, minus the tax equivalent of protection on intermediate inputs used in the production process.

The **tax 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.

The **consumer tax equivalent** is the transfer from consumers paying higher prices due to assistance. It is the sum of the gross subsidy equivalent of assistance, which raises the price of goods consumed during the period, and the tariff revenue on imports, adjusted to exclude those goods which are consumed by other industries as intermediate inputs.

Nominal rates of assistance are useful indicators of the effects of assistance on incentives to produce or consume certain commodities. In contrast to effective rates, however, they do not take account of the net impact of assistance afforded to

various inputs and outputs. They simply measure the rate of assistance to particular inputs or outputs.

Estimates of gross and net subsidy equivalents, the tax on materials and the consumer tax equivalent measure the income transfers to producers from final consumers, intermediate users and taxpayers (box 3.1). While these income transfers indicate gains and losses to particular groups, they are not measures of the net economic costs to the community of assistance. Such costs depend on the extent to which the provision of assistance distorts consumption and production, and are usually estimated using economy-wide models (IC 1997f).

The emphasis in the Commission's estimates has been on assistance provided by the Commonwealth and on consistency of treatment between activities within each sector. Excluded from the estimates are measures which apply generally to activities in all sectors or which apply to all activities within a particular sector. In general, the Commission restricts coverage of forms of assistance for its annual sectoral estimates to those which can be reliably quantified on a continuing basis (IC 1995b).

The main interventions included in the Commission's estimates are tariffs, production bounties, certain export incentives, discriminatory domestic pricing and marketing support arrangements for agricultural commodities, input subsidies, tariff concessions and duty drawback. A number of other measures (for example, anti-dumping procedures, government procurement and offsets, and partnerships for development programs) are excluded due to data limitations or because they are particularly difficult to quantify.

Assistance which may arise from Commonwealth or State government provision of infrastructure is not included. This is due to the difficulty of quantifying the level of assistance involved in activities where there is no clear alternative benchmark price. Assistance afforded by State and local governments through budgetary outlays and tax expenditures is also excluded. However, State government interventions that have an impact on the prices of agricultural commodities nationally — for example, statutory marketing arrangements for sugar and rice — have been included in the estimates.

Caution must be exercised when making comparisons of assistance estimates between agriculture and manufacturing. Variations in the estimates may reflect different data sources and the scope of interventions included in the estimates, rather than real differences in the incentives to use resources in different activities. These and other points to consider when comparing sectoral levels of assistance are discussed in IC (1995b).

3.2 Agricultural assistance

The agricultural sector receives assistance from a wide range of government programs and policies. Statutory marketing and regulatory arrangements provide the major component of assistance to agriculture, with budgetary assistance (including research and development, adjustment assistance and tax concessions) and tariffs on outputs being less important. Partly offsetting the assistance from these measures are tariffs and other taxes on the inputs used in agriculture.

The estimates of assistance to agriculture are updated to 1996-97, the latest period for which complete data are available. Revised estimates for 1995-96 are also presented, along with estimates for the years 1992-93 to 1994-95. Nominal and effective rates of assistance to agriculture are reported by agricultural activity in table 3.1 and at the 3-digit ANZSIC level in table 3.2. Assistance to agriculture by form, the gross subsidy equivalent (GSE) and the net subsidy equivalent (NSE) are presented in table 3.3.

Trends in agricultural assistance

While the assistance afforded by various agricultural arrangements has declined over the past decade, estimated assistance has not fallen consistently across commodities. Assistance to agriculture is inherently more variable than assistance to manufacturing, with changes in estimated assistance reflecting not only changes in assistance policies, but also fluctuations in world commodity prices and the value of output, and the counter-cyclical nature of many agricultural assistance programs. Average effective rates of assistance to agriculture over the last 25 years are presented in figure 3.1.

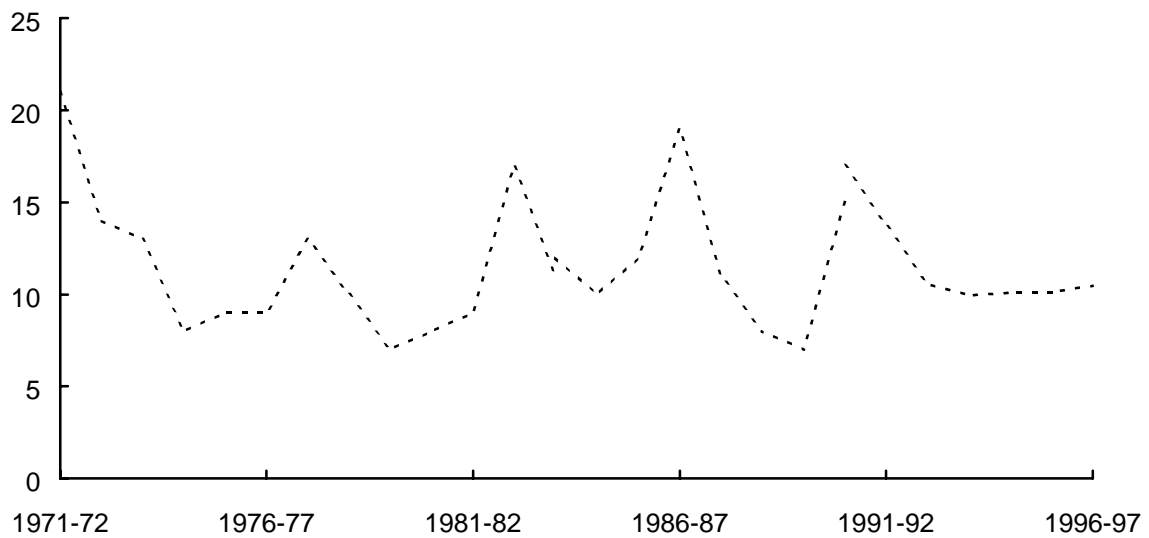
In 1996-97, the average nominal rate of assistance to agriculture remained largely unchanged at 3 per cent (table 3.1). Nominal rates of assistance fell for wool, wine grapes, dried vine fruits, eggs and tobacco (figure 3.2). Offsetting these falls were increases for wheat, rice and the already highly assisted dairy industry.

The average effective rate of assistance for agriculture also remained largely unchanged in 1996-97 at 10 per cent (table 3.1). Increases in assistance to outputs and lower taxes on inputs were largely offset by decreases in assistance to value-adding factors. In dollar terms, the effective rate of assistance in 1996-97 represents a net subsidy to agriculture of \$997 million (table 3.3).

Effective rates of assistance fell for wool, wine grapes, dried vine fruits, poultry, eggs, cotton and tobacco (figure 3.3). The most significant increase in effective rates of assistance was for fresh milk, already in receipt of effective assistance of more

than 200 per cent. Smaller increases in effective rates were recorded for apples and pears, deciduous canning fruits, vegetables and most grains (table 3.1).

Figure 3.1 **Average effective rates of assistance, 1971-72 to 1996-97**
per cent



Source: Commission estimates.

For many of the highly assisted agricultural commodities, previously implemented government reforms, designed to promote competition and reduce assistance, began to take effect in 1996-97. Falls in assistance for wine grapes and dried vine fruits in 1996-97 reflected a decline in tariff levels from 8 to 5 per cent for these commodities. Assistance to the sugar industry has been reduced through the removal of the tariff on sugar imports and reforms to domestic marketing arrangements (see below). The Commonwealth Government has committed to reducing assistance to the manufacturing milk sector over the next few years. Reforms have already been carried out in the market milk sector, but in most States these reforms have occurred only downstream from the farm gate. As part of the Competition Principles Agreement, however, most States have either concluded, or made commitments to review marketing arrangements at the farm gate level over the next few years (see below).

Overall, the assistance provided to the dairy industry dominates the estimates for the agricultural sector. When the dairy industry is excluded, the 1996-97 effective rate of assistance for agriculture falls from 10 per cent to 6 per cent.

Disparities in effective rates of assistance among agricultural activities are an important indicator of the potential for inefficiencies in resource use, while

disparities in nominal rates provide an indication of the potential for distortions in production or consumption patterns. The Commission measures disparities in assistance using the standard deviation around the sectoral average effective and nominal rates. In 1996-97, the standard deviation of the effective rate of assistance increased to 42 percentage points, from 35 percentage points in 1995-96. The standard deviation in the nominal rate of assistance increased from 9 to 10 percentage points in 1996-97.

Developments in sectoral and commodity assistance

There were relatively few significant changes at the sectoral level in 1996-97. However, recent Government funding announcements, such as the \$500 million of commitments contained in the *Agriculture — Advancing Australia* Statement and the outcomes of various reviews at the sectoral and commodity level are likely to have implications for future assistance. Major sectoral and selected commodity developments are discussed below.

Sectoral Assistance

Although remaining a major component of sectoral assistance for agriculture, adjustment assistance fell by \$10 million to \$105 million in 1996-97 (table 3.3). The beef, wool and wheat industries continue to be the main recipients of adjustment assistance. New South Wales and Queensland together received around 80 per cent of Commonwealth adjustment assistance in 1996-97.

The rural adjustment scheme (RAS) forms the major component of adjustment assistance, accounting for over 90 per cent of total funding in 1996-97. In October 1997, the Government announced, as part of its *Agriculture — Advancing Australia* Statement, the discontinuation of the RAS with some of its components to be transferred to other programs. The Statement also included funding for the family restart scheme, farm management deposits scheme, exceptional circumstances (including drought), drought relief payment and retiring farmer assistance (see chapter 2).

Income tax concessions to primary producers and research and development funding continued to represent major components of sectoral support in 1996-97. Revenue forgone from income tax concessions declined in 1996-97 to \$151 million from \$163 million in 1995-96. The wheat, beef and dairy industries were the largest recipients of this assistance, together receiving around \$69 million (45 per cent) in 1996-97. Research and development funding increased by around \$7 million to \$161 million in 1996-97. The beef, wool and wheat industries together received

around \$82 million (51 per cent) of total research and development funding for the sector in 1996-97.

Government expenditure on export inspection services is another important component of agricultural assistance at the sectoral level. The Australian Quarantine and Inspection Service (AQIS) is responsible for carrying out export inspection. AQIS is able to recover the costs of export inspection by charging for its services. For certain programs, however, revenues collected for services fell short of charges — under-recovery — while over-recovery occurred for some other programs. Where over-recovery occurs, AQIS is required to rebate the amounts to exporters, while in cases of under-recovery no adjustment is made. Shortfalls are treated as assistance by the Commission. In 1996-97, shortfalls increased significantly to \$9 million but were confined to the meat industry.

Previously announced changes to meat inspection charges took effect in 1997-98. Other reforms to the meat industry, including the establishment of Meat and Livestock Australia, were implemented on 1 July 1998 (Anderson 1998b). The Commission recently released a report into working arrangements in the meat processing sector (PC 1998b).

In addition to inspection services, AQIS is also responsible for providing quarantine services in Australia. The purpose of Australian quarantine is to control the entry into Australia of disease, but quarantine requirements may also have the effect of reducing import competition and assisting local producers (see chapter 4).

Dairy

The dairy industry continues to receive assistance levels many times the average for the agricultural sector. The nominal rate of assistance to the dairy industry increased marginally in 1996-97 to 19 per cent, while the effective rate of assistance increased from 53 per cent in 1995-96 to 58 per cent in 1996-97.

Different assistance arrangements apply to market milk (fresh or drinking milk) and manufacturing milk (used to produce dairy products such as cheese, butter and milk powders). Assistance to market milk is derived largely from State governments setting farm gate prices and rationing production through quotas, while assistance to manufacturing milk is derived largely from Commonwealth marketing arrangements. Typically, assistance to market milk has been much higher than that for manufacturing milk.

A more detailed discussion of the Commission's approach to measuring assistance to market and manufacturing milk is set out in the submission to the NSW Dairy Industry Review (IC 1997a).

Market Milk

The estimated nominal rate of assistance for market milk production increased from 54 per cent in 1995-96 to 60 per cent in 1996-97, while the effective rate of assistance, already over 200 per cent, increased further in 1996-97.

Marketing arrangements for market milk, from farm gate to final consumption, are administered by State statutory marketing authorities. Under the Competition Principles Agreement, all States were required to review government regulation affecting competition. New South Wales has now joined Victoria, South Australia, Western Australia and Tasmania in abolishing most controls on marketing and pricing of milk beyond the farm gate. Post-farm gate deregulation in Queensland is scheduled to take effect from 1 January 1999. Because of the point at which assistance is measured, reforms to post-farm gate milk controls will not have a direct impact upon assistance estimates for the dairy industry.¹

In all States, farm gate prices and market milk production levels remain under the control of milk marketing authorities, however, most States have either concluded, or made commitments to review price and production controls at the farm gate level. Victoria, shortly to commence its review, is the most significant dairy producing region in Australia. Any decisions adopted in Victoria are likely to have a significant influence on decisions on future marketing arrangements at the farm gate level in other States.

Manufacturing Milk

The estimated nominal rate of assistance for manufacturing milk was 8 per cent in 1996-97, up from 7 per cent in the previous year. The effective rate of assistance increased from 20 per cent to 21 per cent.

In 1996-97, manufacturing milk received most of its assistance from Commonwealth marketing arrangements — the Domestic Market Support Scheme. The scheme includes a levy applied to all milk (market and manufacturing milk) produced in Australia. Producers receive a full rebate of the levy on manufacturing

¹ The measurement of assistance involves choosing an appropriate point in the production chain at which to measure assistance. For agriculture, measurement has been made as far as possible at the farm gate level.

milk used to produce dairy products that are sold on the export market. For dairy products sold on the domestic market producers can pass the levy on to consumers. The funds raised by the levy are used to pay a subsidy to all manufacturing milk. This subsidy is treated as assistance by the Commission. The subsidy rates are being phased down, with the scheme due to expire on 30 June 2000 (IC 1997f).

Tobacco

The estimated nominal rate of assistance for the tobacco industry decreased from 40 per cent in 1995-96 to 30 per cent in 1996-97. The effective rate of assistance also fell substantially over the same period from 159 per cent to 100 per cent.

Statutory marketing arrangements for tobacco are being phased out as part of a restructuring program, which commenced in January 1995. The transitional arrangements have been discussed previously (IC 1996b). Effective rates of assistance are expected to fall to around 2 per cent in 1999-2000 with the completion of the restructuring program.

Sugar

Assistance to the sugar industry in 1996-97 was derived from Queensland's statutory marketing arrangements for raw sugar and a specific tariff on raw sugar imports. These arrangements enable domestic prices to be raised above export parity prices (IC 1996b). In 1996-97, the estimated nominal and effective rates of assistance for sugar remained constant at 4 and 16 per cent, respectively.

Assistance to the sugar industry is expected to change significantly in 1997-98 following the removal of the sugar tariff on 1 July 1997 and implementation of the requirement for the Queensland Sugar Corporation to price at export parity on domestic sales. In 1996-97, the net subsidy equivalent for the sugar industry was \$70 million. Full implementation of the reforms to the sugar industry is expected to reduce the net subsidy equivalent by around \$50 million. This is equivalent to a reduction in the effective rate of assistance of around 12 percentage points. To offset this reduction in support, the Commonwealth Government is to provide a compensation package to the sugar industry (IC 1997f).

Rice

The Australian rice industry, located primarily in New South Wales, is assisted through statutory marketing arrangements which allow the New South Wales Rice Growers Co-operative to vest and market all rice grown in the State. The nominal

rate of assistance for the rice industry increased to 3 per cent in 1996-97 from 2 per cent in 1995-96, while the effective rate of assistance increased from 8 per cent to 11 per cent.

In 1996, the Review of Legislation Establishing the New South Wales Rice Marketing Board recommended the removal of domestic marketing arrangements on the ground that such reform would provide a net community benefit. The New South Wales Government rejected this recommendation. The National Competition Council (NCC) has stated that this decision was not consistent with the State's obligation under clause 5 of the Competition Principles Agreement (CPA). The New South Wales Government has indicated a willingness to resolve the matter in accordance with the CPA. In the event that appropriate reforms are not implemented by 31 January 1999, the NCC has recommended to the Federal Treasurer that \$10 million be deducted from the 1998-99 National Competition Policy payment to New South Wales (NCC 1998).

Wheat

The nominal rate of assistance for the wheat industry increased from 1 per cent in 1995-96 to 2 per cent in 1996-97. The effective rate of assistance increased from 4 per cent to 6 per cent over the same period, largely reflecting lower tax penalties following reductions in tariff levels on inputs.

The wheat industry receives assistance mainly from the rural adjustment scheme, tax concessions, research assistance and the government guarantee on Australian Wheat Board (AWB) borrowings. The government guarantee on AWB borrowings accounts for around half of all assistance received by the wheat industry. The assistance afforded by the guarantee is equal to the interest savings resulting from the difference between the assessed 'market', and government-guaranteed, interest rates. The government guarantee is due to expire at the end of 1998-99. From 1 July 1999, the AWB is to be replaced by grower owned companies which will be responsible for wheat marketing.

Wool

The wool industry receives assistance mainly from research and development funding, the rural adjustment scheme and the government guarantee on borrowings by Wool International. The nominal rate of assistance for the wool industry decreased from 2 per cent in 1995-96 to 1 per cent in 1996-97. The effective rate of assistance decreased from 9 per cent to 7 per cent over the same period. The

decrease in the effective rate of assistance largely reflects the decrease in output assistance.

In August 1998, the Government announced plans to freeze all sales from the wool stockpile for the remainder of the 1998-99 season (Anderson 1998c). The introduction of the necessary legislation to change the existing wool marketing arrangements was delayed when Parliamentary sittings were suspended due to the calling of the 1998 Federal election. Wool International continued to make sales from the stockpile after the Government's announcement. The objective of the freeze was to provide price support to growers in light of poor market conditions for wool. The implications for support to the wool industry of any stockpile freeze would depend on the extent to which the freeze was successful in raising wool prices and therefore returns to growers.

Pigmeat

Assistance to the pigmeat industry is low relative to many other agricultural activities. The nominal rate of assistance for the pigmeat industry in 1996-97 remained at less than 0.5 per cent, while the effective rate of assistance was constant at around 5 per cent.

The pigmeat industry receives assistance primarily from research and development funding, adjustment assistance and tax concessions. Research and development funding accounted for around half of all assistance received by the industry in 1996-97. The Government recently announced \$18 million of additional funding for the pork industry to be provided through the National Pork Industry Development and Pigmeat Processing Grants Programs (see chapter 2).

The Commission has been asked to inquire and report on whether safeguard action, in accordance with the WTO Agreement, is warranted against imports of certain frozen pigmeat. The Commission has been asked also to report on the factors affecting the profitability and competitiveness of the domestic pig farming and pigmeat processing industries (see chapter 4).

Table 3.1 **Average nominal and effective rates of assistance, by agricultural activity, and standard deviations for the agricultural sector, 1992-93 to 1996-97**

per cent

Activity/commodity description	Nominal rate of assistance on output ^a					Effective rate of assistance ^b				
	1992-93	1993-94	1994-95	1995-96	1996-97	1992-93	1993-94	1994-95	1995-96	1996-97
<i>Horticulture</i>										
Apples and pears	..	..	..	..	..	-6	-4	-2	..	2
Dried vine fruits ^c	26	12	5	5	3	67	29	14	11	8
Wine grapes	13	10	9	7	4	28	24	19	15	11
Citrus	2	2	1	1	1	4	4	4	4	4
Deciduous canning fruits	..	..	..	..	..	..	1	1	2	4
Bananas	..	..	..	..	..	-1	..	..	1	1
Tobacco ^d	62	60	50	40	30	>200	>200	>200	159	100
Vegetables	..	..	..	..	..	-1	..	..	1	2
Average	4	3	2	2	1	7	6	5	6	5
<i>Extensive cropping</i>										
Wheat	2	2	2	1	2	5	5	6	4	6
Barley	..	..	..	..	..	..	1	2	1	2
Oats	..	..	..	..	..	1	1	1	1	2
Maize	..	..	..	..	..	..	..	..	1	2
Sorghum	..	..	..	..	..	1	1	1	1	2
Oilseeds	..	..	..	..	..	2	3	5	3	4
Average	1	1	1	1	1	3	4	4	3	5
<i>Extensive irrigation and high rainfall crops</i>										
Sugar ^e	5	4	4	4	4	12	12	11	16	16
Cotton	..	..	..	..	..	-3	1	2	3	2
Rice ^f	2	1	2	2	3	9	4	8	8	11
Average	2	2	2	2	2	6	7	8	10	11
<i>Extensive grazing</i>										
Beef	..	..	..	..	..	3	3	4	5	5

Table 3.1 (continued)

Activity/commodity description	Nominal rate of assistance on output ^a					Effective rate of assistance ^b				
	1992-93	1993-94	1994-95	1995-96	1996-97	1992-93	1993-94	1994-95	1995-96	1996-97
Wool	6	4	1	2	1	17	14	6	9	7
Sheepmeat	..	..	..	..	..	5	4	3	3	3
Average	2	1	..	1	..	8	6	4	6	5
<i>Intensive livestock</i>										
Pigs	..	..	..	..	..	3	4	5	5	5
Poultry	..	..	..	..	..	..	7	8	11	4
Eggs ^g	2	3	4	2	1	6	9	11	7	3
Milk production	20	19	24	18	19	56	56	77	53	58
Manufacturing milk	9	8	9	7	8	21	20	25	20	21
Fresh milk ^h	49	49	58	54	60	>200	>200	>200	>200	>200
Average	11	10	13	11	12	36	38	51	40	42
<i>Total agriculture</i>										
Average	4	3	3	3	3	11	10	10	10	10
Standard deviationⁱ	(9)	(9)	(10)	(9)	(10)	(32)	(30)	(41)	(35)	(42)

.. Between -0.5 per cent 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, 1995-96 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 at the retail level. 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 in percentage points measures how far from the average items are located in a frequency distribution, thereby measuring the extent of variation or dispersion in the distribution. The larger the variability among individual activities' nominal and effective rates, the larger the standard deviation.

Source: Commission estimates.

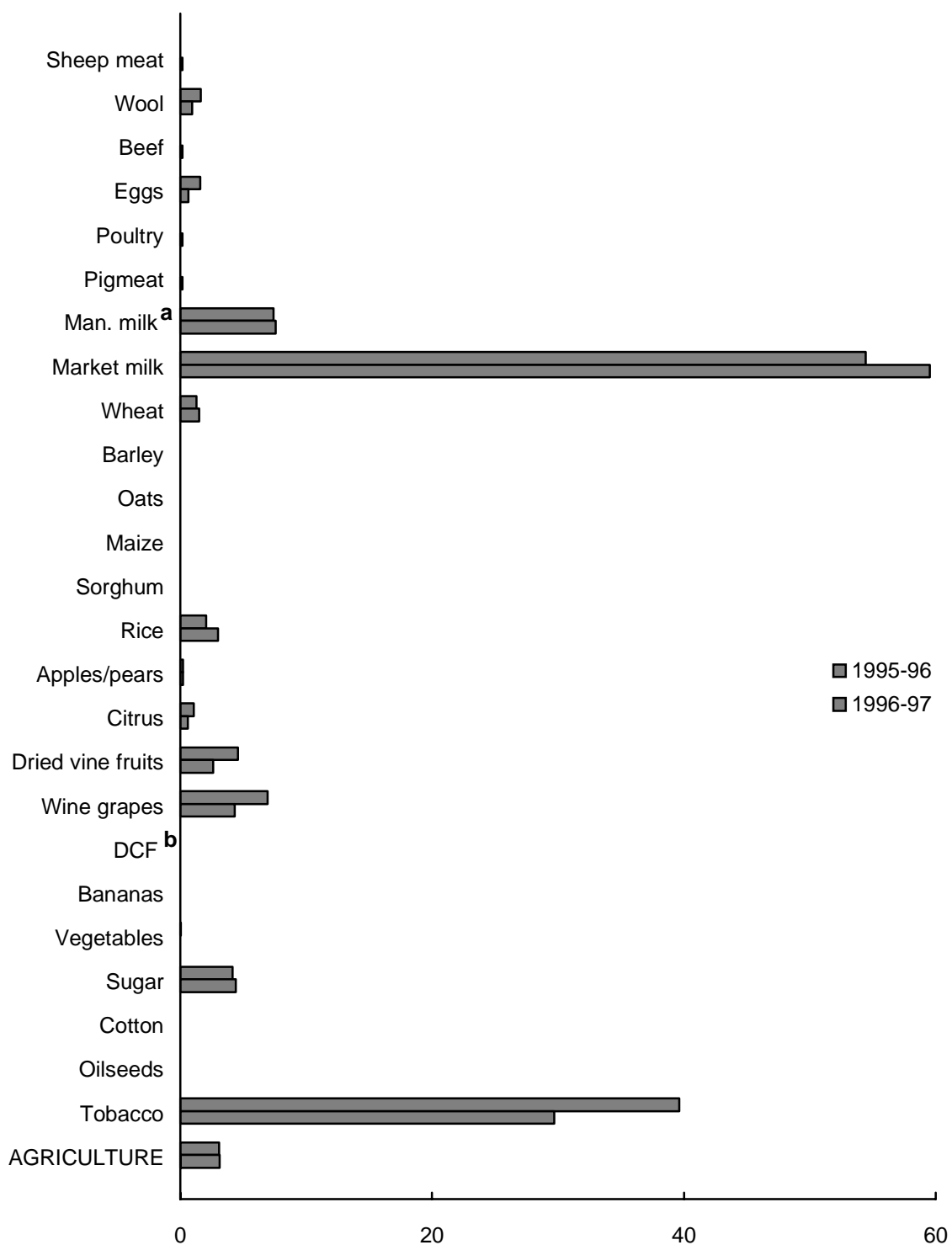
Table 3.2 **Average nominal and effective rates of assistance, by 3-digit ANZSIC,^a 1992-93 to 1996-97**
per cent

Activity/commodity description	Nominal rate of assistance on output ^b					Effective rate of assistance ^c				
	1992-93	1993-94	1994-95	1995-96	1996-97	1992-93	1993-94	1994-95	1995-96	1996-97
<i>Code</i>										
011 Horticulture and fruit growing	2	2	2	2	1	4	4	4	5	4
012 Grain, sheep and beef cattle farming	2	1	1	1	1	6	5	5	5	5
013 Dairy cattle farming	20	19	24	18	19	56	56	77	53	58
014 Poultry farming	1	..	1	..	..	3	8	10	10	3
015 Other livestock farming	..	..	..	..	..	3	4	5	5	5
016 Other crop growing	4	3	3	3	3	11	11	9	12	12
01 Agriculture	4	3	3	3	3	11	10	10	10	10

.. Between 0 per cent 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: Commission estimates.

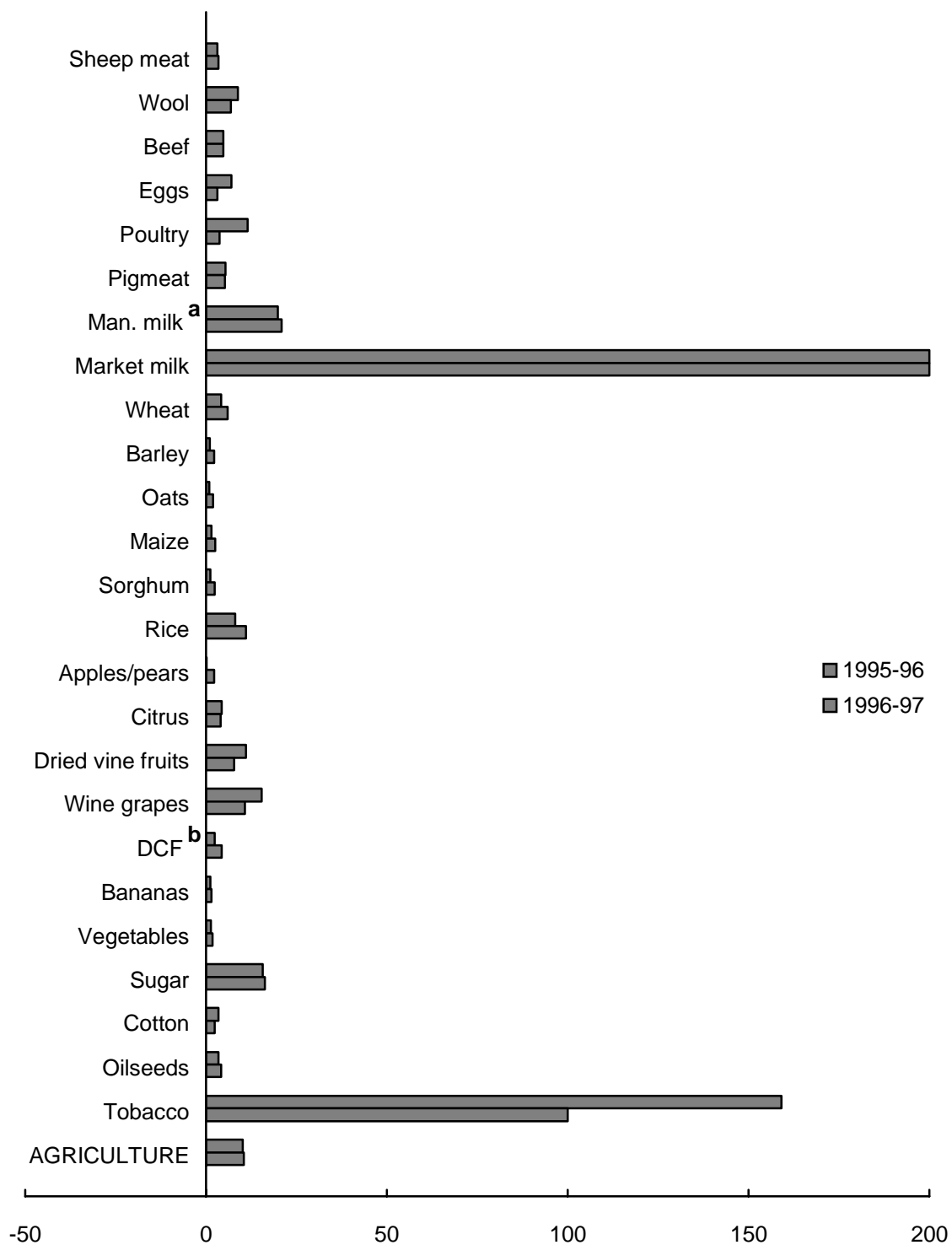
Figure 3.2 **Average nominal rates of assistance to agricultural commodities, 1995-96 and 1996-97**
per cent



^a Manufacturing milk. ^b Deciduous canning fruits.

Source: Commission estimates.

Figure 3.3 **Average effective rates of assistance to agricultural commodities, 1995-96 and 1996-97**
per cent



^a Manufacturing milk. ^b Deciduous canning fruits.

Source: Commission estimates.

Table 3.3 Assistance to agriculture by form, 1992-93 to 1996-97
\$ million

	1992-93	1993-94	1994-95	1995-96	1996-97
<i>Assistance to outputs</i>					
Domestic pricing arrangements ^a	403	392	479	513	535
Tariffs	63	58	58	66	54
Local content schemes	30	18	-	-	-
Export incentives	3	2	3	3	3
Export inspection services ^b	11	16	6	..	9
Marketing support	50	22	1	1	1
Government guarantees	116	106	58	85	77
Total	676	614	605	667	679
<i>Assistance to value-adding factors</i>					
Adjustment assistance ^c	105	105	120	115	105
Agricultural research	148	156	160	154	161
Income taxation concessions	24	70	86	163	151
Natural disaster relief	4	2	1	1	1
Sugar industry program	-	3	4	2	4
Total	281	336	371	436	422
<i>Assistance to inputs</i>					
Disease control ^d	5	3	3	3	2
Tariffs on inputs ^e	-106	-87	-77	-80	-57
Tariffs on plant and machinery ^e	-67	-64	-62	-61	-49
Total	-167	-148	-136	-138	-104
<i>Subsidy equivalents</i>					
Gross Subsidy Equivalent	676	614	605	667	679
Net Subsidy Equivalent	790	802	840	964	997

.. Between -0.5 and 0.5 million. * Nil. Figures may not add to total due to rounding. ^a For 1994-95, 1995-96 and 1996-97, 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 Figures reflect actual Commonwealth interest subsidies and grants provided to producers. ^d Covers assistance provided by the bovine brucellosis and tuberculosis eradication campaign. ^e 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: Commission estimates.

3.3 Manufacturing assistance

The main forms of assistance to the manufacturing sector are import tariffs and a range of budgetary measures. The general program of phased tariff reductions, begun in March 1991, was completed in July 1996 with all tariff rates except those protecting the PMV and TCF industries falling to 5 per cent or less. Despite the large reductions in tariff rates under this program, tariff assistance still accounts for around 90 per cent of **measured** assistance to the sector. While the manufacturing assistance estimates are not comprehensive in their coverage of budgetary assistance, even with the inclusion of some of the additional measures identified in chapter 2, tariffs would remain the dominant form of support for the sector.

Estimates have not been revised this year or updated to 1997-98. Given the resource requirements for estimating assistance, the Commission has decided to update estimates only when changes in Government policy result in a significant deviation from previously announced schedules or in major new initiatives. Only PMV and TCF tariffs rates have changed since 1996-97 and changes in budgetary assistance would not have had a significant impact on measured assistance.

The effects of implementing the remaining scheduled tariff reductions for PMV and TCF are reflected in the Commission's projections of assistance for 2000-01.² These projections have not been revised. They continue to represent reasonable estimates of future rates of assistance, particularly at higher levels of aggregation. This is because:

- tariffs are the dominant influence on measured assistance;
- the schedule for further PMV and TCF tariff reductions has not changed; and
- no further general tariff reductions have been announced.

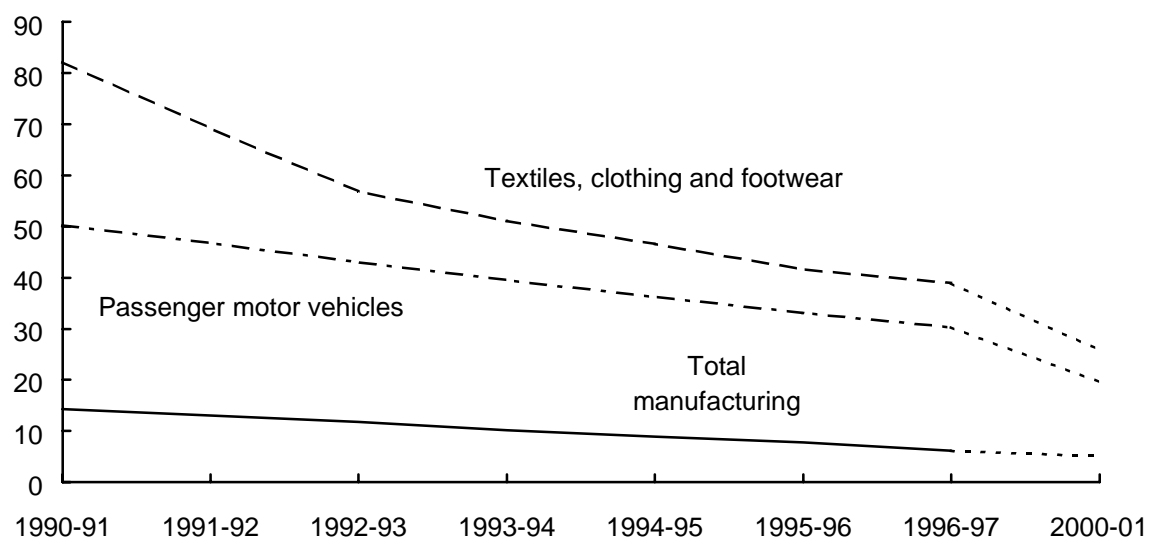
Assistance estimates have been reported at the 2-digit ASIC subdivision level in tables 3.4, 3.5 and 3.6. Previously published estimates of nominal and effective rates of assistance are provided for the years 1993-94 to 1996-97, as well as projections for 2000-01. More detailed estimates down to the 4-digit ASIC industry level were presented in the Commission's 1995 information paper, *Assistance to Agricultural and Manufacturing Industries*.

² As tariff reduction schedules were announced several years in advance, the Commission was able to project assistance levels through to the end of the program and in 1995 published a compilation of all assistance estimates and projections of future assistance levels (ICI995b).

Trends in manufacturing assistance

The nominal rate of assistance to manufacturing was around 4 per cent in 1996-97 and is projected to fall to 3 per cent by 2000-01, while the effective rate of assistance, around 6 per cent in 1996-97, is projected to fall to 5 per cent by 2000-01. PMV and TCF industries continue to receive assistance several times higher than other manufacturing activities (figure 3.4).

Figure 3.4 **Average effective rates of assistance to manufacturing, PMV and TCF, 1990-91 to 2000-01**
per cent



Source: Commission estimates.

The fall in PMV and TCF tariffs relative to the generally applicable manufacturing tariff of 5 per cent is expected to result in a decline in the dispersion of assistance across the manufacturing sector in the period to 2000-01. The standard deviation of effective rates is projected to fall from 10 percentage points in 1996-97 to 7 percentage points in 2000-01.

The estimated NSE of assistance to manufacturing was around \$4 billion in 1996-97 and is projected to fall to \$3.5 billion in 2000-01. The PMV and TCF industries accounted for around half of the estimated NSE to the manufacturing sector in 1996-97. This share is projected to fall to around 40 per cent by 2000-01.

Policy developments affecting manufacturing assistance

While developments in 1997-98 are unlikely to have a significant impact upon measured assistance in the manufacturing sector, recent Government announcements such as the *Investing for Growth* Statement, the Automotive Competitiveness and Investment Scheme (ACIS) and new assistance measures for the TCF industry will have implications for levels of assistance beyond 2000.

Assistance to the PMV industry

As a result of continuing phased tariff reductions, the effective rate of assistance to the PMV industry is expected to fall to 19 per cent by 2000-01, from 28 per cent in 1996-97 (table 3.6).

The PMV tariff declined by a further 2.5 percentage points to 20 per cent on 1 January 1998 and is to fall to 17.5 per cent by 1999 and to 15 per cent in 2000. The tariff is to remain at 15 per cent until January 2005, when it is scheduled to fall immediately to 10 per cent. Assuming no other changes in assistance, the effect of the pause in tariff reductions will be to maintain effective assistance to PMV at levels nearly 4 times the manufacturing average.

The Government has recently introduced legislation to implement the ACIS. The ACIS replaces the Export Facilitation Scheme. It will commence in January 2001 and operate for five years (see chapter 2).

Assistance to the TCF industries

Assistance to the TCF industries is expected to decline between 1996-97 and 2000-01, reflecting further phased tariff reductions. The effective rate of assistance for the textiles industry is projected to fall to 17 per cent in 2000-01, from 25 per cent in 1996-97, while the effective rate for the clothing and footwear industries is projected to decline to 34 per cent by 2000-01, from 52 per cent in 1996-97 (table 3.6).

In 2000, all TCF imports (apart from those already at 5 per cent or less) will be subject to tariff rates of either 25, 15, or 10 per cent. TCF tariffs are to remain at these levels until 2005, when tariffs on apparel and certain finished textiles, footwear and fabrics are scheduled to decline immediately to 17.5 per cent, 10 per cent and 7.5 per cent, respectively.

In July 1998, the Government announced details of a new package of assistance measures for the TCF industry, comprising the:

-
- TCF Strategic Investment Program (including a Regional Adjustment Package);
 - TCF Technology Development Fund;
 - National Framework for Excellence in TCF Training;
 - TCF Market Development Program; and
 - Expanded Overseas Assembly Provisions Scheme.

The new measures, which will operate from 2000 to 2005, replace some of the existing arrangements providing assistance to the TCF industry (see chapter 2). While these new funding arrangements may have implications for the distribution of assistance within TCF and rates of assistance for individual industries, assistance at the broad industry subdivision level is unlikely to change significantly between 2000 and 2005.

Other budgetary support for manufacturing

Other budgetary outlays and tax expenditures provide assistance to the manufacturing sector. Recent changes to budgetary assistance, including those announced in the *Investing for Growth* Statement, are discussed in chapter 2.

Implementation of the *Investing for Growth* initiatives (covering R&D support, investment incentives, export assistance and specific incentives for the information technology industry) is not expected to have a significant impact on manufacturing assistance in 1997-98 and 1998-99, but is likely to increase budgetary assistance significantly in 2001-02 and may therefore have implications for future effective rates of assistance to the manufacturing sector.

Recent developments in tariff assistance

The Government recently announced the removal of tariffs on business inputs in the information technology and telecommunications industry and on medical and scientific equipment — with revenue forgone of \$80 million over a two year period and \$40 million over a three year period, respectively. While placing upward pressure on effective rates, the impact of these tariff reductions on assistance to the manufacturing sector at the 2-digit subdivision level is not expected to be significant.

Another development with potential implications for tariff assistance in future years is the recently announced Government review of ‘nuisance’ tariffs. The objective of the review is to identify tariffs (at levels between 3 and 5 per cent) on business inputs which raise little revenue, offer few or no protective benefits to Australian

industry and disadvantage Australian industry relative to imported goods (see chapter 4).

Table 3.4 **Average nominal rates of assistance on outputs,^a manufacturing subdivisions,^b 1993-94 to 1996-97 and 2000-01**
per cent

<i>Industry^c</i>						
<i>Code</i>	<i>Description</i>	1993-94	1994-95	1995-96	1996-97	2000-01
21	Food, beverages and tobacco	5	4	3	3	3^d
234	Textile fibres, yarns and woven fabrics	9	8	7	7	5
235	Other textile products	19	18	16	14	10
23	Textiles	12	11	10	9	6
244	Knitting mills	37	34	31	29	20
245	Clothing	39	36	33	30	21
246	Footwear	31	28	25	23	13
24	Clothing and footwear	37	34	31	29	19
25	Wood, wood products and furniture	7	6	5	4	4
26	Paper, paper products and publishing	5	4	3	2	2
27	Chemical, petroleum and coal products	2	1	1	1	1
28	Non-metallic mineral products	2	2	2	1	1
29	Basic metal products	3	3	3	2	2
31	Fabricated metal products	9	7	6	4	4
323	Motor vehicles and parts	20	19	17	15	10
32	Transport equipment	17	15	14	12	9
33	Other machinery and equipment	9	8	6	4	4
34	Misc. manufacturing	10	9	7	5	5
21-34	TOTAL MANUFACTURING	6	5	5	4	3

.. Between 0 per cent and 0.5 per cent. ^a Assistance provided by tariffs and certain non-tariff measures. The nominal rate of assistance on outputs is an average of the nominal rates on outputs used by that industry, weighted by the unassisted value of output used. ^b The nominal rate of assistance on outputs is provided at the 3-digit ASIC level for the more highly assisted Textiles, Clothing and Footwear and Passenger Motor Vehicle industries. ^c Industry subdivision and group from the Australian Standard Industrial Classification (ASIC) 1983 Edition. The ASIC was replaced by the Australia and New Zealand Standard Industrial Classification (ANZSIC) in 1993. However, manufacturing assistance estimates based on ANZSIC have not been derived. ^d Estimates reflect the Commission's projections of assistance to agricultural commodities.

Source: Commission estimates.

Table 3.5 **Average nominal rates of assistance on materials,^a manufacturing subdivisions,^b 1993-94 to 1996-97 and 2000-01**
per cent

<i>Industry^c</i>						
<i>Code</i>	<i>Description</i>	1993-94	1994-95	1995-96	1996-97	2000-01
21	Food, beverages and tobacco	5	4	4	3	3^d
234	Textile fibres, yarns and woven fabrics	3	3	3	2	2
235	Other textile products	8	7	6	5	4
23	Textiles	4	4	4	3	2
244	Knitting mills	9	8	7	5	5
245	Clothing	19	18	16	14	9
246	Footwear	9	8	7	5	5
24	Clothing and footwear	15	13	12	10	7
25	Wood, wood products and furniture	6	5	4	3	3
26	Paper, paper products and publishing	4	3	3	2	2
27	Chemical, petroleum and coal products	1	1	1	..	..
28	Non-metallic mineral products	1	1	1	1	1
29	Basic metal products	1	1	1	1	1
31	Fabricated metal products	6	5	5	4	4
323	Motor vehicles and parts	11	10	9	8	6
32	Transport equipment	10	9	8	7	6
33	Other machinery and equipment	7	6	5	3	3
34	Misc. manufacturing	7	6	4	3	3
21-34	TOTAL MANUFACTURING	4	3	3	2	2

.. Between 0 per cent and 0.5 per cent. ^a Assistance provided by tariffs and certain non-tariff measures. The nominal rate of assistance on materials is an average of the nominal rates on materials used by that industry, weighted by the unassisted value of each material used. ^b The nominal rate of assistance on materials is provided at the 3-digit ASIC level for the more highly assisted Textiles, Clothing and Footwear and Passenger Motor Vehicle industries. ^c Industry subdivision and group from the Australian Standard Industrial Classification (ASIC) 1983 Edition. The ASIC was replaced by the Australia and New Zealand Standard Industrial Classification (ANZSIC) in 1993. However, manufacturing assistance estimates based on ANZSIC have not been derived. ^d Estimates reflect the Commission's projections of assistance to agricultural commodities.

Source: Commission estimates.

Table 3.6 **Average effective rates of assistance,^a manufacturing subdivisions,^b 1993-94 to 1996-97 and 2000-01**
per cent

<i>Industry^c</i>		1993-94	1994-95	1995-96	1996-97	2000-01
<i>Code</i>	<i>Description</i>					
21	Food, beverages and tobacco	3	3	3	2	2^d
234	Textile fibres, yarns and woven fabrics	37	33	24	23	15
235	Other textile products	37	34	31	28	19
23	Textiles	37	33	27	25	17
244	Knitting mills	92	86	80	76	49
245	Clothing	59	54	50	47	33
246	Footwear	60	54	50	46	24
24	Clothing and footwear	65	60	56	52	34
25	Wood, wood products and furniture	9	7	6	4	4
26	Paper, paper products and publishing	6	5	4	2	2
27	Chemical, petroleum and coal products	6	5	4	3	3
28	Non-metallic mineral products	3	3	2	2	2
29	Basic metal products	6	5	5	4	4
31	Fabricated metal products	12	10	8	4	4
323	Motor vehicles and parts	38	35	31	28	19
32	Transport equipment	26	24	21	19	13
33	Other machinery and equipment	11	9	8	5	5
34	Misc. manufacturing	14	12	10	7	7
21-34	TOTAL MANUFACTURING	10	9	8	6	5

.. Between -0.5 per cent and 0.5 per cent. ^a Assistance to an activity, net of the effects of tariffs and certain other forms of government intervention which alter the prices of material inputs used by the industry. For certain TCF industries the estimates include some assistance to value adding factors. ^b The effective rate of assistance is provided at the 3-digit ASIC level for the more highly assisted Textiles, Clothing and Footwear and Passenger Motor Vehicle industries. ^c Industry subdivision and group from the Australian Standard Industrial Classification (ASIC) 1983 Edition. The ASIC was replaced by the Australia and New Zealand Standard Industrial Classification (ANZSIC) in 1993. However, manufacturing assistance estimates based on ANZSIC have not been derived. ^d Estimates for 2000-01 reflect Commission projections of assistance to agricultural commodities.

Source: Commission estimates.