
4 Budgetary assistance

Budgetary assistance to industry comprises government spending and tax concessions that are of benefit to industries or firms.

While some assistance to industry has always been provided through the budget, this form of assistance is becoming increasingly important. In the past, the major forms of assistance in Australia have been border protection measures, such as tariffs and quotas, and statutory marketing arrangements. Although many of these measures are being unwound, the Government continues to provide a wide range of budgetary assistance measures and, in some cases, is providing budgetary assistance in place of other forms of assistance.

Budgetary assistance is subject to frequent changes from year to year as the individual schemes and funding levels vary, and as budgetary outlays are subject to annual review by Parliament.

In this chapter, the Commission:

- outlines the scope of the Commission's budgetary assistance estimates;
- presents the main trends in budgetary assistance and important policy developments during the year; and
- examines aspects of the Strategic Investment Incentive Program which commenced in December 1997.

4.1 Scope of the Commission's estimates

Budgetary assistance consists of two broad categories:

- *Outlays*, which include the funding of activities and services of benefit to industry, as well as grants, bounties, interest rate subsidies, subsidised loans, loan guarantees and equity injections which afford direct financial assistance to businesses.
- *Tax expenditures*, which are provisions of the tax system that reduce the tax burden of businesses. Tax 'expenditures' include tax exemptions, deductions, rebates, preferential tax rates and tax deferrals.

Recipients can be individual firms including undertaking or utilising particular activities such as R&D, as well as particular industries or sectors.

The Commission's estimates of budgetary assistance cover those budgetary measures that can be quantified given practical constraints in measurement and data availability. They cover the budgetary assistance provided by the Commonwealth Government, but not that provided by State, Territory and local governments. The estimates exclude outlays on defence, health, education and the labour market. They also exclude measures which are generally available to all firms, such as changes in company tax rates.

Assistance estimates in this chapter are derived from a number of information sources, including the Commonwealth Budget Papers. One effect of the change to an accrual accounting format in this year's Budget has been a loss of details about many assistance schemes. For example, the Budget Papers and Portfolio Budget Statements did not provide figures for the appropriations for various programs under the Industry, Science and Resources portfolio. Such data could only be obtained directly from the department.

Budgetary assistance is estimated for the industry sectors which receive the benefits — namely, primary production, manufacturing, mining and selected services. In apportioning budgetary assistance between sectors, the Commission needs to make few judgments as it is generally able to draw on primary data sources.

The Commission's approach for measuring budgetary assistance is explained in more detail in Appendix A.

4.2 Commonwealth budgetary assistance

For this year's *Trade and Assistance Review*, the Commission has generally provided data on budgetary assistance for the four years up to 1999-2000. The outlay figures for 1998-99 are estimates, and those for 1999-2000 are projections. The tax expenditure figures for both of these years are projections. This reflects the non-availability of data associated with the May release of the budget. The estimates incorporate the Government's revisions of outlays and tax revenue forgone for previous years.

The Commission's estimates of budgetary assistance are set out in tables 4.1 to 4.7 which, apart from table 4.1 (below), appear at the end of the chapter. The key estimates, together with related developments, are described and discussed below.

Summary features

Aggregate estimates

Estimates and projections of budgetary assistance and its main components for the period 1996-97 to 1999-2000 are shown in table 4.1.

There was an 11 per cent reduction in total budgetary assistance in 1997-98. This was due to a 19 per cent decline in the tax expenditure category, caused mainly by a reduction in the R&D tax concession and the winding down of the development allowance since 1996. The outlay category did not change significantly.

For the following years, total budgetary assistance, tax expenditures and outlays are estimated to be relatively stable.

Table 4.1 **Commonwealth budgetary assistance to industry**
1996-97 to 1999-2000

	1996-97	1997-98	1998-99	1999-2000
Budgetary outlays	1 775	1 741	1 822	1 777
Tax expenditures	1 974	1 602	1 565	1 555
Total budgetary assistance	3 749	3 344	3 388	3 332

Source: Commonwealth Budget Papers, Treasury (1999), ACS (1999) and Commission estimates.

Major assistance schemes

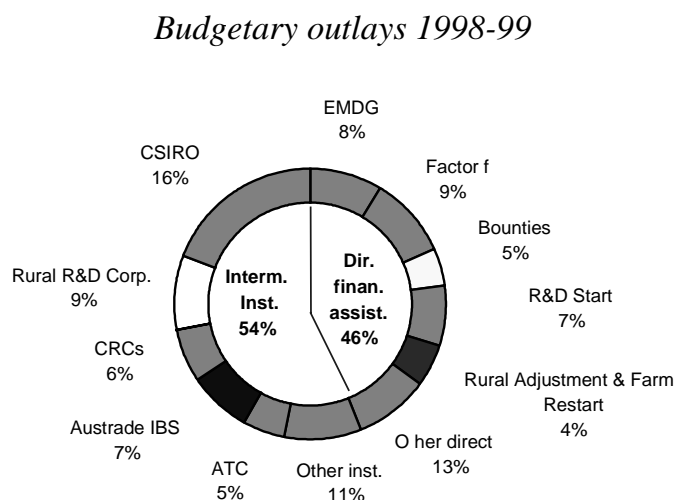
A plethora of budgetary schemes currently assist industry. There were around 100 separate government programs and tax expenditures in 1998-99.

Of the total budgetary outlays, 46 per cent was provided as direct financial assistance. The remaining share is accounted for by the funding of institutions which perform activities and provide services of benefit to producers, such as the Australian Tourist Commission (ATC).

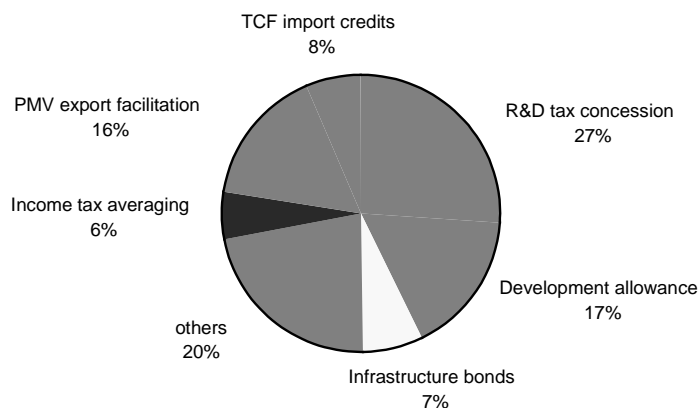
As shown in figure 4.1, important outlay schemes include Austrade's programs, the Factor f program for pharmaceuticals, R&D Start, and research by CSIRO, rural R&D corporations and cooperative research centres (CRCs).

The major tax expenditures are the R&D tax concession, the development allowance and the PMV Export Facilitation Scheme (figure 4.1). While no new tax concessions were introduced during 1998-99, the Government has recently announced new tax concessions in its response to the (Ralph) Review of Business Taxation. These developments are discussed later in this section.

Figure 4.1 Major programs and tax expenditures



Tax expenditures 1997-98

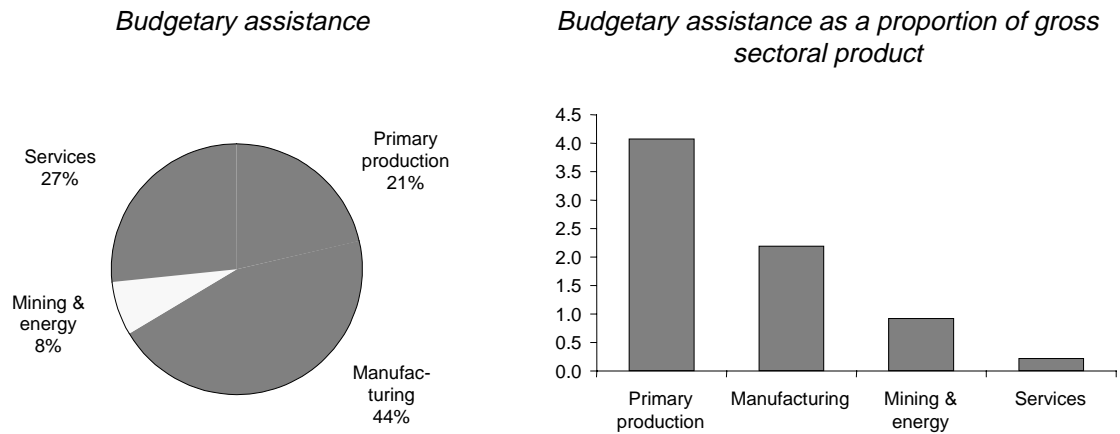


Data source: Commission estimates.

Sectoral distribution of budgetary assistance

Budgetary assistance varies markedly between sectors. The largest proportion of budgetary assistance goes to the manufacturing sector (44 per cent). Services accounted for 27 per cent, and primary production 21 per cent. The mining sector receives the smallest share (figure 4.2).

Figure 4.2 Budgetary assistance by sector, 1998-99



Data source: Commission estimates.

As a proportion of gross sectoral product, budgetary assistance was highest for the primary production sector (4 per cent), followed by the manufacturing sector (2 per cent). The proportion was less than 1 per cent for both the mining and services sectors.

That said, although the reporting of budgetary assistance by broad sectors and industries facilitates data collection and measurement, it may conceal significant variations in assistance between firms and industries. Indeed, a survey of 6000 firms revealed that around 90 per cent of them used no government programs in 1993-94 and 1994-95 (IC/DIST 1997).

Industry-specific assistance

During 1998-99, budgetary assistance was renewed for book printing, shipbuilding, sugar, sheepmeat and pigment. Information technology was earmarked for assistance. Budgetary assistance to sugar, sheepmeat and pigment is discussed in chapter 3.

Books and book printing

Before 1996, disparate assistance arrangements applied to the book printing industry. Book printing received assistance mainly through the book bounty scheme, while directories and timetables relating to Australia were assisted by a tariff on imports. However, some books received no assistance from tariffs or bounties. Some books, but not all, were penalised by tariff on paper inputs (IC 1996d).

The Government in the 1996 Budget foreshadowed the early termination of the book bounty, but later decided to extend the scheme to its original expiry date of December 1997.

In a report on the Australian book printing industry in 1996 (IC 1996d), the Commission recommended that it not be assisted by bounty, or other forms of assistance, after the end of 1997.

While the book bounty was subsequently allowed to lapse on 31 December 1997, the Government has introduced a new assistance scheme — the *Printing Industry Competitiveness* scheme — to operate from 1 January 1999 to 30 June 2003. The scheme has been allocated \$21 million over the next four years. Book printers will be able to claim payment at the rate of 4 per cent of the purchase price of paper inputs. All paper purchases are eligible for payment ‘whether the paper was imported or not, and whether duty was paid or not’ (Minchin 1999b).

The new scheme is to compensate the book printing industry for the costs of tariffs on production inputs:

The underlying rationale for the Printing Industry Competitiveness Scheme stems from the fact that book printers face a situation of ‘negative assistance’ due to an anomaly in the existing tariff system. This is because input costs are inflated by the tariff on paper, while competing imported books are able to enter Australia tariff free (Minchin 1998c).

While this assistance will help to offset tariffs on paper inputs, the Commission observes that many firms and industries are penalised by tariffs but are not compensated for the impact of tariffs on input costs. The mining sector, for example, has long faced negative measured effective assistance due to tariffs on inputs, but is not similarly compensated. It is unclear why the book printing industry has been granted selectively tariff ‘compensation’; nor is it clear that such compensation is the best way of addressing the problem created by tariffs on inputs.

The Government has committed further substantial assistance to books and book printing. In negotiations surrounding the passage of the goods and services tax legislation through the Parliament, the Government announced the *Book Industry Assistance Plan* to cost \$240 million over the four years from 2000-01 (\$60 million annually). The Plan comprises six components (Howard 1999b and 1999c):

- \$117 million of subsidy payments to retail sellers of educational textbooks (at a capped rate of 8 per cent of textbook prices);
- \$48 million to enhance the Printing Industry Competitiveness scheme, including provision for an Innovation, Infrastructure and Development Fund and a Skills Development Program;

-
- \$38 million for an Educational Lending Right scheme which will make payments to creators and publishers of books held in educational libraries;
 - \$28 million in grants to primary schools to increase their holdings of Australian books;
 - \$8 million for book marketing to promote reading and literacy; and
 - over \$1 million for the ABS to collect data on book publishing and retail sales.

Shipbuilding

The Australian shipbuilding industry is assisted through a range of broad-based and specific measures. These include the shipbuilding bounty, the 125 per cent R&D tax concession, activities of the Export Finance and Insurance Corporation (EFIC), and the concessional entry of imported parts and materials used in the construction, modification and repair of bountiable vessels. The Maritime Cooperative Research Centre also conducts R&D relevant to shipbuilding (DISR 1999).

The Government in the 1996 Budget foreshadowed the termination of the shipbuilding bounty ahead of its expiry date of December 1997, but later decided to extend the bounty to 30 June 1999.

In January 1998, the Shipbuilding Industry Review Panel was established to review assistance arrangements for the shipbuilding industry. The Panel recommended that shipbuilding support continue, but be reduced in line with progress in removing international shipbuilding subsidies. It also recommended specific assistance for shipbuilding innovation.

The Government accepted the Panel's recommendations and the *Bounty (Ships) Amendment Act 1999* has been passed by Parliament. The Government has committed \$28 million to the extension of the shipbuilding bounty from 1 July 1999 to 31 December 2000. The bounty payment is available to 'registered' shipbuilders at the rate of 3 per cent of eligible costs. Continuation of the bounty assistance is linked to progress in achieving international shipbuilding reform:

The Government has also introduced phase out arrangements for the [shipbuilding] bounty which parallel those enjoyed by European shipbuilders (Minchin 1999c).

In addition to bounty assistance, the legislation also provides for a new Shipbuilding Innovation Scheme (SIS). Under the scheme, 'registered' shipbuilders will receive special assistance for R&D and innovation, instead of being able to use the competitive R&D Start program or the more broadly based R&D tax concession. The SIS will operate for five years and provide benefits at the rate of 50 per cent of

‘innovation’ expenditure. The payment will be subject to a limit of 2 per cent of eligible production costs.

Funding for the SIS was transferred from the R&D Start program. In contrast to the R&D Start definition of R&D expenditure, the SIS will allow a broader class of ‘innovative’ expenditures by shipbuilding firms, such as adaptive engineering, to be eligible for assistance (Senate Economics Legislation Committee 1999b).

Information technology

In recent years, the information technology (IT) industry has been a focus in industry policy debates. The (Mortimer) Review of Business Programs (1997) and the Goldsworthy Report (1997) recommended measures specifically to cater for the development of the IT sector.

The Commonwealth Government’s 1997 *Investing for Growth* statement provided \$28 million for the establishment of software engineering centres, and for testing and conformance infrastructure.

In June 1999, the Government committed further assistance to the IT industry through the new \$158 million Building IT Strengths (BITS) program. According to the Government, BITS is to be funded from the partial sale of Telstra, and comprises three components (Alston 1999b).

- \$78 million will be used to establish ‘incubators’ in States and Territories to provide development assistance to small and medium-sized enterprises. Assisted activities include mentoring, management assistance, links to research organisations and venture capital sector, and proof of concept grants and seed capital.
- \$40 million in funding will be used to fund the capital costs of establishing advanced network test beds involving technologies such as optical networks, digital transmission and international broad band links. The associated use of state of the art infrastructure technology is intended to make Australia an attractive location for ‘greenfield’ investments.
- \$40 million of funding will also be directed to the IT industry in Tasmania as a development of the ‘Intelligent Island’. Assistance will be available for business incubators, IT research and training, multimedia and e-commerce centres of excellence and training, commercialisation of IT R&D and investments in bandwidth infrastructure.

Space

The Commission reported last year on measures designed to facilitate the development of the commercial space industry in Australia (PC 1998b). These include a sales tax exemption for space vehicles and satellites launched from Australia.

Legislation to implement the exemption has now been passed by Parliament. The exemption is intended to:

- facilitate the establishment of a viable commercial space industry; and
- establish access to the expanding world demand for satellite launch facilities (Costello 1998).

The Government has argued that the revenue cost of the exemption is not quantifiable at present, although it notes that the revenue loss — on the basis of sales tax which otherwise would be payable on importing a launch vehicle — would be about \$60 million (Costello 1998).

Biotechnology

While \$10 million was provided in the 1999-2000 Budget for the development of a biotechnology strategy, including the establishment of a Ministerial Council, no special assistance programs have been established for biotechnology (DISR 1999).

Nevertheless, the Government has estimated in its *1999 Industry Outcomes and Outlook Statement* (DISR 1999) that the sector receives some \$250 million a year from various research institutions. R&D on biotechnology is being conducted by the CSIRO, the Australian Research Council, the National Health and Medical Research Council (NHMRC), and rural R&D Corporations. Commercial biotechnology also benefits from a range of other programs, including R&D Start, the Innovation Investment Fund, Pooled Development Funds, Technology Diffusion programs and the Pharmaceutical Industry Investment program. Of the 67 Cooperative Research Centres, 14 undertake research involving biotechnology (DISR 1999).

Substantial additional assistance to biotechnology is to be provided over the next six years. In the *1999 Industry Outcomes and Outlook Statement*, the Government said:

A further initiative announced in the 1999-2000 Budget is increased funding for biotechnology research. Over the next six years, annual funding for health and medical research through the NHMRC will more than double base research funding from \$165 million in 1998-99 to more than \$350 million in 2004-05. The total investment of new money over the six years will be \$614 million (DISR 1999).

Tourism

In the 1998-99 Budget, the Government announced additional funding of \$50 million to the Australian Tourist Commission (ATC) to market and promote overseas tourism to Australia. This brings total funding for the ATC for the four year period to 2001-02 to \$359 million. In June 1998, further initiatives were announced in an action plan, *Tourism — A Ticket to the 21st Century*, including:

- the Regional Tourism Program — allocated \$16 million over four years to attract visitors away from metropolitan areas in support of tourism in rural and regional areas;
- the development of the Online Tourism Industry — at a cost of \$2 million; and
- the Domestic Tourism Campaign — the Commonwealth will provide \$8 million to the campaign, on a matching basis, with funds provided by State governments and industry (DISR 1999).

Research and development, and venture capital

R&D tax concession

The R&D tax concession is a significant measure aimed at encouraging R&D in Australia. The concession accounted for \$430 million in revenue forgone in 1997-98. This was 46 per cent lower than in the previous year, following a reduction in the rate of assistance from 150 per cent to 125 per cent. In 1998, the Government streamlined procedures to make the concession more accessible to business (PC 1998b).

In its *Telecommunications Equipment, Systems and Services* report, the Commission (IC 1998) recommended that the Government consider the merits of replacing the general R&D tax concession with an incremental scheme — aimed at assisting ‘additional’ rather than existing R&D — and providing a non-taxable form of incentives which could apply to firms with tax losses or insufficient franking credits. A more targeted scheme would also provide the scope to increase the rate of assistance to R&D. Many industrialised countries (including the US) have adopted schemes targeting *incremental* or additional R&D, rather than providing a tax concession spread across existing and new R&D expenditure (Hall 1995).

In its response to the report, the Government rejected this recommendation. It noted what it saw as the likely complexity and administrative costs of an incremental scheme, and the need of business for certainty in R&D assistance. The Government stated that its objectives in relation to R&D are to improve the focus of support to

industry with a greater emphasis on grants. It pointed to the *Investing for Growth* statement, which allocated an additional \$556 million to the R&D Start program.

The Government has recently reaffirmed its support of the R&D tax concession. In its response to the (Ralph) Review of Business Taxation, the Government said:

The 125 per cent R&D tax concession, vital for Australia's full participation in the growing knowledge-based economy, will also be retained (Minchin 1999d).

Availability of venture capital

In recent years, some significant assistance measures have been introduced to facilitate access to venture capital and the commercialisation of R&D. The Innovation Investment Fund (IIF), which provides venture capital to small technology firms to assist commercialisation of R&D, has now been allocated \$230 million funding. As part of the measures introduced to address climate change, the Renewable Energy Equity Fund, which is modelled on the IIF, provides venture capital to small firms for the development of renewable energy. Prior to these changes, the Pooled Development Fund (PDF) program was designed to improve access to equity capital for small and medium-sized enterprises (SMEs).

There are considerable doubts about the nature and extent of availability of venture capital in Australia and the appropriate government intervention required.

In its inquiry on the *Availability of Capital*, the Commission (IC 1991) recorded different views between SMEs and financial intermediaries about the possible lack of equity finance. The Commission examined underlying influences on capital availability and concluded that government intervention to expand institutional funds to SMEs would not improve the efficiency of the capital market or the economy generally.

Evidence on the availability of equity capital was re-examined in the Commission's report on *Research and Development* (IC 1995b). The report confirmed the earlier finding that difficulties in attracting capital are explicable by inherent features of financing risky investments, rather than a systematic bias on the part of the institutional funds.

In its inquiry on *Telecommunications Equipment, Systems and Services*, the Commission (IC 1998) recommended that existing venture capital programs be monitored and evaluated before any additional or alternative program in this area is considered. It also recommended that any modifications to the taxation system to improve the availability of venture capital should be considered in the context of the wider review of the tax system.

In its May 1999 response to the report (Alston 1999a), the Government agreed with the first of these recommendations, although it also said that new venture capital programs require some significant periods (typically five years) to mature, before their effectiveness can be evaluated. In relation to the second recommendation, the Government agreed that modifications to improve availability of venture capital would be considered by the (Ralph) Review of Business Taxation. However, the Government also committed itself to changing rules controlling investments in PDFs to make them more attractive for foreign venture capital.

Several changes to the PDF program were announced in the 1999-2000 Budget, including allowing full ownership of PDFs by Australian superannuation funds and overseas pension funds, and 'limited partnership' ownership of such funds.

In August 1999, the Government announced that the PDF program is to be tightened. This was in response to concerns that some PDF companies were considering investments which do not satisfy eligibility criteria of the *Pooled Development Funds Act 1992* (Costello and Minchin 1999).

In September 1999, the Government announced two new incentives for venture capital investment in its response to the (Ralph) Review of Business Taxation:

- First, Australian superannuation funds will receive a capital gains tax exemption for their venture capital investments in PDFs. Those superannuation funds will be entitled to a refundable imputation credit on the franked dividends received from PDFs (unfranked dividends are already exempt). PDFs can make new equity investment in companies with assets above \$50 million and are subject to a (concessional) tax rate of 15 per cent.
- Second, non-resident pension funds will be eligible for income tax (including capital gains) exemptions on venture capital investment in Australia. To qualify, foreign pension funds are required to be tax exempt in their home countries (to be limited initially to United States, United Kingdom, Japan, Germany, France and Canada). Eligible investments are those considered to be at risk and held by the investor for at least twelve months, and the investee entity's assets must not exceed \$50 million. Real estate and other passive investments are not eligible. The effectiveness of the exemption is to be reviewed five years after its introduction (Costello 1999a).

Estimates on the costs of these tax exemptions are yet to be provided.

Cooperative Research Centre program

In April 1999, the Government announced funding for 26 Cooperative Research Centres as a result of its 1998 selection round. Annual funding of new and existing CRCs totalled \$140 million in 1998-99.

A greater emphasis is now placed on commercialisation in determining the allocation of funding to Cooperative Research Centres, following the (Stocker and Mercer) review last year:

The review's recommendation that the ability of CRCs to commercialise their research should play a large role in the selection criteria has been implemented in this funding round, with a number of successful applicants demonstrating an entrepreneurial approach to research (Minchin 1999a).

Applicants are required to demonstrate 'a well structured, practicable and feasible strategy for the utilisation and commercialisation of the research outputs' (DIST 1998).

Commonwealth Technology Park — Melbourne Docklands

The Government has decided to make a contribution of \$23 million over four years to the development of a science and technology park in the Melbourne Docklands. The park will focus on industrial research. The Government's contribution is to be funded from the \$1 billion Federation Fund, which finances projects of major significance to mark the Centenary of Federation and other significant infrastructure projects. The Fund draws on proceeds from the first partial privatisation of Telstra.

Investment Ready Program

The Investment Ready Program (IRP) is a new element of the R&D Start program. The IRP has the objective of improving the commercialisation of Australian technology. The support is directed at making information available to small firms about likely information requirements of potential investors, and at enhancing small firms' abilities to manage commercialisation. The program is funded by a reallocation of \$20 million from the R&D Start program.

Regional adjustment assistance

Tasmanian freight schemes

The Tasmanian Freight Equalisation Scheme (TFES) provides financial assistance to shippers to offset the cost ‘disadvantage’ on the Tasmanian manufacturing industry from transporting non-bulk goods across Bass Strait. Following the TFES Review Authority (1998) findings on rates of assistance, the Government decided to increase funding to the scheme by \$15 million per year to \$56 million per year.

The Tasmanian Wheat Freight Shipping Scheme has also been extended at a cost of over \$1 million per year to assist cereal processing, intensive animal feedlot and aquaculture industries in Tasmania.

Victorian gas disruption assistance fund

In October 1998, the Government announced a rescue plan — the Commonwealth Gas Assistance Fund — for communities and businesses affected by the Victorian gas grid disruption. The Small Business Program — a component of the Fund — affords assistance of up to \$10 000 to non-manufacturing businesses with 100 or fewer employees. Eligible costs include those incurred from emergency conversion from gas to alternative fuels, emergency additional costs, assessment costs of business viability, and costs relating to damage or failure of equipment. \$50 million was provided to the Victorian Government for the delivery of the Small Business Program (Fahey 1998). Assistance also covers businesses in New South Wales and South Australia which are connected to the Victorian gas grid.

Budgetary assistance to exports

Around \$1 billion in budgetary assistance is directed to supporting export activity. Table 4.2 shows the programs classified as budgetary assistance to exports.

Export subsidies and WTO trading rules

Australia is a signatory to the WTO Agreement on Subsidies and Countervailing Measures (1995) which prohibits export subsidies for products other than agricultural commodities.

The vulnerability of Australia’s export assistance schemes was highlighted in recent challenges by the United States concerning the assistance afforded to Howe Leather. The Australian Government has been forced to withdraw some support for the

company and provide other support in a different form. This new support is still under consideration by the WTO (see section 3.6).

Supermarket to Asia strategy

In the 1999-2000 Budget, additional funding of \$24 million was allocated to the Supermarket to Asia (STA) Strategy over the next four years. The Strategy aims to improve the competitiveness of food exports. The funding is directed to:

- the STA Council (\$5 million);
- the Food and Fibre Chains Program (\$9 million);
- the Technical Market Access Program of Australian Quarantine and Inspection Services (\$7 million); and
- the New Industries Development Program (\$3 million).

The Food and Fibre Chains Program seeks to build supply chains for food and fibre exports through matching funding to projects involving at least two enterprises in the chain. The projects are expected to have commercial benefits to participants and wider demonstration effects.

4.3 Strategic investment incentives

The Strategic Investment Incentive Program (SIIP) was established in December 1997 to provide firm-specific assistance to attract additional direct investment to Australia. The program was announced in the *Investing for Growth* statement as a response to recommendations of the (Mortimer) Review of Business Programs (1997) and the Goldsworthy Report (1997). Both reports advocated the use of large-scale incentives to attract major investment projects.

The Office of the Strategic Investment Coordinator (OSIC) — recently headed by Mr Bob Mansfield — was established to assess and advise the Government on the merits of providing investment incentives for selected projects. The investment incentives are intended to apply in limited and special circumstances, and can take the form of grants, tax relief, the provision of infrastructure services, or a combination of these.

The Strategic Investment Coordinator also provides a Major Projects Facilitation (MPF) service — fast tracking government approvals for investments above \$50 million. A new agency, Invest Australia, undertakes investment promotion activities and provides secretariat support to the Strategic Investment Coordinator. Invest Australia also assists businesses to establish regional headquarters under the

Regional Headquarters Program, and provides Feasibility Study Funds to prospective investors.

To date, two projects in the manufacturing sector have been awarded incentives or received an offer for assistance under the SIIP. In December 1998, the Government announced the first investment incentive — a \$40 million package for Visy Industries to establish an unbleached mini pulp and paper mill in Tumut, New South Wales (Minchin 1998a). In January 1999, the Government offered an incentive package exceeding \$100 million to Comalco to expand an alumina refinery in Gladstone (Howard 1999a).

In September 1999, the Government decided to increase the scope of investment incentives in its response to the (Ralph) Review of Business Taxation:

Recognising the potential impact of removing accelerated depreciation on large capital intensive projects with long lives, the Government will be prepared to consider such projects in the context of an expanded strategic investment coordination process, including consideration of the option of targeted investment allowances (Costello 1999a).

The Government has nominated the North West Shelf project, among others, as a likely recipient of assistance under the expanded SIIP. It noted that, when the North West Shelf project was developed, the (then) Government agreed to provide it with special treatment to compensate for the fact that the project would be unable to benefit from accelerated depreciation provisions (at least in the short term). Because the Government has decided to consider special treatment for the North West Shelf under the SIIP, it has also decided to do the same for other long-term projects (Costello 1999b).

The case for investment incentives

The Commission recently examined issues surrounding the provision of investment incentives in its report on *Telecommunications Equipment, Systems and Services* (IC 1998), which was released in May 1999.

It identified several ways in which the Government could attract investment to Australia.

- At the broadest level are measures to improve the ‘fundamentals’ of the economy. As well as being important factors in influencing the locational choices of multinational enterprises, these measures are also beneficial to domestic firms generally. Examples include improving infrastructure, tax, legal and educational systems, and adopting sound macroeconomic policy.

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- Another approach is to address the possible negative and inaccurate perceptions about Australia as an investment location through investment promotion and facilitation. The approach would seek to identify micro-level impediments to investment and provide information to foreign investors about improvements in Australia's fundamentals.
 - A third approach is the use of incentives such as subsidies and tax concessions for particular types of investment or particular projects.

The SIIP falls into the third category.

The Commission noted that, if new investment can be induced through selective incentives, benefits to the local economy can in theory arise through the capture of 'externalities' from new technology and skill transfer, from agglomeration economies, or from the use of unemployed resources.

That said, it is not clear that investment incentives are a particularly important factor in firms' locational decisions. The empirical evidence and the bulk of literature point to the importance of market factors, such as the size and growth of market, as the main drivers of investment (UNCTAD 1996, IC 1996c, 1996e and BIE 1993, 1995, 1996).

Further, the provision of selective investment incentives entails several economic risks. In particular:

- there is a risk that incentives will be provided to firms which would have chosen to invest here anyway and, hence, that Australia will incur economic costs for no additional benefits; and
- where incentives do lure new projects from elsewhere, these projects may still draw national resources, such as skilled labour, away from more productive uses in other domestic industries and firms.

Unless applications for selective assistance are carefully vetted, a proportion of assistance provided under programs such as the SIIP could entail net costs to the community. Indeed, the Commission considered that it is better to fund specific improvements of Australian endowments (such as roads, skills, and R&D) critical to foreign investments than to provide subsidies directly to shareholders, including foreigners.

Nevertheless, to mitigate the risks inherent in the SIIP, the Commission recommended a number of design principles to help improve the program (box 4.1), and it also proposed selection criteria for judging whether a particular project warranted selective assistance.

Box 4.1 Commission's recommendations on investment incentives

In implementing its plan for an investment attraction program, the Commonwealth Government should minimise the economic risks by following a number of principles:

- the program should be designed to maximise the extent to which investments are truly new to Australia, by for example, establishing a transparent cap on the amount of financial resources the Government will provide under the program.
- any proposal should be subject to rigorous cost-benefit assessment including examination of the sources of spillovers.
- as the process for discerning beneficial investment opportunities will emerge only after trial and error, the effects of the program should be monitored regularly so that changes in its design can be made to increase its effectiveness early in its life;
- the Office of the Strategic Investment Coordinator (OSIC) should consult with prospective investors to gain detailed intelligence about inappropriate microeconomic impediments to investment in Australia;
- it is better to fund specific improvements of Australian endowments (eg. roads, skills, R&D) critical to foreign investments than to provide subsidies direct to foreign shareholders.
- the OSIC should use transparent processes and criteria for decision making.

Source: IC 1998.

Aspects of the SIIP's design and early operation

Selection of projects and funding process

Under the SIIP, the Strategic Investment Coordinator assesses applications for investment incentives on a case-by-case basis against broad selection criteria (box 4.2), and advises the Cabinet on the merits of investment proposals.

Applicants are encouraged to apply under current government programs (with coordinating assistance available to applicants under the MPF program) before formally applying for a selective investment incentive:

In the event that assistance cannot be provided through existing Government programs the company is entitled to submit a proposal for investment incentives to the Strategic Investment Coordinator (Moore 1999).

Box 4.2 **Criteria for provision of investment incentives**

The *Investing for Growth* statement outlined a broad eligibility criteria in determining the provision of incentives in limited and special circumstances:

- The investment would not be likely to occur in Australia without the incentive.
- The investment provides significant net economic benefits through:
 - substantial increase in employment;
 - substantial business investment;
 - significant boost to Australia’s R&D capability;
 - significant benefits to, or investment by other industries, either users or suppliers (cluster investment); and
 - ensuring that it does not involve substitution of existing production capacity which would provide an unfair advantage over other competing projects.
- The investment complements areas of Australia’s competitive advantage.
- The investment is viable in the long term without the subsidy.
- The incentives are open to foreign and domestic investors.
- The quantum of project specific assistance takes into consideration the availability of other assistance from Commonwealth or State or Territory governments.
- Any incentives are consistent with our international obligations, including under the WTO.

Source: Commonwealth of Australia 1997.

After receiving OSIC’s recommendations, Cabinet makes a determination on the project, and the level and form of assistance to be provided. While decisions on assisted projects and their funding have been announced, details of the assessments underlying these decisions have not been released publicly.

OSIC has advised the Commission that, since the inception of the program, around a dozen project proponents have applied for investment incentives, but only two projects (the Tumut paper mill and Gladstone refinery project) have succeeded in reaching to the stage of being considered in Cabinet. Incentives for these projects were subsequently approved and offered. The other ‘unsuccessful’ projects received on-going assistance through existing programs (with coordination through MPF services).

Reasons for rejections of applications are not made public under the SIIP arrangements, but comments by the Strategic Investment Coordinator have given some indication as to why investment incentives might not be approved. One reason

has been a Government concern not to create a 'hand out' mentality. In addition, assistance may be refused if other companies are operating in the industry without help (James 1999).

For successful SIIP applicants, the overall assistance package is drawn from existing government business programs as well as from new funding. Various programs are examined and coordinated to bring together a set of incentives within the overall constraint of the budget (Senate Economics Legislation Committee 1999a).

The \$40 million incentive for the Tumut paper mill was provided through a combination of existing programs' funds and new funding allocations. Of the total incentive package, \$25 million came from the Infrastructure Borrowing Tax Offsets Scheme, the Roads of National Importance program, and the Regional Assistance Program (Minchin 1998b). The additional investment incentive of \$15 million provided under the SIIP comprises five annual allocations of \$3 million commencing on 1999-2000. The Commission has been unable to obtain information about whether the offer of assistance to the Gladstone refinery project consists of new or existing program funding, or both.

Because detailed information on the assessment process is not made public, it is not possible to evaluate the way in which the SIIP selection criteria have been applied in relation to the Tumut paper mill project. The criteria (box 4.2) apply only to the additional funding in the incentive package. Where the incentives are drawn from existing programs, applications for investment incentives are to be assessed against the selection criteria of the relevant existing programs. SIIP projects' eligibility for assistance under these existing programs is reported to be assessed on the same basis as other (normal) applicants (Senate Economics Legislation Committee 1999a, pp. 33-4).

The chief advantages of using a combination of programs and tax measures are said to be that it confers flexibility in the provision of selective assistance, and that this mode of funding is favoured by recipient firms.

Such an approach contrasts, though, with the procedures applying to other government programs. In these, the funding process, and the scope, duration and magnitude of the assistance, are specified clearly and followed systematically. Among other things, such features enhance transparency and accountability.

In its report on *Telecommunications Equipment, Systems and Services*, the Commission (IC 1998) recommended that the OSIC should use transparent processes and criteria for decision making.

In its response to the report, the Government agreed with this transparency principle:

The criteria for investment incentives were published in *Investing for Growth* in December 1997 and are transparent. Cabinet will make all decisions regarding the provision of investment incentives (Alston 1999a).

The Commission sees scope for enhancing the level of public scrutiny of incentives provided under the SIIP. The criteria are expressed in broad, general terms, and it is not clear how they are applied in practice. Important aspects of the SIIP, such as the social cost-benefit analyses, are confidential.

Level of assistance

There is no explicit cap on the funding allocated for the SIIP. The potential budgetary costs of investment incentives are included among contingent liabilities in the Budget, but specific amounts are not listed. The lack of a funding cap has a possible advantage in that it avoids a tendency to spend all allocated funds.

However, a cap would discipline the level of project-specific assistance offered. It would also increase the effective bargaining power of the government to attract multinationals which offer the greatest external benefits (IC 1998).

Although the Government expressed in-principle agreement to this, it observed:

There is no dedicated fund for the purpose of providing investment incentives. Any decision to allocate funds to provide an incentive will be taken by Cabinet on a case by case basis in limited and special circumstances, taking into account of the eligibility criteria announced in *Investing for Growth* (Alston 1999a).

Inducement

The ability of the SIIP investment incentives to induce genuinely new investments is a fundamental requirement for the measure to be able to generate net national benefits. As noted earlier, if the investment is to take place anyway because of market factors or other government policies, Australia would risk the displacement of existing economic activities and the transfer of income to shareholders, including foreigners, without any apparent gains.

OSIC has advised that, in determining whether ‘the investment would not be likely to occur in Australia without the incentive’, it takes into account a number of factors including whether Australia is competing to attract the investment, or whether the proponent is considering its investment in an overseas location.

There are a number of difficulties with this. First, it requires a great deal of detailed information on the part of selectors. A large degree of subjectivity will always arise in trying to discriminate between the marginal investor and those who will invest anyway. Second, businesses have incentives to engage in strategic behaviour to secure the maximum incentives available and selectors are rarely fully informed about the true intention of the multinational and market prospects facing the investment. Third, the fact that a company is considering its investment in an overseas location, or that another country has offered a bid, does not unambiguously indicate that the project is an ‘additional’ investment.

These types of issues are likely to have arisen in the context of OSIC’s consideration of assistance for the Tumut paper mill project. Indeed, a study has suggested that Australia’s manufacturing costs are lower than those of the countries with which it may have been in competition. From the study, it appears that the investment could have been commercially viable without assistance, and that the project may simply limit other domestic market opportunities (box 4.3).

Further problems arise in determining the amount of assistance necessary to induce the ‘additional’ investment. In its inquiry into *State, Territory and Local Government Assistance to Industry* (IC 1996e), the Commission found that even when the incentive is able to influence the decisions of the investor, the government will not know if it has paid more than required to bring about the investment. In that inquiry, the NSW Government recognised this (p. 43), saying:

A complication is that the exact amount of competing bids and the true decision mind-set of the intending investor are seldom known. Accordingly, one of the risks is that to win the bid more assistance than is necessary may be offered.

While such problems are inevitable under any selective investment incentive scheme, the lack of publicly released assessment procedures make it unclear how such information problems are handled under the SIIP.

Cost-benefit assessments

In its report on *Telecommunications Equipment, Systems and Services*, the Commission (IC 1998) recommended that any incentive proposal should be subject to rigorous cost-benefit assessment, including an examination of the sources of spillovers. The Government agreed to this recommendation:

A rigorous and comprehensive methodology is used to evaluate proposals for incentives. A cost-benefit analysis is an integral part of this evaluation process (Alston 1999a).

Box 4.3 The Tumut paper mill project

The Tumut paper mill will produce primarily kraft liner board that is used to make corrugated board and boxes. The unbleached production process uses softwood and recycled waste from local plantation pine resources, and completes the integration of the company's box making process.

Visy Industries indicated New Zealand as another possible location to invest, but was also attracted to Tumut of the Murray Valley region which has a substantial softwood sawlog surplus in the medium and long term. The Tumut mill is a greenfield development:

The project will be the first fully integrated greenfield pulp and paper mill established in Australia in 17 years ... In that time there has only been expansion or upgrading of existing plants and establishment of other plants using recycled paper (Minchin 1998a).

How does Australia fare against countries with which it may have competed? Based on a study prepared for Invest Australia on investment opportunities in Australian forest industries (Margules Pöyry 1999), Australia's manufacturing costs of corrugating materials are about the same as in the USA, but lower than those of New Zealand and other Asia-Pacific countries. The study considered that Australia is cost competitive in the Asia-Pacific region, but that existing production capacity exceeds forecast demand up to 2010 in the Australian market. Australian exports of corrugating materials (about 18 per cent of production) have increased steadily since the late 1980s, and there is growing demand for packaging materials in the region.

The study concluded that the Tumut mill represents a possible commercial opportunity, but that, if built, it will limit other domestic market opportunities for several years to come. The study also considered that, if the project did not proceed, the softwood sawlog surplus would become available to another investor (Margules Pöyry 1999).

Source: Margules Pöyry 1999 and Minchin 1998a.

In applying for investment incentives, companies submit studies and modelling on the benefits and costs of the investment. The cost-benefit assessments are scrutinised by the main government departments, but are subject to Cabinet and commercial confidence considerations.

The press announcement of the incentive package for the Tumut project identified several types of benefits. These include:

- a capital investment of \$450 million;
- a creation of 1000 jobs, the majority of which centres around the proposed site. This is to be generated from 250 jobs during the construction phase, and 145 full-time jobs and 578 indirect jobs when the mill is at its peak of activity. The project is also expected to generate a further 260 saw milling jobs;
- introduction of state of the art technologies;

-
- an environmental benefit from the project's use of recycled paper;
 - replacing imports of wood products and increasing exports of paper and packaging products;
 - market opportunities for regional suppliers; and
 - regional development and a catalyst for infrastructure development.

The proposed Gladstone alumina refinery project is said to involve an investment of \$3 billion and the direct creation of 1300 jobs in the first stage (Howard 1999a).

The Commission observes that cost-benefit analysis is complex. All potential projects have benefits; the issue is whether they exceed the costs. These costs are not always readily apparent, and estimates of benefits can sometimes be overstated where 'multiplier' effects are applied without consideration of the alternative uses to which resources can be put.

Indeed, it has been claimed that the investment incentive provided for the Gladstone project, if it proceeds, may involve a net public cost. ACTED Consultants (1999) has estimated that the project would reduce the existing supply of ethane feedstock in Australia by some 25 per cent and thereby reduce the viability of various ventures in Western Australia:

Therefore while one part of the balance sheet that Invest Australia can use to demonstrate the benefit to QLD of its \$100m incentive, on the debit are the reduced viability of alumina expansions in W.A. that would benefit from scale economies, the PPP [Pilbara Petrochemical Project] and related [high value-added] chemical projects. The evidence points to a net public cost from Invest Australia's involvement in the market place (ACTED Consultants 1999, p. 11).

While the Commission is not in a position to comment on the merits of the particular cost-benefit studies undertaken as part of the assessment process, any errors that could bias the outcome of such studies are more likely to be detected where they are open to public scrutiny.

Table 4.2 **Commonwealth export assistance, 1996-97 to 1999-00**
\$ million

	1996-97	1997-98	1998-99 ^a	1999-00 ^a
DIRECT EXPORT MEASURES				
<i>Export finance & insurance services</i>				
Development Import Finance Facility	12	-	-	-
EFIC Government Guarantee and NIB	ne	ne	ne	ne
<i>Export marketing and promotional services</i>				
Agri-food industry program	1	1	-	-
Australia in Asia	1	1	-	-
Australian Horticultural Corporation	1	-	-	-
Australian Tourist Commission	79	78	89	90
Automotive Market Access and Development	-	-	8	5
Export Access program	3	3	4	4
Export Market Development Grants scheme	188	145	152	152
Innovative Agricultural Marketing program	-	3	-	-
International Business Services (Austrade)	121	122	131	153
International Trade Enhancement scheme	-	13	-	-
AQIS meat export inspection subsidy	12	-	-	-
<i>Other direct export measures</i>				
Duty drawback ^b	97	79	95	95
PMV Export Facilitation Scheme ^{b,c}	221	251	265	275
TCF Import Credits Scheme ^d	118	121	106	110
TEXCO (Tariff Export Concessions) ^b	57	80	57	60
TRADEX	-	-	na	na
Sub-total	909	899	906	947
OTHER MEASURES AFFECTING EXPORTS^e				
Assistance to Howe Leather ^f				
• Grant	5	13	13	-
• Loan	25	-	-	14
Bounties ^g				
• Computers	24	22	26	-
• Machine tools and robots	3	2	1	-
• Shipbuilding	19	15	19	12
Factor f – pharmaceuticals ^g	66	76	72	-
Pharmaceutical Industry Development program ^g	-	-	-	28

Table 4.2 (continued)

	1996-97	1997-98	1998-99 ^a	1999-00 ^a
Private Sector Linkages program	3	3	3	-
Sub-total	144	131	133	54
TOTAL EXPORT ASSISTANCE	1 053	1 030	1 039	1001

ne Not estimated. na Not available. - Nil. ^a Estimates of outlays and projections of tax revenue forgone. ^b Figures for 1999-00 are Commission estimates. ^c Estimates of revenue forgone are for calendar years, 1996, 1997 and 1998. ^d ACS financial year estimates, representing the actual value of import credits issued, which equals the duty forgone when credits are used. Data for 1999-00 are Commission estimates. ^e Export assistance is also provided under the Commonwealth support arrangement for manufacturing milk — the Dairy Market Support Payments. The arrangement is discussed in chapter 3. ^f Assistance estimates are likely to be revised. ^g Figures for bounty and pharmaceutical programs relate to the export component of the program.

Source: Commonwealth Budget Papers, ACS (1999) and Commission estimates.

Table 4.3 Commonwealth tax expenditures, 1996-97 to 1999-00

\$ million

	1996-97	1997-98	1998-99 ^a	1999-00 ^a
PRIMARY PRODUCTION				
Deduction for conserving or conveying water, and conservation measures	30	30	30	30
Tax rebate for landcare expenditures	-	-	ne	ne
Deduction of expenditures over four years on acquiring and establishing grape vines	3	4	4	4
Deduction of capital expenditure on establishing horticultural plantations	-	1	3	4
Five year, 10 per cent taxation allowance on drought-prepared assets	20	14	15	15
Income Equalisation Deposits Scheme	32	26	24	9
Farms Management Deposits Scheme	-	-	-	23
Income tax averaging for primary producers	120	90	95	95
Total primary production	205	165	171	180
MANUFACTURING				
Brandy excise preferential rate	5	5	5	5
Deduction of relocating expenses for multinational firms establishing regional headquarters in Australia	7	2	2	2
Development allowance ^b	65	54	38	35

Table 4.3 (continued)

	1996-97	1997-98	1998-99 ^a	1999-00 ^a
Duty drawback	97	79	95	95
Exemption of business funds used for university R&D	<1	<1	<1	<1
General investment allowance of additional 10 per cent deduction on plant and equipment ^c	12	-	-	-
PMV Export Facilitation Scheme	221	251	265	275
Pooled Development Funds	<1	<1	<1	3
R&D tax concession ^b	336	181	181	181
TCF Import Credits Scheme	118	121	106	110
TEXCO (Tariff Export Concession)	57	80	57	60
TRADEX	-	-	na	na
Total manufacturing	918	772	748	766
MINING				
Development allowance ^b	166	138	97	89
Exemption of income from sale, transfer or assignment of rights to mine gold	40	38	18	5
Total mining	318	227	167	146
SERVICES				
Accelerated depreciation of Australian trading ships	12	ne	ne	ne
Concessional (10 per cent) tax rate on eligible income from an offshore banking unit	13	17	27	35
Development Allowance ^b	94	78	55	51
Film industry 100 per cent capital deduction	22	20	20	20
Film Licensed Investment Company 100 per cent deduction for investors	-	-	na	na
Infrastructure Bonds	40	115	105	85
Infrastructure Borrowings tax rebate	-	10	75	75
R&D tax concession ^b	352	198	198	198
Total services	533	438	480	464
TOTAL	1 974	1 602	1 565	1555

- Nil. **na** not available. **ne** not estimated. **a** Treasury forward projections. **b** Commission estimates based on ATO tax deduction data. **c** Qualifying plant and equipment must be ordered from 9 February 1993 and used before July 1994.

Source: Treasury (1999), ACS (1999) and ATO (1998).

Table 4.4 **Commonwealth budgetary outlays on primary production, 1996-97 to 1999-00**

\$ million

	1996-97	1997-98	1998-99 ^a	1999-00 ^a
DIRECT FINANCIAL ASSISTANCE				
<i>Industry-specific programs</i>				
Citrus industry market diversification subsidy	2	<1	1	1
Forest Industry structural adjustment Package	5	6	24	23
Pigmeat processing grants program	-	-	2	5
Pork producer exit program	-	-	-	5
Wine industry loan conversion	2	-	-	-
Sub-total	9	7	27	34
<i>Sector-specific programs</i>				
Farm Family Restart Program				
• Re-establishment	-	17	14	17
• Income support	-	5	20	18
Farm Household Support Scheme	1	<1	<1	-
Rural Adjustment Scheme	106	82	43	21
Sub-total	106	104	77	55
<i>General programs</i>				
Austrade				
• Export Market Development Grants scheme	5	4	5	5
• Innovative Agricultural Marketing Program	-	3	-	-
EFIC – National Interest Business ^b	21	18	17	12
Tasmanian Freight Equalisation Scheme	3	<1	3	5
Sub-total	30	26	24	21
Total direct financial assistance	145	137	128	111
FUNDING TO INTERMEDIARY ORGANISATIONS				
<i>Industry-specific programs</i>				
<i>Crops</i>				
Australian Horticultural Corporation	1	-	-	-
Australian Plague Locust Commission	1	<1	1	-
Sugar Industries Package	-	-	3	4
Sugar Industry Program	4	3	1	3
Tri-State fruit fly strategy	<1	<1	-	-
<i>Livestock, poultry etc</i>				
AQIS meat inspection subsidy	12	-	-	-
Australian Animal Health Laboratory	6	6	6	6

Table 4.4 (continued)

	1996-97	1997-98	1998-99 ^a	1999-00 ^a
Exotic disease preparedness programs	1	<1	5	1
Pork Industry Development Group Grant	-	2	5	5
<i>Forestry</i>				
Commonwealth-NSW Forest Industry Package	1	-	3	-
National Forest Policy Program	7	7	9	3
NSW Southeast Forests Package	1	4	-	-
Plantation initiatives				
• National Forest Policy Program	4	4	-	-
• North Queensland Community Rainforests Revegetation Program	1	-	-	-
Sub-total	42	29	34	23
<i>Research & development^c</i>				
Cooperative Research Centres	36	35	32	29
CSIRO plant and animal research	101	113	118	121
Fisheries research and development	15	11	12	10
Fisheries resources research	2	<1	2	3
Grains (wheat and other ^d)	29	34	36	35
Horticulture	12	11	14	15
Land and Water Resources R&D Corporation	10	11	11	11
Other rural research ^e	27	33	36	35
Meat research	21	23	21	21
Rural Industries R&D Corporation	6	11	11	11
Wool	10	7	14	11
Sub-total	268	288	309	302
<i>Sector-specific programs</i>				
Agribusiness programs	<1	<1	<1	<1
Clean Food Production Program	-	<1	<1	<1
Farm Business & Community Programs	-	6	6	24
National Landcare Program	66	54	56	35
Rural Communities Access Program	9	5	-	-
Supermarket to Asia Strategy including Food and Fibre Supply Chain Program	-	-	-	7
Sub-total	79	68	66	70
<i>General programs</i>				
Austrade – export promotion operating expenses	3	3	3	3
Total funding to intermediary organisations	389	385	409	394
TOTAL OUTLAYS ON PRIMARY PRODUCTION	534	522	537	505

Table 4.4 (continued)

^a Nil. Figures may not add to total due to rounding. ^a 1998-99 data are Budget estimates and 1999-00 data are Budget appropriations. ^b The estimates reported in this section are net National Interest Business outlays. These payments are insurance pay-outs. Because any difference between the National Interest Business scheme's borrowing and lending rates is underwritten by the Commonwealth, the scheme may provide assistance to agricultural exporters. However, net National Interest Business outlays provide only a weak indication of any assistance provided. ^c Estimates are derived in part from the Science and Technology Budget Statement 1999-00. ^d Other includes barley, grain legumes and oilseeds. ^e Other industries, including dairy, chicken meat, pig meat, eggs, cotton, dried vine fruits, grapes and wine, honey, sugar and tobacco.

Source: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years) and Commission estimates.

Table 4.5 **Commonwealth budgetary outlays on the manufacturing sector, 1996-97 to 1999-00**

\$ million

	1996-97	1997-98	1998-99 ^a	1999-00 ^a
DIRECT FINANCIAL ASSISTANCE				
<i>Industry-specific programs</i>				
<i>Bounties</i>				
Books	13	7	<1	-
Computers	54	49	58	-
Machine tools and robots	6	4	2	-
Shipbuilding	23	19	24	15
<i>Sub-total</i>	<i>96</i>	<i>79</i>	<i>84</i>	<i>15</i>
<i>Other industry-specific programs</i>				
Assistance to Howe Leather ^b				
• Grant	5	13	13	-
• Loan	25	-	-	14
Investment incentive to Tumut paper mill	-	-	-	3
Pharmaceutical industry Factor f program	146	174	159	45
Pharmaceutical Industry Development program	-	-	-	63
Tasmanian wheat freight subsidy	1	1	1	1
TCF programs ^c	3	6	8	7
<i>Sub-total</i>	<i>181</i>	<i>190</i>	<i>181</i>	<i>147</i>
Sub-total	277	269	265	162
<i>General programs</i>				
Austrade				
• Asia Business Links	-	<1	-	-
• Asia Pacific Fellowship	-	1	-	-

Table 4.5 (continued)

	1996-97	1997-98	1998-99 ^a	1999-00 ^a
• Export Market Development Grants scheme	71	52	55	55
• International Trade Enhancement Scheme	1	13	-	-
Development Import Finance Facility	12	-	-	-
IR&D Board programs				
• R&D Start and related programs	56	91	128	161
• Innovation Investment Fund	-	4	25	35
Technology Support Centres	7	19	-	-
Technology Diffusion Program	-	-	13	27
Tasmanian Freight Equalisation Scheme	35	10	35	47
Sub-total	182	191	260	331
Total direct financial assistance	459	460	525	492
FUNDING TO INTERMEDIARY ORGANISATIONS				
Agri-Food Industry Program	1	1	-	-
Automotive Market Access and Development	-	-	8	5
National Space Program	3	<1	-	-
Sub-total	4	2	8	5
General programs				
Austrade				
• Export Access Program	3	3	4	4
• Export promotion operating expenses	48	49	52	61
Cooperative Research Centres	40	42	42	40
CSIRO manufacturing research	98	81	83	85
Enterprise Development Program	22	28	9	6
Enterprise Networking Program	7	7	4	-
Greenhouse Response Strategy	1	1	-	-
Invest Australia	-	-	15	15
Private Sector Linkages Program	3	3	-	-
Sub-total	224	215	208	211
Total funding to intermediary organisations	228	217	216	216
TOTAL OUTLAYS ON MANUFACTURING	687	677	741	708

^a Nil. Figures may not add to total due to rounding. ^a 1998-99 data are Budget estimates and 1999-00 data are Budget appropriations. ^b Assistance estimates are likely to be revised. ^c Programs involve both direct financial assistance and funding for services.

Source: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years) and Commission estimates.

Table 4.6 **Commonwealth budgetary outlays on the mining and energy sector, 1996-97 to 1999-00**

\$ million

	1996-97	1997-98	1998-99 ^a	1999-00 ^a
DIRECT FINANCIAL ASSISTANCE				
<i>Industry-specific programs</i>				
National Electricity Market Systems Development Project	3	-	-	-
<i>General programs</i>				
Export Market Development Grants scheme	2	1	2	2
Tasmanian Freight Equalisation Scheme	1	<1	1	2
Total direct financial assistance	6	2	3	3
FUNDING TO INTERMEDIARY INSTITUTIONS				
Austrade – export promotion operating expenses	1	1	1	2
Cooperative Research Centres	23	22	23	22
CSIRO minerals and energy research	73	64	68	69
Energy R&D Corporation	7	21	2	-
National Energy Efficiency Program	4	2	4	-
Office of the Supervising Scientist of the Alligator Rivers Region Research Institute	5	4	4	6
Regional Minerals Program	-	-	-	1
Total funding to intermediary organisations	113	114	102	98
TOTAL OUTLAYS ON MINING AND ENERGY	113	114	102	98

- Nil. Figures may not add to total due to rounding. ^a 1998-99 data are Budget estimates and 1999-00 estimates are Budget appropriations.

Source: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years) and Commission estimates.

Table 4.7 **Commonwealth budgetary outlays on selected services industries, 1996-97 to 1999-00**

\$ million

	1996-97	1997-98	1998-99 ^a	1999-00 ^a
DIRECT FINANCIAL ASSISTANCE				
<i>Industry-specific programs</i>				
Australian Film Commission ^b	28	30	16	17
Australian Film Finance Corporation & Film Australia ^b	55	48	48	48
Capital Grants Scheme for purchase of trading ships (contingent on lower crewing levels)	9	4	-	-
Commercial television production fund	8	-	-	-
Development Import Finance Facility	3	-	-	-
Pharmacy Restructuring grants	5	8	11	11
Remote air services subsidy	1	1	1	1
Remote commercial television subsidy	1	1	-	-
<i>General programs</i>				
Export Market Development Grants scheme	109	87	91	91
Tasmanian Freight Equalisation Scheme	<1	2	2	3
Total direct financial assistance	220	180	183	187
FUNDING TO INTERMEDIARY INSTITUTIONS				
Austrade – export promotion operating expenses	70	73	78	92
Australian Tourist Commission	79	78	89	90
Cooperative Research Centres	17	18	19	21
CSIRO services industry research	43	69	70	72
Tourism programs	7	7	3	7
Total funding to intermediary organisations	216	246	258	275
TOTAL OUTLAYS ON SERVICES	436	426	440	462

- Nil. Figures may not add to total due to rounding. ^a 1998-99 data are Budget estimates and 1999-00 data are Budget appropriations. ^b Program involves both direct financial assistance and provision of services.

Source: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years) and Commission estimates.