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## 2 Allocation methodology

### 2.1 The initial benefiting industry concept

The Commission applies an initial benefiting industry (IBI) methodology to guide the process of allocation. The IBI method is used to allocate budgetary assistance to the industry grouping hosting the firm that initially benefits from the assistance. In cases where budgetary assistance benefits firms indirectly via an intermediate organisation, such as CSIRO or Austrade, the beneficiaries are identified as the firms that utilise these services, not the organisations that deliver the budgetary assistance.

The IBI approach does not attempt to identify all of the beneficiaries of the various forms of budgetary assistance. It may be that industry groupings not identified as initial beneficiaries benefit subsequently from assistance targeted to another group. For example, budgetary assistance to the Australian film industry is allocated to *cultural & recreational services*. However, the benefits of this assistance could extend beyond this particular industry grouping, say to *construction services* in the case where film production requires these services. Further, an increase in demand for construction services may increase demand in the *wood & paper products* industry grouping.

To identify all of the beneficiaries of budgetary assistance would require working through the production chain to find how industry groupings are likely to be affected by the initial assistance. The Commission uses general equilibrium models to do this in certain instances, such as when conducting inquiries into specific industries.

However, for the purposes of annual reporting, identifying the incidence of assistance by the initial benefiting industry or industries gives a reasonable indication of the effects of budgetary assistance measures on the allocation of economic resources amongst different industries and uses.

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## 2.2 Allocating assistance to industry groupings

For 1999-2000, the Commission identified 100 Commonwealth programs and tax expenditures as budgetary assistance. However, for the purposes of reporting, the Commission has grouped a number of smaller, similarly targeted programs. As a result, 77 groups of budgetary assistance measures are identified and discussed for 1999-2000 (with an additional 8 measures which received funding in earlier years, but not in 1999-2000, also being discussed). The 20 largest measures by funding in 1999-2000 accounted for around 80 per cent of the \$3.7 billion total budgetary assistance. Table 1.2 below lists the measures.

Information to allocate funding for all measures was sought from budget papers, legislation, ministerial statements and various departmental annual reports and websites. Further, consultations with the organisations responsible for the largest non-targeted appropriations, including the CSIRO, Austrade, AusIndustry, the Australian Customs Service and the Australian Tourist Commission, resolved a number of issues. The Commission also consulted with the ATO on tax expenditure measures including the R&D tax concession, the development allowance and the infrastructure bonds concession.

Most measures are targeted at a particular industry, so allocating the assistance is straightforward. For example, the TCF import credits scheme funding is allocated to the *textiles, clothing, footwear & leather* industry grouping, and the Australian Film Finance Corporation & Film Australia funding is allocated to the *cultural & recreational services* industry grouping. Of the top 20 measures, 7 are targeted to a particular industry grouping. Of the remaining measures, the majority are targeted towards a particular industry grouping, mainly within the *agriculture, forestry, fishing & hunting* industry grouping.

Allocating funding for non-targeted measures, where there is more than one IBI, is not as straightforward as in the targeted case. For example, CSIRO undertakes R&D across several industry groupings. The information that CSIRO and similar organisations provide to the Commission is generally not in the industry grouping format that the Commission uses. In these cases, a concordance is developed between the information provided and the industry grouping classification system. The accuracy of the concordance depends on the level of disaggregation and clarity of the information provided. Inevitably, this process requires judgement and introduces the potential for imprecision in the estimates.

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<sup>5</sup> The amount of budgetary assistance placed in the 'unallocated' categories is 8 per cent for 1998-99 and 7 per cent for 1997-98, as a result of more information being available.

In a small number of cases, the Commission has ascertained that a significant majority of funding initially benefits one industry but has no reliable information to apportion funding between this industry and the other IBIs. In these cases, the Commission has allocated the entire amount of funding to the major IBI. For example, Commonwealth funding for Meat & Livestock Australia (MLA) supports R&D mainly targeted to the *agriculture, forestry, fishing & hunting* industry grouping. However, MLA has indicated that some of its R&D (probably less than 10 per cent) may benefit food processors, which belong to the *food, beverages & tobacco* industry grouping. However, MLA cannot provide actual data on this allocation. In this case, the Commission has allocated all funding for MLA to the *agriculture, forestry, fishing & hunting* industry grouping.

Finally, in some cases, particularly where a new measure has been introduced, the Commission has had insufficient information to make any allocation. Funding for these measures has been recorded in an ‘unallocated’ category. The three unallocated categories accounted for around 12 per cent of total budgetary assistance in 1999-2000.<sup>5</sup>

**Table 1.2 Budgetary assistance measures, 1999-2000**

<i>Budgetary measure</i>	<i>Industry grouping</i>	<i>\$m</i>
R&D tax concession	Not targeted	510
CSIRO	Not targeted	381
PMV Export Facilitation scheme	Motor vehicles & parts	347
Development Allowance	Not targeted	175
R&D Start program	Not targeted	171
Austrade – export promotion	Not targeted	150
Austrade – Export Market Development Grants	Not targeted	145
Cooperative Research Centres	Not targeted	115
Income tax averaging for primary producers	Agriculture, forestry, fishing & hunting	95
Australian Tourist Commission	Not targeted	90
Duty Drawback	Not targeted	87
Infrastructure Bonds	Not targeted	85
TCF Import Credits scheme	Textile, clothing, footwear & leather	83
Pharmaceutical factor-f scheme	Petroleum, coal, chemicals & associated products	79
Capital gains tax exemptions for small business	Not targeted	75
Infrastructure Borrowings Tax Offset scheme	Transport & storage	75
Tasmanian Freight Equalisation scheme	Not targeted	60
Tariff Export Concession scheme (TEXCO)	Not targeted	58
Australian Film Finance Corporation & Film Australia	Cultural & recreation services	48
Regional Assistance Program	Agriculture, forestry, fishing & hunting	42

Table 1.2 (continued)

<i>Budgetary measure</i>	<i>Industry grouping</i>	<i>\$m</i>
Strategic Investment Incentives program	Not targeted	45
Regional Assistance Program	Agriculture, forestry, fishing & hunting	42
Building IT Strengths (BITS) program	Unallocated services	42
Innovation Investment Fund	Not targeted	40
National Landcare program	Agriculture, forestry, fishing & hunting	37
Offshore Banking Unit income tax concession	Finance & insurance	35
Farm Management Deposits scheme	Agriculture, forestry, fishing & hunting	35
Farm 'Family' programs	Agriculture, forestry, fishing & hunting	35
Pharmaceutical Industry Development program	Petroleum, coal, chemicals & associated products	34
Grains R&D Corporation	Agriculture, forestry, fishing & hunting	33
Other Rural R&D corporations	Agriculture, forestry, fishing & hunting	32
Rural Adjustment scheme	Agriculture, forestry, fishing & hunting	29
Land and Water Resources R&D Corporation	Agriculture, forestry, fishing & hunting	22
Meat & Livestock Australia	Agriculture, forestry, fishing & hunting	21
Water conservation tax deduction	Agriculture, forestry, fishing & hunting	20
Film industry 100 per cent capital tax deduction	Cultural & recreation services	20
Technology Diffusion program	Not targeted	19
Horticulture Australia	Agriculture, forestry, fishing & hunting	17
EFIC – National Interest scheme	Agriculture, forestry, fishing & hunting	17
Australian Film Commission	Cultural & recreation services	17
Exotic Disease Preparedness program	Agriculture, forestry, fishing & hunting	16
Fisheries R&D Corporation	Agriculture, forestry, fishing & hunting	16
Invest Australia	Not targeted	15
Shipbuilding bounty	Other transport equipment	15
Assistance to Howe Leather	Textile, clothing, footwear & leather	14
Pigmeat Industry programs	Not targeted	13
Australian Community Pharmacy Authority	Retail trade	13
Australian Wool Research Promotion Organisation	Agriculture, forestry, fishing & hunting	12
FarmBis	Agriculture, forestry, fishing & hunting	12

Table 1.2 (continued)

<i>Budgetary measure</i>	<i>Industry grouping</i>	<i>\$m</i>
Rural Industries R&D Corporation	Agriculture, forestry, fishing & hunting	11
Drought Investment Allowance	Agriculture, forestry, fishing & hunting	10
Forestry programs	Agriculture, forestry, fishing & hunting	9
Income Equalisation Deposits scheme	Agriculture, forestry, fishing & hunting	9
Lamb Industry Development program	Agriculture, forestry, fishing & hunting	9
Supermarket to Asia strategy	Not targeted	7
TCF schemes	Textile, clothing, footwear & leather	7
Tourism programs	Not targeted	7
Australian Animal Health Laboratory	Agriculture, forestry, fishing & hunting	6
Shipbuilding Innovation program	Other transport equipment	6
Enterprise Development program	Not targeted	6
Printing Industry Competitiveness scheme	Printing, publishing & recorded media	6
Sugar industry programs	Agriculture, forestry, fishing & hunting	6
Software Engineering Quality Centres program	Property & business services	6
Gold mining tax exemption	Mining	5
Brandy excise preferential rate	Food, beverages & tobacco	5
Horticulture tax deduction	Agriculture, forestry, fishing & hunting	5
Renewable energy programs	Not targeted	5
Automotive Market Access & Development scheme	Motor vehicles & parts	5
Tasmanian Wheat Freight subsidy	Agriculture, forestry, fishing & hunting	5
Grapevine tax deduction	Agriculture, forestry, fishing & hunting	4
Austrade – Export Access program	Not targeted	4
Commonwealth Technology Park	Not targeted	3
Investment incentives for Visy Industries	Wood & paper products	3
Regional Headquarters tax deduction	Not targeted	2
Citrus Industry Market Diversification Subsidy	Agriculture, forestry, fishing & hunting	2
Landcare tax rebate	Agriculture, forestry, fishing & hunting	1
Regional minerals program	Mining	1
Clean Food Production program	Not targeted	1
Agribusiness programs	Agriculture, forestry, fishing & hunting	<1
<b>Total</b>		<b>3 686</b>

Source: PC estimates.