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# OVERVIEW

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## Key points

- Government assistance to industry is provided by tariffs, budgetary outlays, taxation concessions, regulatory restrictions on competition and other measures.
  - Assistance generally benefits the industry receiving it, but can come at a cost to other industries, taxpayers and consumers.
  - Some assistance programs such as those relating to R&D and environmental objectives, can deliver net community benefits if they are well designed and effectively implemented.
- For 2008-09, total measured assistance to industries was \$17.2 billion in *gross* terms and \$9.0 billion in *net* terms.
  - It comprised \$9.5 billion in output tariff assistance, \$3.7 billion of budgetary outlays and \$4.0 billion in tax concessions.
  - The cost imposed on industries of import tariffs amounted to \$8.1 billion.
- Since May 2009, the Australian Government has announced industry assistance budget outlays of at least \$6.2 billion, mostly to be expended over the next five years.
  - The bulk of the proposed expenditure (\$4.6 billion) relates to carbon emission reduction and energy programs.
  - The remainder (around \$1.5 billion) relates to 'traditional' forms of Government support to industry, exports, research and development and innovation.
- The structure and performance of the Australian finance sector is shaped by a variety of government policy measures, including recent global financial crisis-related measures. Budgetary measures relating to the sector are largely tax concessions.
  - Finance sector-specific taxation concessions are estimated at \$330 million for 2008-09 and are largely intended to promote Australia as a financial services centre.
  - Superannuation taxation concessions advantage complying superannuation savings vehicles and incidentally advantage superannuation service providers.
  - The GST treatment of financial supplies (input taxing) also confers a sizeable incidental benefit to the finance sector (estimated at \$2.8 billion in 2008-09).
- While Government support introduced in response to the financial crisis was temporary and is now being progressively withdrawn, it is likely to have some enduring effects.
- Despite efforts to bring about a successful conclusion to the Doha Round of trade talks, little progress was achieved in 2009 and early 2010 and prospects remain uncertain.

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# Overview

The Australian Government assists industries through an array of measures, including import tariffs, budgetary outlays, taxation concessions, and regulatory restrictions on competition. Although assistance generally benefits the receiving industry, it can penalise other industries, taxpayers and consumers.

Industry assistance measures are more likely to yield a net pay-off to the community when targeted at significant market failures. For instance, support for R&D funding and some measures with environmental objectives may deliver net community benefits, if well designed and implemented. Assessing whether the benefits of any particular support program exceed the costs requires detailed case-by-case consideration — a task beyond the scope of this *Review*.

The industry assistance landscape in Australia has changed considerably over the last 30 years. Tariff assistance has declined markedly, predominantly through unilateral reforms. On the other hand, there has been an increasing trend towards greater budgetary assistance to industry, particularly over the last decade,

## **Estimates of assistance to industry**

For 2008-09, measured assistance to industry, conferred by the Australian Government, was \$17.2 billion in *gross* terms — comprising \$9.5 billion in output tariff assistance, \$3.7 billion of budgetary outlays and \$4.0 billion in estimated tax concessions.

After allowing for the cost to users of tariffs on imports (\$8.1 billion), estimated *net* assistance was \$9.0 billion.

The primary sector received the majority of its assistance in the form of budgetary outlays, particularly drought support, although this declined in the last year. The manufacturing sector received the majority of its assistance through tariffs. For the service sector the tariff penalty on inputs significantly exceeds its measured budgetary assistance.

Some 29 per cent of budgetary assistance was for R&D and innovation, being spread across most industries. A further 21 per cent was for small business support

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(particularly in the form of capital gains tax concessions). About 16 per cent was sector-specific (such as drought support for primary activities) while a further 15 per cent was targeted at selected industries — particularly automotive, TCF, and film production.

At the industry level in 2008-09, the highest measured effective rates of assistance— net assistance per dollar of value added — were for the automotive, and textiles clothing and footwear industries.

### **Recent industry-related announcements**

Since May 2009, the Australian Government has announced many budgetary and regulatory measures relating to industry assistance, across a wide range of activities. Budget *outlays* totalling about \$6.2 billion, most of which is planned to be expended over the next five years, have been announced. The bulk of the proposed expenditure (\$4.6 billion) relates to carbon emission reduction and energy programs. The remainder (around \$1.5 billion) relates to ‘traditional’ forms of Australian Government support to primary, manufacturing and service industries, exports, research and development and innovation.

The Government has also announced proposals for tax concessions and rebates, including the R&D taxation credit, the offshore petroleum exploration incentive and the license fee rebate for commercial television broadcasters. Future issues of *Review* will include estimates of the concessions, based on actual usage, as they become available.

Industry assistance is also conferred through regulatory arrangements. During the year, the Government announced it would maintain the Australian regulatory regime restricting the parallel importation of books to the Australian market.

Another area of government activity that may have implications for industry assistance is infrastructure provision. The 2007-08 *Review* noted proposed new outlays in support of the provision of infrastructure and regional development, including through the Building Australia Fund, and Regional and Local Community Infrastructure program. In this *Review*, identified announcements relating to new infrastructure outlays amount to about \$22 billion. These project commitments will have a range of impacts on industry, some of which could confer assistance either to recipients or to infrastructure users. However, the level of assistance, if any, and its incidence is difficult to determine and would depend on factors such as: the level of government contributions and risk sharing with the private sector; and user charges relative to the costs of service provision.

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## Measures affecting the finance sector

The structure and performance of the Australian finance sector has long been shaped by a variety of government policy measures, including prudential and other government regulation. Prior to the global financial crisis, budgetary measures affording assistance to the sector were largely in the form of tax concessions.

- Estimated direct assistance provided by finance sector specific taxation concessions amounted to \$330 million in 2008-09. A further taxation concession, at an estimated cost of \$630 million over the three-year period to 2011-12, will reduce withholding taxes on eligible distributions from managed investment trusts. In the main, these concessions are provided to make Australia a more attractive financial services centre.
- Taxation concessions for superannuation (estimated at \$25 billion in 2008-09) afford advantages to complying superannuation savings vehicles over other uses of funds and indirectly advantage superannuation service providers over other fund management activities.
- The GST treatment of financial supplies (input taxing), which stems from the administrative and compliance difficulties in applying the standard GST treatment to financial services, also confers a sizeable incidental benefit to the finance sector (estimated at \$2.8 billion in 2008-09).

Given the overall magnitude of the concessions benefiting the finance sector, both directly and incidentally, it is important that the advantages the concessions confer are at least commensurate with the costs involved.

In response to the global financial crisis, the Australian Government implemented a guarantee on the deposits and wholesale debt funding of banks, and directly purchased residential mortgage backed securities. In addition, the Reserve Bank of Australia expanded its liquidity operations, with the intent of maintaining liquidity in the financial system. While this support is now being progressively wound down, it is likely to have changed the structure and conduct of the sector (relative to otherwise) and to have enduring effects. In addition, international action to strengthen financial market regulations in the wake of the financial crisis is likely to influence the operation of financial markets in Australia and overseas, with flow-on effects for businesses and consumers.

As with changes to public policy in relation to markets and businesses more generally, significant changes to finance sector regulations should only be implemented following examination of the likely costs and benefits. In preference to piecemeal regulatory changes, with their attendant risks and potential for

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unintended consequences, the Commission would see value in a wider, more encompassing and public review of financial market regulation.

### **International trade policy developments**

Despite widespread efforts to achieve a conclusion to the Doha Round of multilateral trade talks, little progress was made in 2009 and the early part of 2010. With no formal agenda of ministerial meetings to drive proceedings, the prospects for a successful conclusion to the round remain uncertain.

In addition to its participation in the Doha multilateral negotiations, over recent years Australia has concluded a number of preferential trade agreements (including with the United States, Thailand, Chile and ASEAN countries). During the last year, it continued negotiations on prospective bilateral agreements with China, Japan, Malaysia and Korea. The Government has also signalled that it is exploring the feasibility of other such agreements.

Against a background of increasing involvement by Australia and other countries in bilateral and regional agreements, in November 2009, the Government asked the Productivity Commission to conduct a 12 month review into their impacts on trade and investment barriers and, more generally, on Australia's trade and economic performance.

The Australian Government has also recently announced changes to tariff concession arrangements, the Enhanced Project By-law Scheme and Tariff Concession System, as well as a review of Schedule 4 of the *Customs Tariff Act 1995*. These are intended to increase business opportunities for local firms as well as to identify and remove any unnecessary complexity within the current tariff concession system.