2 Assistance estimates

Assistance to industry is provided through a wide array of government programs and policies. Each year, the Commission updates and publishes estimates of the assistance afforded by:

- import tariffs, which mainly assist the manufacturing sector while raising costs to consumers and to industries that use manufactured and other tariff-assisted inputs;
- Australian Government budgetary measures — divided into government outlays and tax concessions — applying to the agricultural, mining, manufacturing and service sectors; and
- certain agricultural pricing and regulatory measures.

As well as providing estimates for these three categories, the Commission aggregates them to yield an estimate of the 'combined' assistance for four broad sectors of the Australian economy — 'primary production', 'mining', 'manufacturing' and 'services' — along with effective rates of assistance for primary, mining and manufacturing industries. For each category of assistance, the Commission provides more detailed estimates of assistance by 35 industry groupings.

The Commission also disaggregates its estimates of budgetary assistance into categories (such as R&D and export assistance) to facilitate more detailed assessments of changes in the composition and nature of assistance. This *Review* extends the categories to include budgetary assistance for structural adjustment, renewable energy and small business (measures previously included in the category 'other').

Nonetheless, the estimates do not aim to capture all Australian Government support for industry (box 2.1), nor State government assistance.

Box 2.1 Coverage of the Commission's assistance estimates

The Commission's assistance estimates cover only those measures which selectively benefit particular firms, industries or activities, and which can be quantified given practical constraints in measurement and data availability. Arrangements that may have assistance implications but are not part of the estimates include:

- for agricultural industries, any assistance effects that may be associated with quarantine restrictions and the allocation and pricing of water resources;
- the effects of government purchasing preferences and local content arrangements — for example, as they affect the manufacturing sector, IT industries and broadcasting;
- regulatory restrictions on competition — for example, relating to pharmacy, air services, importation of books and media and broadcasting;
- anti-dumping and countervailing measures;
- certain differential tax arrangements, including in relation to excises, the GST and superannuation;
- State and Territory government assistance to industry, other than designated agricultural marketing arrangements and rural support programs;
- government programs affecting a range of service industries, mainly relating to the provision of health, education, and community services;
- government programs affecting national security and public safety, including police and defence programs;
- government programs and taxation concessions affecting professional sport and the arts;
- government programs affecting the labour market;
- Indigenous business programs; and
- resource access arrangements relating to mining, forestry and fisheries.

The estimates reported in this chapter cover the years 2003-04 to 2008-09. The estimates presented this year mark the commencement of a new series and incorporate revisions in the treatment of assistance programs as well as underlying data sources (box 2.2). As such, they differ to the estimates published in the previous edition of *Trade & Assistance Review,* with the key differences being noted in the body of this chapter. Further information on the assistance estimation methodology, program coverage, industry allocation and implementation of the new input-output series is to be provided in a (forthcoming) Methodological Annex to this *Review*.

The following sections outline the coverage of the Commission's assistance estimates, present the most recent (2008-09) estimates and report on broad changes in the structure of industry assistance over the last three decades.

Box 2.2 **The ‘new series’ of assistance estimates**

Updated input-output and import data to estimate tariff assistance

The Commission’s previous series of tariff estimates (last published in *Trade & Assistance Review 2007-08*) were benchmarked to Australian Bureau of Statistics (ABS) input-output and import data for the year 2001-02. For the new series, the Commission has re-benchmarked its estimates to ABS input-output and import data for the year 2004-05.

Reclassification of certain service industry activity to manufacturing

In ABS input-output tables, certain service industries (particularly wholesale and retail trade) are recorded as having secondary production of items mainly produced in the manufacturing sector. In the previous series, tariff assistance to such output was recorded for the relevant services industry. For the new series, where the output protected by the tariff is primarily produced by a manufacturing industry, that output (and associated assistance) has been reclassified to the relevant manufacturing industry.

Industry disaggregation of small business taxation concessions

In previous *Reviews*, taxation concessions granted small business were reported against a residual industry category — termed ‘unallocated - other’ — because the Commission did not have information needed to determine the main activities of businesses claiming the concessions. In compiling the new series, the Commission has utilised information provided by the Australian Taxation Office to disaggregate the value of small business taxation concessions by industry. This refinement significantly reduces the level of support classified as unallocated - other.

Effective rates of assistance

The Commission’s previous estimates of the effective rate of assistance (published in *Trade & Assistance Review 2007-08*) were calculated using 2001-02 input-output data to determine the ‘value added’ for the primary, mining and manufacturing industries. For the new series, the Commission has used input-output data for 2004-05 to determine value added by industry. Estimated effective rates for both the new and previous series are presented in this *Review* for the years 2003-04 and 2005-06 (see section 2.4, below). The estimated level and year-to-year changes provided for the two series broadly align for these years.

2.1 Tariff assistance

Tariffs have direct effects on the returns received by Australian producers. The Commission’s estimates of tariff assistance are divided into three main categories — ‘output’ assistance, ‘input’ assistance and ‘net’ assistance.

- Tariffs on imported goods increase the price at which those goods are sold on the Australian market, and thus allow scope for domestic producers of competing products to increase their prices. These effects are captured by the Commission's estimates of output assistance.
- On the other hand, tariffs also increase the price of local and imported goods that are used as inputs and thus penalise local user industries. This 'penalty' is reduced if tariff concessions are available to Australian producers. The penalties are reflected in the Commission's estimates of input assistance.
- Net assistance represents the 'effective' tariff assistance provided to industry, and is calculated as output tariff assistance less the input penalty imposed by tariffs.

The Commission estimates that the gross value of tariff assistance to domestic production was around $9.5 billion in 2008-09 (table 2.1). The rise in the nominal aggregate value of tariff assistance on output over the five-year period to 2008-09 reflects growth in domestic industries and *not* an increase in tariff rates. Significant reductions in tariffs on passenger motor vehicles and parts and textiles, clothing and footwear products occurred in January 2005. Further reductions in tariffs occurred on 1 January 2010. Those changes will be reflected in the 2009-10 estimates.

Table 2.1 **Tariff assistance, 2003-04 to 2008-09[a]**

$ million (nominal)

	2003-04	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*
Output assistance	9 382.0	9 000.3	8 821.6	9 108.5	9 629.7	9 534.7
Input penalty	-7 278.8	-7 218.1	-6 844.1	-7 341.8	-7 898.3	-8 142.7
Net tariff assistance	2 103.1	1 782.2	1 977.4	1 766.7	1 731.4	1 392.1

[a] Estimates of tariff assistance, but not the direction of change, for 2003-04 to 2007-08 differ from those published in the previous 2007-08 *Review* due to updating of input-output and international trade benchmarks (box 2.2). Further information will be presented in the methodological annex (forthcoming) to this Review.

Source: Commission estimates.

The estimated cost penalty on inputs to user industries (including primary, manufacturing and service industries) arising from tariffs, was estimated to be around $8.1 billion for 2008-09. This compares with around $7.3 billion for 2003-04. The estimated cost penalty has increased with the general growth in the economy. The increase was moderated from 2004-05 by the removal, in May 2005, of the 3 per cent duty on a range of imports for which there was no competing domestic production, much of which were used as business inputs.

After deducting the tariff input penalty from the output assistance, *net* tariff assistance (for the Australian economy) was estimated to be around $1.4 billion in

2008-09, down from $2.1 billion in 2003-04. This is equivalent to a decline of around 34 per cent in nominal terms and 48 per cent in real terms.[1]

In the Commission's tariff assistance estimates, preferences granted under Australia's preferential trading agreements are treated on the basis that domestic prices in Australia remain unchanged (box 2.3).

Box 2.3 **Treatment of preferential tariffs in assistance estimates**

The tariff preferences provided under Australia's preferential trading agreements need not result in any change in prices in the domestic market and, thus, in assistance to Australian industry provided by the general (Most Favoured Nation (MFN)) tariff regime. This would be the case if producers in the partner country effectively 'pocketed' the tariff concessions, rather than reduced their prices below the prevailing (tariff-inflated) price of rival imports.

However, to the extent that tariff concessions provided by preferential trading agreements (PTAs) result in a reduction in the prices of imported products in the Australian market, assistance to the relevant industry's outputs would be lower than that implied by the MFN rate. At the same time though, to the extent that the price of imported inputs falls as a result of PTA preferences, the penalties (or negative assistance) on the industry's inputs will also be lower than implied by the MFN rate. Whether this leads to a net overstatement or understatement of assistance to the Australian industry in question would depend on trade patterns with the PTA partner countries, which products are subject to price reductions, and their relative magnitudes.

Sources: PC (2004a; 2004b; 2008a).

Tariff assistance by sector and industry

Although in aggregate net tariff assistance remains positive, the sectoral experience varies. Most tariff assistance on outputs is directed towards the manufacturing sector, and in particular the *Food, beverages & tobacco* ($1.6 billion), *Metal product manufacturing* ($1.9 billion), and *Motor vehicles & parts* ($1.5 billion) industry groups (table 2.2 left hand column).

1 The nominal value series was converted to a 'real value' series, indexed to the reference year 2004-05, using the GDP deflator.

Table 2.2 **Tariff assistance by industry grouping, 2008-09**[a]

$ million (nominal)

Industry grouping	*Output assistance*	*Input cost penalty*	*Net tariff assistance*
Primary production	**158.8**	**-71.9**	**86.9**
Dairy cattle farming	0.0	-3.8	-3.8
Grain, sheep & beef cattle farming	0.0	-23.2	-23.2
Horticulture & fruit growing	117.2	-7.4	109.9
Other crop growing	0.0	-5.0	-5.0
Other livestock farming	0.0	-1.8	-1.8
Fisheries	0.0	-15.4	-15.4
Forestry & logging	41.5	-7.4	34.1
Other primary production[b]	0.0	-7.8	-7.8
Mining	**1.4**	**-287.2**	**-285.8**
Manufacturing	**9 374.5**	**-2 844.7**	**6 529.8**
Food, beverages & tobacco	1 568.9	-447.8	1 121.1
Textiles, clothing, footwear & leather	636.8	-127.0	509.7
Wood & paper products	552.0	-145.8	406.2
Printing, publishing & recorded media	323.3	-132.0	191.3
Petroleum, coal, chemical & ass. Products	1 074.1	-304.3	769.7
Non-metallic mineral products	290.2	-79.1	211.2
Metal product manufacturing	1 923.4	-513.0	1 410.4
Motor vehicles & parts	1 530.6	-507.4	1 023.2
Other transport equipment	159.1	-110.8	48.3
Other machinery & equipment	885.9	-312.0	573.8
Other manufacturing	430.2	-165.4	264.7
Services	**0.0**	**-4 938.8**	**-4 938.8**
Electricity, gas & water supply	0.0	-87.4	-87.4
Construction	0.0	-1 574.9	-1 574.9
Wholesale trade	0.0	-376.8	-376.8
Retail trade	0.0	-710.2	-710.2
Accommodation, cafes & restaurants	0.0	-423.9	-423.9
Transport & storage	0.0	-338.5	-338.5
Communication services	0.0	-162.8	-162.8
Finance & insurance	0.0	-25.1	-25.1
Property & business services	0.0	-467.1	-467.1
Government administration & defence	0.0	-331.3	-331.3
Education	0.0	-89.2	-89.2
Health & community services	0.0	-130.1	-130.1
Cultural & recreational services	0.0	-134.4	-134.4
Personal & other services	0.0	-87.0	-87.0

[a] Tariff assistance estimates are derived using ABS Industry Gross Value Added at current prices data. This information is subject to periodic revision by the ABS. Totals may not add due to rounding. [b] Other primary production includes *Services to agriculture* (including *Hunting & trapping)* and *Poultry farming*.

Source: Commission estimates.

Mining and primary production industries receive little tariff assistance on outputs, and tariffs are not levied on services. On the other hand, because of their cost-raising effects on inputs, tariffs impose input-cost penalties on *all* industries (table 2.2 middle column), so that mining and (especially) services receive negative net assistance overall.

All manufacturing industries are estimated to receive positive net tariff assistance, as the value of tariff assistance on outputs outweighs the cost imposts of tariffs on inputs (table 2.2 right hand column).

Outside the manufacturing sector, the *Horticulture & fruit growing* and *Forestry & logging* industries are also estimated to have received positive net tariff assistance in 2008-09. Some imported products in these two particular industry groupings attract tariffs (for example, grapes and softwood conifers). All other primary, mining and service industries incur a net penalty from the level and structure of tariffs in Australia.

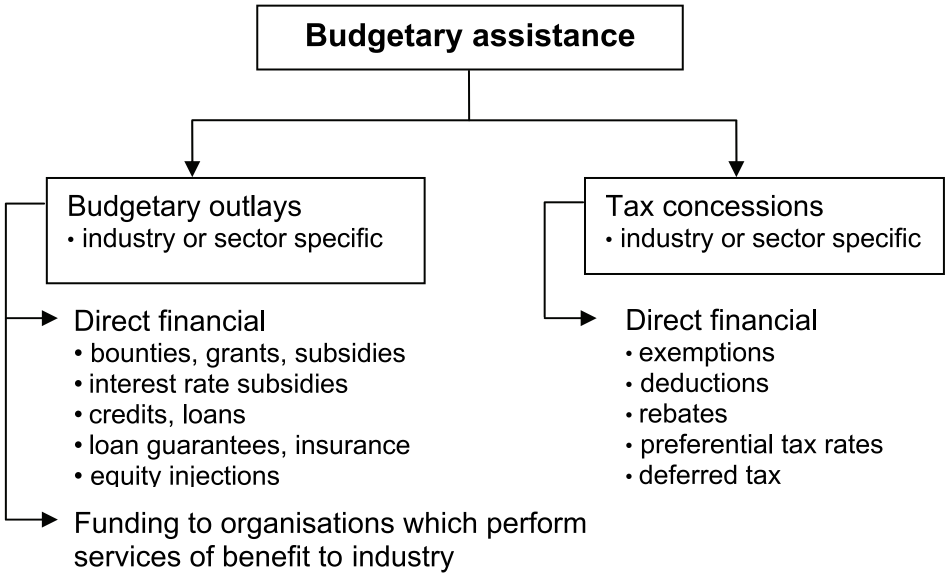
Since 2003-04, the value of net tariff assistance for the manufacturing sector has increased by 5 per cent, reflecting the general growth in manufacturing output. At the same time, the net tariff penalty on the service sector has increased by 23 per cent (to nearly $5 billion), reflecting the stronger growth of the sector (compared with manufacturing).

2.2 Australian Government budgetary assistance

Budgetary assistance includes actual payments (outlays) and tax concessions (figure 2.1). Some measures provide assistance directly to firms, such as the Automotive Competitiveness and Investment Scheme, while other budgetary support measures deliver benefits indirectly to an industry via an intermediate organisation such as the Rural Industries Research and Development Corporations and the Commonwealth Scientific and Industrial Research Organisation (CSIRO). As well as reporting its budgetary assistance estimates in the aggregate, *Trade & Assistance Review* also reports on:

- the broad category of activities — including general R&D, rural R&D, general export, general investment, industry-specific support, sectoral specific support, small business, carbon reduction and renewable energy, structural adjustment and regional development or other. — to which the assistance is directed; and
- the incidence of assistance benefits across four broad sectors and 35 industry groupings.

Figure 2.1 **Forms of budgetary assistance**



The budgetary assistance estimates are derived primarily from actual expenditures shown in departmental and agency annual reports, and the Australian Treasury Tax Expenditures Statement (TES). Industry and sectoral disaggregations are based primarily on supplementary information provided by relevant departments or agencies.

Aggregate budgetary assistance

The estimated gross value of budgetary assistance to Australian industry was around $7.7 billion in 2008-09, compared with $8.2 billion in 2007-08 and $5.2 billion in 2003-04 (figure 2.2). In *real* terms, this represents a decline of 11 per cent since 2007-08, but an increase of 17 per cent since 2003-04.

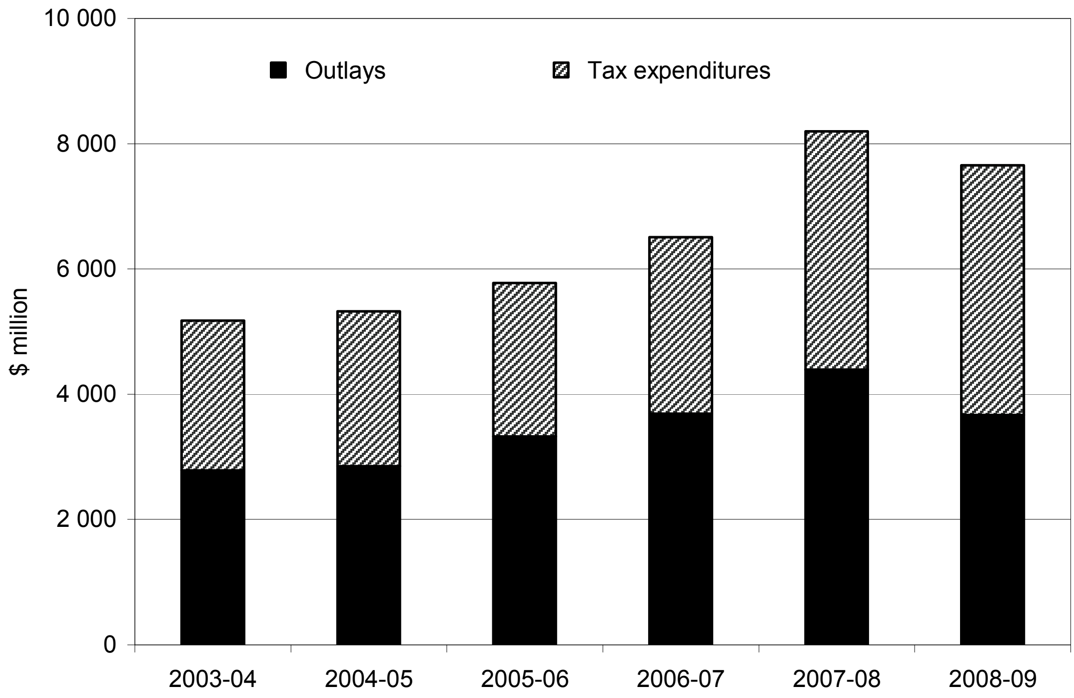
The main reasons for the reduction in aggregate budgetary assistance in the last 12 months were:

- a decrease of around $240 million in claims for Exceptional Circumstances drought relief payments and interest rate subsidies;
- further decreases in other on-going programs of around $930 million, including reductions of $84 million in Murray Darling Basin grants to irrigators and $61 million under the Commercial Ready Program;
- a decrease in equine influenza outbreak assistance ($257 million in 2007-08); and

- the cessation of other programs that had amounted to about $290 million in 2007-08, the largest being the capital gains tax relief for statutory licences ($90 million).

Figure 2.2 **Budgetary assistance to industry, 2003-04 to 2008-09**

$ million (nominal)



Sources: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years); Australian Government (2010a); Commission estimates.

On the other hand, there were some increases in budgetary assistance totalling around $1.1 billion. They include:

- $305 million under existing small business capital gains tax concessions;
- $185 million under the R&D tax concession and tax offset for small companies;
- increases of about $470 million on other on-going programs; and
- around $90 million with the introduction of new programs, including a combined $32 million under the Sustainable Rural Water Use and Infrastructure Program and Tasmanian Forest Tourism Initiative in 2008-09.

In addition, not all taxation concessions affording assistance to industry are quantified in the annual TES and included in the assistance estimates. In cases where quantification is not practicable, the TES provides indicative ranges within which the value of the concession may fall. The published ranges suggest that gross budgetary assistance to industry could be substantially higher than the assistance estimates reported in this *Review*.

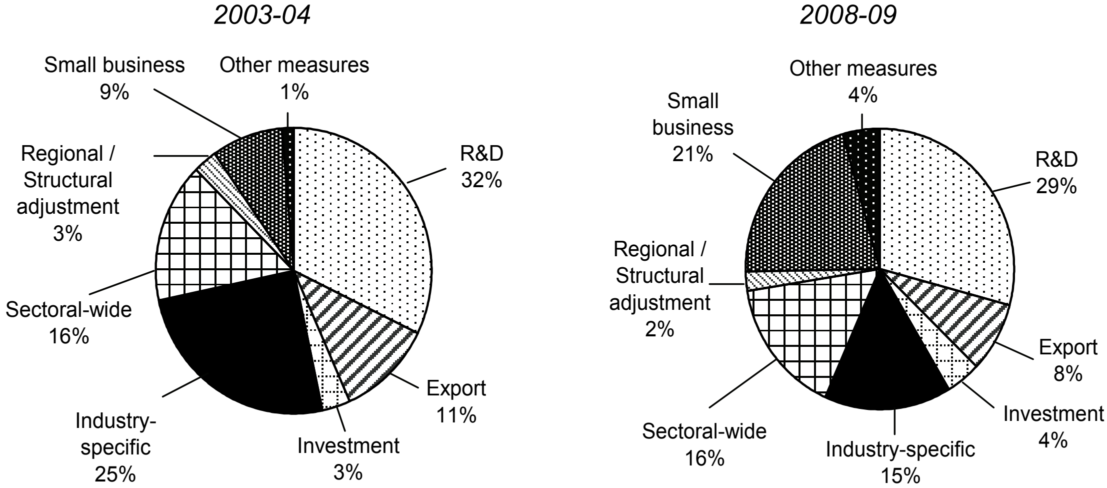
Activities targeted

Budgetary assistance is often designed to encourage particular activities (such as R&D or exports) or to support particular firms, industries or sectors. To provide an indication of the distribution of assistance among activities and to facilitate more detailed assessments of changes in the composition and nature of assistance, the Commission classifies its estimates of Australian Government budgetary assistance into several categories:

- R&D, including the R&D tax concessions, grants and funding of CSIRO;
- Export measures, including through Export Market Development Grants, import duty drawback and Austrade;
- Investment, including development allowance, several former investment attraction packages, and the recent Small Business and General Business Tax Break introduced in response to the global financial crisis;
- Industry-specific measures, including the Automotive Competitiveness and Investment Scheme, the Textiles, Clothing and Footwear Strategic Investment Program, Film industry measures and the Offshore Banking Unit concession;
- Sector-wide measures, such as 'exceptional circumstances' drought relief payments and the tax concessions under the Farm Management Deposits Scheme, in the case of the primary sector;
- Small business programs such as the small business capital gains tax concessions and the Small Business Advisory Services Program;
- Regional assistance including the Regional Partnerships Program, Tasmanian Freight Equalisation Scheme and various structural adjustment programs with a regional focus; and
- a residual 'other' category, which includes measures such as the 25 per cent Entrepreneurs' Tax Offset, the Textiles, Clothing and Footwear Corporate Wear Program and the Venture Capital Limited Partnerships Program.

Budgetary assistance is largely directed towards R&D (29 per cent), with most of the remainder spread between sectoral assistance (16 per cent), industry-specific assistance (15 per cent) and small business assistance (21 per cent) (figure 2.3, right hand panel). The structure of budgetary assistance to industry has been evolving. In particular, support for small business has increased in recent years as a proportion of total budgetary assistance. It has risen from 9 per cent of budgetary assistance in 2003-04 (figure 2.3, left hand panel) to an estimated 21 per cent of measured assistance in 2008-09 (right hand panel). At the same time, the importance of industry-specific programs has declined relative to other programs.

Figure 2.3 Budgetary assistance by category, 2003-04 and 2008-09



Source: Commission estimates.

A number of the budgetary measures included in the estimates relate to carbon pollution reduction, renewable energy and energy efficiency goals. These measures support a range of activities that span R&D, industry-specific and other measures. The measures amounted to around $170 million (2.2 per cent) of estimated budgetary assistance in 2008-09.

Some caution is required when interpreting these estimates. While programs have been allocated to one category only (based on the main activities receiving program support), some have characteristics that relate to more than one category. For example, the R&D category includes rural R&D, which could also be considered sector specific. On the other hand, as noted, measures aimed at carbon pollution reduction and energy efficiency are covered in more than one category.

Sectoral and industry distribution

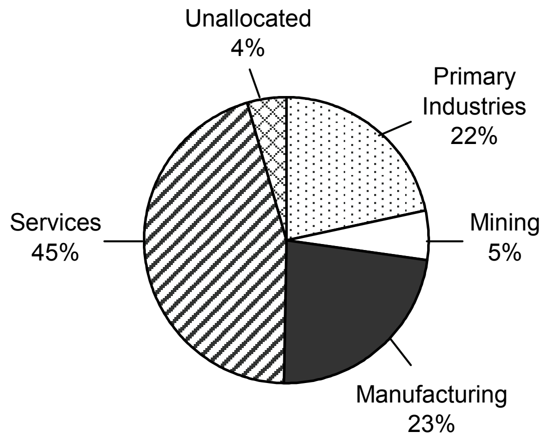
The Commission records the incidence of budgetary assistance by the initial benefiting industry, that is, the industry which receives the assistance first.[2] Estimates are presented for 35 industry groupings, while four 'unallocated'

2 While the Commission has used detailed information to make allocations, the need for judgment means that there remains some scope for imprecision. More detailed discussion of the budgetary assistance methodology is available in a methodological annex (forthcoming).

categories are used for programs for which it has not been possible to confidently identify the initial benefiting industry or sector.[3]

In the 2007-08 and previous *Reviews*, industry information was not available in relation to the small business capital gains tax concessions (small business capital gains tax exemption, retirement exemption, asset exemption and 50 per cent reduction). For this Review, information with respect to the initial benefiting industry sector has been provided by the Australian Taxation Office. With this change and more detailed analysis of some other items, budgetary assistance classified as 'unallocated-other' has been reduced from over one-fifth of budgetary outlays and concessions to around four per cent (figure 2.4).

Figure 2.4 **Budgetary assistance by sector, 2008-09**



Source: Commission estimates.

In 2008-09, the services sector is estimated to have received around 45 per cent of estimated budgetary assistance; up from around 27 per cent in 2007-08 reported in the previous *Review*. The main reason for the reported increase is due to the inclusion of various small business tax concessions (see box 2.2), a large proportion of which primarily benefit the services sector.

The smaller manufacturing and primary production sectors each received around one-quarter of total estimated budgetary assistance, while the mining received relatively little measured assistance. For the primary sector, most budget assistance was afforded through outlays, while for manufacturing (and mining), assistance was relatively evenly divided between budget outlays and taxation concessions.

At the industry level, estimated budgetary assistance was highest for *Grain, sheep & beef cattle farming* ($923 million), mainly in the form of drought assistance payments and rural-specific R&D support. *Property & businesses services* and *Finance & insurance* were the next largest recipient industries ($744 million and $613 million respectively), mainly through Small Business Capital Gains Tax concession measures, the Offshore Banking Unit Tax Concession Program and R&D tax concessions (including for syndicated R&D) (table 2.3).

[3] The 35 industry groupings are based on the 1993 Australia and New Zealand Standard Industrial Classification (ANZSIC)

Table 2.3 **Budgetary assistance by industry grouping, 2008-09**

$ million (nominal)

Industry grouping	*Outlays*	*Tax concessions*	*Total budgetary assistance*
Primary production	**1 440.0**	**228.8**	**1 668.8**
Dairy cattle farming	104.9	19.1	124.1
Grain, sheep & beef cattle farming	741.8	181.4	923.2
Horticulture & fruit growing	133.8	44.5	178.3
Other crop growing	40.0	27.6	67.6
Other livestock farming	19.7	9.6	29.3
Fisheries	71.5	25.9	97.4
Forestry & logging	17.3	-87.6	-70.3
Other primary production[a]	14.8	8.3	23.1
Unallocated primary production[b]	296.1	0.0	296.1
Mining	**109.3**	**310.8**	**420.1**
Manufacturing	**723.8**	**1 041.7**	**1 765.6**
Food, beverages & tobacco	65.5	58.5	124.0
Textiles, clothing, footwear & leather	112.4	16.4	128.9
Wood & paper products	69.5	13.7	83.2
Printing, publishing & recorded media	5.5	7.6	13.0
Petroleum, coal, chemical & ass. Products	140.1	52.9	193.0
Non-metallic mineral products	8.5	14.2	22.6
Metal product manufacturing	55.8	110.1	165.9
Motor vehicles & parts	24.6	548.7	573.3
Other transport equipment	20.7	18.9	39.6
Other machinery & equipment	122.7	73.8	196.5
Other manufacturing	19.9	8.6	28.5
Unallocated manufacturing[b]	78.5	118.4	196.9
Services	**1 181.2**	**2 285.7**	**3 466.9**
Electricity, gas & water supply	77.5	15.7	93.2
Construction	21.7	192.6	214.3
Wholesale trade	58.6	162.3	220.9
Retail trade	199.6	192.0	391.5
Accommodation, cafes & restaurants	5.7	162.1	167.8
Transport & storage	48.3	89.8	138.1
Communication services	109.8	45.7	155.5
Finance & insurance	46.1	566.7	612.8
Property & business services	181.0	563.3	744.3
Government administration & defence	27.3	4.9	32.2
Education	20.2	11.6	31.9
Health & community services	97.3	127.2	224.5
Cultural & recreational services	115.6	77.9	193.5
Personal & other services	14.4	73.8	88.2
Unallocated services[b]	158.2	0.0	158.2
Unallocated other[b]	**215.2**	**118.8**	**334.0**
TOTAL	**3 669.5**	**3 985.8**	**7 655.4**

[a] Other primary production includes Services to agriculture, Hunting & trapping and Poultry farming.
[b] Unallocated includes programs where details of beneficiaries cannot be readily identified.

Source: Commission estimates.

Motor vehicles & parts received budgetary assistance totalling $573 million, mainly through the Automotive Competiveness and Investment Scheme (ACIS). The (negative) estimated assistance to *Forestry & logging* for 2008-09 reflects the reversal in the estimate for the accelerated write-offs on forestry-managed investments from positive assistance last year (the acceleration stage) to increased taxation this year (the pay-back stage).[4]

2.3 Combined assistance

This section presents the results of combined tariff, budgetary assistance, and agricultural pricing and regulatory assistance. Combined assistance is reported in terms of the net value of assistance and its components, and the effective rate of assistance (box 2.4).

Box 2.4 **Summary measures of combined assistance**

In reporting its estimates of combined net assistance, the Commission adopts two summary measures. First, it reports total net assistance (otherwise known as the *net subsidy equivalent (NSE)),* which is the dollar value of net assistance to the land, labour and capital resources used in a particular industry or activity. It indicates the level of transfers of income to benefiting producers from consumers, taxpayers and other firms, although it does not indicate the ultimate 'economic welfare' costs or benefits to the community of the assistance. NSE estimates are reported for the four sectors and 35 industry groupings.

The second summary measure is the *effective rate of assistance* (ERA). It measures the NSE of combined assistance to a particular industry in proportion to that industry's unassisted net output (or unassisted value added). It can provide an indication of the extent to which assistance to an industry allows it to attract and hold economic resources. That is, where there is some competition between industries for resources, those industries with relatively high effective rates of assistance are more likely, as a result of their assistance, to be able to attract resources away from those with lower rates. ERA estimates are reported for industries in the primary production, mining and manufacturing sectors. Effective rates of assistance are not published for the services sector.

4 The Commission estimates assistance as occurring in the year in which the budgetary outlay (receipt) occurs.

Aggregate estimates

Total estimated *gross* assistance was $17.2 billion in 2008-09, a decline of around $0.8 billion from 2007-08 (table 2.4). This represents a decline of around 4 per cent in nominal terms and 9 per cent in real terms.

Table 2.4 **Combined assistance, 2003-04 to 2008-09**[a]

$ million (nominal)

	2003-04	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*
Tariff output assistance	9 382.0	9 000.3	8 821.6	9 108.5	9 629.7	9 534.7
Budgetary outlays	2 783.4	2 854.3	3 328.5	3 690.2	4 391.4	3 669.5
Tax concessions	2 393.1	2 471.4	2 445.9	2 819.6	3 804.9	3 985.8
Agricultural & pricing assistance	165.9	148.7	141.2	124.3	120.1	0.2
Gross combined assistance	**14 724.3**	**14 474.7**	**14 737.1**	**15 742.6**	**17 946.2**	**17 190.3**
Tariff input assistance	-7 278.8	-7 218.1	-6 844.1	-7 341.8	-7 898.3	-8 142.7
Net combined assistance	**7 445.5**	**7 256.6**	**7 893.0**	**8 400.8**	**10 047.9**	**9 047.6**

a Estimates of the value of combined assistance, but not direction of change, for 2003-04 to 2007-08 differ from those published in the previous 2007-08 *Review* due to updating of the series benchmarks (box 2.2). Further information on the update will be presented in the methodological annex (forthcoming) to this Review.

Source: Commission estimates.

After considering the negative effects of tariff assistance on industry inputs, total estimated *net* assistance amounted to around $9.0 billion in 2008-09, a decrease of around $1.0 billion (in nominal terms) from 2007-08. Between 2003-04 and 2008-09, total estimated net assistance to industry has increased by 22 per cent in *nominal* terms and decreased by 4 per cent in real terms.

Sector and industry estimates

Value of assistance

Table 2.5 summarises, at the industry level, tariff and budgetary assistance information for 2008-09. Reflecting the earlier discussion on the individual elements, the manufacturing sector receives the highest level of combined industry assistance because of the tariff assistance on its outputs. Although the services sector receives the most budgetary assistance (nearly $3.5 billion in identifiable support), such assistance is outweighed by the input tariff penalty ($4.9 billion). A time series of net combined assistance (column 7) for the period 2003-04 to 2008-09 is presented in appendix A.

Table 2.5 **Combined assistance by industry grouping, 2008-09**[a]

$ million (nominal)

Industry grouping	Tariffs: Output	Tariffs: Input penalty	Net tariff assistance	Budgetary: Outlays	Budgetary: Tax concess	Net combined assistance
Primary production[b]	**158.8**	**-71.9**	**86.9**	**1 440.0**	**228.8**	**1 755.9**
Dairy cattle farming[b]	0.0	-3.8	-3.8	104.9	19.1	120.5
Grain, sheep & beef cattle	0.0	-23.2	-23.2	741.8	181.4	900.1
Horticulture & fruit growing	117.2	-7.4	109.9	133.8	44.5	288.1
Other crop growing	0.0	-5.0	-5.0	40.0	27.6	62.6
Other livestock farming	0.0	-1.8	-1.8	19.7	9.6	27.5
Fisheries	0.0	-15.4	-15.4	71.5	25.9	82.0
Forestry & logging	41.5	-7.4	34.1	17.3	-87.6	-36.2
Other primary production	0.0	-7.8	-7.8	14.8	8.3	15.3
Unallocated primary	0.0	0.0	0.0	296.1	0.0	296.1
Mining	**1.4**	**-287.2**	**-285.8**	**109.3**	**310.8**	**134.3**
Manufacturing	**9 374.5**	**-2 844.7**	**6 529.8**	**723.8**	**1 041.7**	**8 295.4**
Food, beverages & tobacco	1 568.9	-447.8	1 121.1	65.5	58.5	1 245.1
Textiles, clothing & footwear	636.8	-127.0	509.7	112.4	16.4	638.6
Wood & paper products	552.0	-145.8	406.2	69.5	13.7	489.5
Printing, publishing & media	323.3	-132.0	191.3	5.5	7.6	204.3
Petroleum, coal & chemicals	1 074.1	-304.3	769.7	140.1	52.9	962.8
Non-metallic mineral products	290.2	-79.1	211.2	8.5	14.2	233.8
Metal product manufacturing	1 923.4	-513.0	1 410.4	55.8	110.1	1 576.3
Motor vehicles & parts	1 530.6	-507.4	1 023.2	24.6	548.7	1 596.5
Other transport equipment	159.1	-110.8	48.3	20.7	18.9	88.0
Other machinery & equipment	885.9	-312.0	573.8	122.7	73.8	770.3
Other manufacturing	430.2	-165.4	264.7	19.9	8.6	293.2
Unallocated manufacturing	0.0	0.0	0.0	78.5	118.4	196.9
Services	**0.0**	**-4938.8**	**-4938.8**	**1181.2**	**2285.7**	**-1471.9**
Electricity, gas & water	0.0	-87.4	-87.4	77.5	15.7	5.8
Construction	0.0	-1 574.9	-1 574.9	21.7	192.6	-1 360.7
Wholesale trade	0.0	-376.8	-376.8	58.6	162.3	-155.9
Retail trade	0.0	-710.2	-710.2	199.6	192.0	-318.6
Accomm., cafes & restaurants	0.0	-423.9	-423.9	5.7	162.1	-256.1
Transport & storage	0.0	-338.5	-338.5	48.3	89.8	-200.4
Communication services	0.0	-162.8	-162.8	109.8	45.7	-7.3
Finance & insurance	0.0	-25.1	-25.1	46.1	566.7	587.7
Property & business services	0.0	-467.1	-467.1	181.0	563.3	277.2
Government admin. & defence	0.0	-331.3	-331.3	27.3	4.9	-299.1
Education	0.0	-89.2	-89.2	20.2	11.6	-57.4
Health & community services	0.0	-130.1	-130.1	97.3	127.2	94.4
Cultural & recreational	0.0	-134.4	-134.4	115.6	77.9	59.1
Personal & other services	0.0	-87.0	-87.0	14.4	73.8	1.3
Unallocated services	0.0	0.0	0.0	158.2	0.0	158.2
Unallocated other	**0.0**	**0.0**	**0.0**	**215.2**	**118.8**	**334.0**
TOTAL[b]	**9 534.7**	**-8 142.7**	**1 392.1**	**3 669.5**	**3 985.8**	**9 047.6**

[a] Read in conjunction with notes to tables 2.2 and 2.3. [b] Net combined assistance includes $0.2 million agricultural pricing and regulatory assistance (table 2.4).

Source: Commission estimates.

Effective rates of (combined) assistance

Estimated effective rates of combined assistance by sector and industry

For the manufacturing sector, the estimated effective rate of assistance — dollar value of assistance as a proportion of (unassisted) value added — has remained at around 4.6 per cent since 2004-05 (table 2.6). The effective rate for the primary sector has been more variable, ranging from 4.6 to 7.5 per cent. The estimated effective rate of assistance from tariff and budgetary assistance for mining has been negligible.

Textiles, clothing, footwear & leather and *Motor vehicles & parts*

The *Textiles, clothing, footwear & leather* and *Motor vehicles & parts* industry groupings continue to have relatively high effective rates of combined assistance — more than double the manufacturing sector average in 2008-09. While remaining relatively high, the estimated effective rates of assistance to both industry groups have declined significantly over recent decades following significant reductions in tariffs and the removal of import quotas.[5] Effective rates would be expected to decline further as a consequence of the legislated tariff cuts on 1 January 2010. However, the effective rate will also depend upon whether budgetary assistance under the new ‘Car Plan’ is higher or lower than under the previous arrangements (such as ACIS).

Dairy cattle farming and Grain, sheep & beef cattle farming

The estimated effective rate of assistance for *Dairy cattle farming* declined markedly from 2007-08 to 2008-09 — 15.4 per cent to 4.4 per cent. This reflects a decline in Exceptional Circumstances drought support and the cessation of payments under the Dairy Structural Adjustment Program in April 2008. Prior to the dairy industry’s deregulation in July 2000, the effective rate of combined assistance was estimated to exceed 30 per cent.

Also reflecting lower claims for Exceptional Circumstances drought support, the effective rate of assistance for the *Grain, sheep & beef cattle* group declined from 8.1 per cent in 2007-08 to 6.3 per cent in 2008-09.

5 Whereas in 2008-09 automotive tariffs were 10 per cent, and tariffs on TCF upwards of 17.5 per cent, in the late-1980s automotive tariffs were 45 per cent, and the highest tariff rate for any one TCF line item (inclusive of the effect of tariff quotas) was 125 per cent. The effective rates of assistance for the automotive industry and TCF were 140 per cent and 157 per cent, respectively, in 1984-85 (using the 1983-84 input-output series).

Table 2.6 Effective rate of combined assistance by industry grouping, 2003-04 to 2008-09[a]

per cent

Industry grouping	*2003-04*	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*
Primary production[b]	**4.9**	**4.6**	**4.9**	**7.1**	**7.5**	**4.9**
Dairy cattle farming	13.7	10.3	11.7	16.8	15.4	4.4
Grain, sheep & beef cattle	4.3	3.4	4.1	7.5	8.1	6.3
Horticulture & fruit growing	5.2	4.9	4.7	4.6	4.8	5.6
Other crop growing	6.1	6.3	7.0	5.9	5.0	1.8
Other livestock farming	3.0	1.8	2.5	2.8	3.7	2.4
Fisheries	2.1	5.6	4.1	16.1	10.0	4.5
Forestry & logging	4.7	8.2	7.9	5.1	4.4	-2.4
Other primary production[c]	0.7	0.5	0.4	0.5	0.5	0.3
Mining	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Manufacturing[b]	**5.1**	**4.7**	**4.6**	**4.6**	**4.6**	**4.6**
Food, beverages & tobacco	3.3	3.2	3.4	3.3	3.3	3.4
Textiles, clothing & footwear	19.6	17.4	15.3	14.6	14.4	14.5
Wood & paper products	4.7	4.7	4.9	4.9	5.2	5.3
Printing, publishing & media	1.4	1.3	1.4	1.4	1.5	1.5
Petroleum, coal, & chemicals	3.6	3.3	3.5	3.6	3.7	3.7
Non-metallic mineral products	2.4	2.5	2.5	2.6	2.6	2.6
Metal product manufacturing	4.8	4.7	4.7	4.7	4.6	4.5
Motor vehicles & parts	16.4	14.5	12.2	12.4	12.0	11.8
Other transport equipment	1.7	1.4	2.0	1.7	1.8	2.0
Other machinery & equipment	3.5	3.4	3.7	3.7	3.7	3.8
Other manufacturing	5.5	4.8	5.3	5.2	5.3	5.0

[a] 'Combined assistance' comprises budgetary, tariff and agricultural pricing and regulatory assistance. [b] Sectoral estimates include assistance to the sector that has not been allocated to specific industry groupings. [c] Other primary production includes *Services to agriculture* (including *Hunting & trapping*) and *Poultry farming*.

Source: Commission estimates.

Fisheries and *Forestry & logging*

The estimated effective rate of assistance to *Fisheries* and *Forestry & logging* have changed markedly over recent years. A decline in annual expenditure under the Fisheries Structural Adjustment Program has seen the estimated effective rates for Fisheries decrease from 16.1 per cent in 2006-07 to 10.0 per cent in 2007-08 and to 4.5 per cent in 2008-09.[6]

6 For the previous series of estimates (*Trade & Assistance Review* 2007-08), the effective rates were 30.1 for 2006-07 and 17.4 for 2007-08. The difference between estimates from the new and old series mainly relates to differences in the estimated value added intensity of output for the fishing industry in the respective input-output tables used for the two series of estimates (box 2.2).

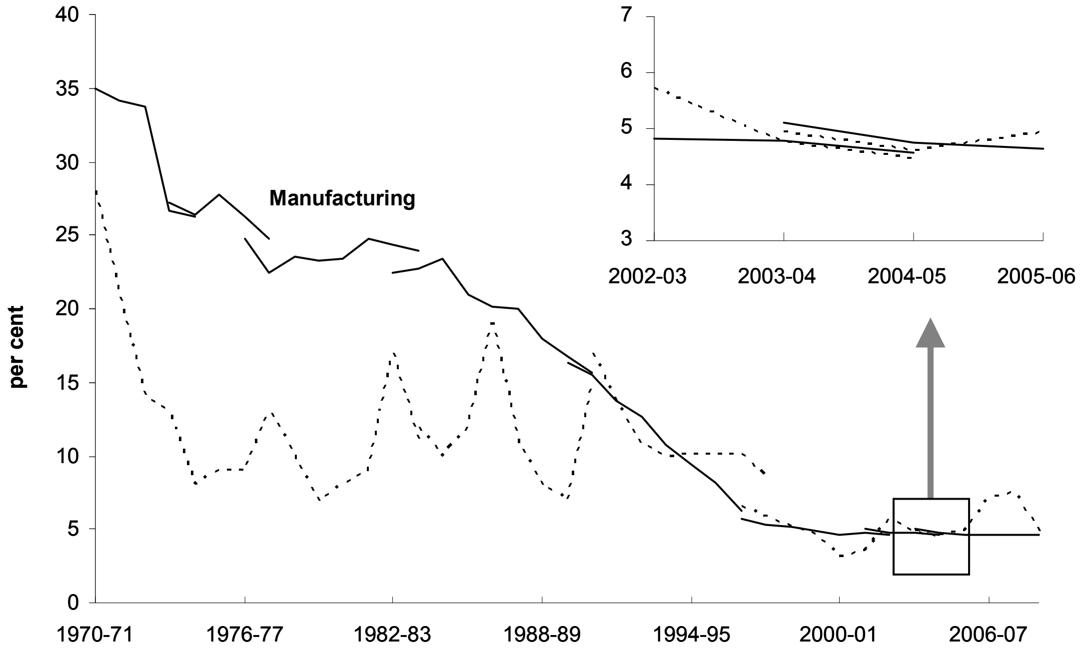
The change in effective assistance to Forestry & logging from 4.4 per cent in 2007-08 to a negative 2.4 per cent for 2008-09 reflects the reversal in the estimate for the accelerated write-offs on forestry-managed investments from positive assistance in 2007-08 (the acceleration stage) to increased taxation in 2008-09 (the pay-back stage) (see appendix table A.4).

2.4 Effective rates of industry assistance since 1970

The Commission has estimated assistance to the manufacturing and agricultural sectors since the early 1970s. The estimates have been derived in several 'series', each spanning a number of consecutive years, with each series retaining a common methodology, coverage of measures and data sources across those years. Nevertheless, some caution is required when comparing estimates from the different series, as there can be changes in the coverage of assistance measures, and in methodologies and data sources. Despite such differences, taken together, the series provide a broad indication of directions and trends in assistance at the sectoral level.

Figure 2.5 presents effective rate estimates from the different series since 1970-71. Breaks in the series are represented by gaps in the chart, and overlaps are included to show the effects, of the changes made in moving between series.

Figure 2.5 **Effective rates of assistance to manufacturing and agriculture, 1970-71 to 2008-09**



Source: Commission estimates.

The estimates indicate a marked decline in measured assistance to the manufacturing sector over the last 35 years. The estimated effective rate of assistance for manufacturing (as calculated in the first series) was around 35 per cent in 1970-71, whereas since 2000, the rate (as calculated in the new 2004-05 series, as well as in the previous 2001-02 series) has been around 5 per cent. Major influences on this decline have been the 25 per cent across-the-board tariff cut of 1973, the abolition of (subsequent) tariff quotas and the broad programs of tariff reductions that commenced in the late 1980s. Recent declines have been associated mainly with reductions in tariff assistance to the TCF and passenger motor vehicle industries.

For agriculture, the estimated effective rate of assistance (as calculated in the first series) was over 25 per cent in 1970-71 and, by 1974-75, it had fallen to about 8 per cent. The subsequent volatility in the agricultural estimates, particularly through the 1970s and 1980s, reflects variation in differences between domestic support prices and world prices (used for assistance benchmarks) as well as the impact of drought and other factors on output.

The rise in the effective rate of assistance to agricultural in 2006-07 and 2007-08 reflects significant increase in Exceptional Circumstances drought relief payments and interest rate subsidies at the height of the drought. Such assistance declined in 2008-09 and the estimated assistance to the sector has reduced to around 5 per cent.

2.5 Summing up

In real terms, estimated *net* assistance to Australian industries decreased by 4 per cent over the period 2003-04 to 2008-09.

The mix of industry assistance has changed considerably over these six years. Net tariff assistance continued to decline in both nominal and real terms, and agricultural pricing and marketing assistance has fell to negligible levels. At the same time, estimated budgetary assistance increased by 17 per cent in real terms between 2003-04 and 2008-09.

The nature of budgetary assistance to industry has also been evolving. Tax concessions, particularly to small business, have increased recently as a proportion of total budgetary assistance. On the other hand, support designated as specific to an industry grouping has tended to decline as a proportion of total assistance.

Chapter 3 reports on additional budgetary measures that have been announced in 2009-10 and, thus, are not captured in estimates in this *Review*, but which will influence future estimates of budgetary assistance to industry.