



Australian Government
Productivity Commission

Trade & Assistance
Review 2014-15

Productivity Commission
Annual Report Series



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The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au).

Foreword

The Productivity Commission is required under its Act to report annually on industry assistance and its effects on the economy. The *Trade & Assistance Review 2014-15* contains the Commission's latest quantitative estimates of Australian Government assistance to industry.

This year's review also explores how the size and nature of the assistance estimates might be influenced by recent developments such as the Agricultural Competitiveness White Paper, the Defence Industry Statement and submarine procurement, programs to increase renewable energy and reduce carbon emissions, and programs targeted at business innovation.

Views inevitably differ on what constitutes industry assistance and whether it is warranted. Fundamental to these questions is transparency of measures. The annual *Review* seeks to identify government arrangements that may be construed as assistance, as well as their target, size, and nature. This information provides a basis for considered assessment of the benefits and costs of the arrangements.

In preparing this report, the Commission has received helpful advice and feedback from officials in Australian Government agencies. The Commission is very grateful for their assistance.

Peter Harris
Chairman

July 2016

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Abbreviations and explanations

Abbreviations

ERA	Effective rate of assistance
GPA	WTO Government Procurement Agreement
IAC	Industries Assistance Commission
IC	Industry Commission
NSE	Net subsidy equivalent
PC	Productivity Commission
R&D	Research and Development
TPP	Trans Pacific Partnership
TiSA	Trade in Services Agreement
WTO	World Trade Organization

Explanations

Billion	The convention used for a billion is a thousand million (10^9).
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Key points

- For 2014-15, estimated assistance to industry (provided by the Australian Government) was \$15.1 billion in *gross* terms.
 - It comprised \$7.8 billion in tariff assistance, \$4.2 billion in budgetary outlays and \$3.1 billion in tax concessions. While tariff assistance is inherently distortionary, not all budgetary outlays create distortions that result in a misallocation of resources.
- After deducting the cost penalty of tariffs on imported inputs (\$7.5 billion, two-thirds incurred by services industries), *net* assistance to industry was \$7.6 billion.
- The incidence of assistance varies widely between sectors.
 - Manufacturing received an estimated \$7.0 billion in net assistance (largely due to tariff protection), Primary production received an estimated \$1.3 billion (mostly through budgetary assistance), and Mining recorded a small but positive assistance (\$0.3 billion).
 - The measured industry assistance arrangements imposed a net cost of \$1.6 billion on services industries (as the tariff cost penalty on inputs outweighed budgetary assistance).
- Of the eight categories of measured budgetary industry assistance the two largest are:
 - R&D support (generally available to all industries and specific to rural industry), which represented around 40 per cent (\$3.1 billion), the majority of which relates to the R&D Tax Incentive (around \$2.2 billion)
 - Industry specific assistance, which consists of a range of grants and concessions such as for the automotive, film, finance and ethanol industries, and represented 18 per cent (\$1.3 billion) of measured assistance.
- The measured estimates are conservative as they exclude significant assistance that is difficult to quantify. This includes: favourable finance (loans, debt, equity, guarantees); local purchasing preferences for defence equipment; and regulatory restrictions on competition. The estimates also exclude state and territory government support to industry.
- A number of recent developments will likely add to the level of assistance in coming years. Measures providing assistance have been proposed in the Agricultural Competitiveness White Paper, the Defence Industry Statement, programs to increase renewable energy and reduce carbon emissions, and programs targeted at innovation, collaboration and commercialisation.
- Regional industry investment grant programs continue to be introduced as a response to the closure of iconic local employers.
 - These schemes deliver high subsidy rates to recipient businesses, but the outcomes of these programs are uncertain. A review is needed to determine what design best assists displaced workers and regions to adjust.
- Australia continues to negotiate on a wide array of trade agreements and in a multitude of membership forums. Apart from the conclusion of negotiations on the Trans-Pacific Partnership Agreement, and the China Australia Free Trade Agreement coming into force in December 2015, developments include:
 - final arbitration in Australia's favour of the investor-state dispute in relation to tobacco plain packaging
 - a tightening of screening thresholds for foreign investment proposals in Australian agribusiness and pastoral land purchase
 - an increase in anti-dumping protection.

1 Key results and their interpretation

1.1 What is industry assistance?

The *Productivity Commission Act 1998* defines government assistance to industry as:

... any act that, directly or indirectly: assists a person to carry on a business or activity; or confers a pecuniary benefit on, or results in a pecuniary benefit to, a person in respect of carrying on a business or activity.

Assistance takes many forms, extending beyond direct government grants and subsidies to particular firms or industries. It also includes import tariffs, regulatory restrictions on competition, tax concessions, concessional finance, provision of subsidised services by government agencies, government procurement preferences, and guaranteed prices.

Not all government measures that provide direct selective support to business are included in measured assistance. In some cases this is because the support is effectively the government ‘purchasing’ an outcome on behalf of the community. For example, payments from the Emissions Reduction Fund (under the Direct Action Plan) for reducing carbon emissions are not considered assistance.¹ In other cases, it is because it is too hard to estimate the assistance provided. For example, payments to farmers for projects aimed at improving the application of fertiliser to reduce pollution from run-off in the Great Barrier Reef could deliver benefits to farmers in savings on fertiliser costs. But where farmers also contribute to the costs, and fertiliser savings vary across farmers, such assistance is too difficult to reliably measure. State and territory assistance is also not included in the measures. Overall, therefore, measured assistance should be regarded as a lower bound to the actual assistance provided by governments to business.

Other policies that target community outcomes can provide an indirect pecuniary benefit to some businesses, but do not fall within the ambit of traditional industry assistance. Superannuation tax concessions, for example, clearly provide significant benefits to the finance sector in demand growth, but the concessions are provided to individuals and not to firms.

Inevitably, there will be different views about whether some policies provide assistance. The fuel tax credit is one such measure. It is not considered assistance as the excise tax on fuel is purported to be a mechanism to pay for roads, which are not used by those receiving

¹ However, if it costs a firm less than the payment to make the reduction in emissions (or they would have done it anyway) then this would constitute assistance (though difficult to measure). If carbon reduction policy involved a regulated limit on the carbon that could be emitted, then emission reduction payments would be considered assistance. Thus context and basic policy matters.

the fuel rebate. Should roads be generally priced, as discussed in the Commission's *Public Infrastructure* inquiry report (PC 2014a), the taxation of fuel would change, perhaps towards a recognition of the negative externalities of fuel consumption. A diesel fuel rebate under those conditions would constitute assistance.

Labelling a policy as 'assistance' does not mean it is necessarily 'bad'. Some measures, such as support for R&D, can have knowledge and skill spillovers that benefit firms and industries beyond the recipients. Other measures can address regional problems, facilitating industry adjustment through helping workers transition, or aiding firm exit where assets are stranded. Ultimately, only a detailed evaluation can confirm the overall net impact of any assistance measure. This *Trade and Assistance Review* provides a starting point by identifying, and where possible measuring, the assistance provided by trade and industry policies. It provides the information to start asking the questions about whether the public is well served by the assistance provided and the way in which it is provided.

1.2 Key findings

Total assistance was over \$15 billion in 2014-15, slightly down from 2013-14

Readily distinguishable and quantified tariff and budgetary assistance to industry was over \$15 billion in gross terms in 2014-15 — comprising \$7.8 billion in gross tariff assistance, \$4.3 billion of budgetary outlays, and \$3.1 billion in tax concessions (figure 1.1, top panel).

Estimated assistance in gross terms fell by around \$0.6 billion from 2013-14 in nominal terms (around 4 per cent), or by around 3 per cent in real terms.

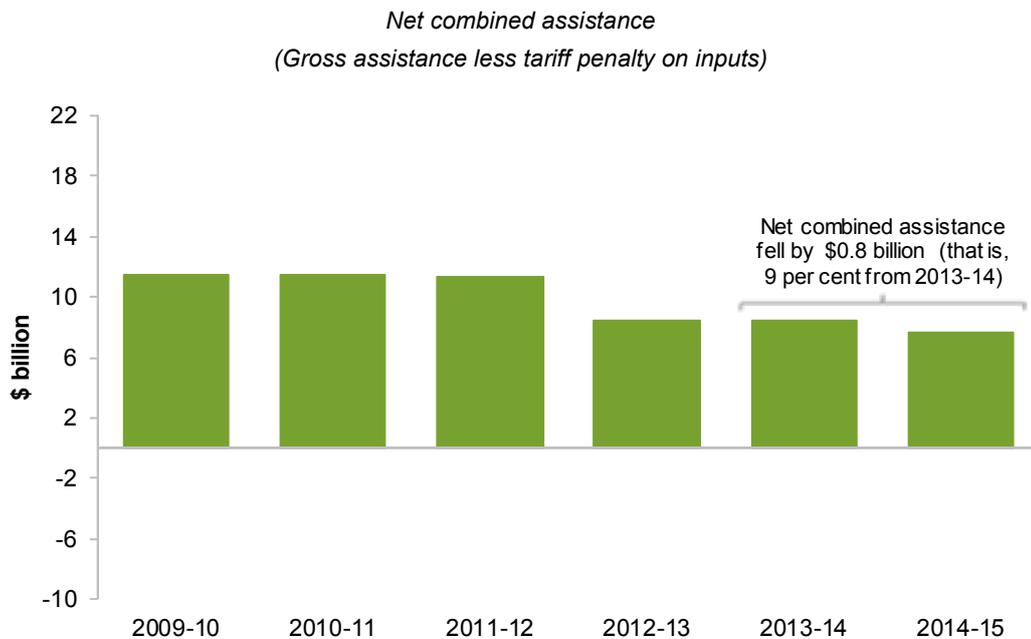
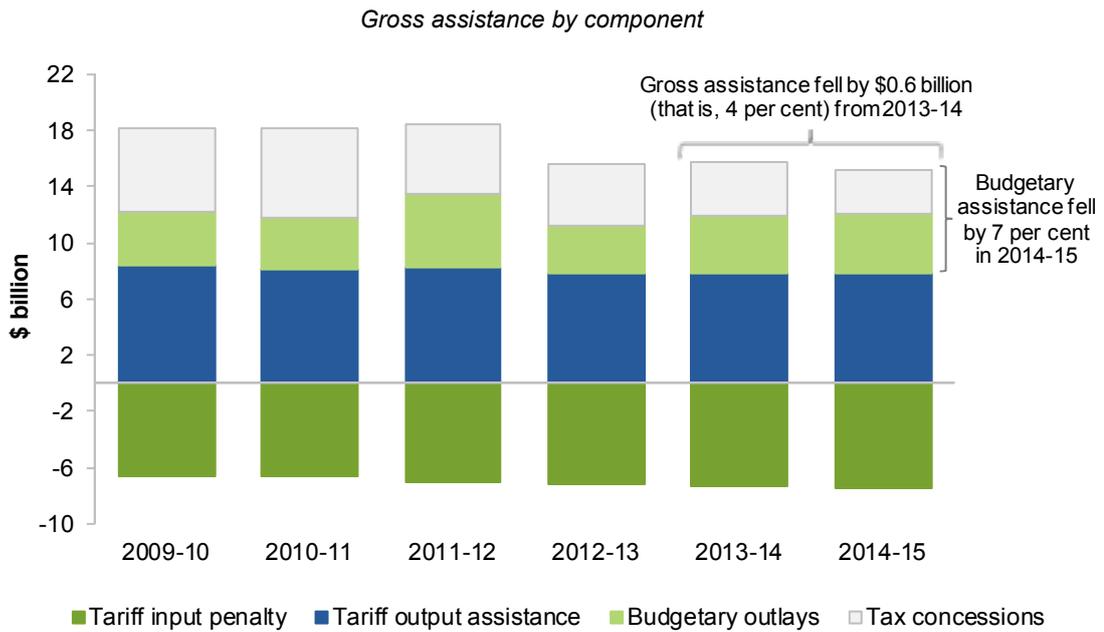
After allowing for the negative effects of tariff assistance on the cost of inputs (the input tariff penalty), total estimated net combined assistance amounted to around \$7.6 billion in 2014-15, a fall of around \$0.8 billion in nominal terms (9 per cent) from 2013-14 levels (figure 1.1, bottom panel).

Around half the \$15 billion is tariff assistance, which has an adverse distortionary effect on an economy-wide basis. Industries protected by tariffs use more resources (capital and labour) than they would if not protected by the tariff. Tariffs also penalise industries, notably services, that use imported inputs, reducing their ability to compete for capital and labour.

While costly to the budget, the other half of the \$15 billion is budgetary assistance, which is not inherently distortionary. For example, measures targeted at *potential* market failures (such as in R&D) and which genuinely induces 'additional' activity may deliver net benefits, including to industries beyond those directly assisted. However, some budgetary

assistance is likely to be distortionary, such as non-competitive grants to a single firm or narrowly defined industry.

Figure 1.1 Aggregate estimates of measurable assistance, 2009-10 to 2014-15
\$ billion (nominal)

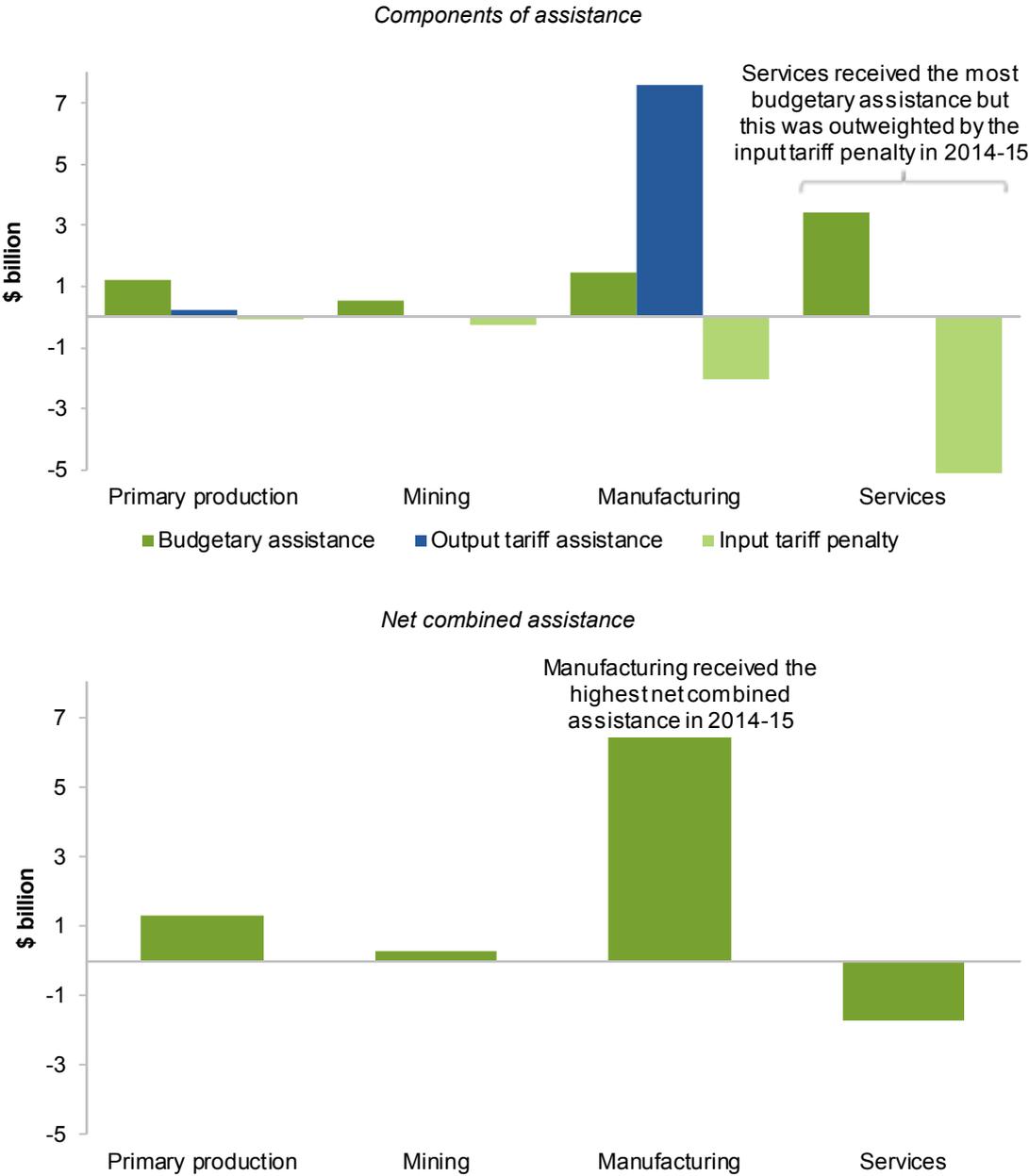


Source: Commission estimates.

Manufacturing receives 60 per cent of gross and over 90 per cent of total net assistance

Manufacturing receives by far the highest net combined assistance, by virtue of tariff assistance (figure 1.2). The services sector records negative net assistance, as it incurs about two-thirds of the input cost penalty posed by manufacturing tariffs.

Figure 1.2 **The incidence of assistance varies widely across industries, 2014-15**
\$ billion (nominal)

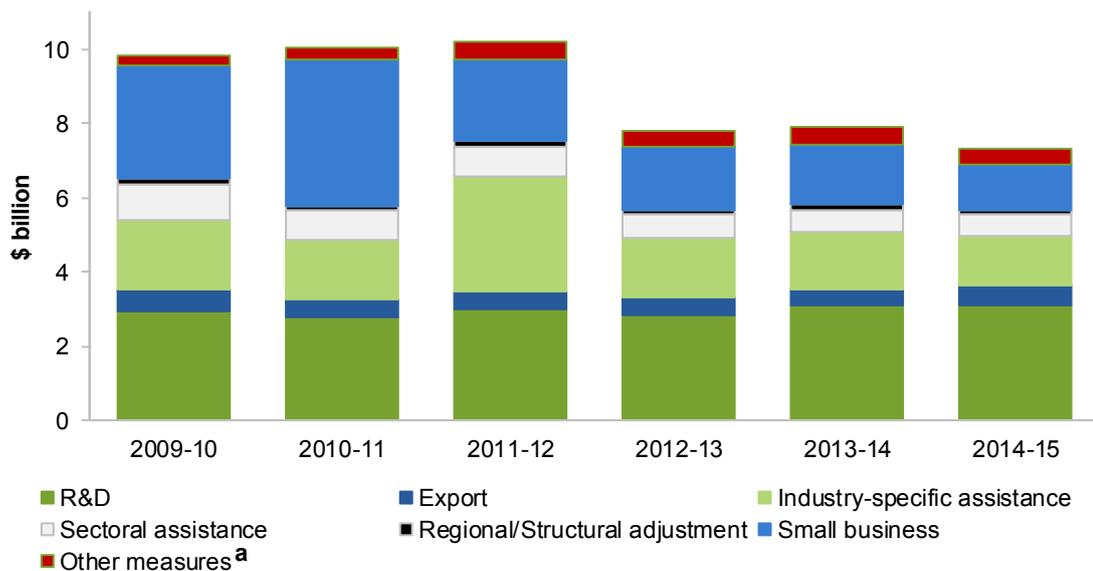


Support for R&D represents about 40 per cent of measured budgetary assistance

Support for business R&D continues to be the largest type of industry assistance delivered through budgetary measures (figure 1.3), representing over 40 per cent (\$3.1 billion) of budgetary assistance. The majority is in the form of the demand-driven R&D Tax Incentive (\$2.2 billion). The remainder is mostly outlays for research institution funding, including rural research.

Industry specific assistance, such as a range of selective grants and concessions for the automotive, film, ethanol and finance industries, represented 18 per cent (\$1.3 billion) of measured assistance. Initiatives targeting small business, such as capital gains tax discounts, are the third largest category.

Figure 1.3 **Budgetary assistance by category, 2009-10 to 2014-15**
\$ billion (nominal)



^a Includes investment measures.

Source: Commission estimates.

Five recent announcements are likely to increase assistance to industry

Over the past 40 years the industry assistance landscape has changed in fundamental ways. Tariff and import quota protection has been markedly reduced to relatively minimal levels. Complex and costly agricultural production, marketing and pricing have been unwound so that market prices and costs drive economic decisions. (The last agricultural quota and

price control system, which was for potatoes in Western Australia, was removed on 1 July 2016). And highly selective and preferential grants, subsidies and bounties provided to specific industries and firms are not as prevalent. The reforms were driven both unilaterally and by requirements of multilateral agreements (such as the elimination of export subsidies).

The industry assistance landscape of today is characterised by an emphasis on business R&D, facilitation of regional adjustment, small business targeting, WTO compliant export assistance, and support to achieve environmental objectives. Tax concessions and concessional finance² aside, budgetary assistance is more likely to take the form of competitive grants and other merit-based selection processes. Nevertheless, non-merit specific assistance to industries and firms has not completely disappeared.

The long term big picture of the changing nature of industry assistance has been driven by government recognition in the 1980s and 1990s of the efficiency costs of the old-style protectionist framework. Yet the size and nature of industry assistance in Australia continues to be heavily influenced by reactions to periodic events and disruptions. For instance, the global financial crisis, periodic droughts, the setting of carbon emission reduction objectives, and the commitment to meet environmental water objectives, have all prompted significant changes in industry assistance. Most recently, the global supply glut affecting the steel industry has encouraged poorly-targeted assistance (chapter 4).

This *Trade & Assistance Review* identifies five recent developments with significant industry assistance implications. These are discussed in more detail in chapter 3.

- The Agricultural Competitiveness White Paper (July 2015). The package is costed at \$4 billion, with over half for concessional loans. The scale of assistance realised will depend on factors such as the difference between the concessional loan rate and the borrowing costs farmers are facing. Other direct financial assistance includes tax concessions. The package also includes indirect assistance, such as for R&D. Many other measures are intended to benefit agriculture but are not considered to be industry assistance *per se*, such as improved roads in beef producing areas.
- The Defence Industry Policy Statement (March 2016) and local build of submarines. The Statement includes over \$800 million over 10 years in support for the defence industry, including for skill development, collaborative R&D, and exporting. To the extent that it involves a premium over an overseas build, the local build of the submarines also confers significant industry assistance. This is a major step back from the historical reduction in using government procurement preference as industry policy.
- Setting of the Renewable Energy Target (RET) (June 2015) and programs to meet the target and achieve carbon emissions reduction. Further business support over the budget forward estimates (and beyond) that has been committed or announced includes R&D grants, an expansion of exemption from the RET liability, co-funding renewables

² Government guarantees also allow firms to access credit at a lower cost than would otherwise be the case, so confer a benefit even if the guarantee is not called on.

projects, and debt and equity finance. The cost to government of the investment measures, and the industry assistance provided, will depend on the extent to which the government shares directly in the upside as well as downside of such investments.

- Establishment of several regional business investment grants programs. These relate to ‘life’ after cessation of automotive manufacturing or address more general economic growth concerns for Tasmania. These programs continue to follow the same design as past programs (including high project subsidy rates up to 50 per cent). A review of these types of grant programs is needed to see if this approach does indeed deliver the intended benefits.
- Support for business innovation, research collaboration and commercialisation announced in the *Industry Innovation and Competitiveness Agenda* (October 2014) and the *National Innovation and Science Agenda* (December 2015). These measures add to, rather than replace, an existing number of business innovation and collaboration programs.

Some of these measures will be included in the Commission’s future update of assistance estimates beyond 30 June 2015.

Progress on trade liberalisation is mixed

The 2013-14 *Trade & Assistance Review* provided a comprehensive update on the activities underway in Australian trade policy. The main developments in 2014-15 are summarised in chapter 4. They include the following.

- The China Australia Free Trade Agreement (ChAFTA) came into force on 20 December 2015.
- Australia signed the Trans-Pacific Partnership (TPP) Agreement on 4 February 2016. Agreement countries met in May 2016 to review progress on their respective internal processes to approve the Agreement. The United States of America (USA) is unlikely to sign the TPP before its elections in November 2016, and some doubt hangs over whether it will come into force.
- An accession offer to the WTO Committee on Government Procurement in September 2015. Membership of the Government Procurement Agreement (GPA) would provide legally binding market access for Australian firms to the procurement markets of GPA Members (currently 18 including the EU). Conversely, Australia would provide similar access to foreign firms to Australian Government procurement. Australia’s accession offer has yet to be made public.
- Australia is a joint leader, with the European Union (EU) and USA, in negotiations (among 23 Parties) on a proposed Trade in Services Agreement (TiSA), covering an estimated 70 per cent of global services trade. By opening up trade in services, the Parties hope the TiSA talks will help kick start the stalled multilateral negotiations under the WTO Doha Round.

-
- The final arbitration of the investor-state dispute in relation to tobacco plain packaging was concluded in Australia's favour. Notwithstanding, caution should continue to be exercised about inclusion of investor-state dispute settlement (ISDS) provisions in trade agreements. The ISDS avenue was one of three avenues of dispute by the tobacco companies (and supporting countries). The Constitutional challenges failed in 2012, but the WTO Disputes by five tobacco exporting countries remain open.
 - An economic stocktake of recent anti-dumping activity and the changes to Australia's anti-dumping system since 2009 found that there has been an increase in use of anti-dumping measures. Policy changes have made anti-dumping protection easier to access, accommodating increased demand for protection.
 - Screening limits and conditions associated with some foreign investments have been tightened, in particular agricultural land and agribusinesses. The rejection of the proposed sale of the Kidman pastoral assets raises some important questions about foreign investments rules and processes, such as the meaning of 'the national interest'.

About this Review

This edition of *Trade & Assistance Review* is organised as follows:

- Chapter 2 (and the supporting appendix A) contains the Commission's latest estimates of Australian Government assistance to industry, for the year to 30 June 2015. This continues a time series of assistance estimates dating back four decades. This long series provides a clear illustration of the patterns of industry support through time and the reform of trade barriers.
- Chapter 3 (and the supporting appendix B) reports on material announcements and developments in industry assistance since around May 2015, such as proposed new programs, recent expenditures under established schemes, and reviews. This provides some insight into potential changes in measured assistance.
- Chapter 4 outlines recent developments in trade policy, such as trade agreement negotiations, anti-dumping assistance and foreign investment restrictions.

2 Assistance estimates

Industry is assisted through a wide array of government programs, regulatory instruments and policies. Each year, the Commission updates and publishes estimates of the assistance provided by:

- import tariffs, which raise the price of imported products (mainly manufactured goods) allowing competing domestic firms to charge higher prices
- Australian Government budgetary measures — divided into government subsidies (predominantly grants and concessional loans) and tax concessions. This budgetary support advantages recipient firms and industries relative to those that do not receive support.³

The estimates cover a broad range of measures that afford substantive support to industry and that can be readily quantified on a consistent annual basis. However, they do not capture all Australian Government support for industry (box 2.1). For example, the assistance provided through government regulation is not included in the estimates, nor is assistance arising from government purchasing preferences. In large part this is because the extent of these forms of assistance is difficult to estimate. The estimates also do not include assistance from other government jurisdictions. This can be considerable. A detailed study for the 2009-10 Review indicated that State and Territory assistance to industry amounted to around \$4 billion in identifiable assistance in 2008-09 (PC 2011b). The reported estimates in this chapter, therefore, do not cover the full extent of assistance to industry and the gap between reported values and actual assistance is potentially large.

There are also government policies that can advantage businesses that are not considered industry assistance. This arises where activities to support social or other objectives increases demand for an industry's products, or where it lowers the costs of production for some businesses (box 2.1). This chapter reports on government activities that constitute industry assistance and that can be measured.

³ The assistance estimates reported in this year's *Review* cover the period 2009-10 to 2014-15. Assistance derived from agricultural pricing and regulatory measures form part of the current series of assistance estimates, which commenced in 2006-07, but was last recorded in 2008-09 and therefore does not appear in this year's *Review*. Agricultural pricing assistance is discussed in the Methodological Annex to *Trade & Assistance Review 2011-12* (PC 2014b).

Box 2.1 **What is not included in the Commission's assistance estimates**

The Commission's assistance estimates cover only those measures that selectively benefit particular firms, industries or activities, and that can be quantified given practical constraints in measurement and data availability. Consequently, there are some significant government programs which selectively confer industry assistance, but cannot be appropriately estimated. Conversely, certain businesses benefit significantly from some government arrangements, but the benefit is not classified as (preferential) industry assistance, generally because the purpose of the arrangement is a broader public objective.

Examples of industry assistance not included in the core estimates

- Regulatory restrictions on competition such as those relating to pharmacies, air services, importation of books, media and broadcasting, and importation of second hand cars
- Government purchasing preferences and local content arrangements, such as defence procurement
- Concessional debt and equity finance
- State and territory government support to industry
- Anti-dumping and countervailing duties
- Access and pricing of resources (mining, forestry, fisheries and water), if on favourable economic terms.
- Support for professional sport (such as tax concessions for international tournaments in Australia and support for sporting venue redevelopment).

Some of these arrangements have been examined in detail in inquiries, research reports, and previous *Trade & Assistance Reviews*.

Examples of policies that provide a benefit to certain businesses that are not classified as industry assistance

- Superannuation concessions
- Health insurance rebate
- Government funding of private community service providers
- Indigenous business support
- Employment incentives to business
- Remote housing concessions in mining regions
- Differential tax rates in relation to excises, GST and FBT (and state payroll tax)
- Improved transport infrastructure, for example, an upgraded road in a concentrated beef producing area would be expected to lower logistics costs for beef producers, but the road is not for the sole use of beef producers.

Although not classified as assistance, evaluations of these program should include analysis of the effects on business.

The following sections present the 2014-15 assistance estimates at the sectoral level (primary production, mining, manufacturing and services), and for detailed 34 industry groupings. Detailed estimates are provided in appendix A. The estimates cover:

- gross and net assistance provided 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 (section 2.1)
- Australian Government budgetary measures — divided into government outlays and tax concessions, and then into 8 categories (including R&D, export assistance and support to small business), which confer financial support to the recipient businesses (section 2.2)
- the combined rate of assistance, and the effective rate of assistance, which indicates the extent to which assistance to an industry enables it to attract and hold economic resources relative to other industries (section 2.3).
- trends in these sources of assistance over the four decades (section 2.4).

2.1 Tariff assistance

Tariffs have direct effects on the returns received by Australian producers, where over 50 per cent of merchandise trade continues to be subject to a 5 per cent general tariff on imported goods. The Commission's estimates of tariff assistance are divided into three 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 tariff assistance* represents the total net assistance provided through tariffs to industry, and is calculated as output tariff assistance less the input assistance, where input assistance is the cost penalty on business inputs imposed by tariffs (box 2.2).

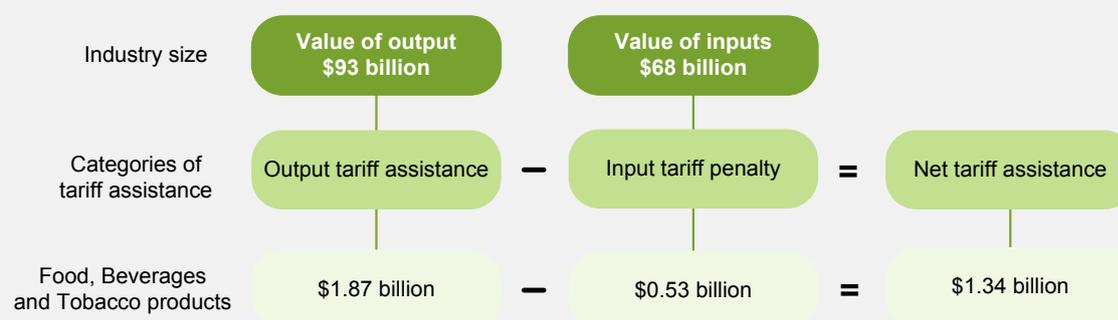
Output assistance

The gross value of tariff assistance to domestic production was around \$7.8 billion in 2014-15, around the same level as in the previous year (table 2.1). The gross value of tariff assistance fell from 2009-10 to 2014-15. The estimated fall in 2010-11 reflects mainly reductions in tariffs assisting *Motor vehicles and parts* (to 5 per cent) and certain *Textiles, clothing and footwear products* (to 10 per cent) in January 2010. Output tariff assistance

also fell in 2014-15 reflecting the reduction in certain *Textile, clothing and footwear* items to 5 per cent on 1 January 2015. The estimated fall in 2012-13 reflected lower output levels in tariff assisted activities (mainly *Metal and fabricated metal products*, and *Petroleum, coal, chemical and rubber products*).

Box 2.2 Tariff assistance to the *Food, Beverage and Tobacco products* industry in 2014-15

As an example, the estimates of output tariff assistance, input tariff assistance (input tariff penalty) and net tariff assistance are provided for the *Food, Beverage and Tobacco products* industry.



Source: Commission estimates.

Table 2.1 Tariff assistance, 2009-10 to 2014-15^a
\$ million (nominal)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Output assistance	8 382.0	8 071.3	8 181.1	7 848.4	7 852.7	7 827.3
Input penalty	-6 665.0	-6 663.9	-7 078.4	-7 166.8	-7 329.5	-7 524.6
Net tariff assistance	1 717.0	1 407.4	1 102.7	681.51	523.3	302.7

^a Nominal tariff assistance estimates are derived by re-indexing a reference series based on 2008-09 ABS input-output data, using ABS Industry Gross Value Added and supporting data at current prices, for all industries except *Mining*. For *Mining*, in order to abstract from the effects of terms of trade changes, the estimates are re-indexed using the ABS Industry Gross Value Added, chain volume measures. This information is subject to periodic revision by the ABS.

Source: Commission estimates.

Input penalty

The estimated cost penalty on inputs to user industries (including primary, manufacturing and services industries) arising from tariffs was around \$7.5 billion in 2014-15 (table 2.1). This compares with a penalty of around \$6.7 billion in 2009-10. The estimated penalty has increased in nominal terms with the general growth in the economy and rising price levels.

This increase was moderated in 2010-11 by reductions in tariffs on passenger motor vehicles and parts, and textiles, clothing and footwear products in January 2010. The moderating impact of lower tariffs on the input penalty, however, is less obvious for the January 2015 tariff reductions on textiles, clothing and footwear products. This is because the majority of these products are final consumption items.

Net tariff assistance

After deducting the tariff input penalty from the output assistance, net tariff assistance (for the Australian economy) was estimated to be around \$0.3 billion in 2014-15, down from around \$1.7 billion in 2009-10 (table 2.1). This fall reflects both high relative growth in the services sector (which incurs significant tariff penalties on inputs), especially relative to the manufacturing sector (a significant beneficiary of tariff assistance), together with some reductions in tariffs applied to manufactured products.

Net tariff assistance by sector

The estimated value of net tariff assistance for the manufacturing sector has fallen by around 7 per cent since 2009-10, largely reflecting reductions in tariff assistance to the *Textiles, clothing, footwear and leather*, and *Motor vehicles and parts* industries in January 2010 (table 2.2). The year-to-year changes are also affected by activity levels in tariff-assisted activities. At the same time, the net tariff penalty on the services sector has increased by 19 per cent (to nearly \$5 billion), reflecting growth in the use of tariff-assisted manufactures as the services sector has expanded. Similarly, the net tariff penalty on the mining sector also increased over the period.

Table 2.2 Net tariff assistance by industry sector, 2009-10 to 2014-15^a
\$ million (nominal)

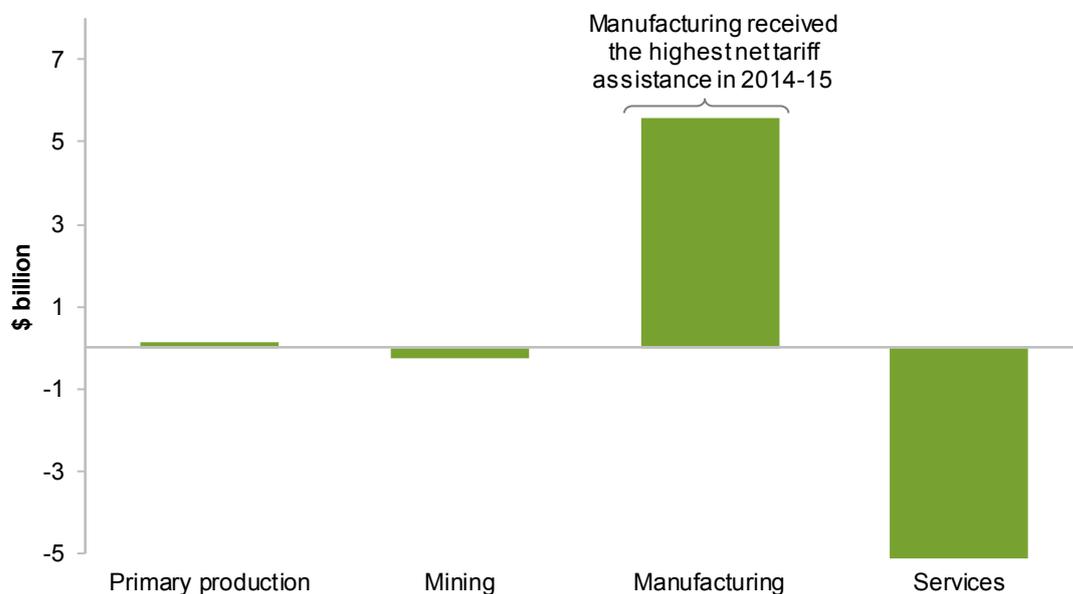
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Primary production	142.5	158.3	165.1	177.5	145.9	124.7
Mining	-187.1	-184.6	-198.5	-215.9	-236.5	-252.9
Manufacturing	5 956.8	5 711.4	5 768.5	5 518.4	5 555.3	5 555.9
Services	-4 195.2	-4 277.7	-4 632.5	-4 798.5	-4 941.4	-5 125.0
Total	1 717.0	1 407.4	1 102.7	681.5	523.3	302.7

^a Nominal tariff assistance estimates are derived by re-indexing a reference series based on 2008-09 ABS input-output data, using ABS Industry Gross Value Added and supporting data at current prices for all industries except Mining. For Mining, in order to abstract from the effects of terms of trade changes, the estimates are re-indexed using the ABS Industry Gross Value Added, chain volume measures. This information is subject to periodic revision by the ABS.

Source: Commission estimates.

Figure 2.1 Net tariff assistance by industry sector, 2014-15

\$ billion (nominal)



Source: Commission estimates.

The value of net tariff assistance to primary production trended higher over the period to 2012-13 but has since fallen to levels below that recorded in 2009-10. While there has been year-to-year changes in the value of activity in the sector, the early upward trend has occurred as the *Horticulture and fruit growing* and *Forestry and logging* industries (industries that receive positive net tariff assistance) have grown more in absolute terms than other primary production industries (industries that, as a group, incur negative net tariff assistance). This trend reversed in 2013-14 and 2014-15, especially for *Horticulture and fruit growing*.

Tariff assistance by industry grouping

By value, most tariff assistance on outputs is directed towards the manufacturing sector, and in particular the *Food, beverages and tobacco* (\$1.9 billion), *Metal and fabricated metal products* (\$1.7 billion), *Petroleum, coal, chemical and rubber products* (\$1 billion), and *Motor vehicles and parts* (\$0.7 billion) industry groups (table 2.3, left hand column).

Mining and primary production industries receive little tariff assistance on outputs, and tariffs are not levied on services. On the other hand, tariffs impose input cost penalties on all industries (because of their cost-raising effects on inputs) (table 2.3, middle column). Around two thirds of the input penalty on tariffs is incurred by services industries.

Table 2.3 Tariff assistance by industry grouping, 2014-15^{a,b}
\$ million (nominal)

<i>Industry grouping</i>	<i>Output assistance</i>	<i>Input cost penalty</i>	<i>Net tariff assistance</i>
Primary production	208.9	-84.2	124.7
Horticulture and fruit growing	138.2	-7.9	130.2
Sheep, beef cattle and grain farming	0.2	-20.3	-20.1
Other crop growing	2.7	-5.2	-2.5
Dairy cattle farming	–	-3.8	-3.8
Other livestock farming	–	-4.3	-4.3
Aquaculture and fishing	1.4	-19.8	-18.4
Forestry and logging	66.4	-13.0	53.4
Primary production support services	–	-9.8	-9.8
Unallocated primary production	–	–	–
Mining	1.2	-254.0	-252.9
Manufacturing	7 617.3	-2 061.4	5 555.9
Food, beverages and tobacco	1 871.7	-531.6	1 340.0
Textiles, leather, clothing and footwear	277.8	-58.1	219.7
Wood and paper products	703.0	-142.3	560.7
Printing and recorded media	187.5	-30.2	157.3
Petroleum, coal, chemical and rubber products	984.0	-286.8	697.2
Non-metallic mineral products	277.2	-47.5	229.7
Metal and fabricated metal products	1 747.1	-413.3	1 333.8
Motor vehicles and parts	749.2	-275.5	473.7
Other transport equipment	69.3	-61.6	7.7
Machinery and equipment manufacturing	563.0	-169.2	393.8
Furniture and other manufacturing	187.4	-45.2	142.3
Unallocated manufacturing	–	–	–
Services	–	-5 125.0	-5 125.0
Electricity, gas, water and waste services	–	-85.1	-85.1
Construction	–	-1 912.9	-1 912.9
Wholesale trade	–	-270.7	-270.7
Retail trade	–	-193.7	-193.7
Accommodation and food services	–	-598.1	-598.1
Transport, postal and warehousing	–	-217.2	-217.2
Information, media and telecommunications	–	-145.6	-145.6
Financial and insurance services	–	-10.9	-10.9
Property, professional and admin. services	–	-639.5	-639.5
Public administration and safety	–	-228.2	-228.2
Education and training	–	-131.1	-131.1
Health care and social assistance	–	-282.2	-282.2
Arts and recreation services	–	-84.4	-84.4
Other services	–	-325.3	-325.3
Unallocated services	–	–	–
Unallocated other	–	–	–
Total	7 827.3	-7 524.6	302.7

– Nil. ^a See footnote (a) in table 2.1. ^b Totals may not add due to rounding.

Source: Commission estimates.

All manufacturing industries are estimated to receive positive net tariff assistance, as the value of tariff assistance on outputs outweighs the cost imposed of tariffs on inputs for each industry group (table 2.3, right hand column).

Outside the manufacturing sector, the *Horticulture and fruit growing* and *Forestry and logging* industries are also estimated to have received positive net tariff assistance in 2014-15. This reflects the incidence of a 5 per cent tariff on certain imports such as grapes and softwood conifers which affords protection to local producers of these import competing products.

The *Mining* industry together with all of the services industries (and most primary production industries) incurred negative net tariff assistance in 2014-15.

2.2 Australian Government budgetary assistance

Budgetary assistance includes actual payments (outlays) and industry- and sector-specific tax concessions that have industry policy objectives (figure 2.2). Some measures provide financial assistance directly to firms, such as the Automotive Transformation Scheme (\$269 million in 2014-15) and taxation concessions on R&D expenditures (\$1.9 billion in 2014-15), while other budgetary support measures deliver benefits indirectly to an industry via intermediate organisations such as the Rural Research and Development Corporations (\$244 million in 2014-15) and the CSIRO (\$521 million in 2014-15).⁴

The budgetary assistance estimates are derived primarily from actual expenditures shown in departmental and agency annual reports, and the Tax Expenditures Statement (TES) compiled by the Australian Treasury. Industry and sectoral disaggregations are based primarily on supplementary information provided by relevant departments or agencies.⁵

Aggregate budgetary assistance

The estimated gross value of budgetary assistance to Australian industry was around \$7.3 billion in 2014-15, about 7 per cent lower than in 2013-14 (figure 2.3).⁶ Since 2009-10 there has been a net fall in the real level of assistance of over 30 per cent.

⁴ The Commission's assistance estimates do not include the full government appropriation for CSIRO. Excluded are certain public research such as environmental R&D, some renewable energy R&D and general research towards expanding knowledge in various fields.

⁵ State and territory governments also provide substantial budgetary assistance to industry. The 2009-10 *Review* found that in 2008-09 subnational governments expended around \$1.5 billion on programs and that provided grants and services to the benefit of industry (and an additional \$2.6 billion in administrative wages and expenses). This equated to around \$184 per person. Programs relating to primary industries and resources accounted for around 60 per cent of estimated industry assistance.

⁶ The 2013-14 estimate, published in *Trade & Assistance Review 2013-14*, has been significantly revised downwards, from \$9.1 billion to \$7.9 billion. This reflects a \$1.2 billion revision by Treasury of the small business (simplified depreciation rules) tax concession.

Figure 2.2 Forms of budgetary assistance

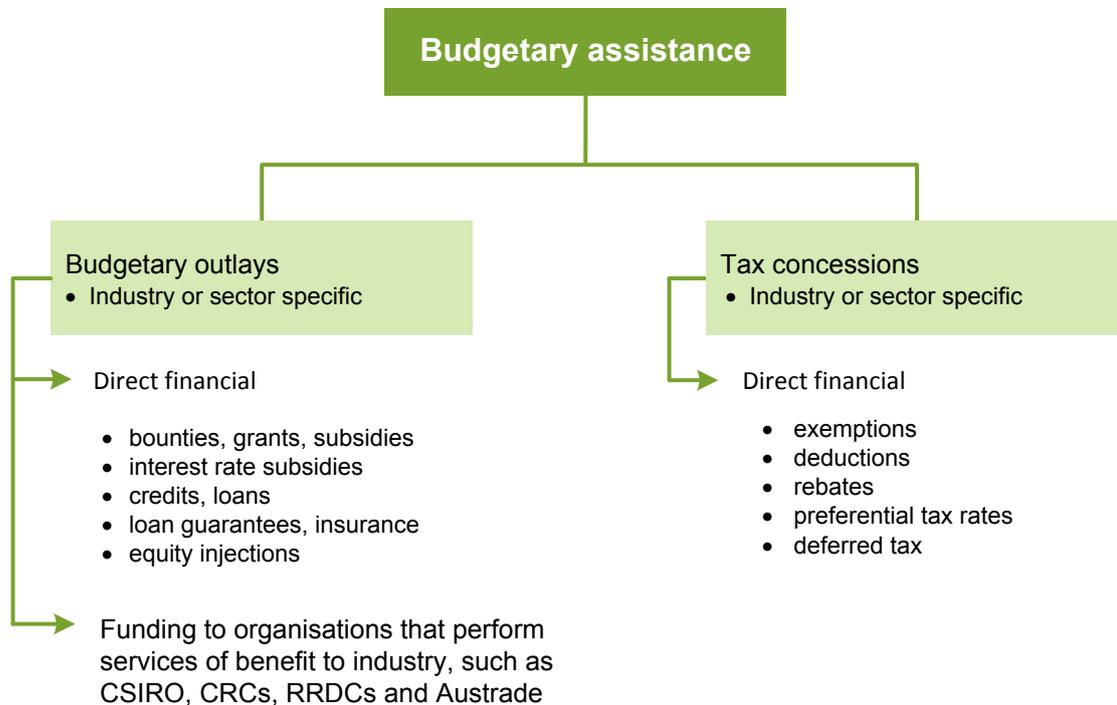
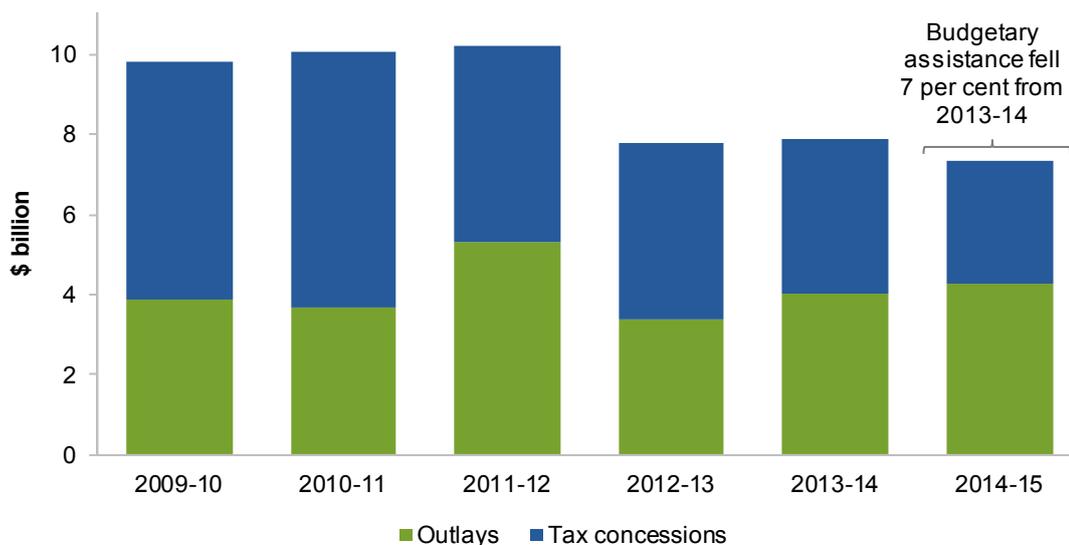


Figure 2.3 Budgetary assistance to industry, 2009-10 to 2014-15
\$ billion (nominal)



Sources: Australian Government Budget and related papers (various years); departmental annual reports (various years); Australian Government (2015b); Commission estimates.

The main reasons for a fall in aggregate budgetary assistance from 2013-14 to 2014-15 are:

- a fall of around \$400 million in assistance afforded by the Small Business Simplified Depreciation Rules scheme to enable small businesses to access concessional depreciation arrangements for business assets⁷
- a fall of around \$109 million in assistance provided through the Australian screen production incentive reflecting the irregular nature of claims made under the scheme
- a fall of around \$63 million in assistance afforded through the Automotive Transformation Scheme following the announced withdrawal of motor vehicle manufacturing in Australia.

Partially offsetting these falls were increases in budgetary assistance between 2013-14 to 2014-15, including:

- an increase of around \$50 million in assistance afforded by the Small Business Capital Gains Tax 15-year asset exemption scheme
- an increase of \$40 million in assistance afforded by the Concessional rate of industry withholding tax scheme
- an increase of around \$34 million afforded through the Carbon Capture and Storage Flagships Program.

The estimated level and composition of budgetary assistance is also affected by program redesign. For example, the estimated assistance afforded by the R&D Tax Incentive scheme increased by around \$221 million from 2013-14 to 2014-15, although this was partly offset by a fall in assistance of around \$140 million afforded by the previous R&D Tax Concession schemes.

The main trend in budgetary assistance since 2009–2010 was a \$2.5 billion decline from 2011-12 to 2012-13. The principal reductions related to the Energy Security Fund (\$1 billion), Small Business and General Business Tax Break (\$470 million), Coal sector jobs package (\$219 million), Steel transformation plan (\$164 million), R&D programs (\$164 million), Farm management deposits scheme (\$80 million), and the Green Car Innovation Fund (\$78 million).

Sectoral and industry distribution

The Commission records the incidence of budgetary assistance by the initial benefiting industry. Estimates are presented for 34 industry groupings, while four ‘unallocated’ categories are used for programs where it has not been possible to confidently identify the initial benefiting industry or sector from available information. An initial benefiting

⁷ The Small Business Simplified Depreciation Rules scheme is an accelerated asset write-off scheme enabling small business entities with an aggregated annual turnover of less than \$2 million to access concessional depreciation arrangements for business assets.

industry has been identified for just over 90 per cent of budgetary assistance, a share that has declined slightly since 2009-10.

In 2014-15 most budgetary assistance was afforded through *outlays* for the primary production, manufacturing and services sectors while for mining, the majority of budgetary assistance was provided through *tax concessions*.

In 2014-15, the services sector received around 47 per cent of estimated budgetary assistance (figure 2.4 top panel), much lower than the sector's share of economy-wide value added (around 90 per cent) (figure 2.4 lower panel). In contrast, the manufacturing and primary production sectors, combined, received around 36 per cent of budgetary assistance while contributing around 9 per cent of economy-wide value-added.

The three industry groups receiving the largest levels of budgetary assistance accounted for over a third of estimated budgetary assistance to industry in 2014-15 (table 2.4).

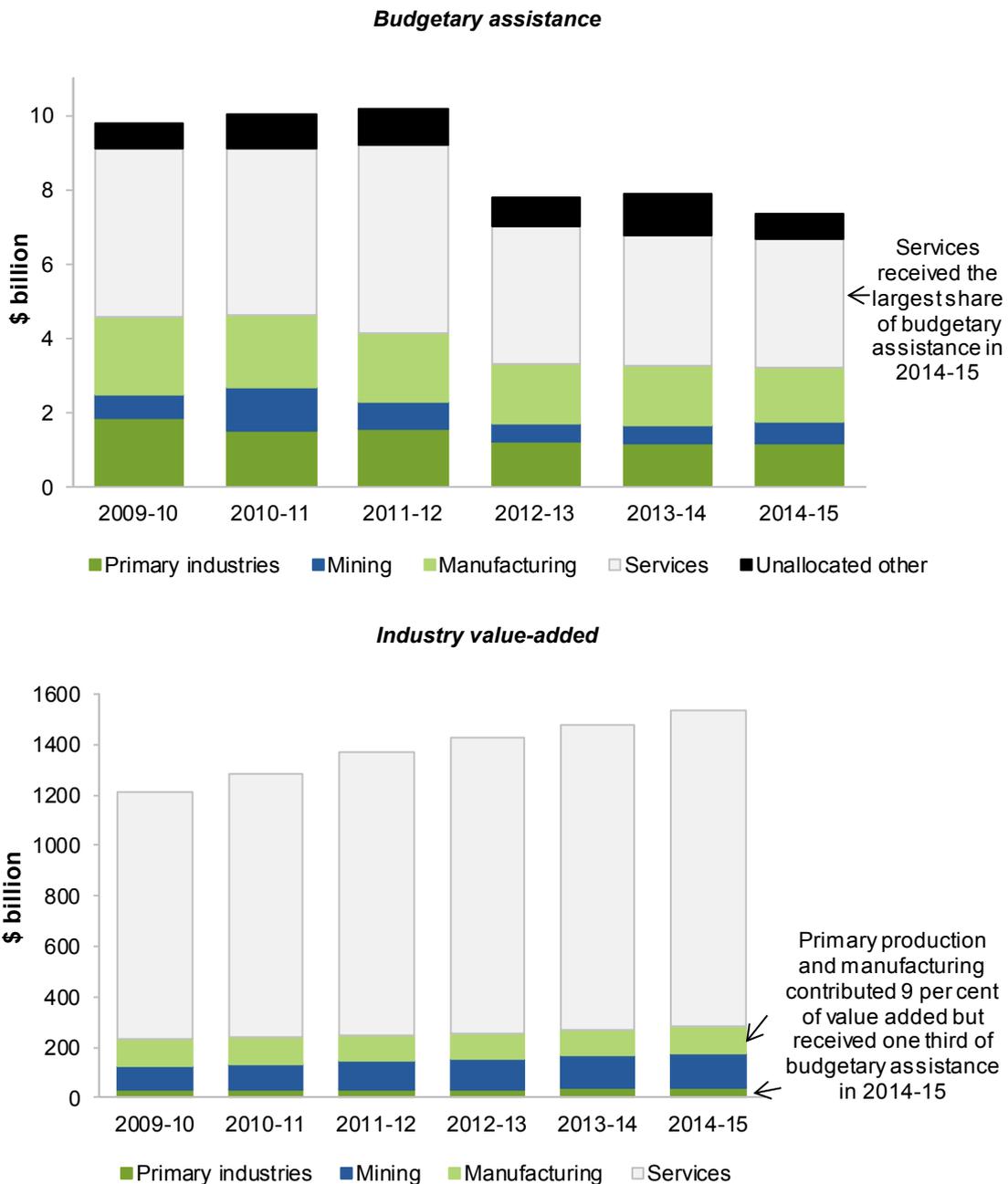
- Budgetary assistance was highest for the *Financial and insurance services* industry (\$1.2 billion) consisting mainly of the Concessional Rate of Withholding Tax scheme and Offshore Banking Unit Tax Concession scheme.
- *Property, professional and administrative services* was the next highest recipient (\$720 million), including through the R&D Tax Incentive scheme and the Small Business Capital Gains Tax schemes.
- *Sheep, beef cattle and grain farming* accounted for \$572 million, mainly in the form of the Farm Management Deposits scheme, rural R&D support (through CSIRO and the Rural Research and Development Corporations), and income tax averaging provisions.

Although *Motor vehicles and parts* received the fifth highest absolute level of support, accounting for \$320 million in budgetary assistance in 2014-15, it has the highest effective rate of assistance (absolute assistance relative to (unassisted) value added) of all industry groups because of the relatively high level of assistance relative to the scale of operations. The announced withdrawal of motor vehicle manufacturing in Australia will result in a reduction in the level of assistance.

Budgetary assistance not assigned to an industry sector is reported in the *Unallocated other* category. That assistance accounted for around 9 per cent of total estimated budgetary assistance in 2014-15. The small business capital gains tax concession schemes (\$326 million), for which industry allocation data is currently not available through taxation statistics, accounts for around 50 per cent of the category. Other budgetary assistance not classified to industry included Australian Renewable Energy Agency (ARENA) grants, Austrade⁸ and the TCF Corporate Wear Program.⁹

⁸ Up to 2009-10, Austrade provided the Commission with information on the industry incidence of Austrade appropriation funding. This information indicated that around two thirds of Austrade funding was directed towards the services sector, 20 per cent to manufacturing and the remainder split equally between primary production and mining. From 2010-11 Austrade has allocated its resources on a market or geography basis that does not support the provision of information according to industry.

Figure 2.4 Budgetary assistance and value-added shares by industry sector, 2009-10 to 2014-15
 \$ billion (nominal)



Source: ABS (2015), Commission estimates.

⁹ The TCF Corporate Wear program allows businesses that employ staff who wear non-compulsory uniforms to avoid paying Fringe Benefits Tax on any subsidies they make towards the uniform. Eligible uniforms are not confined to Australian production and therefore is not treated as assistance to the domestic TCF industry.

Table 2.4 Budgetary assistance by industry grouping, 2014-15
\$ million (nominal)

	<i>Outlays</i>	<i>Tax concessions</i>	<i>Total budgetary assistance</i>
Primary production	746.9	450.8	1 197.7
Horticulture and fruit growing	65.2	44.6	109.8
Sheep, beef cattle and grain farming	277.6	294.7	572.4
Other crop growing	51.7	22.0	73.8
Dairy cattle farming	35.2	33.4	68.6
Other livestock farming	31.6	12.3	43.9
Aquaculture and fishing ^a	54.9	11.8	66.7
Forestry and logging	12.6	12.5	25.0
Primary production support services	3.3	16.3	19.7
Unallocated primary production ^b	214.8	3.0	217.8
Mining	263.8	288.3	552.0
Manufacturing	1 091.7	392.7	1 484.3
Food, beverages and tobacco	72.0	47.9	120.0
Textiles, leather, clothing and footwear	48.4	4.4	52.8
Wood and paper products	11.5	5.0	16.5
Printing and recorded media	6.3	3.6	9.9
Petroleum, coal, chemical and rubber products	269.3	22.7	291.9
Non-metallic mineral products	21.4	-1.9	19.5
Metal and fabricated metal products	60.1	197.5	257.6
Motor vehicles and parts	291.9	27.7	319.7
Other transport equipment	18.2	-0.1	18.1
Machinery and equipment manufacturing	132.5	-5.6	126.9
Furniture and other manufacturing	15.8	-0.1	15.7
Unallocated manufacturing ^b	144.3	91.4	235.8
Services	1 754.3	1 677.1	3 431.4
Electricity, gas, water and waste services	196.4	13.6	210.0
Construction	40.6	34.0	74.7
Wholesale trade	63.7	76.7	140.4
Retail trade	26.8	67.0	93.8
Accommodation and food services	6.4	66.7	73.1
Transport, postal and warehousing	57.9	34.4	92.4
Information, media and telecommunications	112.6	5.5	118.1
Financial and insurance services	278.6	937.0	1 215.7
Property, professional and admin. services	587.3	132.2	719.5
Public administration and safety	13.5	0.2	13.6
Education and training	18.0	5.9	23.9
Health care and social assistance	98.1	75.8	174.0
Arts and recreation services	100.6	211.6	312.2
Other services	14.8	16.4	31.2
Unallocated services ^b	138.9	0.0	138.9
Unallocated other^b	399.1	271.0	670.2
Total	4 255.7	3 079.9	7 335.6

– Nil. ^a *Aquaculture and fishing* includes *Hunting and trapping*. ^b Unallocated includes programs for which details of the initial benefiting industry cannot be readily identified.

Source: Commission estimates.

Categories of budgetary assistance

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

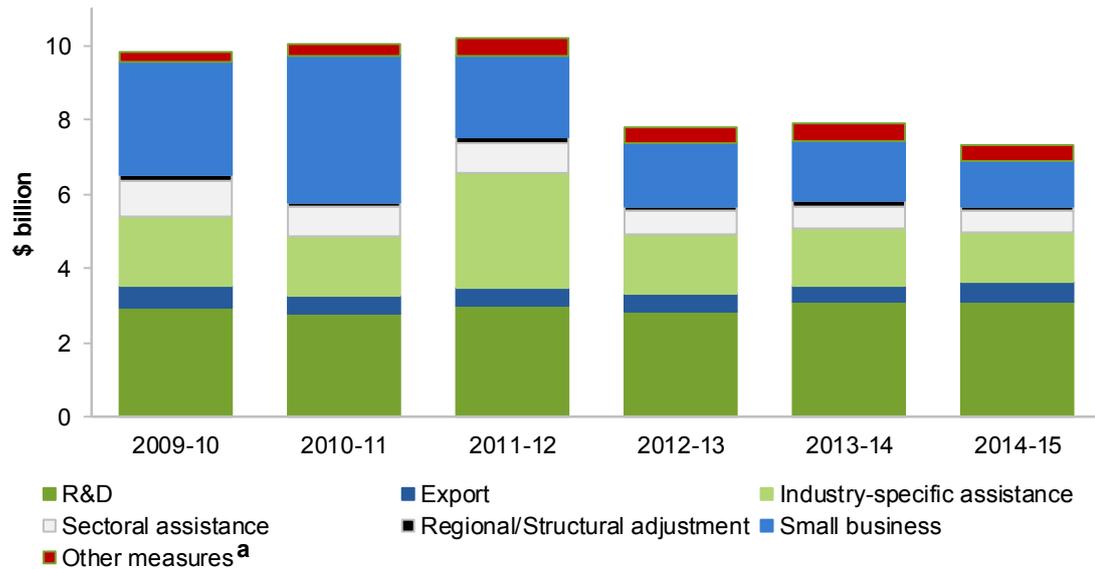
- *R&D* measures, including that undertaken by CSIRO, Cooperative Research Centres and rural R&D corporations, as well as R&D taxation concessions
- *Export* measures, including through Export Market Development Grants, import duty drawback, TRADEX and Austrade
- *Investment* measures, including development allowances and several former investment attraction packages
- *Industry-specific* measures, including the Automotive Transformation Scheme, the Clothing and Household Textile Building Innovative Capability Program, Film industry offsets scheme and the Offshore Banking Unit Taxation Concession
- *Sector-wide* measures, such as drought relief assistance 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 Simplified depreciation rules scheme
- *Regional* assistance, including the Tasmanian Freight Equalisation Scheme, Tasmanian Jobs and Growth Package and various structural adjustment programs with a regional focus
- a residual '*Other*' category, including the Textiles, Leather, Clothing and Footwear Corporate Wear Program, the Pooled Development Funds initiative, and the Enterprise Connect Innovation Centres Initiative.

The majority of budgetary assistance in 2014-15 was directed to:

- R&D (\$3.1 billion or 42 per cent) — including \$2.3 billion via the R&D Tax Incentive, \$521 million for CSIRO research with most assistance going to the primary production sector (\$193 million) (of which around half of this allocated to the *Sheep, beef cattle and grain farming* industry) followed by the manufacturing sector (\$134 million), and \$108 million for the Cooperative Research Centres program where over half was directed towards services
- specific industries (\$1.3 billion or 18 per cent) — including \$269 million for the Automotive Transformation Scheme (allocated to *Motor vehicles and parts*), \$235 million for the Offshore Banking Unit Tax Concession (allocated to *Financial and insurance services*), \$143 million for the Film industry offsets scheme (allocated to *Arts and recreation services*), and \$122 million for the Ethanol production subsidy (allocated to *Petroleum, coal, chemical and rubber products*)
- small business (\$1.2 billion or 16 per cent) — including \$1.4 billion for the Small Business Capital Gains Tax schemes, where around two thirds of the concessions are

claimed by the services sector with the *Financial and insurance services* industry being the single largest recipient of the schemes (\$229 million) (figure 2.5).

Figure 2.5 Budgetary assistance by category, 2009-10 to 2014-15
\$ billion (nominal)



^a Includes investment measures.

Source: Commission estimates.

Over the six-year period 2009-10 to 2014-15, changes in the shares of budgetary assistance to different activities are largely accounted for by:

- significant increases in concessions under the Small Business and General Business Tax Break up to 2010-11 followed by sharp decreases in 2011-12 to 2013-14
- an overall reduction in assistance from drought related programs over the period to 2012-13 following an easing in drought conditions, although in February 2014 the Government announced an expanded drought assistance package leading to an increase in drought related assistance from 2013-14¹⁰
- a significant increase in transitional assistance in relation to the carbon pricing mechanism in 2011-12 and its subsequent winding down in 2012-13
- the maintenance of funding for R&D activities over the period while funding for the other significant categories including industry-specific, sector-specific and small business measures have fallen

¹⁰ Australian Government funding under the Exceptional Circumstances program (both relief payments and interest rate subsidies) fell from a peak of \$779 million in 2008-09 to around \$1.6 million in 2012-13. In February 2014, the Australian Government announced a \$320 million drought assistance package including, among other things, \$280 million towards drought concessional loans and ‘more generous’ criteria for accessing income support through the Farm Household Allowance (PC 2015).

-
- an increase in concessions provided under the Small Business Depreciation Rules scheme in 2013-14, followed by a subsequent fall in concessions in 2014-15.

Some caution is required when comparing categories over time as changing shares do not necessarily reflect a conscious effort on the part of government to emphasis or increase one category relative to any other. While assistance programs have been allocated to the industry to which the assistance first accrues based on the nature of the support and main activities assessed as receiving that support (the ‘initial benefiting industry’), 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 as it relates to agriculture or agricultural product processing activities.

Although there is no separate category, a number of budgetary measures included in the estimates also relate to carbon emissions reduction, renewable energy, and energy supply and use goals. These measures support a range of activities that span R&D, industry-specific, sector-specific and other measures. These measures amounted to around \$637 million (9 per cent) of estimated budgetary assistance in 2014-15, about \$42.7 million lower than in 2013-14.

2.3 Combined assistance and effective rates of assistance

This section presents the results for combined tariff, budgetary and agricultural pricing assistance by industry group. Combined assistance is reported in terms of the net value of assistance and its components (reported for broad industries in figure 2.1) and the effective rate of assistance.

Combined assistance by industry grouping

Table 2.5 summarises tariff and budgetary assistance at the industry level for 2014-15. The manufacturing division receives the highest level of net combined assistance because of tariff assistance on its outputs. Although services industries receive the most budgetary assistance (around \$3.4 billion in identifiable support), such assistance is outweighed by the estimated input tariff penalty (around \$5.1 billion). The primary production division received the majority of its support from budgetary assistance, although some tariff protection continues to be afforded to a range of horticultural, crop and forestry products. By value, the highest level of combined assistance is afforded to the manufacturing industries *Metal and fabricated products* and *Food, beverages and tobacco* industries mainly due to tariff assistance, while the highest tariff penalty on inputs is born by the *Construction* and *Property, professional and administration* industries. A time series of net combined assistance (table 2.5, right hand column) by industry grouping for the period 2009-10 to 2014-15 is presented in appendix A.

Table 2.5 Combined assistance by industry grouping, 2014-15^a
\$ million (nominal)

	Tariffs		Net tariff assistance	Budgetary		Net combined assistance
	Output	Input penalty		Outlays	Tax concess.	
Primary production	208.9	-84.2	124.7	746.9	450.8	1 322.4
Horticulture and fruit growing	138.2	-7.9	130.2	65.2	44.6	240.0
Sheep, cattle and grain farming	0.2	-20.3	-20.1	277.6	294.7	552.3
Other crop growing	2.7	-5.2	-2.5	51.7	22.0	71.3
Dairy cattle farming	-	-3.8	-3.8	35.2	33.4	64.8
Other livestock farming	-	-4.3	-4.3	31.6	12.3	39.6
Aquaculture and fishing	1.4	-19.8	-18.4	54.9	11.8	48.3
Forestry and logging	66.4	-13.0	53.4	12.6	12.5	78.4
Primary production services	-	-9.8	-9.8	3.3	16.3	9.8
Unallocated primary production	-	-	-	214.8	3.0	217.8
Mining	1.2	-254.0	-252.9	263.8	288.3	299.1
Manufacturing	7 617.3	-2 061.4	5 555.9	1 091.7	392.7	7 040.2
Food, beverages and tobacco	1 871.7	-531.6	1 340.0	72.0	47.9	1 460.0
Textiles, clothing and footwear	277.8	-58.1	219.7	48.4	4.4	272.5
Wood and paper products	703.0	-142.3	560.7	11.5	5.0	577.2
Printing and recorded media	187.5	-30.2	157.3	6.3	3.6	167.2
Petroleum, coal and chemicals	984.0	-286.8	697.2	269.3	22.7	989.2
Non-metallic mineral products	277.2	-47.5	229.7	21.4	-1.9	249.3
Metal and fabricated products	1 747.1	-413.3	1 333.8	60.1	197.5	1 591.5
Motor vehicles and parts	749.2	-275.5	473.7	291.9	27.7	793.3
Other transport equipment	69.3	-61.6	7.7	18.2	-0.1	25.8
Machinery and equipment	563.0	-169.2	393.8	132.5	-5.6	520.7
Furniture and other products	187.4	-45.2	142.3	15.8	-0.1	158.0
Unallocated manufacturing	-	-	-	144.3	91.4	235.8
Services	-	-5 125.0	-5 125.0	1 754.3	1 677.1	-1 693.6
Electricity, gas, water and waste	-	-85.1	-85.1	196.4	13.6	124.9
Construction	-	-1 912.9	-1 912.9	40.6	34.0	-1 838.2
Wholesale trade	-	-270.7	-270.7	63.7	76.7	-130.3
Retail trade	-	-193.7	-193.7	26.8	67.0	-99.9
Accommodation & food services	-	-598.1	-598.1	6.4	66.7	-525.0
Transport, postal & warehousing	-	-217.2	-217.2	57.9	34.4	-124.8
Information & communications	-	-145.6	-145.6	112.6	5.5	-27.5
Financial & insurance services	-	-10.9	-10.9	278.6	937.0	1 204.7
Property, professional & admin.	-	-639.5	-639.5	587.3	132.2	80.0
Public administration and safety	-	-228.2	-228.2	13.5	0.2	-214.6
Education and training	-	-131.1	-131.1	18.0	5.9	-107.2
Health care & social assistance	-	-282.2	-282.2	98.1	75.8	-108.3
Arts and recreation services	-	-84.4	-84.4	100.6	211.6	227.8
Other services	-	-325.3	-325.3	14.8	16.4	-294.1
Unallocated services	-	-	-	138.9	-	138.9
Unallocated other	-	-	-	399.1	271.0	670.2
Total	7 827.3	-7 524.6	302.7	4 255.7	3 079.9	7 638.3

- Nil.^a Read in conjunction with notes to tables 2.1 and 2.4.

Source: Commission estimates.

Estimated effective rates of combined assistance by industry grouping

As noted, the effective rate of assistance (ERA) measures the net combined assistance to a particular industry in proportion to that industry's unassisted net output (value added). It provides an indication of the extent to which assistance to an industry enables it to attract and hold economic resources relative to other sectors.

For the manufacturing sector, the estimated effective rate of assistance was 4.1 per cent in 2014-15, slightly lower than the estimate for previous years (table 2.6). The effective rate for the primary sector in 2014-15 was 2.5 per cent, down from 4.8 per cent in 2009-10 — largely reflecting the decline in assistance afforded through drought relief to 2012-13 following the easing of drought conditions. The estimated effective rate of assistance from tariff and budgetary assistance for mining is negligible.

Table 2.6 **Effective rate of combined assistance by industry grouping, 2009-10 to 2014-15^a**
per cent

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Primary production^b	4.8	3.6	3.5	2.8	2.6	2.5
Horticulture and fruit growing	3.5	3.2	3.1	3.1	3.1	3.1
Sheep, cattle and grain farming	6.5	4.4	3.4	2.4	2.4	2.3
Other crop growing	2.2	0.9	1.9	1.7	1.5	1.4
Dairy cattle farming	6.5	4.0	3.0	1.7	1.6	1.5
Other livestock farming	1.3	1.1	1.7	1.1	0.8	0.9
Aquaculture and fishing	4.5	3.5	2.7	1.8	1.9	1.9
Forestry and logging	4.7	5.1	6.3	5.0	3.9	3.8
Primary production services	0.4	0.3	0.1	0.5	0.4	0.3
Mining	0.3	0.6	0.3	0.2	0.1	0.1
Manufacturing^b	4.6	4.4	4.3	4.2	4.2	4.1
Food, beverages and tobacco	3.5	3.6	3.4	3.5	3.6	3.4
Textiles, clothing and footwear	12.3	9.8	8.0	7.9	7.9	6.7
Wood and paper products	4.9	5.0	4.8	4.9	4.8	4.8
Printing and recorded media	3.6	3.6	3.6	3.6	3.6	3.5
Petroleum, coal, & chemicals	3.1	3.3	3.1	3.2	3.2	3.2
Non-metallic mineral products	3.0	3.0	2.9	3.0	3.1	2.9
Metal and fabricated products	4.5	4.5	4.9	4.7	4.7	4.9
Motor vehicles and parts	12.9	10.0	10.2	8.9	8.5	7.9
Other transport equipment	0.9	0.8	0.6	0.6	0.8	0.6
Machinery and equipment	3.3	3.0	2.9	3.0	3.1	2.9
Furniture and other products	4.8	4.7	4.8	4.9	4.7	4.5

^a Combined assistance comprises tariff, budgetary, and agricultural pricing assistance. ^b Sectoral estimates include assistance to the sector that has not been allocated to specific industry groupings.

Source: Commission estimates.

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

The *Motor vehicles and parts* and *Textiles, leather, clothing and footwear* industry groupings continue to have higher effective rates of combined assistance than other manufacturing activities, 7.9 per cent and 6.7 per cent respectively. The estimated effective rates of assistance to both industry groups have fallen significantly over recent decades following substantial reductions in tariff rates and the removal of import quotas.¹¹ More recently, effective rates of assistance for these industries have fallen significantly, from 12.9 per cent and 12.3 per cent respectively in 2009-10, following the legislated tariff cuts in January 2010 and net reductions in budgetary assistance following the closure of the Automotive Competitiveness and Investment Scheme and introduction of the less generous Automotive Transformation Scheme in 2010-11.

With the reduction of remaining textiles, leather, clothing and footwear tariffs from 10 to 5 per cent in January 2015, and announced rationalisation of the automotive industry, effective assistance to those industries is likely to fall further.

Dairy cattle farming and Sheep, beef cattle and grain farming

The estimated effective rate of assistance for *Dairy cattle farming* fell markedly from 2009-10 to 2014-15 — from 6.5 per cent to 1.5 per cent. This largely reflects a decline in Exceptional Circumstances drought support. Prior to the dairy industry's deregulation in July 2000, the effective rate of combined assistance was estimated to exceed 30 per cent.

Reflecting lower claims for Exceptional Circumstances drought support largely following the easing of drought conditions to 2012-13, the effective rate of assistance for the *Sheep, beef cattle and grain farming* group declined from 6.5 per cent in 2009-10 to 2.3 per cent in 2014-15. This decline in effective assistance has been moderated somewhat by increased support from the Farm Management Deposits Scheme (an additional \$60 million since 2009-10) and R&D support (an additional \$74 million).

Declines were also estimated over the period for some other agricultural industry groupings because of lower claims for drought support.

Forestry and logging

Effective rates of assistance to *Forestry and logging* have stabilised in more recent years at around 4 per cent. This reflects more stable levels of assistance provided through programs like the structural adjustment packages for the Tasmanian forestry industry, the small business capital gains tax concessions schemes, and net tariff assistance to forestry and

¹¹ In the 1980s, tariffs on motor vehicles were 45 per cent and the highest estimated tariff rate for any one textiles, leather, clothing and footwear line item (inclusive of the effect of tariff quotas) was 125 per cent. In 1984-85 the effective rates of assistance for the *Motor vehicles and parts* industry and *Textiles, leather, clothing and footwear* industry was 140 per cent and 157 per cent respectively (PC 2000).

logging. This contrasts with effective rates of assistance to the industry prior to 2009-10 where assistance levels changed markedly from year to year. The effective rate of assistance for *Forestry and logging* was 6.9 per cent in 2007-08, negative 1.3 per cent in 2008-09 and then back to 4.7 per cent in 2009-10. This volatility resulted from changes in the direction of 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). The Forestry Managed Investment Scheme was terminated on 30 June 2008.

Higher effective rates at finer levels of analysis

While present effective rates for agriculture and manufacturing industries are at a historic low, the effective rate of assistance for an individual company or project can be substantial. This arises when a grant program is targeted at particular goods-producing and services activities and provides a subsidy equivalent for the supported projects well above the industry average (box 2.3). Advantage conferred to a specific firm or activity in this way can be quite distortionary, both within an industry as well as at the economy-wide level.

2.4 Effective rates of assistance since 1970

The Commission has estimated effective rates of 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. While methodologies and data sources have changed between series, taken together, the series provide a broad indication of directions and trends in assistance at the sectoral level.

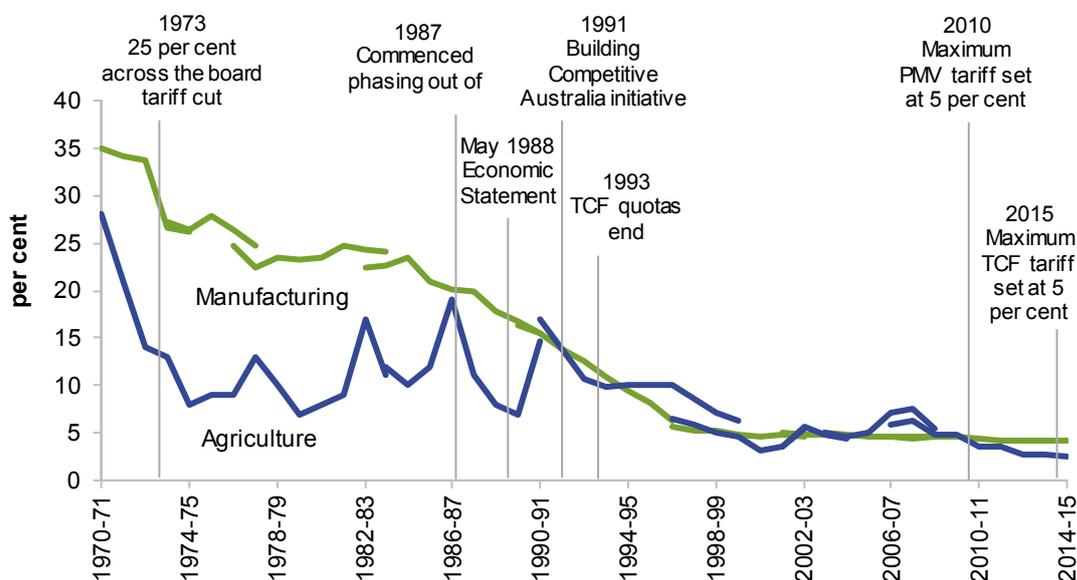
Figure 2.6 presents effective rate of assistance estimates from the different series from 1970-71 to the present. Breaks in the series are represented by gaps in the chart, and overlaps are included to show the effects of the methodological and data changes made in moving between series. In figure 2.6, estimates of the effective rate of assistance for the previous 2004-05 benchmarked series are reported for the years 2005-06 to 2008-09. Estimates for the current 2008-09 benchmark series are reported for the years 2006-07 to 2014-15.

Box 2.3 Assistance measures that provide above average levels of support

The level of effective assistance that accrues to a company or project from a grant program is an empirical question. Unless all companies produce the same products using the same input mix, some will receive effective assistance above and some below average. So the key empirical question is how variable the rates of assistance are to companies and products within an industry. Unfortunately, the information on output, value-added and inputs required to estimate effective assistance at the company level is not available on a consistent basis. However, all else equal, grant programs that afford matched funding or which target one or a small range of firms (or projects) will potentially confer higher levels of relative assistance. Some examples of government support with the potential to provide above industry-average assistance levels include the following.

- Film industry offsets — government support provided by the producer tax offset (part of the Australian Screen Production Incentive) amounted to \$143 million in 2014-15. This assistance provided \$837 million for production budgets for the Australian film and television industry which amounted to over 17 per cent of production costs (SA 2016). (The comparable rate for 2013-14 was 20 per cent). The film industry also receives assistance from the state and territory film support programs, Screen Australia and the Export Finance and Insurance Corporation.
- Tasmanian Freight Equalisation Scheme (TFES) — around 50 per cent of the total amount claimed goes to 10 recipients (PC 2014d).
- Ethanol production subsidy — between 2003-04 and 2013-14, participants in the program ranged from between 1 and 5 firms, with a single firm receiving over 70 per cent of funding over the life of the program (ANAO 2015).
- Co-investment grants — over the three years to 2013-14, nearly \$50 million in co-investment grants was paid to four firms by the Australian Government. These payments can confer high levels of assistance at the individual firm or project level (PC 2015).
- Regional business investment grants — payments have typically been up to 50 per cent of the project costs, conferring high effective rates of assistance to recipients.
- Local submarine assembly — the effective rate of assistance for building the proposed submarines locally, at a reported premium of around 30 per cent more than an overseas assembly, has been estimated to be around 300 per cent, perhaps a record high (see chapter 3).

Figure 2.6 Effective rates of assistance to manufacturing and agriculture,^a 1970-71 to 2014-15
per cent



^a Refers to selected agriculture activities up to and including the year 2000-01. From 2001-02, estimates refer to division A of the Australian and New Zealand Standard Industrial Classification which covers agriculture, forestry, fishing and hunting activities.

Source: Commission estimates.

Manufacturing

The estimates indicate a marked fall in measured assistance to the manufacturing sector over the last 45 years. The estimated effective rate of assistance for manufacturing as a whole (as calculated in the first series) was around 35 per cent in 1970-71. Since 2000, the rate has been around 5 per cent, declining to around 4 per cent in more recent years.

Major influences on this fall over the past four decades have been the 25 per cent across-the-board tariff cut of 1973, the removal of all quantitative import restrictions (except for textiles, clothing and footwear) by 1988, and the broad programs of tariff reductions that commenced in the late 1980s. Under the May 1988 *Economic Statement* the Government introduced an across-the-board program to phase down all tariffs (except for passenger motor vehicles and textiles, clothing and footwear activities which had their own tariff reduction programs) to either 10 per cent or 15 per cent by 1992.

Reductions in general tariff rates were continued with the 1991 *Building a Competitive Australia* initiative which reduced general tariff rates from 15 and 10 per cent to a single rate of 5 per cent over the four years from 1992 to 1996. As part of the initiative, tariffs on passenger motor vehicles were reduced to 15 per cent by 2000. For textiles, clothing and

footwear activities import quotas were abolished by 1993 and tariffs phased down to a maximum of 25 per cent by 2000.

Subsequent falls in effective assistance to manufacturing have been associated mainly with reductions in tariff assistance to the textile, clothing and footwear, and passenger motor vehicle industries. Tariffs on passenger motor vehicles were further reduced from the 15 per cent set in January 2000 to 10 per cent in January 2005 and 5 per cent in January 2010. After the termination of tariff quotas in 1993 and the phasing of tariffs to a maximum of 25 per cent by the year 2000, maximum TCF tariffs were reduced to 17.5 per cent in January 2005, 10 per cent in January 2010, and 5 per cent in January 2015.

The 5 per cent tariff, now levied on over 50 per cent of manufactured items of merchandise trade, continues to provide some assistance to many manufacturing activities, and an associated impost on consumers, industry and government administration. The tariffs also afford a margin of preference to eligible foreign exporters under Australia's preferential bilateral and regional trade agreements (box 2.4). To satisfy eligibility requirements, exporters in partner economies must satisfy complex rules of origin (PC 2015). The Commission has long considered that the 5 per cent general tariff rate should be eliminated.

Box 2.4 Treatment of tariff preferences in assistance estimates

The tariff preferences provided under Australia's preferential trading agreements (PTAs) 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 PTAs reduce 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, where 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, 2008b).

Agriculture (primary production)

For agriculture, the estimated effective rate of assistance (as calculated in the first series) was over 25 per cent in 1970-71. 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 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 agriculture in 2006-07 and 2007-08 reflects significant increases in Exceptional Circumstances drought relief payments and interest rate subsidies at the height of the drought through much of Australia. It also includes the Dairy Industry Structural Adjustment package. Such assistance has since fallen significantly and the estimated assistance to the agricultural sector overall has declined to around 2.5 per cent.

3 Five recent developments in industry assistance

This chapter outlines a selection of recent developments that have significant implications for industry assistance, namely:

- the Agricultural Competitiveness White Paper (July 2015)
- the Defence Industry Policy Statement (March 2016) and a local build of submarines
- setting of the Renewable Energy Target (June 2015) and programs to meet the target and achieve carbon emissions reduction
- regional business investment grants programs, many of which relate to ‘life’ after cessation of automotive manufacturing. Similar programs are a response to more general economic growth concerns for Tasmania
- support for business innovation, research collaboration and commercialisation announced in the *Industry Innovation and Competitiveness Agenda* (October 2014) and the *National Innovation and Science Agenda* (December 2015).

As noted in the previous chapters assessing what constitutes industry assistance, and estimating the amount of assistance, is not always straightforward. This chapter seeks to guide the reader as to how the above developments fit into an industry assistance framework.

3.1 The Agricultural Competitiveness White Paper

The industry assistance announced in the Agricultural Competitiveness White Paper (July 2015) involves both changes to existing support measures as well as new measures, and direct and indirect support to farm businesses (table 3.1). The package is described as a \$4 billion investment (extending beyond the four year forward estimates period), although not all of this is in the form of expenditure, nor is it all industry assistance.

White Paper measures that would affect the Commission’s measured industry assistance include:

- direct financial support provided through the tax system (for instance, more favourable treatment of income averaging, Farm Management Deposits, and asset depreciation) and concessional loans
- direct support for specific services related to the farm business such as grants for insurance advice and risk assessment, and financial counselling
- indirect support for agricultural activities provided through R&D programs, and pest and disease control.

Table 3.1 Industry assistance categorisation of principal measures in the Agricultural Competitiveness White Paper

<i>New initiatives</i>	<i>Indicative costing by government</i>
Direct financial assistance	
Drought concessional loans	Up to \$250 m a year for 11 years Interest saving to farmer is not costed
Tax concessions	
Allowing farmers to opt back into income tax averaging	
Increase the deposit limit for Farm Management Deposits	
Early access provisions for the Farm Management Deposits Scheme	
Accelerated depreciation for new fencing, new water facilities and fodder storage	\$142 million
Likely to provide some Indirect assistance to farm business	
Extend the Rural R&D for Profit program after 2017–2018 to 2021-22	\$100 million over 4 years
Match new agricultural production levies in the export fodder and tea tree oil industries,	\$1.4 million over 4 years
Funding for the existing Rural Industries Research and Development Corporation for R&D for small agricultural industries.	\$1.2 million over 4 years
Two-year pilot program to provide farmers with knowledge and materials on cooperatives, collective bargaining and innovative business models.	\$13.8 million over 2 years
Farm insurance advice and risk assessment	\$29.9 million over 4 years
Additional resources for Rural Financial Counselling Service providers in drought-affected areas (for 2015-16)	\$1.8 million for 1 year
Help the State and territory governments manage pest animals and weeds in drought-affected areas	\$25.8 million over 4 years
Boost emergency pest and disease eradication and national response capacity	\$50 million
Manage established pest and animals and weeds	\$50 million
Modernise Australia's traceability systems, to verify produce integrity and secure access to overseas markets	\$12.4 million
Not likely to be treated as assistance — indirect benefit to farm business difficult to ascertain or measure, or of a community nature	
Water infrastructure	\$500 million
Streamline the approval of agricultural and veterinary chemicals	\$20.4 million Compliance cost saving to farmers \$68 million
Improved Country of Origin Labelling	
Boost Australian Competition and Consumer (ACCC) engagement with the agricultural sector and a new commissioner dedicated to agriculture	\$11.4 million over 4 years
Improved seasonal weather forecasting	\$3.3 million
Local projects to provide short-term help to communities that are suffering economic downturn due to drought	\$35 million
Break down technical barriers to trade, including appointment of five new agricultural counsellors in key markets	\$30.8 million
To improve biosecurity surveillance, including in northern Australia	\$200 million

Source: Australian Government (2015a).

The majority of the reported \$4 billion package is \$2.7 billion for concessional loans (\$250 million a year for 11 years).¹² The industry assistance value to farmers is substantially less than the loan amounts, unless loans are subsequently written off. This is because only the interest saving (the difference between the concessional loan rate and the interest rate a commercial provider would charge for the loan) constitutes assistance, assuming the loans themselves are made only to otherwise viable producers.¹³

The White Paper also includes measures that are intended to benefit agricultural *activities* but are not typically included in the Commission's industry assistance estimates. Some examples that are not included in the estimates are: water and transport infrastructure; changes to agricultural and veterinary chemical approval; country of origin labelling; an ACCC agricultural commissioner; weather forecasting; and biosecurity measures. This is because the extent of assistance is either difficult to estimate (as with country of origin labelling) or the benefits accrue to a much wider group (as with public safety from agricultural and veterinary chemical vetting approval).

Support for *households* through the Farm Household Allowance is also not included in estimates of industry assistance, nor is support for the broader local *community* such as for mental health support services and local projects. Such assistance is provided to households and communities based on need and is part of the broader social welfare system, rather than assistance to a specific industry.

The White Paper provides an additional \$100 million (2018-19 through to 2021-22) for the Rural R&D For Profit program, on top of the existing \$100 million allocation through to 2017-18. Separately, the government contributes around \$240 million per year to Rural R&D Corporations. The additional R&D to be funded by the White Paper could boost activity to the benefit of the sector and the Australian economy. However, this requires that the subsidy does not simply crowd out private efforts. Even where the result is a higher level of R&D, the gains in profits to farmers, lower prices to consumers, and/or lower environmental impacts for example, need to outweigh the cost of such support. The Commission (PC 2011a) has previously questioned whether the extent of support for rural R&D was warranted, given the strong profit focus of the investments. Given this, close attention to the governance arrangements is required to ensure that the knowledge generated benefits the economy as a whole and not a small share of producers.

¹² There is no reconciliation table in the White Paper showing the breakdown of the \$4 billion by measure and by year and whether it involves expenditure, tax concessions, or regulatory cost reduction.

¹³ For example, if the recipient could borrow on the market at 5.5 per cent per annum and the Government offers a concessional loan at 4 per cent and the amount borrowed is \$150,000 then the assistance is $(5.5 - 4) \times 150000 = \2250 . In principle, a government can provide equivalent support (in present value terms) via a grant, direct (concessional) lending, or a government guarantee of a commercially provided loan (OECD 2013, box 2, pp.26-27). While the recipient receives the same assistance, the budgetary accounting differs markedly between the three options (in respect of outlays, revenue, contingent assets, and contingent liabilities).

Also of concern with the White Paper package is that some measures may hamper much needed adjustment in certain agricultural industries. For example, as concessional loans lower the cost of debt for eligible farmers, less effective producers are encouraged to remain in the industry when exit may be of greater personal and economy-wide benefit. As explained in the Commission's Report into Drought (PC 2009) such measures, like State government subsidies for fodder, reduce the incentives to adjust farming practices in ways that would increase resilience in times of drought and price downturns. They can also provide perverse incentives for eligible farmers to manage their properties well over climatic cycles that include drought, for example by reducing the incentives to destock.

3.2 The Defence Industry Policy Statement and the submarine procurement decision

The 2016 Defence Industry Policy Statement signals expenditure of \$1.6 billion on defence industry and innovation programs over the coming decade — the Centre for Defence Industry Capability (CIDC) (\$230 million); the Next Generation Technologies Fund (\$730 million) and a Defence Innovation Hub (\$640 million). This consolidates a multitude of previous support programs. It is difficult to ascertain whether the intended support is an increase in what would have been provided had previous programs continued, as previous funding arrangements were not transparent (TAR 2012-13).

The budgetary assistance provided to defence industry businesses includes: discretionary grants to companies (such as for skills training, technology demonstration, and commercialisation); government expenditure on third party R&D; payments to multinational prime contractors to promote Australian industry participation, and export marketing and promotion services.

In light of the significant size of the budgetary assistance to the defence industry, and its role in delivering Australian Defence Force (ADF) capability, close attention to future evaluation of the effectiveness and efficiency of the revised industry support is paramount. A 2016 Australian National Audit Office (ANAO) performance audit of the 11 principal defence industry support programs concluded that less than half had effective performance frameworks in place (ANAO 2016).

The defence industry also receives assistance through the Priority and Strategic Industrial Capability policy which dictates that certain designated 'industrial capabilities' must be resident in Australia. This is on the basis that the lack of availability of such capabilities would significantly undermine defence self-reliance and ADF operational capability. The assistance delivered to the Australian defence industry through this 'local preference' policy is difficult to quantify because the counterfactual is not observable — the local supply in the absence of a local procurement policy. An indicative measure of the potential assistance, on a project basis, is the cost premium to build locally. (Local cost premiums — the total cost of a local build in excess of the total cost for the same equipment sourced from other countries — may also be incurred for projects which are not on the designated

capability list). However, under current defence procurement disclosure decision making, the local cost premium for the *same* equipment is not publicly revealed, and the equipment built in Australia can vary from the alternative. Consequently, for practical data reasons, such assistance is not included in the Commission's core industry assistance estimates. The Commission has called for transparency of the cost premiums, and pointed to ways to support transparency while respecting confidentiality (TAR 2012-13, pp. 29–31).

The cost premium provides a hurdle that self-reliance benefits must exceed before a decision to build locally should be made. These benefits are difficult to enumerate. There does not appear to be a public evaluation of whether, in the past, the 'insurance policy' of local manufacture was either necessary or useful in maintaining ADF operational capability. There are notable examples, such as Australia's over-the-horizon radar technology, which is likely to be superior to other available systems. However, it is equally likely that some capabilities do not pass the test.

The other main argument for local defence equipment construction is technology and skill spillovers. It is easier to assert that such spillovers will eventuate than to prove they have. Spillover value is created when the defence project develops or adapts new technology or builds skills that are then *transferred and taken-up* by industries beyond those involved in the defence construction. Technology spillovers are more likely if high-tech activities such as R&D are conducted in Australia. Local assembly of high-tech defence components (developed overseas) is likely to yield less in the way of spillover benefits. Spillovers are not the primary objective of defence acquisitions. (Technical capabilities may be required that are, in any case, not available locally).

Paying more for local builds, without sufficient strategic defence and spillover benefits to offset the additional cost, diverts productive resources (labour, capital and land) away from relatively more efficient (less assisted) uses. It can also create a permanent expectation of more such high-cost work, as the recent heavily promoted 'valley of death' in naval ship building exemplifies. Such distortion detracts from Australia's capacity to maximise economic and social wellbeing from the community's resources. The recent decision to build the new submarines locally at a reported 30 per cent cost premium, and a preference for using local steel, provides an illustrative example of how a local cost premium can deliver a very high rate of effective assistance for the defence contractor and the firms providing the major steel inputs (box 3.1). While based on hypothetical data, the example reveals that the effective rate of assistance provided by purchasing preferences can be higher than the peak historical levels recorded for the automotive and textiles, clothing and footwear industries prior to the significant economic reforms of protection. It is notable that this cost premium does not include any delays in deploying the new submarine capability.

Box 3.1 **Illustrative effective rate of assistance for locally built submarines and local steel supply**

A useful indicator of the potential distortion of resource allocation from the provision of industry assistance is the 'effective rate of assistance' (ERA). This is a measure of the incentive to attract labour, capital and land (the so-called 'value added') into an activity. The ERA is calculated as the amount of assistance (net subsidy equivalent) per unit of 'unassisted net output' (also termed 'unassisted value added'). The higher the ERA the greater is the potential incentive to draw productive resources into an activity and hence distort economic activity.

Assistance to the Australian submarine assembly industry

Consider a local submarine build at a 30 per cent premium and 50 per cent of the project spent in Australia (covering wages and local materials).

- Assume the submarine that costs \$130 to build in Australia, and involves local expenditure of 50 per cent comprising \$30 local steel, and \$35 local labour and capital (known as value added). It also requires \$65 imported materials (including complex systems costs and installation wages of foreign contractors).
- This is 30 per cent higher than the cost to build the same submarine overseas of $\$130/1.3 = \100 .
- Part of this higher cost is due to a requirement to purchase local steel. The illustrative calculations assume that foreign steel would have been available for a cost of \$25.

The ERA is calculated as the *net* subsidy equivalent (NSE) divided by the *unassisted* value added (UVA).

- The dollar amount of assistance provided by the cost premium (the gross subsidy equivalent) is \$130 less \$100 (the efficient benchmark price) = \$30. However, the net subsidy equivalent (NSE) must take account of the cost penalty (\$5) imposed on submarine assembly by mandating the use of higher cost local steel. So the NSE = \$25.
- The *unassisted* value added is calculated as the *assisted* value added of \$35 less the net assistance of \$25 = \$10.
- The ERA = \$25 divided by \$10 = 2.5, or 250 per cent.

These costs structures are hypothetical, but reflect the scant public information on the likely premium (30 per cent) and claims that 50 per cent of costs will be the spent in Australia. The example is intended to illustrate the methodology. It should be noted that the requirement to purchase more expensive steel reduces the ERA for the submarine industry. If they could instead purchase foreign steel at \$25, the assisted value would be \$40, their NSE \$30, the unassisted value added would still be \$10, and the ERA 300 per cent.

Assistance to the steel industry from mandated supply by higher cost local steel supply

Assume the \$30 local steel input to the submarine comprise \$20 local materials and \$10 local value add. If the government mandates use of Australia steel in the local submarine build then assistance is conferred to the domestic steel industry (while penalising the assembly industry, as above). The ERA to the Australian steel company in this hypothetical example is the net subsidy equivalent of \$5 ($\$30 - \25) divided by unassisted value added (\$5) = 1.0 or 100 per cent.

3.3 Renewable energy development and carbon emissions reduction

Renewable energy and carbon reduction measures benefit businesses that make or sell related products or services and may impose costs on those activities that have higher carbon emissions.

Clearly, these measures advantage some businesses over others, but how much should be defined as industry assistance is difficult to assess.¹⁴

Higher support over the Budget Forward Estimates (and beyond) has been committed or announced in the following areas.

- R&D grants, project co-funding and venture capital provided by the Australian Renewable Energy Agency (ARENA). The agency was established in 2012 with \$2.5 billion funding until 2020. At 30 June 2015, \$1.1 billion in support had been spent or committed. ARENA support to business is included in the Commission's assistance estimates (table 3.2) at the full face value of the grants, co-payments, and venture capital injection. Once the large-scale solar round of grants is complete, ARENA will move from a grant based role to predominantly a debt and equity basis under the Clean Energy Innovation Fund (CEIF) (below).
- Debt and equity is to be provided from the \$1 billion CEIF, announced in March 2016. This is different to the Clean Energy Finance Corporation (CEFC). The new Fund will be jointly managed by ARENA and the CEFC. As the \$1 billion is to come from the CEFC's \$10 billion allocation, this is not additional support.
- Co-finance by the CEFC. The Corporation commenced in 2013 with \$2 billion per year to 2017, with provision for under spent funds to be rolled over. The assistance provided is due to the concessional nature of the loans. This is not included in the assistance estimates as the value is difficult to measure given the variability of the rate that firms would otherwise face.
- Payments from the Emissions Reduction Fund (ERF) for successful project bids. The Fund was allocated \$2.55 billion in the 2014-15 Budget, with further funding to be considered in future budgets. The net financial gain to businesses from the sale of voluntary emissions reduction credits and ERF auction payments is less than the 'gross' payments (\$1.7 billion from the first three ERF auctions) as the costs of abatement incurred by the business have to be taken into account. Hence even if payments for reductions above the cost of making these reductions are regarded as assistance, they are difficult to estimate. Note that ERF payments may fail the test of additionality — for

¹⁴ Whether payments, such as for Direct Action emission reductions, or exemption from the RET constitutes assistance depends on the allocation of property rights over carbon emissions. If firms do not have an obligation to reduce emissions (they 'own' the right to emit carbon) then such payments and exemptions would not be considered assistance. Rather, the government is purchasing a desired public good outcome. But if producers have legal limits on their carbon emissions (as under a cap and trade), then payments to reduce emissions to meet these limits would be regarded as assistance.

example, being paid not to clear land that was genuinely not planned for clearance means no additional carbon saving and a windfall gain to the landholder.

Table 3.2 Benefits to business from certain renewable energy and carbon reduction measures

<i>Program</i>	<i>Nature of business support</i>	<i>Comment</i>
Measured industry assistance		
ARENA R&D Programme ^a	Grants in competitive Rounds.	The government share of project expenditure varies across successful applicants. Average share around 30 per cent.
ARENA Advancing Renewables Programme ^a	Co-funding grants from competitive Rounds and non-competitive merit application	Applicants expected to at least match government funding (1:1).
ARENA Renewable Energy Venture Capital Fund	Equity and management expertise	In 2011 the Government allocated \$100 million funding to Southern Cross Renewable Energy Fund (a joint venture with Softbank China Venture Capital which was also to contribute \$100 million). In 2015 the Australian Government allocation was reduced to \$60 million. To date about about \$40 million has been invested in 7 projects .
Confers a benefit to industry but not included in industry assistance estimates		
Clean Energy Finance Corporation (CFC)	Finance, which may be at concessional rates, such as lower pricing, higher risk and/or longer duration.	Assistance provided by concessional finance difficult to ascertain. Similar to the case with the Export Finance Insurance Corporation (PC 2011c).
Sale of large scale and small-scale renewable energy certificates	Sale of carbon credits through the government clearing house at a fixed price or other individuals and businesses at a negotiated price.	Sales value not known. Gross proceeds overstates the net financial benefit to recipients because costs were incurred to earn the credits.
ERF 'purchasing' mechanism	Payments for successful bidders in competitive auction (around \$1.7 billion)	Three auction rounds have been completed, involving 143 million tonnes of claimed emissions reductions at an average price of \$12.10 per tonne (\$1.73 billion). Payments overstate the net financial benefit to recipients because abatements costs will be incurred by successful bidders. There is no certainty that all claimed reductions are 'additional' – some reductions may have eventuated without payment.
Exemption for Renewable Energy Target (RET) liability for emissions-intensive trade exposed entities (EITE)	Reduced costs from not having to acquire energy reduction certificates (around \$680 million in 2015)	Estimated value of exemption currently not included in assistance estimates.

^a Current ARENA programs. Total grants by ARENA in 2015 were \$216 million (under current and past programs) of which around \$180 million was to private and public companies, and the remainder to universities, government entities and international organisations (ARENA Annual Report, Financial Statements, Note 3C).

Sources: ARENA 2016, CER 2016a, CER 2016b, CEFC 2016.

- Exemptions for emissions-intensive trade exposed entities (EITE) from the Renewable Energy Target. This changed from a partial to a full exemption in 2015.¹⁵ The value of the partial exemption grew from \$20 million in 2010 to \$200 million in 2014 (table 3.3). In 2015, 44 entities were afforded exemptions worth around \$750 million, though the full exemption did not apply for the entire period. The full impact of the total exemption will not be evident until the 2016 results. The exemption confers an advantage on qualifying businesses relative to those domestic businesses that are less trade exposed. Given this, consideration should be given to including the exemption value in industry assistance estimates, or at least the value of the exemptions and recipients should remain transparent.¹⁶

Table 3.3 Exemptions from the Renewable Energy Target

	2010	2011	2012	2013	2014	2015
Exemption value — large scale generation certificates	\$20m	\$57m	\$112m	\$107m	\$76m	\$391m
Unit value per gigawatt hour — large	\$37.12	\$37.08	\$37.60	\$34.28	\$30.09	\$55.27
Exemption value — small scale technology certificates	NA	\$123m	\$227m	\$211m	\$104m	\$293m
Unit value per Gigawatt hour — small	NA	\$30.09	29.32	\$36.47	\$38.63	\$39.32
Number of firms	29	32	36	34	39	44
Exemption level	Partial	Partial	Partial	Partial	Partial	Partial/Full

Source: Commission compilation based on data from CER 2016c.

3.4 Grants for regional business investment

Six regional business investment grant schemes have been recently instigated in response to announced foreclosures of automotive manufacturing in South Australia and Victoria, and more general economic growth concerns for Tasmania (table 3.4). These six are the latest of a line of Australian Government schemes to diversify local economies following closure or downsizing of iconic local employers. A stocktake in the *Trade & Assistance*

¹⁵ The RET creates demand for renewable energy by requiring certain entities to surrender a set number of certificates — each equal to one megawatt hour (MWh) of renewable energy generation for compliance purposes — each year. If an entity does not surrender a sufficient number of certificates, it must pay an administrative penalty (a shortfall charge). The scheme also creates a number of exemptions from this liability — for EITE businesses and self-generators.

¹⁶ Until the full exemption was announced the Commission was not aware of the data on partial exemption. Its treatment in the industry assistance estimates will be considered ahead of the 2015-16 *Trade & Assistance Review* when the 2016 data reveal the full impact of the exemption, including examination of which entities (industries) receive the bulk of the exemption value.

Review 2010-11 (pp. 78–87) identified 15 examples up to that time, many of which had targeted the same regions as current programs.

Table 3.4 Recent Australian Government manufacturing and regional grants programmes

Excludes state government examples

<i>Program</i>	<i>Program funding</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Maximum government contribution to total project expenditure</i>	<i>Other comments</i>
Manufacturing only					
Automotive Diversification Program	\$20m	\$50 000	\$1m single \$1.5m multiple	Not set Actual not known	Max. 2 year project. Open – not yet accepting applications
Next Generation Manufacturing Investment Programme (South Australia and Victoria)	\$60m	\$500 000	\$2.5m	33%	Max. 3 year project. One Round to date
Manufacturing Transition Programme ^c	\$50m	\$1m	\$10m	25%	Max. 2 year project.
Not restricted to manufacturing in the Guidelines					
Geelong Innovation and Investment Programme ^a	\$29.5m	\$50 000	None	50%	Max. 2 year project. All recipients manufacturing (except one)
Melbourne's North Innovation and Investment Programme ^b	\$24.5m	\$50 000	None	50%	Max. 2 year project All recipients manufacturing
Tasmanian Jobs and Investment Fund ^e	\$24m	\$50 000	None	33%	Max. 2 year project Recipient industries include manufacturing and tourism.
Australian Government Innovation and Investment Fund (Tasmania) ^d	\$13m	\$50 000	None	50%	Recipients include manufacturing, agriculture and tourism

^a Completed May 2015, after 3 Rounds. ^b Completed May 2015, after 2 Rounds ^c Completed

^d Completed October 2014 after 1 Round. ^e Recipients announced May 2016.

Source: Programme guidelines available at Australian Government (2016).

The basic design of the investment grants schemes is the same: government provides a grant towards a proportion of the cost of a new investment project; and projects are selected through a competitive, merit-based application process with the government's contribution rate pre-announced (and the same for all projects). Within this design framework the schemes differ in key parameters, such as the subsidy rate, minimum and maximum grants amounts and the total funding for the scheme (box 3.2).

While governments generally announce successful applicants and highlight the numbers of new jobs and investment dollars expected to be attracted to the region, there appears to be little systematic monitoring and public reporting of the *actual outcomes*. The limited evaluations that have been conducted suggest the funds were not as effective as intended. The Commissions' 2014 inquiry into *Australia's Automotive Manufacturing Industry* concluded that regional adjustment funds are likely to be a costly and ineffective approach to facilitating adjustment in regions affected by impending closures (PC 2014e, chapter 7). A review of the efficacy of this model of assistance is well overdue.

3.5 Support to business for innovation, collaboration and commercialisation

Recent industry policy has seen a move away from protecting uncompetitive businesses and industries to supporting business innovation. If sustained, this shift is to be applauded, but the merits of initiatives to promote business innovation still need to be evaluated. Two recent *Agendas* have set out policy initiatives, some of which are new, while others extend or adapt existing programs.

- The principal new business innovation measure in the *Industry Innovation and Competitiveness Agenda* (October 2014) was to establish five non-profit Industry Growth Centres, at a cost of \$188 million over four years (2014-15 to 2017-18). The Centres will involve commercial research and development partnerships between the industry participants and the research sector.¹⁷
- *Boosting the Commercial Returns from Research* (May 2015) elaborated the Agenda strategy of better translation of research into commercial outcomes. While it proposed a four pronged strategy (related to research excellence; targeted research effort; cooperation between researchers and industry; and entrepreneurship) it did not include new measures.

¹⁷ The five priority areas are: Oil, gas and energy resources; Mining equipment, technology and services; Food and agribusiness, Medical Technologies and pharmaceuticals and Advanced Manufacturing.

Box 3.2 **Issues in improving regional business investment grants schemes**

There are a number of design issues arising with regional business investment grants schemes. These were described in detail in *Trade & Assistance Review 2010-11* (pp. 78–87). Four criteria for a more efficient and effective program are briefly summarised below:

- Clarity of objective, along with a clear threshold for intervention is an important starting point for an effective intervention. Yet the threshold for a program to be seen as warranted is unclear, as can be the objectives. For instance, past principal (or sole) objectives have included: to absorb displaced workers; support local replacement manufacturing (which may or may not employ displaced workers); diversify the local area to non-manufacturing; and ‘enhance’ out of area manufacturing and/or non-manufacturing for the purpose of state economic growth generally. Some past programs have included multiple targets, some programs were silent on the objective, and others gave grants to projects that were not in the initially intended target group (*Trade & Assistance Review 2010-11*, p. 84).
- Coordination is needed between the levels of government to make the most of the public investment. For example, the Victorian Government recently instigated its own (additional) grants for manufacturing and auto components (Geelong and North Melbourne). Under the Australian Government’s Manufacturing Next Generation Investment Programmes (South Australia and Victoria) all except one the recipients of First Round offers for the Victorian stream were over 100 km (and up to 291 km) from Geelong. This ‘distant’ activity may reflect that the existing Geelong adjustment program has had three rounds and ‘exhausted’ local Geelong options.
- The subsidy should be limited to what is needed to make the investment in new business viable. Yet subsidy rates and sometimes levels are often fixed, and may well exceed what is needed. Most grant recipients under past and current schemes have received close to the full pre-set maximum co-contribution. The relatively high and pre-announced subsidy rate under existing (and past schemes) is likely to have been a windfall gain for some (or many) projects. A better design might be to use an auction approach as has been applied to exit assistance and buy-back programs in resource industries. For example, fisheries have used a ‘bid’ or ‘willingness to accept’ design in an attempt to reveal the minimum necessary government grant to induce the (exit) activity. (*Trade & Assistance Review 2010-11*, pp. 87–92)
- The subsidy should not be limited to a particular industry segment or activity — doing so raises the cost of achieving any broader employment or economic activity objective. For example, the \$155 million Growth Fund grants components target only manufacturing. Yet reviews of South Australia and Victoria commissioned in the wake of the announced foreclosure of automotive production identified significant growth opportunities in sectors like: advanced manufacturing; food and agriculture; health and biomedical; mining services; tourism, and education.

What constitutes the most effective (and efficient) design remains unclear. A comprehensive review is needed to determine:

- whether regional business investment schemes do assist displaced workers and regions to adjust by creating additional jobs
- the design parameters that give the greatest return on investment in terms of jobs created
- whether alternative programs, such as direct support for displaced workers to retrain, or regional infrastructure investment, are more efficient and effective in promoting regional recovery and assisting displaced workers to adjust.

-
- The *National Innovation and Science Agenda* (December 2015) subsequently announced a variety of new measures in these four areas (table 3.5). The new measures add to, rather than replace, numerous business innovation programs.¹⁸

Some of the new innovation measures deliver direct financial support to business (although through the tax system rather than direct payments). This includes more generous tax depreciation for intangible assets (such as patents) and tax offsets for venture capital. These measures are traditionally included in industry assistance. However, the allocation of this assistance to specific industries can be difficult. The Commission has adopted the convention of allocating the assistance to the initial benefiting industry, which in the venture capital case is the finance industry. This is because information on the industries which receive venture capital is not readily available. It should also be noted that the selection of firms that benefit from the tax concessions to investors is left to the market. Ultimately, if the policy is successful in expanding the venture capital market, benefits to recipient businesses and industries are likely to be more widespread.

There are at least four new measures which support collaboration between industry and the research sector — the Industry Growth Centres, Innovations Connections programmes, a CSIRO Innovation Fund, and a Biomedical Translation Fund. Each targets different industries, types of firms (such as SMEs), and/or aspects of the collaboration and commercialisation process. While firms involved are required to make significant funding contributions, the public funding component of these measures is considered to be industry assistance. This is because the activities are intended to benefit private business, and support is selective to particular industries/firms rather than generally available.

The *Agendas* also have ‘non-industry streams’ dealing with education, skills, and the general business climate. While the benefits of these policies may flow through (more or less) to certain businesses and industries they are not industry assistance in the traditional direct and selective sense. To the extent that these initiatives improve the quality of the labour supply, reduce regulatory burdens and promote competition, they contribute to a climate conducive to innovation and improved competitiveness. While diffuse in effect, the importance of an accommodating general business climate in driving innovation and its diffusion should not be understated (PC 2008a, pp. 13–21).

¹⁸ Existing programs include the Entrepreneurs’ Programme, the Small Business and Jobs Package, Industry Growth centres, the R&D Tax Incentive, Cooperative Research Centres, the Manufacturing Transition Programme and others.

Table 3.5 New support measures for business for innovation

<i>Measure</i>	<i>Cost</i>	<i>Nature of benefit to industry</i>
Direct financial assistance		
More favourable intellectual property and other intangible asset depreciation	\$80 million	Lowers taxable profit
Tax incentives for early stage investors	\$106 million	Higher after-tax return to venture capital investors from a 20 per cent non-refundable tax offset on their investment as well as a capital gains tax exemption. Indirect benefit to firms accessing venture capital markets as it lowers the cost of capital relative to what would have been the case.
New arrangements for venture capital investment	Not quantified	Higher after-tax return to venture capital investors. A 10 per cent non-refundable tax offset for capital in Early Stage Venture Capital Partnerships (ESVCLPs) and an increased cap on committed capital from \$100m to \$200m for new ESVCLPs. Indirectly benefits innovative businesses which attract investment.
Indirect industry assistance		
Industry Growth Centres — collaborative partnerships between industries and research sector	\$188.5 million	Government funds part of R&D which is intended to benefit industry
Innovation Connections programme — Industry-led collaborations between researchers and SMEs	\$26 million	Government funds part of R&D which is intended to benefit industry
CSIRO Innovation Fund	\$70 million ^a	Government co-funds technology spin-off companies. Expected Fund capital about \$200m
Biomedical Translation Fund	\$125 million ^b	Government co-funds medical research commercialisation. Expected Fund capital about \$250m
Continuation of Australian Research Council (ARC) Linkage Projects scheme	nil	Government funds part of R&D which is intended to benefit industry
Incubator Support Programme	\$8 million	Access for start-ups to resources, knowledge and networks. Cost saving for recipient firms.
Global Innovation Strategy	\$36 million	Physical space in global innovation hotspots and seed funding to collaborate with international businesses and researchers. Cost saving for recipient firms.
Not treated as industry assistance		
Improve taxation arrangements for Employee Share Schemes	\$200 million	Employee pays less tax upfront on free share options. Indirectly helps business with staff acquisition
Improved bankruptcy and solvency laws	nil	Applies generally rather than selectively, and is about improving the market function
Access to company losses — relaxation of the 'same business test'	Not quantified	Lower taxable profit. Applies generally rather than selectively

^a The Agenda funding table reports \$15m over the four year forward estimates, but the footnotes (and web material) report \$70m. ^b The Agenda funding table reports \$10m over the four year forward estimates, but the program's web material reports it is being funded by a \$125m reduction in the capital contributions to the Medical Research Future Fund

4 Trade policy developments

This chapter selectively reports on the following developments in Australia's trade policy:

- various trade agreement negotiations and conclusions since May 2015 (section 4.1)
- the final arbitration in Australia's favour of the investor-state dispute in relation to tobacco plain packaging (section 4.2)
- an economic stocktake of recent anti-dumping activity and the changes to Australia's anti-dumping system since the Commission's 2009 inquiry (section 4.3)
- variations to the limits and conditions associated with some foreign investments, in particular agricultural property and residential investments (section 4.4).

4.1 Trade agreements negotiations and forums

Australia has been involved over numerous years in a multitude of trade agreement negotiations and forums (figure 4.1). The number of Parties involved in the various negotiations ranges from two (in the case of bilateral talks) to over 100 for the WTO Doha multilateral liberalisation package. The frequency of negotiations also varies, with some on an annual basis and others involving several meetings in a year. The implications for the various trade agreements — concluded and in negotiation — of the recent decision of the United Kingdom to leave the EU (Brexit) are, at this early stage, unclear.

Over the past two years, Australia has concluded bilateral agreements with Korea, Japan and China. Other material progress in negotiations are signing the Trans-Pacific Partnership (TPP) Agreement and making an accession offer to the WTO Government Procurement Agreement. Other dialogues appear to have achieved little or no realistic progress towards finalisation, such as the Doha Round of multilateral trade liberalisation.

The Commission has written extensively on trade negotiations, focussing on what affects the potential benefits and costs of particular provisions (box 4.1). The 2013-14 *Trade & Assistance Review* provides a recent comprehensive update. The main developments involving Australia since this update are:

- an accession offer to the WTO Committee on Government Procurement in September 2015
- Australia signed the Trans-Pacific Partnership (TPP) Agreement on 4 February 2016
- Australia, was one of three joint lead Parties in negotiations among 23 Parties on a proposed Trade in Services Agreement (TiSA) — the Parties met seven times between May 2015 and June 2016

- the China Australia Free Trade Agreement (ChAFTA) came into force on 20 December 2015 (for details see the 2013-14 *Trade & Assistance Review*)
- Australia and the EU agreed in November 2015 to start the process towards negotiating a trade agreement.

Figure 4.1 **Australia's involvement in trade negotiations^a**

May 2015 June 2016

Multilateral forums		
World Trade Organisation Doha Round Negotiations began 2001 Negotiation Rounds 10 Latest: 10 th Ministerial Conference Kenya December 2015		
Plurilateral forums/agreements		
APEC (21) Negotiations began 1989 Negotiation Rounds Annual Latest: November 2015	G20 (20) Negotiations began 2008 Negotiation Rounds Annual Latest: November 2015	Trade in Services Agreement (23) Negotiations began 2013 Negotiation Rounds 18 Latest: June 2016
WTO Environmental Goods Agreement (18) Negotiations began 2014 Negotiation Rounds 13 Latest: April 2016	WTO Information Technology Agreement (Expanded) (54) Negotiations began 2012 Negotiation Rounds na Concluded: December 2015	WTO Government Procurement Agreement (Revised) (18) Negotiations began 2014 Negotiation Rounds na Implemented: April 2014
Regional agreements		
Regional Comprehensive Economic Partnership (16) Negotiations began 2013 Negotiation Rounds 13 Latest: June 2016	Trans Pacific Partnership (12) Negotiations began 2010 Negotiation Rounds 31 Concluded: October 2015 Signed: February 2016	
Bilateral agreements		
 Came into force Negotiating		
China-Australia Trade Agreement Negotiations began 2005 Negotiation Rounds 21 In force: December 2015	Australia-India Comprehensive Economic Cooperation Agreement Negotiations began 2011 Negotiation Rounds 9 Latest: September 2015	Indonesia-Australia Comprehensive Economic Partnership Agreement Negotiations began 2012 Negotiation Rounds 3 Latest: May 2016

^a Numbers in parenthesis are number of negotiating Parties. The European Union counts as one..

Source: Trade and Assistance Review 2013-14 and DFAT website.

Box 4.1 **Conclusions in regard to the merits of trade agreement**

The Commission has previously raised questions about the merits of trade agreements (including PC 2010, and the *Trade & Assistance Review* 2014-15). The overall conclusions are as follows:

- Multilateral trade reform offers potentially larger improvements in national and global welfare than a series of bilateral agreements. While the slow progress of the Doha Round of multilateral trade reform has accelerated preferential agreement making, the trade-diverting effects of bilateral agreements should not be forgotten.
- Australia gains more from reducing its own tariff barriers than from the tariff reductions of a bilateral trade agreement partner.
- The benefits of increased merchandise trade emanating from bilateral trade agreements have been exaggerated.
- Different and complex rules of origin in Australia's preferential trade agreements are likely to impede competition and add to the costs of firms engaging in trade.
- The nature and scope of negotiating remits should be assessed from a national structural reform perspective before entry into negotiations, rather than primarily for export opportunities. The text of proposed trade agreements should be made public and a rigorous analysis independent of the negotiating agency published with the final text.
- The Australian Government should seek to avoid the inclusion of Investors-State Dispute Settlement (ISDS) provisions in bilateral and regional trade agreements that grant foreign investors in Australia substantive or procedural rights greater than those enjoyed by Australian investors.
- The history of Intellectual Property (IP) being addressed in preferential trade deals has resulted in more stringent arrangements than contained in the multilateral agreed Trade-Related Aspects of Intellectual Property (TRIPS). Australia's participation in international negotiations in relation to IP laws should focus on plurilateral or multilateral settings. Support for any measures to alter the extent and enforcement of IP rights should be informed by a robust economic analysis of the resultant benefits and costs.

Australia's offer to accede to the Government Procurement Agreement

The Government Procurement Agreement (GPA) is a WTO plurilateral agreement which opens government procurement markets between its members. The Agreement's main principles are transparency and non-discrimination. It requires GPA members to provide other members' suppliers conditions 'no less favourable' than domestic suppliers. In addition, the GPA provides for domestic review procedures to enable aggrieved firms to seek a review of procurement decisions. The GPA has 18 members (with the EU counting as one). Other WTO members, most notably China, are engaged in accession negotiations.

Australia presented its accession offer to the WTO Committee on Government Procurement in September 2015 (DFAT 2016b). The Committee discussed Australia's offer in February 2016. The Australian Government is now considering feedback from GPA members, in consultation with state and territory governments. Australia's accession offer has yet to be made public.

GPA membership would provide legally binding market access for Australian firms to the procurement markets of GPA Members. This is expected to provide safeguards against any protectionist measures GPA parties might introduce, while delivering the disciplines of a ‘multilateral rules-based system’ (DFAT 2016b). While Australian firms are not automatically disqualified from participation in GPA members’ markets, there are currently no legal barriers to stop GPA members from excluding Australian firms.

Australian suppliers already have legally-binding access to the procurement markets of the US, Singapore, Chile, the Republic of Korea and Japan through bilateral FTAs. Australia has also negotiated procurement market access in the TPP.

Australia signs Trans-Pacific Partnership Agreement

The TPP aimed to create a comprehensive model agreement that would facilitate a consolidation of differences in existing bilateral agreements and provide scope to be expanded to include additional members. The agreement covers trade in goods and services, rules of origin, trade remedies, sanitary and phyto-sanitary measures, technical barriers to trade, intellectual property, government procurement, competition policy, temporary entry of business persons and dispute settlement procedures. The 12 countries that negotiated the TPP — Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam — account for around 40 per cent of global GDP and one quarter of world trade.

The TPP was signed by the Minister for Trade and Investment on 4 February 2016. The text of the agreement and accompanying National Interest Analysis was then tabled in the Australian Parliament on 9 February 2016. The inquiry into the tabled treaty by the Joint Standing Committee on Treaties (JSCOT) lapsed when parliament was dissolved on 9 May 2016. Over 250 submissions were made to the inquiry. Ministers from TPP countries met on 17 May 2016 to review progress on their respective internal processes to approve the Agreement.

It is uncertain whether the United States will sign the TPP before its presidential election in November 2016. Recent political statements by the two leading candidates have brought into doubt the likelihood that the US will actually accede.

There are provisions in the TPP that the Commission has previously flagged as of questionable benefit. These include term of copyright and the investor state dispute settlement elements.

Australia’s position on a Trade in Services Agreement

The Trade in Services Agreement (TiSA) is a proposed services-only trade agreement jointly led by Australia, the European Union and the United States. There are currently 23 negotiating Parties (the EU countries are counted as one party). Negotiations commenced

in 2012. By opening up trade in services, the Parties hope the TiSA talks will help kick start the stalled multilateral negotiations under the WTO Doha Round.¹⁹

At an informal meeting of TiSA party ministers held in Davos, Switzerland in January 2016, ministers agreed to aim to conclude negotiations by the end of 2016.

Australia's objective in the negotiations is to deliver improved access and tangible commercial benefits for Australia's services sector, including:

- addressing discriminatory barriers to cross-border services trade
- improving investment conditions for Australian business seeking to establish an offshore commercial presence
- improving business mobility so Australian services professionals can more easily work in TiSA countries.

TiSA parties collectively account for around 70 per cent of global trade in services. Six of the TiSA Parties were in Australia's top ten destinations for services exports in 2014-15 — the United States, United Kingdom (as part of EU), New Zealand, Japan, Hong Kong and Republic of Korea.

Australia's offer is broadly based on its revised offer tabled in the WTO Doha Round in 2005 (box 4.2).

4.2 Progress on tobacco plain packaging disputes

Australia's tobacco plain packaging legislation came into full effect on 1 December 2012. The legislation prohibits logos, brand imagery, colours and promotional text other than brand and product names in a standard colour, position, font style and size appearing on tobacco packaging. Tobacco plain packaging forms part of a range of tobacco control measures to reduce the rate of smoking in Australia.

Dispute against the Australian legislation by the tobacco companies or countries acting in their interests has been three-pronged:

- under the WTO Dispute Resolution rules
- by Investor-State Dispute arbitration conducted under the United Nations Commission on International Trade Law Arbitration Rules
- via Constitutional challenge.

¹⁹ The WTO General Agreement on Trade in Services (GATS) commenced in 1995. All members of the WTO are signatories. Members have offered to further liberalize services trade since 2001 in the context of the Doha round. Since these offers, unilateral and bilateral services liberalization by various countries and in certain sectors means that the draft Doha position is somewhat 'behind' the current degree of openness in services trade (Gootiiz and Mattoo 2009).

Box 4.2 Australia's position on a Trade in Services Agreement

What is included in Australia's market access offer?

Australia's offer is broadly based on its revised offer tabled in the WTO in 2005. It also includes commitments made in Australia's existing FTAs with respect to non-discriminatory treatment of foreign service suppliers, locking in current levels of market openness, and future liberalisation.

Is Australia making commitments on health or education?

Australia's TiSA market access offer does not include commitments on health, public education, public utilities, social security or other public services.

How is Australia approaching 21st century issues in the TiSA, such as cross-border data flows?

Australia supports the inclusion of '21st century' trade issues in the TiSA, such as cross-border data flows. Providing certainty for businesses of all types about their ability to transfer data across borders is something that the TiSA is well placed to address. It will be important to recognise the role of good regulatory practice to build consumer confidence in online transactions and increase participation in the digital economy. In Australia's view, appropriate privacy protections will facilitate the development of electronic commerce.

Is Australia making commitments on audio-visual services?

Australia's TiSA market access offer does not include commitments on audio-visual services.

Will temporary entry/labour mobility be part of the TiSA?

TiSA parties have agreed to negotiate a high ambition agreement that covers all services sectors, including temporary entry of business persons. Many TiSA parties' interest in temporary entry relates not only to potential market access commitments, but the rules which govern temporary entry, for example in areas such as transparency of visa application procedures.

Australia's TiSA market access offer on temporary entry reflects Australia's revised WTO Doha Round offer tabled in 2005.

Is Investor-State Dispute Settlement (ISDS) part of the TiSA negotiations?

There have been no proposals by any TiSA party to include ISDS in the TiSA.

Source(s) DFAT (2016a).

The Constitutional challenges were unsuccessful in 2012. The ISDS arbitration dismissed the case in 2015 (after a substantial cost to taxpayers²⁰, some of which may be recouped). The WTO disputes remain open (box 4.3).

²⁰ One estimate of the legal costs for the first procedural hearing stage (as at June 2015) was \$50 million (Martin 2015). Further costs have not been made public. In the 2016-17 Budget Paper No.1 international litigation related to plain packaging is listed the a Statement of Risks (Contingent liabilities – unquantified).

Box 4.3 Challenges to Australia's tobacco plain packaging legislation

WTO Disputes

The WTO Dispute Settlement Body (DSB) has established dispute settlement panels at the requests of Ukraine (28 September 2012), Honduras (25 September 2013), Indonesia (26 March 2014), the Dominican Republic (25 April 2014), and Cuba (25 April 2014). In addition to the complainant countries, 41 other countries have requested (and been granted permission) to join the disputes as third parties. All five complainants claim that Australia's tobacco plain packaging laws appear to be inconsistent with certain provisions of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, the Technical Barriers to Trade (TBT) Agreement, and the General Agreement on Tariffs and Trade (GATT 1994).

On 5 May 2014, the WTO Director-General composed the panels in each of the five tobacco disputes. The same panellists have been appointed to hear the five disputes.

Investor-State arbitration Dispute

Pursuant to the *Agreement between the Government of Australia and the Government of Hong Kong for the Promotion and Protection of Investments*, which entered into force in 1993, Philip Morris Asia Limited served Australia with a Notice of Claim (followed by a Notice of Arbitration) in 2011 over tobacco plain packaging requirements. This was the first investor-state dispute brought against Australia.

The arbitration was conducted under the United Nations Commission on International Trade Law Arbitration Rules 2010. On 18 December 2015 the tribunal issued a unanimous decision agreeing with Australia's position that the tribunal has no jurisdiction to hear Philip Morris Asia's claim. On 17 May 2016 the tribunal published the decision with the parties' confidential information redacted. The tribunal found that Philip Morris Asia's claim was an abuse of process (abuse of rights), because Philip Morris Asia acquired an Australian subsidiary, Philip Morris (Australia) Limited, for the purpose of initiating the dispute under the Hong Kong Agreement. This concluded the arbitration in Australia's favour, subject to finalisation of the costs claim.

Constitutional challenges

Two challenges to the tobacco plain packaging legislation were heard by the High Court of Australia 17–19 April 2012: *British American Tobacco Australasia Limited and Ors v. Commonwealth of Australia* and *J T International SA v. Commonwealth of Australia*.

On 15 August 2012, the High Court handed down orders for these matters, and found that the *Tobacco Plain Packaging Act 2011* is not contrary to s 51(xxxi) of the Constitution. On 5 October 2012 the Court handed down its reasons for the decision. By a 6:1 majority (Heydon J in dissent) the Court held that there had been no acquisition of property that would have required provision of 'just terms' under s51(xxxi) of the Constitution.

Source DFAT 2016c .

4.3 Developments in Australia's Anti-Dumping Arrangements

In early 2016 the Commission published an economic stocktake of recent anti-dumping activity and the changes to Australia's anti-dumping system since the Commission's 2009 inquiry (PC 2016). The Commission found that there has been an increase in use of anti-dumping measures in recent years, alongside policy changes that have made anti-dumping protections easier to access (box 4.4). The recent trend has been an increased demand for protection and a more accommodating Australian system.

Box 4.4 Australia's anti-dumping system and recent changes

Import protection through dumping duties

Australia's anti-dumping and countervailing system provides Australian firms with protection in addition to that available through the general tariff regime. As anti-dumping duties apply to all relevant imports regardless of whether the complainant firm can supply such volume, the costs to the economy are normally well in excess of the benefit to the firm. Companies may apply to the Anti-Dumping Commission for protection — which usually takes the form of special customs duties on the imported goods — when:

- either the export price of a good to Australia is lower than the price (or deemed 'normal price') in the supplier's home market; or
- the supplier has received any of a specified group of subsidies from its government, and
- the 'dumped' or subsidised imports cause, or threaten to cause, 'material injury' to a local producer of 'like goods'.

Once instituted, anti-dumping measures generally remain in place for at least five years, with some persisting for decades.

Recent strengthening of protection

Recent changes to Australia's anti-dumping system have collectively increased the likelihood that firms can obtain support, and the likely level of those measures through:

- a broadening of the material injury test
- widening of the scope to use proxy or constructed normal values in dumping cases. Typically, these methodologies will be more likely to lead to a finding of dumping than the previous default methodology based on prices in the exporter's home market
- weakening of the lesser duty rule (which provides for reduced levels of protection when this would be sufficient to remediate injury for a local industry)
- introduction of a new anti-circumvention framework, which will almost inevitably lead to some unwarranted extension of measures — as well as unduly constraining importers' pricing flexibility.

One firm (Arrium steel) has recently achieved anti-dumping coverage of 75 per cent of its product base. Arrium advised its shareholders in 2014 that it would explore the feasibility of applying for additional anti-dumping measures on top of its then already significant coverage levels (65 per cent).

Source: PC 2016.

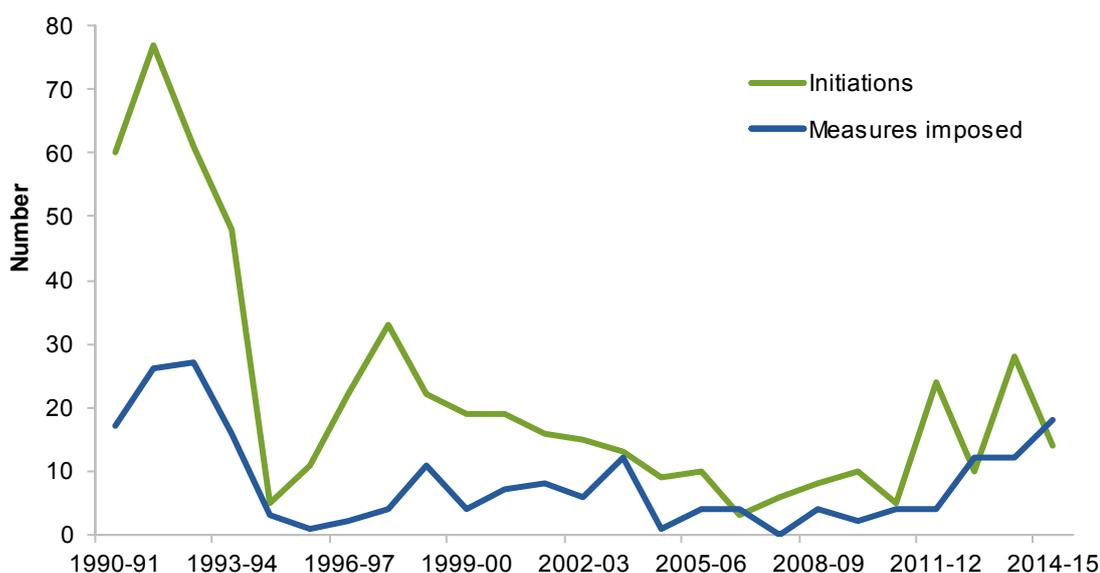
Global anti-dumping activity has increased since the Global Financial Crisis

In the wake of the Global Financial Crisis, the cyclical upswing in use of the system that typically occurs during softer economic conditions has again been evident in both Australia (figure 4.2) and overseas. Australia is a substantial user of anti-dumping measures, ranking tenth on a global scale, a level out of proportion to Australia's position as a trading nation.

While cyclical pressures explain part of the recent increase in anti-dumping activity, other factors have also been at play. In particular, a global supply glut in the steel industry has seen the Australian steel industry increasingly seeking relief from intense price competition through the anti-dumping system.

Recent changes to Australia's system to make protection more accessible for its clients are also likely to have contributed to the increase in usage.

Figure 4.2 **Australian anti-dumping and countervailing activity 1990-91 to 2014-15**



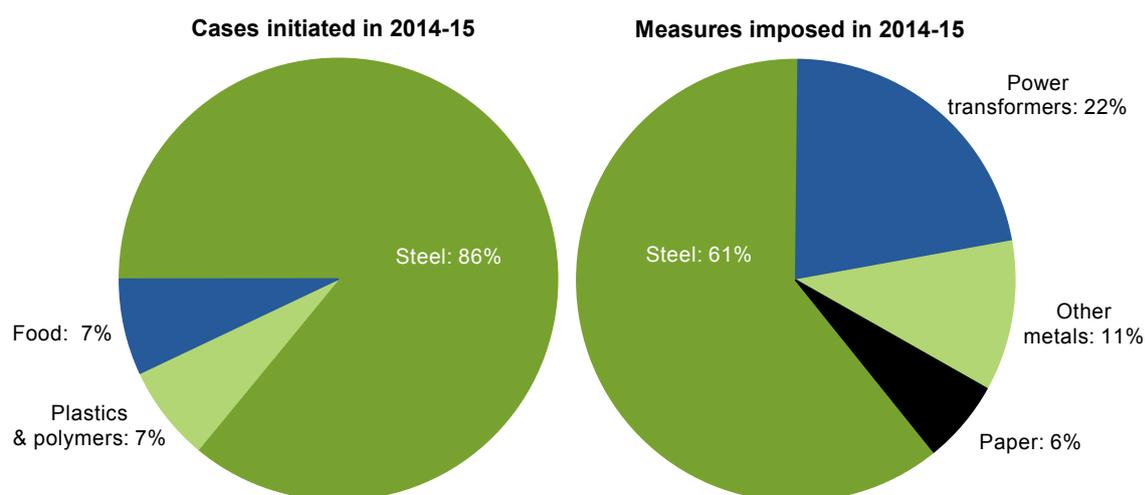
Source: PC (2016a).

Growth in anti-dumping activity has been concentrated in the steel sector

A notable feature of Australia's anti-dumping activity in recent years is the predominance of the steel sector. Steel products accounted for 86 per cent of anti-dumping and countervailing investigations and 60 per cent of all the measures imposed in 2014-15.

Moreover, the rapid rise in the number of measures on steel products accounts for the bulk of the total increase in Australian measures in recent years. Measures on steel products currently make up 60 per cent of all measures in force. Most of the steel measures were on products from Asia (figure 4.3).

Figure 4.3 Australian anti-dumping and countervailing initiations and measures by industry, 2014-15^a



^a Some measures imposed in 2014-15 relate to cases initiated in prior years.

Source: PC (2016a).

How much protection is provided?

In Australia, the average dumping duty imposed between 2009 and 2015 was 17 per cent, which is more than three times Australia's maximum scheduled tariff rate of 5 per cent. The median duty was 11 per cent.

The value of protection available to local industries is a function of the duration of measures as well as their magnitude. The available data suggest that a significant proportion of measures are extended beyond their initial term of five years. For example, of the 29 measures that were eligible for renewal between 2008-09 and 2014-15, 60 per cent were continued. In a few cases, protection has been provided for very long periods (15 years or longer).

The costs of imposing dumping measures exceed the benefits

Importantly, the costs imposed on the community by anti-dumping protection exceed the benefits for recipient industries. This net cost arises from, among other things, less efficient resource use and muted incentives for protected industries to innovate or otherwise improve their competitiveness. As noted earlier, anti-dumping raises costs across all Australian users of an imported product, even ones that the now-protected firm did not and could not supply. As such, the assistance is inherently poorly targeted, even if some support could be justified.

In fact, anti-dumping measures lead to worse outcomes for the community than 'comparable' tariff protection — the accompanying administrative and compliance costs are (proportionately) much higher, there are hidden trade deterrence costs, and there is scope for overseas suppliers to appropriate duty revenue.

Arguments that the system provides other benefits to the community that would eliminate this cost are without merit or highly problematic.

4.4 Foreign investment rules and decisions

Foreign investment rules can confer protection to domestic firms by restricting foreign competition. They can also impose costs on Australian firms by restricting their access to capital and by restricting their ability to enter into strategic and other types of partnerships. International comparisons by the OECD indicate that Australia has a more restrictive regime than many other developed countries (*Trade & Assistance Review* 2012-13, pp. 42–49).

Working in the direction of reducing restrictions, the entry into force of the China-Australia Free Trade Agreement increased the screening threshold from \$252 million to \$1094 million for Chinese proposals to invest in Australian businesses (excluding pastoral land, agribusiness and designated sensitive sectors).

Working in the direction of increasing restrictions has been the introduction of a requirement for a formal review by the Foreign Investment Review Board (FIRB) of sales of critical state-owned infrastructure assets to private foreign investors. Critical infrastructure assets will include: public infrastructure (an airport or airport site; a port; infrastructure for public transport; electricity, gas, water and sewerage systems); existing and proposed roads, railways, inter-modal transfer facilities that are part of the National Land Transport Network or are designated by a State or Territory government as significant or controlled by the Government; telecommunications infrastructure; and nuclear facilities. Previously, FIRB assessment was only required when assets were sold to state-owned enterprises.

Also working in the direction of increased restrictions are recent changes to foreign investment affecting agricultural enterprises including:

- establishment of an agricultural land foreign ownership register
- a reduction of the screening threshold for proposed foreign purchases of agricultural land by private investors to \$15 million
- FIRB screening of direct interests in agribusinesses valued at \$55 million or more.

The Commission's draft inquiry report on Agriculture Regulation (PC 2016b) observed that the lower thresholds (combined with different thresholds depending on country of origin of the investor) will increase the cost and complexity of investing in Australian agriculture — ultimately deterring foreign direct investment in the sector, without offsetting public benefits. The lower thresholds are inimical to the long run interest of farmers and the broader community. The Commission recommended that the government should raise the screening thresholds for agricultural land and agribusiness to \$252 million, indexed annually and no longer cumulative (in line with the thresholds that applied for agriculture prior to 2015, and thresholds currently applying to business acquisitions and developed commercial land).

The recent Kidman case has shone a spotlight on certain facets of the foreign investment rules (box 4.5). Unusually, it relied on a reviewer independent of the FIRB when assessing the 'national interest'. The reviewer was tasked with providing advice on whether the competitive bid process offered fair opportunity to Australian bidders to participate. On the one hand, this consideration may be seen as going beyond the existing factors typically considered by the Treasurer, which are listed in the Policy guidelines. (The 'national interest' is not defined in the legislation). This may open up further uncertainty in an already highly judgmental process. On the other hand, it may be viewed as further enlightening what scenarios may give rise to 'national interest' considerations. Clarity about this standard would be desirable.

The Kidman case appears to be unique in that the apparently final decision has been expressed as a preliminary decision.

The case also prompted views that the decision was about the bidder (Chinese) rather than the investment itself. While Chinese investment proposals have occasionally attracted an outsized measure of public discussion, perhaps because of blurred lines between private and public ownership of Chinese entities, Chinese investment in farmland has attracted public concern about Australia's food security.

Where an Australian agricultural asset being sold is already devoted to export production, this concern about food security is counter-intuitive. And it overlooks Australia's position as a food exporter that 'is highly self-sufficient as well as food secure, producing more than twice it consumes' (Moir 2011, p. 13). Moreover, the sentiment would seem to be deeply at odds with the otherwise persistent description across all levels of agriculture's leaders that Australia offers a solution to the growing demand of Asia's burgeoning middle class for higher quality food. Food security seems to be a misrepresentation of the issues.

Box 4.5 Rejection of the proposed sale of S. Kidman and Co's cattle properties to Chinese investors

S.Kidman and Co's cattle properties across the continent cover about 1.3 per cent of Australia's land mass and 2.5 per cent of Australia's current agricultural land, the largest private rural holding.

In November 2015 a bid by Shanghai Pengxin for the land holdings was blocked (by the Treasurer) because it included the South Australian Anna Creek station, which partially sits over the Government's Woomera rocket testing range.

Kidman then carved Anna Creek out of the sale. A subsequent bid of \$370 million for an 80 per cent interest in Kidman was made by China-based Dakang Australia Holdings (in which Shanghai Pengxin hold a large interest).¹

On 15 April 2016 the Treasurer exercised statutory discretion to extend the review period until 26 July 2016 and asked for an external, non-FIRB review of the sale. He then announced a 'preliminary decision' on 29 April 2016 to deny the proposal, citing that it was contrary to the national interest (Morrison 2016). The decision expressed concern that the Kidman portfolio was offered as a single aggregated asset, the size of which made it difficult for Australian bidders to be able to make a competitive bid.

Shedding some light on the 'national interest' test?

The decision was not based on any of the pre-existing national interest test provisions.

The 'national interest' test is not legislatively defined, and is decided on a case-by-case basis according to the judgment of the Treasurer. However, the FIRB does provide investors a set of 'guidelines', which outline five factors that are usually considered. These include: national security; competition policy; other Australian government policies and regulations (including environment and tax); the impact on the economy and community as a whole; and the character of the investor. There are also an additional set of six guidelines for the agricultural sector, which cover issues such as land access, biodiversity, productivity and employment. These guidelines were most recently re-issued in December 2015. However, they have remained relatively unchanged since the last major revision by the Rudd government in 2008, which was made in the wake of Chinalco's purchase of a stake in Rio Tinto after BHPs informal takeover offer. (The Chinalco purchase was within existing FIRB rules).

Rejection of foreign investment proposals is minimal. Recent rejections have been for one of the above reasons. Examples include the ADM bid for GrainCorp (rejected in 2013 on competition policy grounds), and the Singapore Stock Exchange's attempted merger with the ASX (rejected in 2011 on financial regulatory grounds).

The message from the Kidman decision appears to be that the sale process now needs to be re-run with disaggregated assets, to increase the likelihood that local companies can win at least some of the assets. One view is that this is a de facto introduction of a local ownership policy for agricultural land (Kazakevitch and Wilson 2016). Like many countries, Australia does restrict foreign investment restrictions in 'sensitive' sectors. These include foreign ownership limits (usually on a percentage of shares in publicly listed companies) in the media sector, telecommunications (Telstra), banking, airports, and airlines (Qantas) (*Trade & Assistance Review 2012-13*, box 3.2, p. 44).

A Detailed estimates of Australian Government assistance to industry

Chapter 2 provides an overview of the Commission's estimates of Australian Government assistance to industry. This appendix provides supporting details of those estimates for the period 2009-10 to 2014-15.

Tables A.1 to A.3 provide estimates of net tariff assistance, budgetary assistance and net combined assistance by industry grouping. Tables A.4 to A.7 provide estimates of output tariff assistance, input tariff penalties, budgetary outlays and tax concessions by industry grouping. Tables A.8 and A.9 provide estimates of the nominal rate of combined assistance on outputs and the nominal rate of combined assistance on materials, respectively.

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

Estimates prior to 2014-15 may differ from those originally published, due to revisions.

Further information on the assistance estimation methodology, program coverage, industry allocation and implementation of the current input-output series is provided in the Methodological Annex to the *Trade & Assistance Review 2011-12*. The treatment of new programs and other methodological revisions from the previous review are provided in the methodological annex to this Review.

Tables in this appendix are also available on the Commission's website (<http://www.pc.gov.au/research/recurring/trade-assistance>). Previous *Trade & Assistance Reviews* also provided a breakdown of each industry's assistance by program (tables A.10 to A.14). These tables will be available online only.

Table A.1 Net tariff assistance by industry grouping, 2009-10 to 2014-15^a
\$ million (nominal)

<i>Industry grouping</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>
Primary production	142.5	158.3	165.1	177.5	145.9	124.7
Horticulture and fruit growing	144.4	163.6	170.8	181.9	151.6	130.2
Sheep, beef cattle and grain farming	-12.4	-14.5	-16.1	-18.2	-18.9	-20.1
Other crop growing	-2.2	-2.3	-2.3	-2.4	-2.4	-2.5
Dairy cattle farming	-1.8	-2.0	-2.2	-2.4	-3.0	-3.8
Other livestock farming	-3.5	-3.7	-3.7	-3.7	-4.0	-4.3
Aquaculture and fishing	-12.8	-13.5	-14.5	-17.3	-17.4	-18.4
Forestry and logging	45.5	46.4	49.7	49.0	49.4	53.4
Primary production support services	-14.7	-15.7	-16.5	-9.4	-9.4	-9.8
Unallocated primary production ^b	–	–	–	–	–	–
Mining	-187.1	-184.6	-198.5	-215.9	-236.5	-252.9
Manufacturing	5956.8	5711.4	5768.5	5518.4	5555.3	5555.9
Food, beverages and tobacco	1241.1	1254.9	1290.1	1302.6	1322.3	1340.0
Textiles, leather, clothing and footwear	369.1	260.1	250.7	245.8	257.3	219.7
Wood and paper products	585.7	555.8	511.7	507.5	523.8	560.7
Printing and recorded media	191.0	192.8	173.8	170.7	163.3	157.3
Petroleum, coal, chemical and rubber	733.5	727.4	743.8	697.2	698.7	697.2
Non-metallic mineral products	231.0	225.2	214.4	203.2	208.3	229.7
Metal and fabricated metal products	1327.0	1395.2	1430.8	1297.8	1346.2	1333.8
Motor vehicles and parts	672.9	512.5	537.3	509.5	482.3	473.7
Other transport equipment	7.1	8.1	8.5	8.1	7.6	7.7
Machinery & equipment manufacturing	443.6	425.9	446.5	423.4	400.8	393.8
Furniture and other manufacturing	154.9	153.5	161.0	152.6	144.5	142.3
Unallocated manufacturing ^b	–	–	–	–	–	–
Services	-4195.2	-4277.7	-4632.5	-4798.5	-4941.4	-5125.0
Electricity, gas, water & waste services	-71.2	-73.9	-83.7	-95.1	-94.1	-85.1
Construction	-1429.6	-1509.8	-1662.8	-1730.0	-1810.5	-1912.9
Wholesale trade	-248.3	-250.7	-264.1	-269.3	-269.3	-270.7
Retail trade	-165.6	-169.8	-182.1	-185.8	-190.2	-193.7
Accommodation & food services	-469.5	-493.6	-527.3	-543.3	-544.8	-598.1
Transport, postal & warehousing	-203.2	-187.6	-205.6	-215.7	-216.2	-217.2
Information & telecommunications	-150.6	-143.6	-146.2	-146.8	-148.0	-145.6
Financial and insurance services	-8.5	-9.0	-9.3	-9.8	-10.5	-10.9
Property, professional & admin.	-528.2	-544.0	-588.9	-618.9	-631.8	-639.5
Public administration and safety	-202.1	-200.8	-214.1	-220.6	-228.1	-228.2
Education and training	-105.0	-105.9	-115.2	-120.8	-127.1	-131.1
Health care and social assistance	-243.0	-244.5	-256.3	-269.6	-282.3	-282.2
Arts and recreation services	-74.8	-73.4	-77.1	-77.3	-80.5	-84.4
Other services	-295.6	-271.2	-299.8	-295.4	-308.0	-325.3
Unallocated services ^b	–	–	–	–	–	–
Unallocated other^b	–	–	–	–	–	–
Total	1717.0	1407.4	1102.7	681.5	523.3	302.7

– Nil. Figures may not add to totals due to rounding. ^a Tariff assistance estimates are derived using ABS Industry Gross Value Added and other supporting data. ^b Unallocated includes budgetary measures where details of beneficiaries are unknown. These categories are not applicable for tariff assistance.

Source: Commission estimates.

Table A.2 Budgetary assistance by industry grouping, 2009-10 to 2014-15
\$ million (nominal)

<i>Industry grouping</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>
Primary production	1837.6	1527.9	1553.1	1206.0	1183.1	1197.7
Horticulture and fruit growing	187.0	160.9	136.3	121.3	119.1	109.8
Sheep, beef cattle and grain farming	938.2	760.6	662.8	523.1	554.4	572.4
Other crop growing	95.2	46.8	94.1	86.3	76.8	73.8
Dairy cattle farming	133.9	96.6	78.0	51.0	57.9	68.6
Other livestock farming	47.6	43.9	66.2	42.9	36.7	43.9
Aquaculture and fishing	83.6	77.8	67.2	60.2	63.2	66.7
Forestry and logging	38.7	46.1	72.3	46.5	25.1	25.0
Primary production support services	32.5	33.0	21.9	24.1	21.8	19.7
Unallocated primary production ^a	281.1	262.2	354.3	250.6	228.1	217.8
Mining	647.2	1156.5	745.6	491.3	463.5	552.0
Manufacturing	2080.4	1933.6	1851.5	1618.3	1620.3	1484.3
Food, beverages and tobacco	157.7	192.6	108.5	152.4	191.7	120.0
Textiles, leather, clothing and footwear	139.2	134.8	61.0	56.3	59.2	52.8
Wood and paper products	33.6	36.3	17.3	30.0	20.2	16.5
Printing and recorded media	18.3	17.9	16.3	13.0	14.5	9.9
Petroleum, coal, chemical and rubber	276.9	353.0	279.2	293.5	300.2	291.9
Non-metallic mineral products	26.4	27.5	16.7	23.5	35.5	19.5
Metal and fabricated metal products	132.9	140.5	288.7	194.2	200.6	257.6
Motor vehicles and parts	747.6	573.2	625.4	446.6	388.3	319.7
Other transport equipment	36.1	29.3	22.0	21.1	28.4	18.1
Machinery & equipment manufacturing	209.8	166.2	154.0	153.2	160.8	126.9
Furniture and other manufacturing	30.6	25.5	32.3	31.3	23.1	15.7
Unallocated manufacturing ^a	271.4	236.8	230.0	203.2	197.7	235.8
Services	4521.3	4510.4	5070.2	3683.4	3506.1	3431.4
Electricity, gas, water & waste services	174.3	460.2	1106.1	118.1	141.4	210.0
Construction	301.2	208.9	210.6	153.9	145.4	74.7
Wholesale trade	328.0	439.1	285.6	213.6	180.5	140.4
Retail trade	263.5	197.7	136.2	107.0	105.7	93.8
Accommodation & food services	85.8	71.1	67.7	65.3	75.8	73.1
Transport, postal & warehousing	275.8	266.4	245.7	171.3	109.8	92.4
Information & telecommunications	209.4	263.2	293.6	354.2	169.9	118.1
Financial and insurance services	1003.5	901.3	1036.4	938.2	1013.4	1215.7
Property, professional & admin.	908.2	936.9	859.1	713.6	699.7	719.5
Public administration and safety	27.4	21.3	15.9	13.9	10.6	13.6
Education and training	41.7	30.2	32.7	27.3	23.6	23.9
Health care and social assistance	217.7	179.2	184.4	172.1	184.2	174.0
Arts and recreation services	406.4	301.3	349.2	405.9	444.4	312.2
Other services	83.7	64.1	68.0	58.2	44.9	31.2
Unallocated services ^a	194.7	169.3	179.0	170.8	156.8	138.9
Unallocated other^a	721.8	929.1	972.5	784.2	1129.5	670.2
Total	9808.3	10057.5	10192.9	7783.2	7902.4	7335.6

– Nil. Figures may not add to totals due to rounding. ^a Unallocated includes budgetary measures where details of beneficiaries are unknown.

Source: Commission estimates.

Table A.3 Net combined assistance by industry grouping, 2009-10 to 2014-15^a

\$ million (nominal)

<i>Industry grouping</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>
Primary production	1980.1	1686.2	1718.2	1383.5	1329.0	1322.4
Horticulture and fruit growing	331.4	324.5	307.1	303.2	270.7	240.0
Sheep, beef cattle and grain farming	925.8	746.1	646.6	504.9	535.6	552.3
Other crop growing	92.9	44.5	91.8	83.9	74.3	71.3
Dairy cattle farming	132.1	94.6	75.8	48.6	54.9	64.8
Other livestock farming	44.0	40.2	62.5	39.1	32.8	39.6
Aquaculture and fishing	70.8	64.3	52.7	42.9	45.9	48.3
Forestry and logging	84.2	92.5	122.0	95.5	74.5	78.4
Primary production support services	17.8	17.3	5.4	14.8	12.3	9.8
Unallocated primary production ^b	281.1	262.2	354.3	250.6	228.1	217.8
Mining	460.1	971.9	547.1	275.4	227.0	299.1
Manufacturing	8037.2	7644.9	7620.0	7136.7	7175.6	7040.2
Food, beverages and tobacco	1398.8	1447.4	1398.6	1455.0	1514.0	1460.0
Textiles, leather, clothing and footwear	508.3	394.8	311.7	302.1	316.4	272.5
Wood and paper products	619.3	592.1	529.0	537.5	544.1	577.2
Printing and recorded media	209.3	210.8	190.2	183.7	177.9	167.2
Petroleum, coal, chemical and rubber	1010.4	1080.4	1023.0	990.8	998.9	989.2
Non-metallic mineral products	257.4	252.7	231.1	226.6	243.8	249.3
Metal and fabricated metal products	1459.9	1535.7	1719.5	1492.0	1546.8	1591.5
Motor vehicles and parts	1420.4	1085.7	1162.7	956.1	870.6	793.3
Other transport equipment	43.2	37.4	30.5	29.2	36.0	25.8
Machinery & equipment manufacturing	653.4	592.1	600.5	576.7	561.7	520.7
Furniture and other manufacturing	185.5	179.1	193.3	183.9	167.6	158.0
Unallocated manufacturing ^b	271.4	236.8	230.0	203.2	197.7	235.8
Services	326.1	232.7	437.7	-1115.1	-1435.4	-1693.6
Electricity, gas, water & waste services	103.1	386.3	1022.4	23.0	47.3	124.9
Construction	-1128.4	-1300.8	-1452.2	-1576.1	-1665.1	-1838.2
Wholesale trade	79.7	188.4	21.5	-55.7	-88.8	-130.3
Retail trade	97.9	27.9	-45.9	-78.8	-84.5	-99.9
Accommodation & food services	-383.8	-422.5	-459.6	-477.9	-469.0	-525.0
Transport, postal & warehousing	72.6	78.8	40.1	-44.4	-106.4	-124.8
Information & telecommunications	58.8	119.6	147.4	207.4	21.8	-27.5
Financial and insurance services	995.0	892.2	1027.1	928.3	1002.9	1204.7
Property, professional & admin.	380.1	392.9	270.2	94.7	67.9	80.0
Public administration and safety	-174.7	-179.5	-198.2	-206.7	-217.5	-214.6
Education and training	-63.3	-75.6	-82.5	-93.5	-103.5	-107.2
Health care and social assistance	-25.3	-65.3	-71.9	-97.6	-98.0	-108.3
Arts and recreation services	331.5	227.9	272.1	328.7	363.9	227.8
Other services	-212.0	-207.0	-231.8	-237.3	-263.1	-294.1
Unallocated services ^b	194.7	169.3	179.0	170.8	156.8	138.9
Unallocated other^b	721.8	929.1	972.5	784.2	1129.5	670.2
Total	11525.3	11464.8	11295.5	8464.7	8425.7	7638.3

– Nil. Figures may not add to totals due to rounding. ^a Tariff assistance estimates are derived using ABS Industry Gross Value Added and other supporting data. ^b Unallocated includes budgetary measures where details of beneficiaries are unknown.

Source: Commission estimates.

Table A.4 Output tariff assistance by industry grouping, 2009-10 to 2014-15^a
\$ million (nominal)

<i>Industry grouping</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>
Primary production	215.0	235.2	246.5	257.2	226.0	208.9
Horticulture and fruit growing	154.3	173.9	180.9	192.0	160.4	138.2
Sheep, beef cattle and grain farming	0.1	0.1	0.2	0.2	0.2	0.2
Other crop growing	2.2	2.4	2.5	2.6	2.6	2.7
Dairy cattle farming	–	–	–	–	–	–
Other livestock farming	–	–	–	–	–	–
Aquaculture and fishing	0.9	0.9	1.0	1.3	1.3	1.4
Forestry and logging	57.5	57.9	62.0	61.1	61.6	66.4
Primary production support services	–	–	–	–	–	–
Unallocated primary production ^b	–	–	–	–	–	–
Mining	0.8	0.9	0.9	1.0	1.1	1.2
Manufacturing	8166.2	7835.2	7933.7	7590.2	7625.6	7617.3
Food, beverages and tobacco	1738.9	1753.4	1802.7	1820.1	1847.7	1871.7
Textiles, leather, clothing and footwear	457.6	326.8	315.0	308.8	323.3	277.8
Wood and paper products	735.6	697.0	641.7	636.4	656.9	703.0
Printing and recorded media	228.7	230.1	207.4	203.7	194.9	187.5
Petroleum, coal, chemical and rubber	1034.5	1027.5	1050.7	984.9	987.0	984.0
Non-metallic mineral products	279.0	271.9	258.7	245.2	251.4	277.2
Metal and fabricated metal products	1745.5	1829.7	1876.3	1702.0	1765.4	1747.1
Motor vehicles and parts	1026.5	811.2	850.5	806.5	763.5	749.2
Other transport equipment	76.9	75.0	78.7	74.6	70.6	69.3
Machinery & equipment manufacturing	635.5	609.6	639.1	606.1	573.8	563.0
Furniture and other manufacturing	207.3	203.0	212.8	201.8	191.0	187.4
Unallocated manufacturing ^b	–	–	–	–	–	–
Services	0.0	0.0	0.0	0.0	0.0	0.0
Electricity, gas, water & waste services	–	–	–	–	–	–
Construction	–	–	–	–	–	–
Wholesale trade	–	–	–	–	–	–
Retail trade	–	–	–	–	–	–
Accommodation & food services	–	–	–	–	–	–
Transport, postal & warehousing	–	–	–	–	–	–
Information & telecommunications	–	–	–	–	–	–
Financial and insurance services	–	–	–	–	–	–
Property, professional & admin.	–	–	–	–	–	–
Public administration and safety	–	–	–	–	–	–
Education and training	–	–	–	–	–	–
Health care and social assistance	–	–	–	–	–	–
Arts and recreation services	–	–	–	–	–	–
Other services	–	–	–	–	–	–
Unallocated services ^b	–	–	–	–	–	–
Unallocated other^b	–	–	–	–	–	–
Total	8382.0	8071.3	8181.1	7848.4	7852.7	7827.3

– Nil. Figures may not add to totals due to rounding. ^a Tariff assistance estimates are derived using ABS Industry Gross Value Added and other supporting data. ^b Unallocated includes budgetary measures where details of beneficiaries are unknown. These categories are not applicable for tariff assistance.

Source: Commission estimates.

Table A.5 Input tariff penalty by industry grouping, 2009-10 to 2014-15^a
\$ million (nominal)

<i>Industry grouping</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>
Primary production	-72.5	-77.0	-81.4	-79.6	-80.1	-84.2
Horticulture and fruit growing	-9.9	-10.2	-10.1	-10.1	-8.8	-7.9
Sheep, beef cattle and grain farming	-12.5	-14.7	-16.3	-18.4	-19.0	-20.3
Other crop growing	-4.5	-4.7	-4.8	-5.0	-5.0	-5.2
Dairy cattle farming	-1.8	-2.0	-2.2	-2.4	-3.0	-3.8
Other livestock farming	-3.5	-3.7	-3.7	-3.7	-4.0	-4.3
Aquaculture and fishing	-13.6	-14.5	-15.5	-18.5	-18.7	-19.8
Forestry and logging	-12.0	-11.4	-12.3	-12.1	-12.2	-13.0
Primary production support services	-14.7	-15.7	-16.5	-9.4	-9.4	-9.8
Unallocated primary production ^b	–	–	–	–	–	–
Mining	-188.0	-185.4	-199.4	-216.9	-237.6	-254.0
Manufacturing	-2209.3	-2123.8	-2165.2	-2071.8	-2070.3	-2061.4
Food, beverages and tobacco	-497.7	-498.6	-512.6	-517.5	-525.4	-531.6
Textiles, leather, clothing and footwear	-88.5	-66.7	-64.3	-63.1	-66.0	-58.1
Wood and paper products	-150.0	-141.2	-130.0	-128.9	-133.1	-142.3
Printing and recorded media	-37.7	-37.3	-33.6	-33.0	-31.6	-30.2
Petroleum, coal, chemical and rubber	-301.0	-300.1	-306.9	-287.7	-288.3	-286.8
Non-metallic mineral products	-48.0	-46.6	-44.4	-42.1	-43.1	-47.5
Metal and fabricated metal products	-418.5	-434.5	-445.6	-404.2	-419.2	-413.3
Motor vehicles and parts	-353.7	-298.7	-313.2	-297.0	-281.2	-275.5
Other transport equipment	-69.8	-66.9	-70.2	-66.5	-63.0	-61.6
Machinery & equipment manufacturing	-191.9	-183.7	-192.6	-182.7	-172.9	-169.2
Furniture and other manufacturing	-52.5	-49.4	-51.8	-49.2	-46.5	-45.2
Unallocated manufacturing ^b	–	–	–	–	–	–
Services	-4195.2	-4277.7	-4632.5	-4798.5	-4941.4	-5125.0
Electricity, gas, water & waste services	-71.2	-73.9	-83.7	-95.1	-94.1	-85.1
Construction	-1429.6	-1509.8	-1662.8	-1730.0	-1810.5	-1912.9
Wholesale trade	-248.3	-250.7	-264.1	-269.3	-269.3	-270.7
Retail trade	-165.6	-169.8	-182.1	-185.8	-190.2	-193.7
Accommodation & food services	-469.5	-493.6	-527.3	-543.3	-544.8	-598.1
Transport, postal & warehousing	-203.2	-187.6	-205.6	-215.7	-216.2	-217.2
Information & telecommunications	-150.6	-143.6	-146.2	-146.8	-148.0	-145.6
Financial and insurance services	-8.5	-9.0	-9.3	-9.8	-10.5	-10.9
Property, professional & admin.	-528.2	-544.0	-588.9	-618.9	-631.8	-639.5
Public administration and safety	-202.1	-200.8	-214.1	-220.6	-228.1	-228.2
Education and training	-105.0	-105.9	-115.2	-120.8	-127.1	-131.1
Health care and social assistance	-243.0	-244.5	-256.3	-269.6	-282.3	-282.2
Arts and recreation services	-74.8	-73.4	-77.1	-77.3	-80.5	-84.4
Other services	-295.6	-271.2	-299.8	-295.4	-308.0	-325.3
Unallocated services ^b	–	–	–	–	–	–
Unallocated other^b	–	–	–	–	–	–
Total	-6665.0	-6663.9	-7078.4	-7166.8	-7329.5	-7524.6

– Nil. Figures may not add to totals due to rounding. ^a Tariff assistance estimates are derived using ABS Industry Gross Value Added and other supporting data. ^b Unallocated includes budgetary measures where details of beneficiaries are unknown. These categories are not applicable for tariff assistance.

Source: Commission estimates.

Table A.6 Budgetary outlays by industry grouping, 2009-10 to 2014-15
\$ million (nominal)

<i>Industry grouping</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>
Primary production	1274.9	1044.4	946.6	723.4	770.4	746.9
Horticulture and fruit growing	125.1	118.3	85.9	71.5	75.5	65.2
Sheep, beef cattle and grain farming	601.5	447.5	253.1	215.8	286.2	277.6
Other crop growing	58.0	25.7	48.8	44.2	52.6	51.7
Dairy cattle farming	99.1	67.4	41.4	29.4	35.8	35.2
Other livestock farming	25.4	23.5	41.2	28.2	23.7	31.6
Aquaculture and fishing	66.5	64.6	53.8	48.5	51.5	54.9
Forestry and logging	18.2	34.2	64.1	36.2	14.6	12.6
Primary production support services	5.2	2.3	5.7	3.9	5.0	3.3
Unallocated primary production ^a	275.9	261.0	352.5	245.8	225.5	214.8
Mining	171.4	186.3	398.1	171.7	259.1	263.8
Manufacturing	971.1	947.4	1376.1	1034.4	1110.0	1091.7
Food, beverages and tobacco	53.0	51.4	27.4	41.9	89.1	72.0
Textiles, leather, clothing and footwear	122.2	122.6	50.4	46.0	51.6	48.4
Wood and paper products	14.5	10.5	5.6	16.8	11.2	11.5
Printing and recorded media	5.2	3.4	6.1	4.3	6.8	6.3
Petroleum, coal, chemical and rubber	209.6	234.2	220.1	227.0	258.8	269.3
Non-metallic mineral products	8.3	6.2	7.3	12.9	26.2	21.4
Metal and fabricated metal products	62.1	50.6	205.4	49.6	51.7	60.1
Motor vehicles and parts	150.6	192.9	580.4	408.7	357.7	291.9
Other transport equipment	24.4	16.4	13.4	14.0	14.5	18.2
Machinery & equipment manufacturing	124.8	86.1	71.0	59.9	92.3	132.5
Furniture and other manufacturing	19.7	17.8	25.9	23.8	20.2	15.8
Unallocated manufacturing ^a	176.8	155.2	163.0	129.4	129.8	144.3
Services	1176.4	1174.8	2234.8	1160.5	1426.2	1754.3
Electricity, gas, water & waste services	119.8	71.6	1072.2	87.3	125.2	196.4
Construction	23.1	15.0	18.3	20.6	29.8	40.6
Wholesale trade	58.1	35.0	38.6	33.6	43.1	63.7
Retail trade	82.9	52.9	32.2	16.5	17.4	26.8
Accommodation & food services	8.0	5.4	4.6	4.7	4.8	6.4
Transport, postal & warehousing	56.5	52.1	57.9	43.5	49.4	57.9
Information & telecommunications	111.4	96.9	88.0	107.6	121.0	112.6
Financial and insurance services	62.0	120.4	137.2	127.6	183.8	278.6
Property, professional & admin.	185.6	302.8	328.6	276.2	405.2	587.3
Public administration and safety	19.0	13.9	10.6	7.1	6.4	13.5
Education and training	22.6	19.2	18.6	14.9	15.2	18.0
Health care and social assistance	96.1	95.8	113.5	109.2	123.3	98.1
Arts and recreation services	120.5	112.0	116.0	121.9	125.5	100.6
Other services	16.1	12.3	19.4	19.2	19.2	14.8
Unallocated services ^a	194.7	169.3	179.0	170.8	156.8	138.9
Unallocated other^a	293.4	303.8	337.1	297.4	436.0	399.1
Total	3887.4	3656.6	5292.7	3387.4	4001.6	4255.7

– Nil. Figures may not add to totals due to rounding. ^a Unallocated includes budgetary measures where details of beneficiaries are unknown.

Source: Commission estimates.

Table A.7 Budgetary tax concessions by industry grouping, 2009-10 to 2014-15

\$ million (nominal)

<i>Industry grouping</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>
Primary production	562.7	483.5	606.5	482.6	412.7	450.8
Horticulture and fruit growing	61.9	42.6	50.4	49.9	43.6	44.6
Sheep, beef cattle and grain farming	336.7	313.1	409.7	307.3	268.2	294.7
Other crop growing	37.1	21.1	45.2	42.1	24.2	22.0
Dairy cattle farming	34.8	29.2	36.6	21.6	22.0	33.4
Other livestock farming	22.1	20.5	25.0	14.7	13.0	12.3
Aquaculture and fishing	17.1	13.2	13.4	11.7	11.7	11.8
Forestry and logging	20.5	11.9	8.2	10.2	10.5	12.5
Primary production support services	27.3	30.7	16.2	20.3	16.8	16.3
Unallocated primary production ^a	5.1	1.2	1.8	4.8	2.7	3.0
Mining	475.8	970.2	347.5	319.5	204.4	288.3
Manufacturing	1109.2	986.2	475.4	584.0	510.3	392.7
Food, beverages and tobacco	104.6	141.1	81.1	110.5	102.6	47.9
Textiles, leather, clothing and footwear	17.1	12.2	10.5	10.3	7.6	4.4
Wood and paper products	19.1	25.8	11.7	13.2	9.0	5.0
Printing and recorded media	13.1	14.5	10.3	8.7	7.7	3.6
Petroleum, coal, chemical and rubber	67.2	118.8	59.0	66.5	41.4	22.7
Non-metallic mineral products	18.1	21.3	9.4	10.6	9.3	-1.9
Metal and fabricated metal products	70.8	89.9	83.4	144.6	148.9	197.5
Motor vehicles and parts	597.0	380.3	45.0	37.9	30.6	27.7
Other transport equipment	11.7	12.9	8.6	7.1	13.9	-0.1
Machinery & equipment manufacturing	85.0	80.1	83.0	93.3	68.5	-5.6
Furniture and other manufacturing	11.0	7.7	6.5	7.5	2.9	-0.1
Unallocated manufacturing ^a	94.6	81.6	67.0	73.8	67.9	91.4
Services	3344.9	3335.6	2835.4	2522.9	2079.9	1677.1
Electricity, gas, water & waste services	54.5	388.6	33.9	30.8	16.3	13.6
Construction	278.1	193.9	192.3	133.4	115.6	34.0
Wholesale trade	270.0	404.1	246.9	180.0	137.4	76.7
Retail trade	180.6	144.8	104.1	90.6	88.3	67.0
Accommodation & food services	77.8	65.7	63.2	60.7	70.9	66.7
Transport, postal & warehousing	219.3	214.2	187.8	127.8	60.4	34.4
Information & telecommunications	98.0	166.3	205.5	246.6	48.8	5.5
Financial and insurance services	941.4	780.9	899.1	810.6	829.6	937.0
Property, professional & admin.	722.6	634.1	530.5	437.4	294.4	132.2
Public administration and safety	8.4	7.4	5.2	6.8	4.2	0.2
Education and training	19.1	11.0	14.1	12.3	8.4	5.9
Health care and social assistance	121.7	83.4	70.9	62.9	60.9	75.8
Arts and recreation services	285.8	189.4	233.2	284.1	318.9	211.6
Other services	67.6	51.8	48.6	39.0	25.7	16.4
Unallocated services ^a	–	–	–	–	–	–
Unallocated other^a	428.4	625.3	635.4	486.8	693.5	271.0
Total	5921.0	6400.9	4900.2	4395.8	3900.8	3079.9

– Nil. Figures may not add to totals due to rounding. ^a Unallocated includes budgetary measures where details of beneficiaries are unknown.

Source: Commission estimates.

**Table A.8 Nominal rate of combined assistance on outputs
by industry grouping, 2009-10 to 2014-15^a**
per cent

<i>Industry grouping</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>
Primary Production^b	0.4	0.4	0.4	0.4	0.3	0.3
Horticulture and fruit growing	1.1	1.1	1.2	1.2	1.2	1.1
Sheep, beef cattle and grain farming	0.0	0.0	0.0	0.0	0.0	0.0
Other crop growing	0.0	0.0	0.0	0.0	0.0	0.0
Dairy cattle farming	0.0	0.0	0.0	0.0	0.0	0.0
Other livestock farming	0.0	0.0	0.0	0.0	0.0	0.0
Aquaculture and fishing	0.2	0.2	0.2	0.1	0.1	0.1
Forestry and logging	2.1	2.1	2.1	2.1	2.1	2.1
Primary production support services	0.0	0.0	0.0	0.0	0.0	0.0
Mining	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing^b	2.4	2.3	2.2	2.2	2.2	2.2
Food, beverages and tobacco	2.1	2.1	2.1	2.1	2.1	2.1
Textiles, leather, clothing and footwear	6.7	4.9	4.9	4.9	4.9	4.1
Wood and paper products	3.7	3.7	3.7	3.7	3.7	3.7
Printing and recorded media	2.9	2.9	2.9	2.9	2.9	2.9
Petroleum, coal, chemical and rubber	1.6	1.6	1.6	1.6	1.6	1.7
Non-Metallic mineral products	2.0	2.0	2.0	2.0	2.0	2.0
Metal and fabricated metal products	1.9	1.9	1.9	1.9	1.9	1.9
Motor vehicles and parts	7.1	5.1	3.8	3.8	3.8	3.8
Other transport equipment	0.9	0.9	0.9	0.9	0.9	0.9
Machinery and equipment manufacturing	2.0	1.9	1.9	1.9	1.9	1.9
Furniture and other manufacturing	3.2	3.2	3.2	3.2	3.2	3.2

– Nil. Figures may not add to totals due to rounding. ^a Combined assistance comprises tariff, budgetary and agricultural pricing and regulatory assistance. ^b Sectoral estimates include assistance to the sector that has not been allocated to specific industry groupings.

Source: Commission estimates.

**Table A.9 Nominal rate of combined assistance on materials
by industry grouping, 2009-10 to 2014-15^a**
per cent

<i>Industry grouping</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>
Primary Production^b	0.3	0.3	0.3	0.2	0.2	0.2
Horticulture and fruit growing	0.2	0.2	0.2	0.2	0.2	0.2
Sheep, beef cattle and grain farming	0.1	0.1	0.1	0.1	0.1	0.1
Other crop growing	0.2	0.2	0.2	0.2	0.2	0.2
Dairy cattle farming	0.1	0.1	0.1	0.1	0.1	0.1
Other livestock farming	0.2	0.2	0.2	0.2	0.2	0.2
Aquaculture and fishing	1.3	1.2	1.2	1.2	1.2	1.1
Forestry and logging	1.0	1.0	1.0	1.0	1.0	1.0
Primary production support services	0.5	0.5	0.5	0.5	0.5	0.5
Mining	0.5	0.5	0.5	0.5	0.5	0.5
Manufacturing^b	1.1	1.0	1.0	1.0	1.0	1.0
Food, beverages and tobacco	1.1	1.1	1.1	1.1	1.1	1.1
Textile, leather, clothing and footwear	2.9	2.3	2.3	2.3	2.3	1.9
Wood and paper products	2.1	2.1	2.1	2.1	2.1	2.1
Printing and recorded media	1.8	1.8	1.8	1.8	1.8	1.7
Petroleum, coal, chemical and rubber	0.8	0.7	0.7	0.7	0.7	0.7
Non-Metallic mineral products	0.9	0.9	0.9	0.9	0.9	0.9
Metal and fabricated metal products	0.7	0.7	0.7	0.7	0.7	0.7
Motor vehicle and parts	2.9	2.6	2.6	2.5	2.5	2.5
Other transport equipment	1.9	1.8	1.8	1.8	1.8	1.8
Machinery and equipment manufacturing	1.4	1.3	1.3	1.3	1.3	1.3
Furniture and other manufacturing	1.8	1.7	1.7	1.7	1.7	1.7

– Nil. Figures may not add to totals due to rounding. ^a Combined assistance comprises tariff, budgetary and agricultural pricing and regulatory assistance. ^b Sectoral estimates include assistance to the sector that has not been allocated to specific industry groupings.

Source: Commission estimates.

B Recent developments in industry assistance

Chapter 3 examined five recent developments that have significant implications for industry assistance. This appendix summarises other developments since around May 2015, some of which may feed into the estimates for 2015-16.

The developments are drawn largely from Ministerial announcements and supporting information on departmental websites. New announcements are not necessarily finalised designs or costings.

As noted in earlier chapters assessing what constitutes industry assistance, and estimating the amount of assistance, is not always straightforward. To guide the reader as to how the developments fit into an industry assistance framework the following tables include a brief classification based on the characteristics of the measures .

The Commission classifies budgetary assistance into two broad categories — budgetary outlays and tax concessions (figure B.1). Budgetary outlays are further classified into direct financial (as are tax concessions) and indirect support, which is where funding goes to firms that are providing services to the firms receiving assistance. These services range from activities such as delivering financial advice to R&D to infrastructure, if solely for the use of an industry.

There is a third category of support that falls outside of the budgetary categorisation. This is preferential access arrangements that confer advantage to the firms that receive them. This includes advantage given by access to a resource base or quota allocation where the price is not set by a competitive process, and by government purchasing preferences. These sources of assistance have not tended to be included in the measured assistance as the extent of assistance can be difficult to estimate. This category is included in the recent developments even though the programs are unlikely to be included in the measured estimates as they are implemented.

The Commission also classifies budgetary assistance into eight categories based on a mix of who is supported and the type of support the assistance provides. These categories are:

- R&D, which takes in R&D subsidies and grants and tax concessions
- Export, which covers grants and services assistance provided to exporting firms, for example to support market access and trade financing

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- Industry-specific assistance, which is available to a ‘single’ industry, such as automotive manufacturing
 - Sectoral assistance, which is available to businesses in a ‘sector’, such as agriculture.
 - Regional/structural assistance, which are grant programs to support activities in areas that have been affected by major firm closures, or are economically depressed
 - Small business, which are budgetary and tax concessions that are limited to small businesses
 - Investment measures, including development allowances and investment attraction packages
 - Other measures, which picks up those areas not covered by the other categories and includes, for example the Tasmanian Freight Equalisation Scheme, and some programs supporting commercialisation of new technologies.

These categories can overlap, for example rural R&D could also be treated as industry or sector specific. In these cases the assistance is assigned in the order given above to avoid double counting.

Other than for R&D, the following tables provides information on eligibility (coverage) — whether the assistance is available to all firms, all firms for export activities, small firms, sectors only (such as agriculture or manufacturing), or specific industries (such as horticulture or automotive manufacturing). This information is useful as the more general the eligibility for a tax concession or budgetary outlay the less distortionary the assistance is likely to be.

There is an additional characteristic of assistance that provides a guide to the likely distortionary impact, which is how the assistance recipient is selected. Assistance that is demand driven, such as the R&D tax concession, that is available to all firms that meet the eligibility criteria is likely to be less distortionary. Assistance that is competitively allocated should, in principle, achieve the objective of the assistance at a lower cost (and ideally is generating socially beneficial distortions in economic activity). However, assistance that is selective, where the recipient firm is chosen without any competition, is least likely to deliver value for the budgetary support provided. That such support is still provided means that firms have incentives to lobby governments, which diverts their resources away from activities that might reduce their need for assistance to survive. This third characteristic of assistance is added to the table along with information on whether the support is a direct or indirect budgetary outlay, a tax concession, or preferential access and the likely category of measured assistance.

Figure B.1 **Characteristics of budgetary assistance**

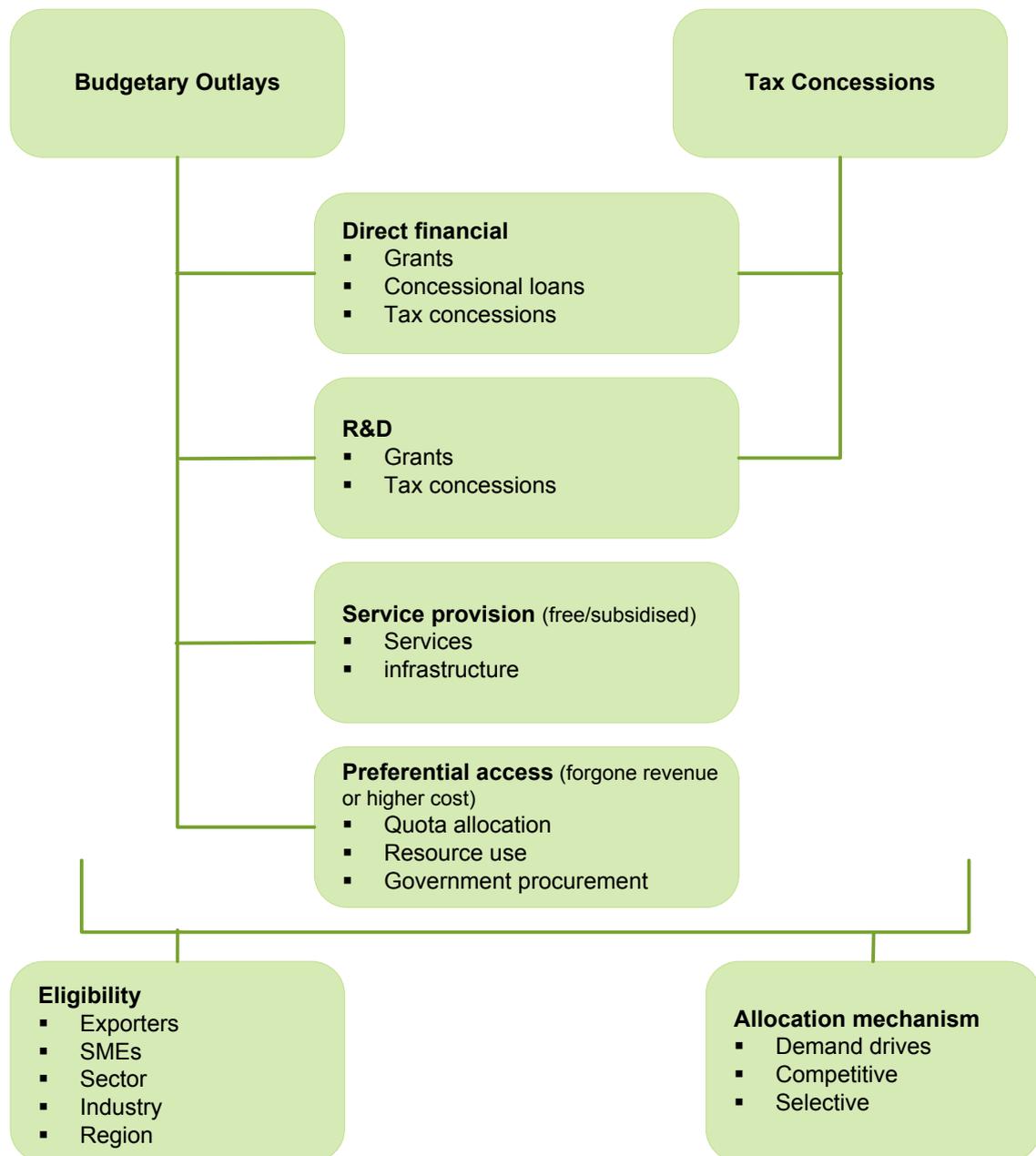


Table B.1 Agriculture and Water portfolio

Selected recent developments

<i>Measure</i>	<i>Government indicative costing</i>	<i>Nature and recipient</i>	<i>Assistance considerations</i>
Likely to be included in assistance estimates			
Elements of the Agricultural Competitiveness White Paper		Detailed breakdown provided in table 3.1	
Further assistance for banana growers — Panama Disease	Not given	Compensation for costs incurred while not being able to harvest and make fruit available as a result of the initial emergency biosecurity measures.	Direct financial - grant Industry specific - bananas Demand driven
Reduction in interest rate for the three farm business concessional loans schemes	Not given	The industry assistance is 'equal' to the difference between the concessional interest rate and the rate that would otherwise be charged by a private financier. The cost to government is the difference between the government borrowing rate and the lower rate charged to farmers. The size of loans is not a measure of the industry assistance nor the cost to the budget	Direct financial – concessional loan Sectoral specific - agriculture Demand driven
Sustainable Agriculture Small Grants Round 2015-16	\$2.2m	Part of the National Landcare Programme. Awaiting outcome of applications. Variable government share of project cost.	Direct financial Sectoral specific - agriculture Competitive selection
Grants to small exporters for market access initiatives	Not given	31 recipients covering horticulture, dairy, fish, egg, grains, meat. Part of Package Assisting Small Exporters (PASE) program (\$15m over four years)	Direct financial Export - agriculture Competitive selection
Additional assistance for Rural Financial Counselling Service (RFCS) in drought affected areas	\$880 000	Payment to service provider for a free financial counselling	Indirect - service Sector specific - agriculture Demand driven
First round of the Rural R&D for Profit programme	\$26.7m	Grants to existing Rural R&D Corporations for specific projects To be matched by around \$32m in cash and in-kind by successful applicants.	Indirect – R&D R&D, sector-specific - agriculture Competitive selection

(continued next page)

Table B.1 (continued)

<i>Measure</i>	<i>Government indicative costing</i>	<i>Nature and recipient</i>	<i>Assistance considerations</i>
Northern Australia White Paper	\$75m	A new Cooperative Research Centre (\$75m) with a strong agricultural focus	Indirect. – R&D R&D, sector-specific - agriculture Selective
Not likely to be included assistance estimates			
Biosecurity Bill 2014	Reduction in compliance costs for agriculture \$6.9m per year	Replaces the Quarantine Act 1908	Biosecurity has both public and private benefits. There are industry cost sharing arrangements based on the relative benefits.
Northern Australia White Paper	\$300m	Infrastructure funding which will benefit agriculture (eg Beef Roads Fund \$100m and water infrastructure \$200m), .	Indirect - infrastructure The publicly funded (community) infrastructure is not specifically for or sole use of agriculture industries.
Possible triggering of quota allocation system for beef exports to USA	Not applicable	If Australia reaches 85 per cent of its quota (which operates on a first-come-first-served basis) the remaining 15 per cent will be allocated proportionately based on exporter's record of shipment	Indirect – preferential access Access to quota is valuable to the producers who receive it.

Table B.2 Industry, Innovation and Science portfolio

Selected recent developments

<i>Measure</i>	<i>Government indicative costing</i>	<i>Nature and recipient</i>	<i>Assistance considerations</i>
Likely to be included in assistance estimates			
National Science and Innovation Agenda		See table 3.5	
Recipients under the Manufacturing Transition Programme	\$50m	19 business receive between \$1m and \$5m. Estimated business contribution \$200m	Direct financial - grant Industry specific - manufacturing Competitive selection
Round 1 grants under the Accelerating Commercialisation stream (within the Entrepreneurs' Programme)	\$10.6m	18 companies. Company contribution \$12.8m	Direct financial - grant R&D - All industries Competitive selection
Further grants under the Accelerating Commercialisation stream (within the Entrepreneurs' Programme)	\$5.1m	13 companies. Company contribution \$5.1m	Direct financial - grant All industries Competitive selection
Next Round grants under the Accelerating Commercialisation stream (within the Entrepreneurs' Programme)	\$14.6m	24 recipient companies	Direct financial - grant R&D - All industries Competitive selection
South Australian Round of the Next Generation Manufacturing Investment Programme	\$28.8m	15 firms, grants from \$500 000 to almost \$5m. Expected company investment \$44.5m	Direct financial - grant Regional/structural adjustment - Industry - manufacturing Competitive selection
Victorian Round of the Next Generation Manufacturing Investment Program	\$27.4m	11 businesses, grants \$756 000 to \$5m. Expected company investment \$43.6m.	Direct financial - grant Regional/structural adjustment - Industry - manufacturing Competitive selection

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Table B.2 (continued)

<i>Measure</i>	<i>Government indicative costing</i>	<i>Nature and recipient</i>	<i>Assistance considerations</i>
Round 2 Australian Automotive Diversification Programme	\$5.7m	9 businesses, grants between \$109 000 and \$1m. Expected company investment \$11.9m. (Total combined \$17.6m)	Direct financial - grant Regional/structural adjustment - Auto supply chain Competitive selection
Round 2 Melbourne's North Innovation and Investment Fund	\$4m	Expected investment by companies \$14m. Expected jobs created, 115.	Direct financial - grant Regional/structural adjustment - All industries Competitive selection
Round 3 – Geelong Region Innovation and Investment Fund	\$11.2m	Expected investment by companies \$32.8m Expected jobs created, 145	Direct financial - grant Regional/structural adjustment - All industries Competitive selection
Proposed Tasmania Jobs and Investment Fund	\$24m	2:1 (proponent-government) sharing basis. Minimum grant \$50 000. \$16m Australian Government (transferred from lapsed Cadbury assistance offer). and \$8m Tasmania contribution	Direct financial – grant Regional/structural adjustment - All industries Competitive selection
Round 3 Automotive Diversification Program	\$4.8m	10 businesses, \$1000 000 to \$1million Estimated business contribution \$10.3m	Direct financial - grant Regional/structural adjustment - Auto supply chain Competitive selection
New support announced - Carbon Capture and Storage (CCS) Research Development and Demonstration Fund	\$25m	Grants up to 50 per cent matching. Minimum grant \$200 000, no maximum.	Direct financial - grant R&D – Industry specific Restrictive competitive selection (by invitation only)
Funding for new CRC (Innovative Manufacturing) and already established CRC (Optimising Resource Extraction)	\$74m	The IM CRC will work with the Advanced Manufacturing Growth Centre	Indirect – R&D R&D – Industry specific Selective
Launch Mining Equipment, Technology and Services (METS) Growth Centre		Industry-researcher collaboration	Indirect – R&D R&D – Industry specific Selective

(Continued next page)

Table B.2 (continued)

<i>Measure</i>	<i>Government indicative costing</i>	<i>Nature and recipient</i>	<i>Assistance considerations</i>
Establishment Oil, Gas and and Energy Resources Growth Centre	\$15.4m	Industry-researcher collaboration	Indirect – R&D R&D Industry specific Selective
Northern Australia Tourism Initiative	\$13.6m	Practical advice for small tourism businesses. Tender for 8 new service contracts \$200 000 per year for three years	Indirect - service Regional - industry Demand driven
Centre for Defence Industry Capability	\$230m	10 year. Headquartered in Adelaide Centre will provide governance of certain existing defence industry programs, including in relation to skills, industry capability, innovation, and export.	Direct financial – grant Industry specific Selective
Not likely to be included in assistance estimates			
Renewal of six offshore petroleum retention leases		Feed into the Chevron-proposed Gorgon Project.	Preferential access - resources
First Round bidding results from the 2014 Offshore Petroleum Acreage Release		Work program (expenditure) bidding results for eight new offshore petroleum exploration permits	How governments allocate exploration licences and their strategies for land release play an important role in shaping exploration incentives (PC 2014, chapter 3).
Releases under 2015 Offshore Petroleum Exploration Acreage Release.		Release of 29 new offshore areas for petroleum exploration	Preferential access - resources
Renewal of five Commonwealth offshore petroleum retention leases		Earmarked for the Browse Floating LNG project operated by Woodside. WA Government has made similar decision in regard to the two State retention leases	Preferential access - resources

Table B.3 Foreign Affairs, Trade and Tourism portfolio

Selected recent developments

<i>Measure</i>	<i>Government indicative costing</i>	<i>Nature and recipient</i>	<i>Assistance considerations</i>
Considered to provide direct or indirect industry assistance			
Review recommended increase in Export Market Development Grants	Incremental \$12.4m annually for each of next three years	Partial reimbursement of export promotion expenses Existing grants were around \$140m in 2014-15. Recommends \$175m for 2018-19	Direct financial - grant Export – all industries Demand driven. Capped program may require pro-rata assistance
First round of The Free Trade Agreement Training Provider Grants	\$2.45 million over two years	Grants to SME to better understand exporting and how to take advantage of recent trade agreements (with Korea, Japan and China). Eligible applicants were offered between \$20 000 and \$1.372 million. (Second Round will be between \$20 000 and \$773 000)	Direct financial - grant Export and small business – all industries Competitive selection
Tourism Demand Driven Infrastructure (TDDI) programme	\$43.1 million over four years	Each State and Territory was/is responsible for applications and selection in its jurisdiction. Funding was open to tourism businesses as well as public projects and generally involved a competitive grants process awarded on a matched funding basis.	Direct financial - grants Sectoral assistance - tourism Competitive selection
Not likely to be included in industry assistance			
Further reorientation of Export Finance and Insurance Corporation towards support for SMEs		Establishment of The Small Business Export Loan facility. Permitting direct lending for consumable goods, not just capital goods.	Direct financial – concessional loan All exporting SMEs Selective by application Not included in industry assistance as subsidy difficult to quantify. See . discussion and exploratory estimates (PC 2009)

Table B.4 Environment portfolio
Selected recent developments

<i>Measure</i>	<i>Government indicative costing</i>	<i>Nature and recipient</i>	<i>Assistance considerations</i>
Likely to be included in Industry estimates			
Competitive tender for Burdekin cane farmers to reduce nitrogen runoff.	\$2.8m	Part of \$140m Reef Trust	Direct financial - grant Industry specific - sugar Competitive selection
ARENA Advancing Renewables Programme (Large Scale Photovoltaics competitive round)	\$100m	Co-funding. 22 projects have been invited to apply after expressions of interest round	Direct financial - grant Industry specific - solar Competitive selection
ARENA R&D grants Round 2 (April 2016)	\$17m	Industry-researcher collaborative grants \$0.5 – 5.0m. Participants contributions \$34m. Government share 25-47 per cent across projects	Indirect – R&D R&D - All industry for emission reduction Competitive selection
Round 5 (final) of the On-Farm Irrigation Efficiency Program (OFIEP)	\$263.5m	Assisting irrigators within the southern connected system of the Murray-Darling Basin to modernise their on-farm irrigation infrastructure while returning water savings to the environment.	Direct financial - grant Sectoral assistance - irrigators Competitive selection
Commonwealth On-Farm Further Irrigation Efficiency Program	\$1.575 billion	2016 to 2024. Follow-on program from OIIEP	Direct financial - grant Sectoral assistance - irrigators Competitive selection
Not currently included in assistance estimates			
Announcement of Clean Energy Innovation Fund	\$1 billion	To commence 1 July 2016. To provide \$100m per year for 10 years, equity and debt. Established from within the \$10 billion Clean Energy Finance Corporation	Direct financial – concessional loans/equity Industry specific – energy Not readily quantifiable.

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Table B.4 (continued)

<i>Measure</i>	<i>Government indicative costing</i>	<i>Nature and recipient</i>	<i>Assistance considerations</i>
100% exemption for Emissions Intensive Trade-Exposed (EITE) industries from costs associated with the Renewable Energy Target (RET)	\$684m (2015)	Value of partial exemptions 2010 to 2014 (see table 3.2). Incremental increase in value from moving from partial to full exemption not quantified.	Direct financial – avoidance of a liability Industry- EITE firms Demand driven (for defined EITE firms) The exemption confers an advantage on qualifying businesses relative to those domestic businesses that are less trade exposed, but not been included in previous estimates
First Emissions Reduction Fund auction	\$660m	Contracts for 47 million tonnes of abatement at \$13.95 average price per tonne. 43 contractors, 144 projects	Preferential access – government procurement All industries
Second Emissions Reduction Fund auction	\$557m	Contracts for 45 million tonnes abatement at \$12.25 average price per tonne. 77 contractors, 131 projects.	Competitive selection Payments (significantly) overstate the net financial benefit to contractors (after unknown abatement costs).
Third Emissions Reduction Fund auction	\$516m	Contracts for 50 million tonnes abatement at \$10.23 average price per tonne. 33 contractors, 73 projects	

Table B.5 Infrastructure and Regional Development portfolio

Selected recent developments

<i>Measure</i>	<i>Government indicative costing</i>	<i>Nature and recipient</i>	<i>Assistance considerations</i>
Likely to be included in assistance estimates			
Commencement from 1 January 2016 of expanded Tasmanian Freight Equalisation Scheme	Additional \$202.9m over 4 years	Assistance with the cost of shipping of eligible non-bulk goods between Tasmania and mainland Australia. Increase in funding. Expanded eligibility.	Direct financial – grant All industries - regional Demand driven
Not likely to be included in assistance estimates			
Assistance to Arrium –steel supply for upgrade of rail track north of Adelaide	\$80m	Upgrade brought forward by ‘some years’. Historically, Arrium was the only maker of rail lines.	Preferential access – Government procurement Firm Selective
Provision of four sites on Christmas Island to Phosphate resource Limited for industrial and commercial purposes		50 year leases with an option for 49 year extension	Preferential access – resources Firm Selective Assistance only provided if lease conditions more generous than a fully commercial arrangement
Commencement of the Data Retention Grants Program	\$128.4 million	The <i>Programme</i> objective is to assist eligible telecommunications service providers meet their data retention obligations, required under the <i>Telecommunications (Interception and Access) Amendment (Data Retention) Act 2015</i> , by making a contribution to the typical up-front costs of compliance.	Direct financial – grants Industry – communications Demand driven Assistance provided only if grants exceeds costs
Reductions in industry assistance			
Consumers permitted to import a new car from 2018 subject to certain standards			<i>Reduction</i> in protection to domestic car industry Not estimated
Removal of the \$12 000 special duty on imported used vehicles			<i>Reduction</i> in protection to domestic car industry Not estimated
Change to media ownership and control rules			Removal of restriction on competition. Not estimated

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