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Australian Government
Productivity Commission

Trade & Assistance Review 2012-13

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) or by contacting Media and Publications on (03) 9653 2244 or email: maps@pc.gov.au

Foreword

The Productivity Commission is required under its Act to report annually on industry assistance and its effects on the economy. *Trade & Assistance Review 2012-13* contains the Commission's latest quantitative estimates of Australian Government assistance to industry. It also draws attention to areas of government intervention that could be impeding economic growth, and identifies recent developments in industry assistance and international trade policy.

This year's Review includes a chapter on the industry assistance aspects of defence procurement. By varying the size, nature and timing of local defence purchases, Government significantly shapes the defence industry and the location of its activities. Defence industry assistance comes in a number of forms including cost premiums for local purchasing preferences as well as budgetary support for skilling, research and exporting.

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

Peter Harris
Chairman
June 2014

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Abbreviations

ABS	Australian Bureau of Statistics
ANAO	Australian National Audit Office
ANZSIC	Australian and New Zealand Standard Industrial Classification
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CRC	Cooperative Research Centre
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CTC	Change in Tariff Classification
DFAT	Department of Foreign Affairs and Trade
DMO	Defence Materiel Organisation
DRET	Department of Resources, Energy and Tourism
FIRB	Foreign Investment Review Board
IGA	Intergovernmental Agreement
ISDS	Investor-State Dispute Settlement
MFN	Most Favoured Nation
OECD	Organisation for Economic Co-operation and Development
PC	Productivity Commission
RCEP	Regional Comprehensive Economic Partnership
R&D	Research and Development
RVC	Regional Value Content
TES	Tax Expenditure Statement
TPP	Trans-Pacific Partnership
WTO	World Trade Organization

OVERVIEW

Key points

- Government assistance to industry is provided through an array of measures including tariffs, budgetary outlays, tax concessions, and restrictions on competition.
 - This benefits the industry receiving it, but comes at a cost to other industries, taxpayers or consumers. A critical issue is whether the benefits accruing to industry outweigh the costs.
- Estimated tariff assistance to industry was \$7.8 billion in 2012-13 in gross terms, accruing overwhelmingly to manufacturing. Budget and tax related support was worth a further \$7.8 billion, thus total gross assistance was \$15.6 billion.
- After deducting the cost penalty of tariffs on imported inputs (\$7.1 billion, two thirds incurred by services industries) net assistance to industry was \$8.5 billion.
- Budgetary assistance in 2012-13 was about \$2.2 billion less than in 2011-12. The largest reductions were from the winding down of transitional assistance afforded by the Energy Security Fund (\$1 billion), the Coal Sector Jobs Package (\$219 million) and the Steel Transformation Plan (\$164 million).
- Since November 2013, the current Government has announced, amongst other things, that it would:
 - reduce funding to motor vehicle manufacturing between 2015–2017 by \$500 million, not provide a debt guarantee or line of credit to Qantas, nor provide assistance requested by processing company SPC Ardmona, but would proceed with support to Cadbury for a tourist facility.
- Australia recently agreed to bilateral trade agreements with Korea and Japan. Trade agreements can distort comparative advantage between nations and consequently reduce efficient resource allocation.
 - The rules of origin in Australia's nine bilateral agreements differ widely, are likely to impede competition and add to the compliance costs of firms engaging in trade.
- Government outlays on defence capability represent one of the largest discretionary items in the Commonwealth's budget.
 - Defence industry assistance includes cost premiums for local purchasing preferences and budgetary support for skilling, research and exporting (with expenditures up to \$500 million directly and indirectly benefiting industry).
 - Significant cost premiums can also be incurred by choosing to modify off-the-shelf equipment or pursuing bespoke designs.
- To be justified, cost premiums and defence industry assistance need to be commensurate with any additional security and operational benefits. Publishing these additional costs and benefits would assist understanding of apparently huge cost differentials.
- The efficiency and effectiveness of direct defence industry assistance programs could benefit from independent scrutiny.
- Three short reviews also comment on topical areas of public interest: R&D; Foreign Investment Rules; and Special Economic Zones.

Overview

The Australian Government assists industries through an array of measures, including import tariffs, budgetary outlays, taxation concessions, regulatory restrictions on competition, and government purchasing arrangements. Although assistance generally benefits the receiving industry and businesses, it penalises other industries, taxpayers or consumers. Transparency about assistance arrangements is therefore important.

This *Review* reports the Commission's latest estimates of assistance to industry, up to 30 June 2013. More recent announcements relating to industry assistance, including trade policy developments, have also been reported. The Commission has also included a chapter about assistance to the defence industry and shorter discussions on government support for business R&D, foreign investment rules and special economic zones.

Assessing whether the benefits of any particular support program exceed the costs requires detailed consideration — a task which is not the focus of this *Review*.

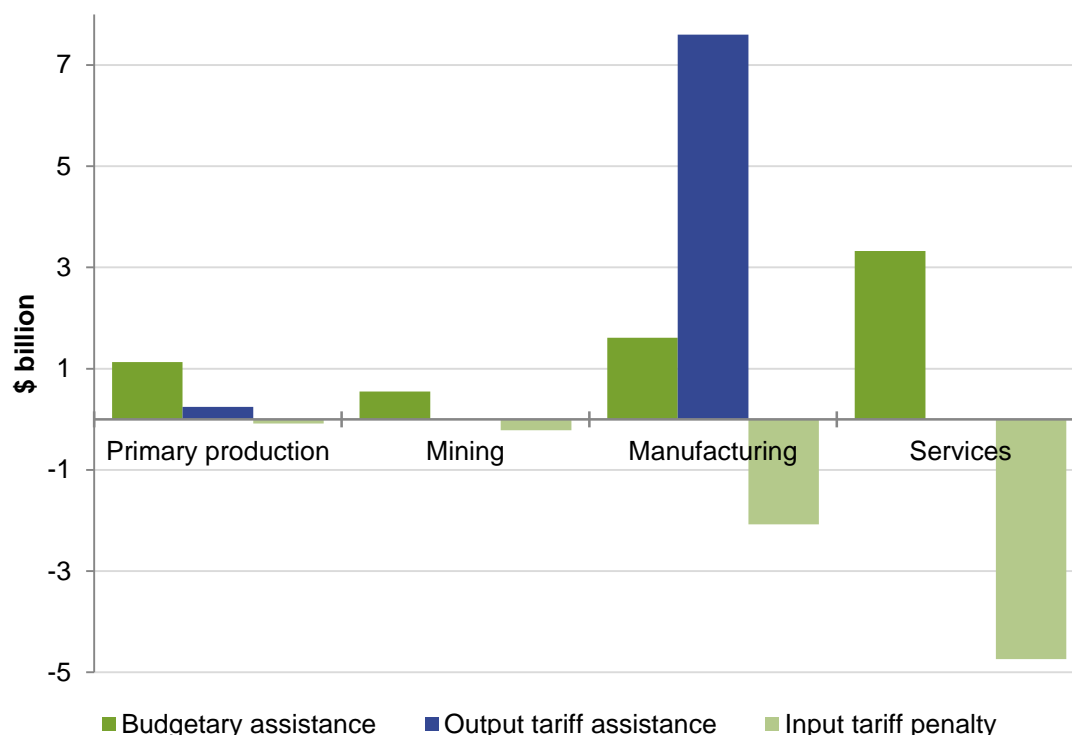
Estimates of assistance to industry

Australian Government assistance to industry amounted to over \$15.6 billion in gross terms in 2012-13 — comprising \$7.8 billion in gross tariff assistance, \$4.4 billion of budgetary outlays and \$3.4 billion in tax concessions.

After allowing for the cost to business of tariffs on imported inputs (\$7.1 billion), estimated net assistance across all sectors was \$8.5 billion in 2012-13.

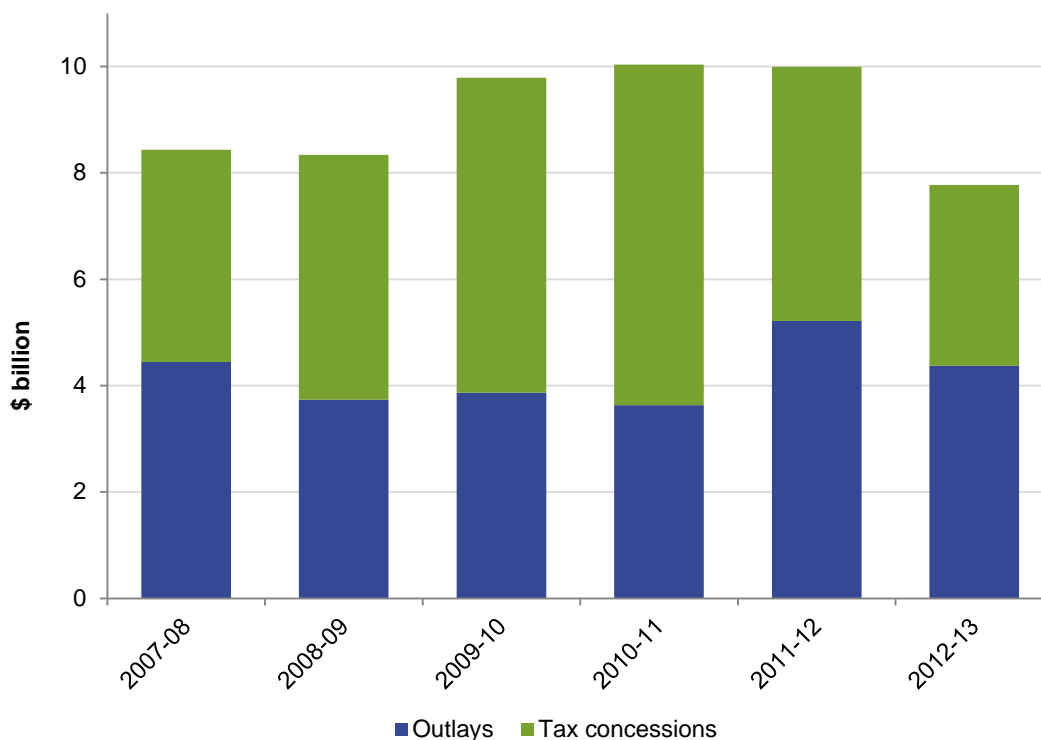
The sectoral incidence of tariff assistance, budgetary support and the input penalty of tariffs is markedly different (figure 1). Most notably, the manufacturing sector receives the highest level of net assistance — mainly because of tariff assistance on its outputs. In contrast, the service sector incurs around two thirds of the tariff penalty on inputs and negative net assistance overall.

Figure 1 The incidence of assistance varies widely between industries, 2012-13
\$ billion (nominal)



The estimated value of budgetary assistance amounted to \$7.8 billion (outlays plus tax concessions) in 2012-13, down from around \$10 billion the previous year (figure 2). The largest reductions were from the winding down of transitional assistance afforded by the Energy Security Fund (\$1 billion), Coal Sector Jobs Package (\$219 million) and Steel Transformation Plan (\$164 million) — all introduced to assist with the transformational implications of the carbon pricing mechanism. The level of budgetary support to rural industries in 2012-13 declined from earlier years mainly because of lower taxation concessions under the Farm Management Deposits Scheme (\$80 million) and lower Exceptional Circumstances (interest rate) payments (\$32 million).

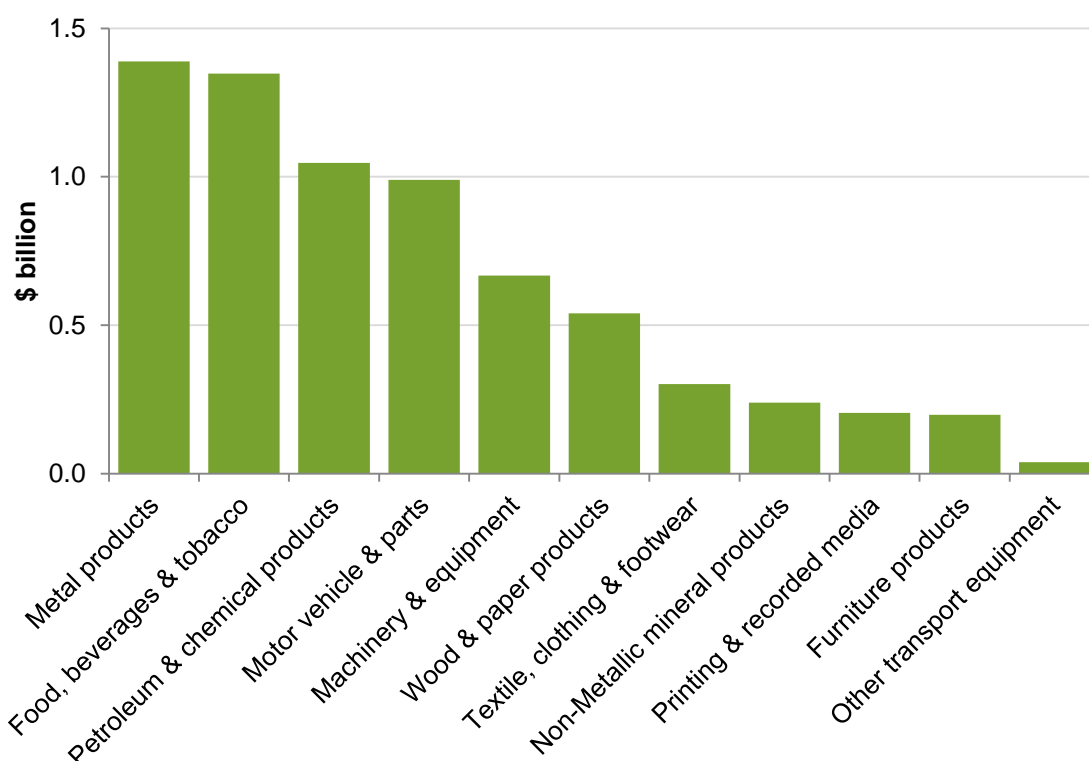
Figure 2 Budgetary assistance to industry declined in 2012-13
\$ billion (nominal)



The effective rate of assistance — net assistance per unit of value added — was around 4 per cent for the manufacturing sector, over 2 per cent for the primary production sector and less than 1 per cent for mining. At the industry group level, the highest measured effective rates of assistance continued to be for the motor vehicles and textiles, clothing and footwear industries. With the scheduled reduction in tariffs on selected textile and clothing items on 1 January 2015, net assistance to these activities will decline further. Net assistance to the automotive industry will also decline with scheduled reductions in industry-specific budgetary support, although with the tariffs remaining in place, under current settings, the tariff penalty on imported vehicles will remain.

In dollar terms, the highest net assistance was afforded to the metal products and food processing industries — mainly on account of the 5 per cent general tariff on a range of products manufactured by these industries (figure 3).

Figure 3 The level of assistance afforded to manufacturing industries varies, 2012-13
\$ billion (nominal)



While effective rates of assistance have not been estimated for the service industries, net assistance in dollar terms is negative for most service industries because the tariff penalty on inputs exceeds the magnitude of any budgetary assistance.

While present effective rates are historically low, the effective assistance for an individual company or project can be quite significant. For example, a number of industry grant programs to both goods producing and service activities provide subsidy equivalents for supported projects well above industry averages. This can be quite distortionary, within an industry as well as at the economy-wide level.

Recent industry assistance related announcements

Since May 2013 (the reporting date for the 2011-12 *Review*), the current and previous Australian Governments announced a number of budgetary and regulatory measures relating to industry assistance, across a wide range of activities.

Some significant new support programs were announced by the previous government including a \$400 million Regional Australia's Renewables initiative, the \$10 billion Clean Energy Finance Corporation, and two Innovation and Investment Funds (Melbourne North and Geelong) — these measures remain in place.

The current government announced a \$100 million economic growth plan for Tasmania (which supersedes the previous government's \$100 million Tasmanian Jobs and Growth Plan) and its intention to close the Clean Energy Finance Corporation. Amongst other things, it also announced: industry-specific budgetary assistance to passenger motor vehicles manufacturing would be scaled back by \$500 million; that it would not be providing the \$25 million assistance requested by fruit processing company SPC Ardmona; nor would it be providing a \$3 billion debt guarantee or line of credit to Qantas; and that it will develop a \$155 million growth fund intended 'to support economically responsible initiatives in regions facing pressure in their manufacturing sectors'. The Government intends to proceed with an election commitment to provide \$16 million to Cadbury, mostly for its tourist facility.

The Government asked the Productivity Commission to undertake inquiries into Tasmanian shipping and freight and Australia's automotive manufacturing industry. The final reports of the Tasmanian shipping and freight inquiry and the automotive manufacturing industry inquiry were sent to the Government on 7 and 31 March, respectively.

Recent trade policy developments

Trade policy can remove barriers to trade or it can rearrange them. In some instances, the changes can provide assistance to activities or industries and substantially distort efficient resource allocation.

The 9th Ministerial Conference meeting of the WTO's Doha Round of multilateral trade negotiations was held in Bali, Indonesia from 3 to 6 December 2013. The meeting focused on reaching agreement on matters that would constitute a first step toward concluding the Doha Round launched in 2001. Progress with Doha Round negotiations had stalled up until this meeting and expectations for outcomes in Bali were low. Three main issues were discussed at the Bali Conference — trade facilitation, agricultural reform and developing country initiatives. In spite of the reservations that preceded the meeting, the conference was viewed as a success with the agreement on trade facilitation being referred to as a stepping stone to the completion of the Doha Round. On the remaining matters, it was agreed that

outcomes would be progressed through increased transparency, ongoing dialogue, monitoring and review.

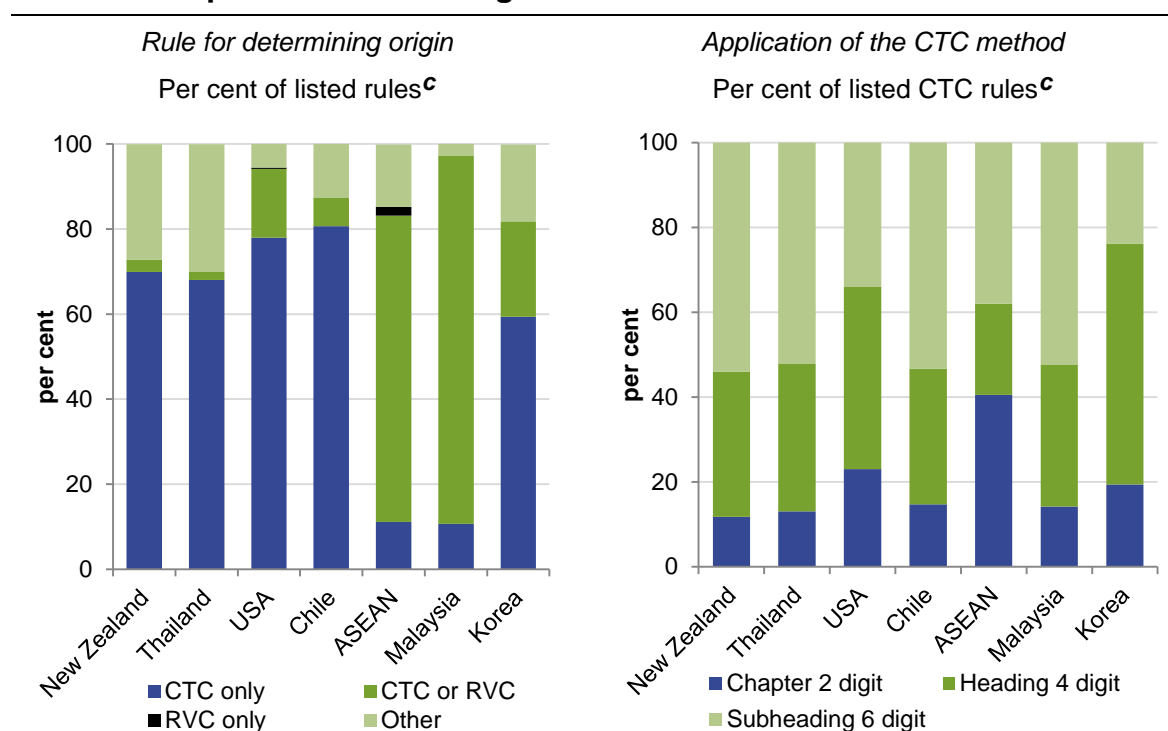
In parallel with Doha Round negotiations, national economies have continued to negotiate and enter into bilateral and regional preferential trade agreements. By the end of 2013, the number of preferential trade agreements in force in the Asia-Pacific region had risen to 157, accounting for over 40 per cent of global agreements registered with the WTO. Australia signed a bilateral trade agreement with Korea and concluded negotiations on an economic partnership agreement with Japan. Australia also has trade agreements currently in force with New Zealand (in force since 1983), Singapore (2003), Thailand (2005), the United States (2005), Chile (2009), ASEAN and New Zealand (2010) and Malaysia (2013) and is negotiating agreements with a number of other countries including China, India and Indonesia.

Negotiations also continued on the proposed Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership. The two regional agreements, if formed to include the current negotiating parties, would constitute two discriminatory trading blocs with limited overlap in member-to-member trade.

In its 2010 report into bilateral and regional trade agreements, the Commission concluded that increases, if any, in net national income accruing from preferential agreements are likely to be modest. The Commission also concluded that current processes for assessing bilateral and regional agreements lacked transparency and tended to oversell the likely economic benefits. To help ensure that bilateral and regional trade agreements entered into are in Australia's best interests, it recommended that a full and public assessment of a proposed agreement should be made after negotiations have concluded. Such an evaluation would cover all of the actual negotiated provisions.

A key feature of preferential trade agreements is the rules of origin that determine whether a specific product is eligible for preferential market access. The rules of origin in each of Australia's bilateral agreements have their own requirements that are subject to detailed negotiations in their formation (figure 4). As a consequence, there is considerable variation in the way origin rules are structured between agreements, adding to complexity. Such complexity adds to the compliance costs for firms engaging in trade. The origin requirements and the complexity of the rules are likely to impede competition.

Figure 4 **The structure of rules of origin varies substantially between preferential trade agreements^{a,b}**



^a 'CTC' refers to a change in tariff classification test. 'RVC' refers to a regional value content rule. 'Other' includes, for example, combined CTC and RVC rules, CTC rules with exceptions and specified process tests that require particular production methods to be used to qualify for preferential entry. ^b The agreement with Singapore is not included as it applies a single three-tiered test of origin based on location of production and, for manufactured goods, an RVC requirement. ^c Individual rules can be expressed at the 4 digit heading level, the 6 digit sub-heading level or for groupings of tariff line items. The number of listed rules therefore differs between agreements.

While effort could be committed to simplifying and unifying rules of origin across agreements, the simplest and most beneficial approach to addressing *inter alia* rules of origin would be to unilaterally reduce tariff barriers on a most favoured nation basis, thereby eliminating altogether the need for preferential rules of origin on imports.

Assistance to the Defence industry

By varying the size, nature and timing of local defence purchases, Government significantly shapes the defence industry and the location of its activities.

Defence industry assistance comes in a number of forms including cost premiums for local purchasing preferences as well as budgetary support for skilling, research and exporting.

The current Australian Industry Capability program potentially leverages work for local suppliers by including in tender requirements a definition that, for tenders to represent value for money, tenderers must describe how their proposed approach will enhance domestic defence industry capabilities. The ‘Defence Capabilities’ are a set of 24 pre-determined activities that must be resident within Australia or enhance self-reliance. The industry capability program evolved out of earlier schemes from the 1970s and 1980s that mandated both explicit levels of local activity (such as requiring local work for Australian industry of 30 per cent of the value of foreign contracts, though not necessarily tied to the actual purchase) and preference margins for local bids (such as tolerance of a 20 per cent cost premium).

Significant cost premiums can also be incurred by choosing to modify off-the-shelf equipment or pursuing bespoke designs. A key policy question is whether the magnitude of *additional* costs (that is, the premium) associated with domestic supply and/or enhanced design is commensurate with any *additional* capability benefits.

Such a comparative analysis contrasts with common but misleading gross multiplier analysis. Such multiplier analysis most often fails to take into account constraints on the availability of land, labour and capital and the productive efficiency with which those resources are used — compared to their alternative use. For large defence projects, these considerations are of national as well as industry and regional consequence. Moreover, the costs of financing the premium (whether the costs are in the form of reduced expenditure on other public services, increased taxes, or higher debt) must be taken into account. These opportunity costs have (negative) multiplier (flow-on effects) themselves.

Given the potential cost from eschewing off-the-shelf options to pursue a local (or overseas) developmental or bespoke design, previous reviews have recommended that Defence purchasing submissions to Government include adequate advice on off-the-shelf options. However, the Australian National Audit Office recently concluded that such action has yet to be achieved in all cases. At present, there is no mechanism to ensure compliance with this requirement, other than the Government insisting on ‘adequate’ advice. To justify the difference and to encourage an appropriate analytical approach to such large discretionary spending, the estimated premium (for non-off-the-shelf and local build choices) could be made public soon after the Government procurement decision.

Australian based suppliers of defence equipment also benefit directly from grants for technology development, grants for skill development, export marketing and promotion on behalf of industry, government conducted R&D, and small and medium sized business development services. In 2012-13, identifiable program

expenditures, including direct support to industry and public R&D that may indirectly benefit industry, were of the order of \$500 million. However, there are some industry assistance programs for which expenditure is unable to be identified as the program cost forms part of the broader budget of the Defence Materiel Organisation. Defence industry programs also do not appear to have been (externally) evaluated within an economy-wide framework to the same extent as ‘mainstream’ industry assistance programs. To the extent that they have not faced such scrutiny, there would be merit in reviewing the efficiency and effectiveness of the suite of defence grant, industry engagement and research programs.

Some other government interventions warranting closer examination

This *Review* also discusses selected areas of government intervention and industry support that may be limiting Australia’s productive potential.

Public support for business research and development

Public support for business R&D under current arrangements has been found to have a relatively low inducement rate. This suggests that consideration of more cost-effective means of allocating available innovation funding to business is warranted. This could entail modifications to the design of the current arrangements such as using an historical R&D to sales ratio or average R&D spend as a base against which genuinely additional R&D can be compared. Simply reducing company tax by an amount equivalent to current concessions could provide a sound alternative benchmark for analysing the relative merits of R&D concessions.

Regulation of foreign investment

Foreign investment is an important source of finance for new investment and income growth in Australia. At the same time, there is sensitivity surrounding direct foreign investment, particularly when it is directed at sensitive or strategic activities, with such flows subject to regulation under the Foreign Acquisitions and Takeovers Act 1975 and activity or sector-specific regulation. Recognising the costs and benefits of foreign investment, there may be merit in examining the stringency of the foreign investment review process and national interest criteria. There would also be merit in considering the application of the same notification threshold to all countries in accordance with the MFN principle.

Public support for regional development and special economic zones

Special economic zones can be pursued to selectively benefit activities within a designated area. A number of Asian economies have recently adopted such policies to trial structural reforms. Similar measures have been used in Australia for regional development purposes and more might be considered in future. There would be merit in clearly assessing whether such measures are likely to confer community-wide benefits and whether less discriminatory measures would be preferable.

1 About this Review

One of the Productivity Commission's functions under its legislation is to review industry assistance arrangements. It also has a statutory obligation to report annually on assistance and its effects on the economy. 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. It extends beyond direct government subsidies to particular firms or industries and includes tariffs, quotas, regulatory restrictions on imported goods and services and tax concessions. Assistance can also arise from the provision of services below cost by government agencies and from government procurement policies.

Although assistance benefits the firms or industries that receive it, it typically imposes costs on other sectors of the economy. For example, direct business subsidies increase returns to recipient firms and industries, but to fund the subsidies governments must increase taxes and charges, cut back on other spending, or borrow additional funds. Funding provided to a single firm also discriminates against its competitors.

Similarly, while tariffs provide some price support to domestic goods producers, they result in higher input costs for other local businesses, reducing their competitiveness. They also impose higher prices for consumers, who then have less money to spend on other goods and services.

Governments provide assistance for many different reasons. Some types of assistance — such as for R&D and to meet environmental objectives — can overcome market failure and deliver net community benefits. Similarly, some policies which have industry assistance effects may be justified on other grounds, such as the achievement of social or equity objectives. However, the way in which such assistance is provided requires assessment to minimise its unintended impacts on resource allocation.

In view of the costs, as well as the potential benefits, that industry assistance can entail, government measures that provide assistance need to be monitored and regularly reviewed. To that end, the annual *Trade & Assistance Review* fulfils a transparency function of identifying existing government assistance and contemporary assistance issues and allowing closer examination to be made when it is not obvious why such costs are being incurred.

This edition of *Trade & Assistance Review* begins with a focus on the industry assistance aspects of defence procurement (chapter 2). Previous editions of *Trade & Assistance Review* have taken a detailed look at particular assistance arrangements including carbon emission reduction measures (2007-08), assistance to the finance industry (2008-09), state government assistance to industry (2009-10), adjustment assistance (2010-11), and intellectual property (2011-12).

Chapter 2 is followed by shorter background pieces on other contemporary policies and programs relating to: support for research and development; foreign investment; and special economic zones (chapter 3).

The Commission's latest estimates of Australian Government assistance to industry, up to 30 June 2013, are presented in chapter 4. This continues a time series of assistance estimates dating back four decades. This long series provides a clear illustration of the patterns of industry preferment through time and the reform of trade barriers. The estimates generally cover those government measures which selectively benefit particular firms, industries or activities, and which can be quantified, given practical constraints in measurement and data availability.

Chapter 5 reports on industry assistance announcements since May 2013 (the cut-off reporting date of the last *2011-12 Review*). This provides some insight into potential changes in assistance beyond those estimates in chapter 4. The announcements cover an array of industry arrangements including in relation to research and development, primary industries, manufacturing, carbon emissions reduction and energy efficiency, regional assistance, and broadcasting and communications.

Chapter 6 reports on recent developments in Australia's trade policy environment including ongoing efforts to conclude the Doha Round of multilateral trade negotiations and negotiation of preferential bilateral and regional trade agreements. The detailed, complex and costly rules of origin embedded in such trade agreements are illustrated. The chapter also covers trade complaints affecting Australia lodged through the WTO disputes resolution framework and recent anti-dumping and countervailing duty activity.

2 Defence procurement and industry assistance

Defence asset purchases are not a simple matter of acquisition from the market, in the same manner as most other purchasing. The nature of defence purchases inherently includes (amongst a variety of strategic and risk-management factors) consideration of their use in circumstances where normal markets may not be operating, such as in time of war.

Vital as they are, these considerations do not limit the need for effective analysis of the cost of obtaining and maintaining capability. Australian Government outlays on defence capability represent one of the largest discretionary items in the budget.

Concerns over the delivery of defence capabilities on time and on budget to specified technical requirements have led successive governments to initiate reviews of the management of capability development and its implementation.

Much of the focus of these reviews has been on decisions on what equipment to procure and the management of its delivery, with less attention paid to the industry assistance implications of procurement programs. By varying the size, nature and timing of local defence purchases, government significantly shapes the defence industry and the location of its activities.

Preference for domestic supply over less costly competing foreign supply confers industry assistance. A key policy question is whether the magnitude of *additional* costs (premium) associated with domestic supply is commensurate with any *additional* security and operational benefits. The data are not available to make this judgment, one way or the other. Or at the very least, it is not available to the community, who will ultimately pay for it.

In a similar vein, proposals to build more ships than planned, in order to fill a downturn in shipbuilding before any new future project commences, also has industry assistance implications. These extend beyond the capital costs (which may be in the billions) to the operating and maintenance costs (which for a large naval vessel may be of a similar order of magnitude as the acquisition costs). While exaggerated for clarity, it is possible that simply paying the workers to do nothing

could be cheaper than building and operating a ship for which there is no apparent current need, or budget.

Failure to conduct analyses of any additional cost premiums associated with domestic supply relative to any security benefits, increases the risk that decisions about defence expenditures are conflated with other, often ill-defined objectives such as ‘regional development’. Likewise, any decision to provide a continuous flow of work purely to retain a critical mass of workers between major projects must be considered in the context of the opportunity cost of the funds expended and the resource (mis)allocation effects of artificially holding resources in an activity at the expense of other activities competing for those resources.

Other forms of support to Australian based suppliers of defence equipment include grants for technology development, grants for skill development, export marketing and promotion on behalf of industry, government conducted research and development (R&D), and small and medium sized business development services.

This chapter first outlines the nature and extent of defence procurement activity and the findings of recent performance reviews. Against this backdrop the chapter identifies the industry assistance aspects of defence procurement. Some concluding remarks suggesting areas that may warrant further examination complete the chapter.

2.1 The nature and extent of defence procurement

The acquisition and sustainment of the Australian Defence Force’s military equipment and supply requirements is undertaken by the Defence Materiel Organisation (DMO).¹ This organisation was established in 2000, consolidating the activities of three units — the Defence Acquisition Organisation, Support Command Australia and the National Support Division.

The 2013-14 budget for the Defence Materiel Organisation is \$9.7 billion — about 38 per cent of the overall Defence budget and approximately 0.6 per cent of Australia’s Gross Domestic Product (DMO 2013). The 2013-14 budget provided for a further \$37.9 billion for acquisition and sustainment, over the three-year forward

¹ The Defence Materiel Organisation is a buyer from suppliers, not a producer. Until the mid-1980s defence employed about 20 000 civilian and uniformed personnel to manufacture and maintain warships and aircraft, fabricate small arms and produce ammunition and military clothing. One supply activity that is still publically provided is defence housing. The Australian Government- owned Defence Housing Australia (DHA) supplies housing and related services to Australian Defence Force members and their families.

estimates period 2014-15 to 2016-17. Longer-term expected expenditure on yet to be approved projects (as outlined in the 2012 Defence Capability Plan) is for around \$153 billion for 111 projects over 10 or more years.

New acquisitions account for about 40 per cent of the Defence Materiel Organisation's expenditure while sustainment (repair, maintenance and disposal) accounts for about 55 per cent. Policy advice and management services accounts for the remainder.

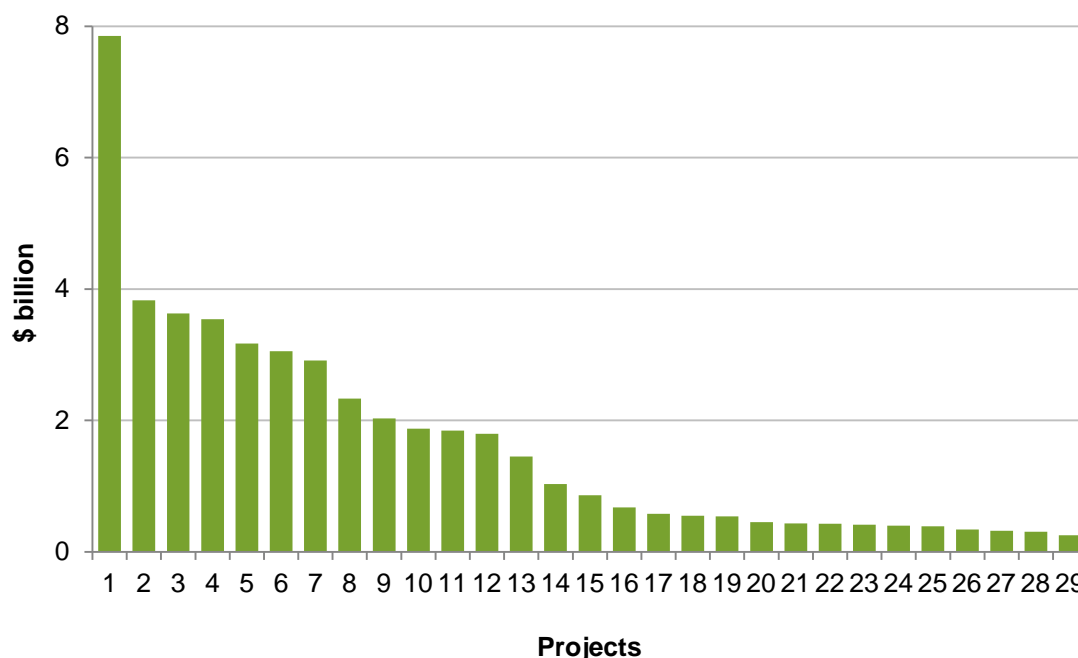
An estimated 3000 local firms (24 000 employees) supply defence equipment and related services. Purchases from these firms by the Defence Materiel Organisation account for about 38 per cent of acquisitions and 70 per cent of sustainment.

Although the Defence Materiel Organisation currently manages about 180 major and 70 minor capital programs, a small number of projects account for a large proportion of total expenditure — with the 10 largest approved acquisitions in progress at 30 June 2012 having a budget of \$34.2 billion and accounting for about 43 per cent of total approved acquisition budgets (ANAO 2012, pp. 14–15). The largest single project is \$7.9 billion for phase three of the Air Warfare Destroyer ships build, almost double the cost of the second largest project (figure 2.1). More recently, the purchase of 58 more Joint Strike Fighter (JSF) planes has been approved at a cost of \$12.4 billion (Abbott and Johnston 2014). Australia had already paid for two JSFs and approved \$2.3 billion for 12 more.

Deciding what to buy

Deciding what to buy is guided by the strategic directions articulated in the Government Defence White Paper. Following a White Paper, the defence capability development process commences. This involves the identification of a current or future capability gap — that is, a shortfall between what the Australian Defence Force has the capacity to do and what government wants it to be able to do. Once developed and installed, capability systems routinely remain in service for 20 to 30 years.

Figure 2.1 Size of 29 largest current defence projects, at 30 June 2012^a
\$ billion (nominal)

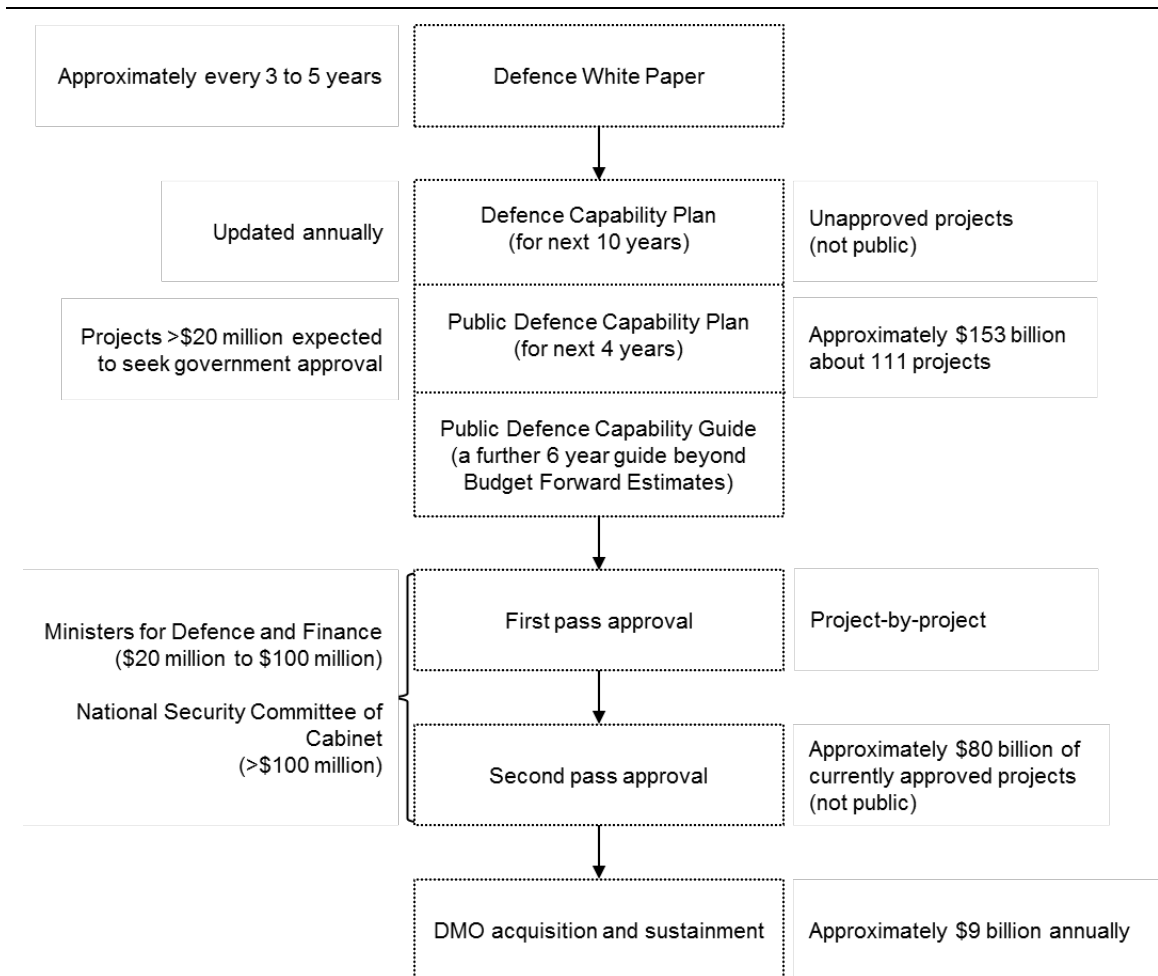


^a More recently, the purchase of 58 more Joint Strike Fighter (JSF) planes has been approved at a cost of \$12.4 billion (Abbott and Johnston 2014). Australia had already paid for two JSFs and approved \$2.3 billion for 12 more.

Source: ANAO (2012).

As part of the defence capability development process a Defence Capability Plan is formulated. This is a costed, 10-year equipment plan for the delivery of identified capabilities. The Plan is subject to ongoing review and change in response to strategic, technological and economic developments (figure 2.2). The full operational version of the Plan is not public and the equipment proposals are not specific in scope and detail at this stage. The Defence Capability Plan is formulated by the Capability Development Group (within the Department of Defence). The Group is separate from the Defence Materiel Organisation and is responsible for developing and gaining approval from government for capability proposals.

Figure 2.2 Identification, approval and execution of defence equipment procurements^a



^a The most recent White Paper was released in May 2013 which replaced the 2009 edition. The current Government has commenced development of a new White Paper. The current public version of the Defence Capability Plan was released in 2012 and reflects the 2009 White Paper.

A public version of the Defence Capability Plan — the Public Defence Capability Plan — is periodically released to provide industry with guidance regarding Defence’s capability development priorities and with information on project cost, project schedule and local industry content. The latest public plan was released in 2012 (reflecting the 2009 White Paper (Department of Defence 2009)) and provided a four year account of proposed major capital equipment acquisitions that are scheduled for government consideration over the budget forward estimates cycle. Previous public capability plans had provided a 10 year outline.

In 2012, a new, annual, public document — the Defence Capability Guide — was introduced to complement the four year Public Defence Capability Plan. The Defence Capability Guide was intended to inform industry of the general direction of projects over the six year period that follows on from the four year forward

estimates period covered in the Public Defence Capability Plan. The level of information on each project in the Guide is less definitive than in the Public Defence Capability Plan.

Approval of projects in the Defence Capability Plan is obtained through a two-pass process. First-pass approval is in-principle authorisation where the government considers the capability need or gap and the broad range of options (with indicative costs and schedules) that might address that gap. Following first-pass approval, Defence develops preferred options into more specific proposals (with more rigorous costs) for consideration at second pass.² Developing a project to second-pass approval can sometimes take several years. Currently, projects with a cost of \$100 million or more require the approval of the National Security Committee of Cabinet. Projects from \$20 million to \$100 million require the approval of the Ministers for Defence and Finance (with either minister able to refer projects in this category to the National Security Committee of Cabinet). Projects below \$20 million require the approval of the Minister of Defence.

Once second-pass approval is obtained, the Defence Materiel Organisation commences the purchase process, which involves further decision making through three broad stages — tendering, selection of supplier(s) and management of the contract.

Overall, major Defence procurements involve many important sequential decisions, through the identification, approval and execution stages. These decisions take place over extended periods against a backdrop of changing strategic, technological and economic circumstances. The extended decision-making periods and multi-decision process has strengths and weaknesses. On the one hand, it provides scope for reconsideration along the way in light of new information and needs. On the other hand, significant decisions at the early stages may unduly lock-in and constrain future courses of action, adding to costs.

2.2 Indications that defence procurement could be improved

Over the last 20 years, there has been a series of reviews relating to defence procurement (box 2.1).

² The two-pass process of government approval for major capability development projects was originally introduced as a result of the Defence Governance, Acquisition and Support Review in 2000. Two-pass approval was intended to give government greater control over capability development. Further changes to the two-pass process arose out of the Kinnaird (2003) and Mortimer (2008) reviews.

Box 2.1 Key reviews relating to defence procurement

Broad reviews of defence procurement

- The Industry Commission (IC) (1994) inquired into the effectiveness and efficiency of defence procurement for achieving value for money, with a focus on Australian industry involvement.
- The Defence Efficiency Review (1997) recommended merging the three single-service (Air Force, Army and Navy) Support and Logistics Commands to form Support Command Australia.
- KPMG (2000) examined the performance of Support Command Australia and supported Defence's proposal to merge Support Command Australia and the Defence Acquisition Organisation to form the Defence Materiel Organisation.
- Kinnaird (2003) investigated systemic failures that had caused delay and cost increases in a number of major defence acquisitions projects.
- Mortimer (2008) evaluated the effectiveness of ongoing reforms to the Defence Materiel Organisation which were implemented following the Kinnaird 2003 review.
- The Senate Committee on Foreign Affairs, Defence and Trade (SCFADT 2012) investigated procurement procedures for items identified in the Defence White Paper 2009 as well as the effectiveness of the Defence Materiel Organisation.
- The Australian National Audit Office (ANAO) (2013) conducted an audit of progress concerning the implementation of reforms relating to defence capability development.

Project specific reviews

- McIntosh and Prescott (1999) examined concerns with the cost, timing and technical performance of the Collins Class submarine.
- Rizzo (2011) developed a plan to reform ship repair and management practices.
- Coles (2011) provided a study into the business of sustaining Australia's strategic Collins Class submarine capability.
- ANAO (2012) reviewed the status of 29 major defence acquisition projects at 30 June 2012. This was the fifth project status report in a series, which started in 2007-08 with a sample of nine projects.

Other reviews of defence activities with implications for defence procurement

- Pappas (2009) provided an audit of the defence budget, so as to advise Ministers on its effectiveness and efficiency, and future risks.
- Black (2011) investigated accountability and governance arrangements in the Department of Defence, which had been identified as one of the major problems in defence procurement. The review also identified other problems with the capability process.

The reviews identified many aspects of defence procurement that could be improved and can be grouped into two categories:

- those relating to the formulation of defence capability plans (by the Capability Development Group in the Department of Defence) and subsequent specific project proposals for government approval, including with respect to the assessment of technical risks, acquisition and whole-of-life cost estimates, and the relative merits of off-the-shelf options against bespoke systems; and
- those relating to the delivery and governance of approved projects (principally by the Defence Materiel Organisation), particularly the cost, timing and delivery of technical capability.

Concerns over capability plans and proposals to government

The Kinnaird (2003) and subsequent reviews emphasised the need for more robust cost and risk analysis before projects are entered into the Defence Capability Plan — not least, because a project attracts authority and momentum once it appears in the Public Defence Capability Plan, raising industry expectations of what is to come. Black (2011) noted poor cost forecasting and assessment of technical risk when entering projects in the Plan. Subsequently, the ANAO (2013) recognised that while better information on acquisition costs is now being provided, this was not assuring the affordability of planned projects because work on estimating the longer-term operating and personnel costs — costs that generally exceed the initial equipment costs — had typically not been undertaken.

The merits of acquiring off-the-shelf versus Australian-designed or adapted defence equipment have also long been discussed, and examination of this issue formed an explicit part of the Kinnaird (2003) review's terms of reference.³ Under the strengthened two-pass system proposed by Kinnaird, the review's expectation was that at least one off-the-shelf option must be included in each proposal to government at first pass. Moreover, any option that proposed the 'Australianisation' of a capability would need to fully outline the rationale and associated costs and risks. The intention was to provide government with the requisite information to

³ The Industry Commission's 1994 inquiry into defence procurement discussed the additional costs (or premiums) for local military construction. It found that Defence rarely made any estimate of the extent of the local construction premium before government proceeds to a decision and, in particular, made no local build premium estimates for the Collins Class submarines and ANZAC frigates. In the case of the F/A-18 fighter acquisition where a premium was estimated by Defence, the estimate was so significantly lower than the amount actually paid that it could have bought 14 more fighter aircraft (or put the funds to other defence and non-defence uses).

weigh the relevant costs, the strategic advantages and other benefits and the risks associated with a project, before deciding which option or options to pursue.

The Mortimer (2008) review found limited progress with implementing the Kinnaird proposal for off-the-shelf options. That review stated that experience shows that setting requirements beyond that of off-the-shelf equipment generates disproportionately large increases to the cost, schedule and risk of projects and recommended:

Any decisions to move beyond the requirements of an off-the-shelf solution must be based on a rigorous cost-benefit analysis of the additional capability sought against the cost and risk of doing so. This analysis must be clearly communicated to government so that it is informed for decision-making purposes. (p. xii)

The ANAO (2013) audit of progress with implementing review recommendations since 2003 concluded that:

Routine inclusion of adequate advice on off-the-shelf options in submissions to government [has] yet to be achieved for all projects. (p. 209)

Performance measures of cost, timing and technical capability

The Senate Committee report included detail of several completed projects that had encountered significant problems (box 2.2). Although a number of examples related to projects approved in the 1990s, before the Defence Materiel Organisation was formed, the Committee Report noted:

... these particular [pre-2000] projects, often dismissed as legacy projects, cannot be ignored, even those that have been cancelled ... [as] more recent projects are showing similar symptoms of failure. (SCFADT 2012, para. 2.2)

ANAO (2012) reviewed the status of 29 major defence acquisition projects *in progress* at 30 June 2012. This was the fifth project status report in a series, which started in 2007-08 with a sample of nine projects. This status review found:

- 18 projects had experienced schedule slippage (p. 24), averaging about 32 per cent, with the largest slippage generally being for projects approved pre-2005 and of a developmental nature (p. 71);⁴ and

⁴ Mortimer (2008) reports Defence Materiel Organisation analysis of the reasons for schedule slippage in 2006-07, which attributed 50 per cent of delays to contractor non-performance, 16 per cent to delays in finalising negotiations and payments to foreign governments, 12 per cent to delays within the Defence Materiel Organisation's own processes and 10 per cent due to extended contract negotiations.

- 27 of the projects will deliver all of their key capability requirements — however, this is based on Defence’s own assessment and the ANAO stated that for some projects this is overly optimistic (p. 20) and that the capability measures data system lacks rigour (p. 82).⁵

Box 2.2 Examples of cost and schedule problems with developmental projects

- The Super Seasprite helicopters project was approved in 1996 and cancelled in 2008 without any result, having cost about \$1.4 billion. The Super Seasprite was to be a developmental upgrade of an existing helicopter in service with the United States navy at the time.
- The Landing Watercraft project was approved in 1997 and cancelled in 2011, without any result, having cost about \$40 million. This was a new design that had not been tested or proven and aspired to deliver a capability better than anywhere internationally. It was to be built by a company that had never built a landing craft using aluminium.
- The Wedgetail airborne early warning and control aircraft capability project was approved in 1997 and due for delivery in 2006. Delivery and achievement of Initial Operational Capability, however, occurred in November 2012. The system, though based on Boeing’s 737, was highly developmental as it required modifications to accommodate sophisticated mission parts, and had never previously been integrated into an operational system.
- The Tiger Armed Renaissance helicopter was approved in 1999. The Final Operational Capability was originally planned for June 2009, but had not been achieved by early 2014. This acquisition was deemed to be an off-the-shelf procurement, with some modifications (Australianisation) of French and German Tiger helicopters. However, the precise requirements represented a more developmental project and, moreover, the French prototype had, at the time, yet to receive full certification and design acceptance by the French Government. (French certification occurred in 2004).
- The Guided Missile Frigate upgrade (of the Adelaide Class boats) commenced in 1999 and was completed in 2011, having involved delays across the four ships of between 67 and 84 months.

Source: SCFADT (2012).

The ANAO examination also reported that projects are operating within approved budgets, in the sense that the proportion of expenditure is commensurate with the maturity of the project. However, this measure does not provide a complete picture

⁵ Defence Materiel Organisation capability assessments of projects contained in project data sheets was also recently questioned by a retired Air Commodore, who had 35 years engineering experience with the RAAF (Bushell 2011).

of cost effectiveness and economic efficiency. Other reports have provided further insight, such as the following:

- While an Australian developmental project may be delivered within the set budget, it nonetheless involves an additional opportunity cost if off-the-shelf options could have been effective. For example, Pappas (2009) found that developmental platforms can carry a cost premium of 50 to 100 per cent over existing military off-the-shelf options. Specific examples cited by Pappas included: the Wedgetail airborne early warning and control aircraft cost about 50 per cent more than the Japanese configuration; and the Australian variant of the Super Seasprite helicopter was 100 per cent more expensive than the variant purchased earlier by New Zealand (albeit the NZ craft were of lower capability).
- Pappas (2009) also gathered evidence which suggested that building military equipment in Australia can cost a significant amount more than having the *same* equipment built overseas.
- In considering differences between original budgeted expenditures against updated estimates, Mortimer (2008) reported an Australian Strategic Policy Institute analysis which found that costs had risen 76 per cent from initial estimates for the 25 projects approved since 2000 and, moreover, had risen 61 per cent for yet to be approved projects (and that costs typically rise further after approval).

Another budgetary consideration is whether there are additional (net) costs associated with project slippage. Although a project may be delivered within the *ex-ante* direct cost budget, schedule slippage gives rise to overhead and transition costs (not accounted for in the original *ex-ante* budget) such as extra years of salaries and administration, costs of Australian Defence Force (ADF) personnel that have been deployed for training and introduction of the equipment, any additional net costs of sustaining the old equipment longer (rather than operating new equipment), ancillary equipment that has no current alternate use, and warranty rundown.⁶ The ANAO (2009) estimated these additional costs for the Super Seasprite at around \$500 million (on top of about \$1 billion spent directly for the acquisition). Pappas (2009) estimated the schedule delays for the Wedgetail were costing US\$1.5 million per month and, moreover, the project's additional exposure to inflation to be

⁶ Schedule slippage not only increases monetary costs but also results in lost capability costs. It has been suggested that the slippage of the Multi-role Tanker Transport Aircraft — approved by government in 2003 and planned to be operating in 2008 — meant the airforce had no air-to-air-refuelling capability from the retirement of the previous aircraft in 2008 until declaration by the airforce of initial operating capability for the replacement craft in 2013 (Australian Aviation 2013).

AU\$15 million over the next five years. The Senate Committee (SCFADT 2012) concluded:

... the simple assertion made by Defence that costs do not increase as the result of slippage is not credible. (para. 2.74, p. 33)

Performance measurement of sustainment programs also appears to have received less attention compared to acquisition cost, timing and capability, even though whole-of-life sustainment and disposal costs can exceed the acquisition cost. One study of sustainment revealed scope for significant budgetary and technical improvement. The Coles (2011) review compared the performance of the Collins Class submarine sustainment program from 2006-07 to 2010-11 with the average performance of comparative fleets of other navies. It found that: availability of the Collins Class had been slightly over half that achieved by the comparable international programs; the time in planned maintenance was about one third greater than other navies; and the maintenance overruns and the percentage of days lost due to defects were approximately double that of the comparators. The situation is understood to have improved since this 2011 report, but the history is still instructive.

2.3 Defence procurement and industry assistance

Overview of local industry

As noted, an estimated 3000 local firms (24 000 employees) supply defence equipment and related services. While about half of these firms are small and medium enterprises (SMEs) (less than 200 employees), about 70 per cent of procurement is contracted to 'prime contractors'. There are seven foreign owned and one Australian owned prime contractors. These businesses in turn subcontract about 30 per cent of their work (to both local and foreign businesses). Australian defence sales of the foreign prime contractors account for between 0.5 and 3.5 per cent of their parent companies' global revenue (Department of Defence 2010).

Within the manufacturing sector, defence equipment purchases are concentrated in five main areas of activity: shipbuilding and repair; aircraft assembly, modification and repair; electronics and computing; vehicles; and clothing. The defence and non-defence production of these five activities account for about 14 per cent of the Australian manufacturing sector. However, defence shares are quite varied; for instance, expenditure of the Defence Materiel Organisation represents 63 per cent of the output of the domestic shipbuilding and repair industry, but only a small share

of the output of the electronics, vehicle and clothing industries (table 2.1). Overall, the majority of defence purchases (in 2006-07) accounted for just 1.3 per cent of total Australian manufacturing industry sales. Nevertheless, the regional significance of some defence activity may be substantial.

Table 2.1 Defence expenditure by sector
per cent

<i>Industry</i>	<i>ANZSIC 2006 Industry Code</i>	<i>Defence procurement share^a</i>	<i>Industry share of manufacturing 2006-07</i>
Shipbuilding	2391	63	0.7
Aircraft	2394	31	1.4
Electronics, Vehicles and Clothing	1351, 1352, 231, 2419, 242, 243, 2299	3	12.3

^a The Defence Materiel Organisation does not indicate to which year(s) the expenditure relates.

Source: Department of Defence 2010 (pp. 27–28) based on 2006-07 industry data in ABS catalogue 8221.0.

Identifying and measuring defence industry assistance

Selective assistance to the defence industry has not traditionally been included in the Commission's effective rate of assistance estimates, despite it having essentially the same economic effects. Along with government expenditures relating to public administration, health, education, social security programs and community services, such expenditures have not been classified as industry assistance, as the majority of the expenditure relates to the functions of government or is primarily for the benefit of individuals. Nevertheless, support provided to commercial businesses in these service sectors by general (multi-industry) assistance programs, such as the R&D tax concession and export market development grants, is included in the core assistance estimates.

This section explores the nature and scale of selective assistance to defence businesses.⁷ The Commission will pursue the incorporation of industry support afforded by these measures in its future reporting of industry assistance.

Selective assistance to defence businesses includes direct grants for technology development, funding of foreign prime contractors to include Australian suppliers in their global supply chains, export marketing and promotion on behalf of industry,

⁷ Other assistance exploratory exercises have included in relation to tourism (PC 2005), carbon emission reduction measures (*Trade & Assistance Review 2007-08*), assistance to the finance industry (*Trade & Assistance Review 2008-09*), state government industry assistance (*Trade & Assistance Review 2009-10*), and adjustment assistance (*Trade & Assistance Review 2010-11*).

skill development grants, government conducted R&D, and local purchasing preferences (appendix B). In addition to these direct assistance measures, decisions to maintain workloads also have assistance implications.

Budgetary support to industry

In 2012-13, the Defence Materiel Organisation identified discretionary grants totalling \$19.3 million, under four programs: Skilling Australia's Defence Industry; Priority Industry Capability Innovation; Industry Skilling Program Enhancement; and New Air Combat Capability Industry Support. Expenditures since 2005 together with future commitments for these programs amount to over \$300 million.

Grants under the Capability and Technology Demonstrator program have totalled over \$250 million since the program commenced in 1997, but unlike the above grant programs, individual grants and yearly amounts are not published (with only the name of recipients reported by the Defence Materiel Organisation).

There are also budgetary outlays on the Rapid Prototyping Development and Evaluation program, the Defence Industry Innovation Centre, and the Global Supply Chain program, which confer assistance to industry. However, the Commission has not been able to identify the level of this expenditure from public sources.

In 2012-13, the Australian Government also spent in the order of \$500 million on programs that afford direct support to industry and public R&D that may indirectly benefit industry including through the Defence Science and Technology Organisation (DSTO) (\$434 million),⁸ the Defence Materials Technology Centre and the Defence Export Unit⁹ (within the Defence Materiel Organisation). The Commission's research report on Public Support for Science and Innovation (PC 2007) observed in respect of DSTO that the scope for Australia to competitively source overseas state-of-the art defence equipment, rather than developing itself, might warrant further review. Consistent with this, in its submission to the 2013 White Paper process, the Australian Industry Group Defence Council (2013) recommended it would be timely to undertake a detailed

⁸ Not all the expenditure of the DSTO is likely to be classified as industry assistance. For example, DSTO undertake a range of other activities such as risk assessments and technical advice to decision makers and support for national security and intelligence operations. The balance between such expenditures and expenditures that are industry-assistance-related is not clear.

⁹ The Industry Commission's inquiry into defence procurement (IC 1994) considered that Defence should investigate charging for some export promotion services where non-generic help is provided to particular firms, having noted this practice by Austrade.

survey of defence-related R&D, to establish what money is being spent on R&D, what (specifically) it is being spent on, and how closely it accords with guidance on Defence's needs of industry.

Local purchasing preferences

The Australian Industry Capability (AIC) program potentially leverages work for local suppliers by including in tender requirements a definition that, for tenders to represent value for money, tenderers must describe how their proposed approach will enhance defence industry capabilities. The 'Defence Capabilities' are a set of pre-determined activities that must be resident within Australia or enhance self-reliance (box 2.3). However, addressing a capability in a tender document does not guarantee winning a competitive process against overseas bids.

Box 2.3 Defence Capabilities

There are three levels of Defence Capabilities.

- Priority Industry Capabilities (PICs) are those deemed to confer an essential strategic advantage by being resident within Australia and that, if not available, will significantly undermine defence self-reliance and ADF operational capability. There are currently 12 designated PICs, including, acoustic technologies and systems, in-service support of Collins Class submarine combat systems, and ship dry docking facilities.
- Strategic Industry Capabilities (SICs) are those that provide Australia with enhanced defence self-reliance, ADF operational capability, or longer term procurement certainty. There are currently 12 designated SICs, including, for example, composite and exotic materials, guided weapons, naval shipbuilding and repair, maintenance and upgrading of armoured vehicles and aircraft.
- Project/Product Specific Industry Capabilities (PSICs) are those determined by procurement sponsors as being required to enhance the capability being delivered through inclusion of Australian industry. PSICs are determined on a case by case basis.

Source: DMO (2014).

The AIC program evolved out of earlier schemes from the 1970s and 1980s that mandated explicit levels of local activity (such as requiring local work for Australian industry of 30 per cent of the value of foreign contracts, though not necessarily tied to the actual purchase) and preference margins for local bids (such as tolerance of a 20 per cent cost premium). Whilst moving away from quantified local content rules, successive White Papers and Defence Industry Statements have signalled the intention to 'intervene' so as to increase local activity more than may

otherwise occur under a price-only based acquisition approach. For instance, the 2007 Defence and Industry Policy Statement mentioned the Australian Government's firm expectations of suppliers to utilise Australian companies and that maintaining a local presence and the transfer of technology and intellectual property would be assessed favourably for those defence companies who invested in Australia. The current 'intervention' arrangement is to state Priority Industry Capabilities (since 2009) and Strategic Industry Capabilities, which could act to influence the choice between local and overseas supply. Over time, the 'priorities' for local work appear to have increased. The 1994 White Paper identified four capabilities as most important for Australia's defence self-reliance. In 2009, 12 Priority Industry Capabilities were listed and the concept of Strategic Industry Capabilities was also adopted, introducing a further 12 activities where it was 'desirable' to have local activity.

In the absence of the Priority Industry Capabilities (and the thrust towards Australian self-reliance in some capabilities), it is likely that there would be less use of Australian suppliers by contract tenders. The amount by which the program increases returns to local suppliers is, however, difficult to quantify as the situation that would prevail without the program (the counterfactual) is not observable. The finding of Pappas (2009) that building military equipment in Australia can cost considerably more than having the *same* equipment built overseas suggests that the level of assistance provided to industry via the AIC programs is substantial. Any such cost differentials would need to be justified by clear strategic or other public benefits that outweigh the associated additional costs. The Commission does not presume there are no additional benefits to the defence of Australia. However, such benefit and cost information is not publicly provided following Government purchasing decisions.

Purchasing more than necessary so as to maintain workload

Some large-scale purchasing decisions can be lumpy in nature and there may be substantial gaps between them. If there is a lull in demand, a decision to order work to fill the interim between large purchases can confer a pecuniary benefit to the contractors (and their employees) without a commensurate benefit in capability.¹⁰

In recent years, there has been mounting concern about the downturn in naval shipbuilding between the completion of the current Air Warfare Destroyers and the

¹⁰ During the early 1990s the Australian Government paid around \$75 million in grants under the Defence Required Support Capability program to cover certain costs associated with establishing or maintaining capabilities in industry for which there were little or no commercial markets (IC 1994).

commencement of the next major naval shipbuilding program. About 3000 workers are currently employed in shipyards on government contracts, winding down (assuming an on-time performance, which cannot be taken for granted) to almost no one required in 2017, but then returning to around 3000 in 2020 and a peak of around 6000 in 2027 (Davies 2013). Accordingly, there have been proposals to build more vessels in the near future (whether needed or not) in order to avoid an interim ‘valley of death’.

The principal concern expressed about the interim ‘valley of death’ is the loss of skilled workers necessary for a future submarine build and the additional costs and lower productivity arising from the need to re-skill after a lull in work. Considerations of work continuity have also been complicated by claims of other benefits that might arise from filling a possible work void such as ‘bolstering economic growth’, ‘reviving’ Australian manufacturing, and the ‘location of jobs’. Balanced against such claims is the possible competitive advantage afforded incumbent contractors and other opportunities for the deployment of resources. The direct and indirect costs of retaining capacity at a time of lower demand has prompted a number of commentators to express concern (box 2.4).

2.4 The employment and multiplier effects of local defence production

When considering the economic implications of large defence projects, proponents commonly emphasise the direct employment and output effects and apply a ‘multiplier’ to estimate flow-on benefits. It is less usual to identify the direct and indirect resource costs, so as to calculate an overall net impact.¹¹ Multiplier analysis only measures the gross flow-on effects and *is always* positive for a new project. This is because gross multiplier analysis fails to take into account constraints on the availability of land, labour and capital and the productive efficiency with which those resources are used — which for large defence projects, are of national as well as regional consequence. Moreover, the financing costs (whether in the form of reduced expenditure on other public services, increased taxes, or higher debt) must be taken into account. These costs have negative multiplier flow-on effects themselves.

¹¹ The Commission’s evaluation of the Pharmaceutical Industry Investment Program (PC 2003, pp. 6.1-6.3) provides a detailed discussion and demonstration of the net benefit (efficiency) approach compared with gross multiplier analysis. The ABS discontinued the publication of input-output multipliers in 2002 against a backdrop of their misuse in seeking support for industry and project assistance. In 2013, the Commission released a note outlining the limitations of the use of input-output multiplier analysis (Gretton 2013).

Box 2.4 Some views about the ‘valley of death’ and a local defence shipbuilding industry

Davies (2012) from the Australian Strategic Policy Institute commented:

... absent a dramatic and unexpected decision in the very near future, there's no escaping a very significant downturn in the quantity of work. The options available for remediation — such as building a fourth air warfare destroyer (which, at this stage, is likely to incur a substantial cost penalty because parts of the design and build process are already winding down) or using the air warfare destroyer hull as a basis for the future frigate — look a bit more like make work exercises than solid ‘bang for the buck’ prospects.

In a follow-up piece to Davies (2012) in the Australian Strategic Policy Institute Blog, Henry Ergas (2012), Professor of Infrastructure Economics at Wollongong University, identifies other options besides ‘doing nothing’ and ‘bringing forward additional procurement’. For example, if the goal is to ensure skills remain available, experienced personnel could be offered payments to keep their skills intact. Equally, experienced personnel could be given certification, with those retaining certification over time being offered higher wages on subsequent programs. Assessment of such options requires a better understanding of whether higher levels of productivity depend on cumulative experience, continuity of experience, or both, and how costly it is to maintain skills out of the direct shipyard situation. Ergas also cautions whether workforce continuity (primarily) benefits the employee rather than taxpayers, as experience and improved productivity will tend to increase remuneration, at least for transferable skills, in a competitive labour market.

Commenting on the 2013 Future Submarine Industry Skills Plan, Thomson (2013) also from the Australian Strategic Policy Institute observed:

... it seems to take as the goal the development of a healthy and permanent naval shipbuilding industry in Australia, irrespective of the cost of doing so. It proposes establishing a continuous rolling production line for submarines without asking whether the more leisurely delivery schedule suits Australia's demand for submarines or acknowledging the additional cost of such a program.

This failure to identify that spending money comes at a cost of some other economic activities is not a factor limited to the defence industries. It is common in assessments of most large infrastructure projects, a recent area of scrutiny by the Productivity Commission in its report on Public Infrastructure, which is yet to be tabled by the Government.

In defence, as in other purchasing decisions, domestic costs to industries and taxpayers can vary between bespoke versus off the shelf designs on the one hand, and between local build and foreign build options on the other. For instance, Costello and Davies (2009) identified options for a replacement of the Collins Class submarine fleet ranging from a domestic build of a bespoke design (costed at an estimated \$36 billion) to a lower cost off-the shelf but lower functionality imported model (costed at an estimated \$8.8 billion) (box 2.5).

Box 2.5 Cost estimates for potential future submarine options

The 2009 White Paper announced that the future submarine fleet would consist of at least twelve submarines with significant improvement in capabilities over the existing Collins Class submarines. The Australian Strategic Policy Institute (Costello and Davies 2009) estimated the cost of four options for 12 new submarines (table).

- First, building 12 more Collins Class submarines, foregoing any capability upgrade, was estimated to cost around \$12 billion.
- Second, building a larger 4000 tonne vessel to accommodate extra capabilities, at the same unit cost per tonne of the Collins Class, would cost around \$16.8 billion.
- Third, building the larger 4000 tonne vessel, but based on historical trend data of unit costs for new naval fleets, was estimated to cost \$36.5 billion, inclusive of project overheads and infrastructure. Costello and Davies (2009) also note that the US Congressional Budget Office, in a review of Pentagon cost estimation, observed that cost estimates based on historical data trends are more accurate than projections based on current project costs.
- The fourth illustrative option was an off-the-shelf fleet of the lower-specification German Type 212/214 vessels for about \$8.8 billion, based on average sales prices over the last decade.

Cost estimates for the future submarine fleet, 2009

<i>Submarine</i>	<i>Cost of 12 submarines</i>
	\$ billion (2009)
New build 3050 tonne Collins Class submarine	12.0
4000 tonne submarine at Collins cost/tonne	16.8
4000 tonne submarine at historical trend	36.5
Type 212/214 equivalent in 2020	8.8

^a Assumes an exchange rate of A\$1 = US\$0.75

Source: Australian Strategic Policy Institute (Costello and Davies 2009).

More recently, at the 2014 ASPI submarine conference, the chairman of the largest builder of conventional submarines (ThyssenKrupp Marine systems) stated that 12 large state-of-the-art boats would cost around \$20 billion (Bergmann 2014).

A full analysis in which resource constraints are recognised would be a more appropriate approach than a gross multiplier analysis for the meaningful assessment of the economic impacts of such large defence purchases. Such an analysis would take account of the economic costs of additional capability of bespoke designs relative to those of lower capability off-the-shelf options, and the implications of a domestic versus a foreign build. The cost differences between the options (including flow effects on other industries and taxpayers) would provide a ‘threshold’ or ‘breakeven’ value against which to justify the additional strategic and operational benefits of bespoke design or domestic build options.

2.5 Closing remarks

Improving the cost effectiveness of defence procurement has the potential to deliver large benefits, not just in cost savings in the use of scarce resources, but in improving the availability of effective military equipment.

There are two types of monetary ‘premium’ that Australia has paid, at times, for major defence equipment. First, on average there has historically been a disproportionate increase in cost over-runs the more a project involves fundamental new designs or modification of existing off-the-shelf options. Developmental projects and modifications also tend to experience schedule slippage and difficulties in delivering all the intended capabilities, which results in direct and indirect costs (including those related to lower capabilities through having to keep older equipment longer). The second monetary ‘premium’ is that locally built equipment can be more expensive than foreign built equipment with an equivalent level of functionality.

Past attempts at minimising unwarranted and excessive premiums do not appear to have been successful. In particular, as noted by the ANAO, implementation of recommendations to include adequate advice on off-the-shelf options in submissions to government is yet to be achieved for all projects. At present there is no mechanism to ensure compliance with this requirement, other than the government insisting on ‘adequate’ advice. To further increase the discipline on giving attention to off-the-shelf options, there would be merit in considering whether the estimated premium (for non-off-the-shelf and local build choices) should be made public soon after the government procurement decision. To date, the lack of transparency of cost options has hampered adequate public assessment of the cost-effectiveness of purchasing decisions.

Against this, the supporters of ‘local build’ will undoubtedly cite commercial confidentiality. However, the size of the cost to taxpayers and the continuing examples suggest that such a counter-argument is not acceptable. Mechanisms can be designed to support transparency while respecting confidentiality. The Commission has outlined these in its 2014 report on Public Infrastructure.

To minimise any undue premium incurred by using local supply there may also be merit in publicly re-examining the list of 12 Priority Industry Capabilities and 12 Strategic Industry Capabilities and the appropriateness of the levels of activity ‘reserved’ for domestic supply. An examination of this area might consider which capabilities have generally cost the most to maintain and what have been the strategic benefits that have accrued from the additional outlays.

Cost effectiveness also could potentially be improved in respect of the design and level of defence industry assistance programs. Annual expenditure on defence industry assistance and technology support programs in 2012-13 was around \$500 million. Although substantial compared with assistance provided to other industries (chapter 4), the defence industry assistance programs do not appear to have been reviewed (externally and using an economic framework) to the same extent as many other industry assistance programs. To the extent that they have not faced such scrutiny, there may be merit in reviewing the efficiency and effectiveness of the suite of defence industry assistance and related programs.

All defence programs with material industry assistance objectives, explicit or not, should be separately reported to Parliament, and from time to time reviewed to ensure relevance to strategic and government priorities.

Finally, the cost effectiveness of defence procurement is fundamentally influenced by the strategic direction and capability aspirations outlined in Defence White Papers and Defence Capability Plans. One view is that the present practice (in formulating White Papers and Defence Capability Plans) of prescribing narrow equipment solutions risks locking the government into courses of action long before the information needed to make an informed judgment is available. Suggestions for better aligning aspirations with the realities of allocated budgets, timing capacity and the state of technology development, include: focussing on broad capabilities in the White Papers and Defence Capability Plans; engaging industry earlier in the capability development process to better understand what is available technologically; and reintroducing contestability into capability development (as was the case until the late 1990s). Consideration could be given to whether these suggestions are worth pursuing.

3 Selected industry policy issues

Domestic economic reforms and the opening of the Australian economy to greater levels of international competition have been ongoing domestic policy themes, particularly since the 1970s and 1980s. A key component of the policy landscape has been a reduction in assistance provided through protective mechanisms such as tariffs, quotas, product marketing arrangements and local content schemes. At the same time, however, budgetary assistance to industry has become more common and governments have maintained a range of market interventions and less transparent measures affecting industry intended to achieve economic or social goals.

This chapter draws attention to three areas of government intervention that may not be contributing as much as possible to Australia reaching its productive potential or could even be inhibiting it from doing so. The areas considered in this chapter are:

- innovation support programs;
- foreign investment rules; and
- regional development programs and special economic zones.

3.1 Innovation support

Nature of the measure

Innovation is a primary means by which productivity and living standards increase over the longer term. In turn, investment in research and development (R&D) is an important input into the innovation process. Where the benefits of private investment in R&D are not adequately captured by the investor, there is likely to be under provision of R&D from a community's perspective. In these circumstances, there is an 'in principle' case for government support for business R&D.

The strength of the practical case for government support hinges on the designated funding programs being effective in delivering socially beneficial R&D (R&D with sufficient applications beyond the individual firm) that would not be privately

undertaken in the absence of public support.¹ Obtaining the information required to determine the ‘right’ level of public support is problematic, not least because individual firms do not have a financial incentive to reveal to government their minimum required level of return from investments in R&D.

Against this background, the Australian Government has provided longstanding support to business innovation through a suite of funding initiatives including generally available R&D tax incentives, specific co-funded R&D to the agricultural sector, R&D-linked funding to the automotive sector, applied industrial research conducted by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and cross-industry collaborative funding through elements of the Cooperative Research Centres program.

Together, innovation support programs accounted for 38 per cent of total budgetary assistance to all industries in 2012-13 (chapter 4). There are at least twenty different innovation programs providing some form of business funding support (appendix A).^{2,3} Total business innovation program funding has more than doubled in nominal terms since 1996-97, with almost all the increase relating to generally available R&D tax incentive programs to business (figure 3.1). In real, inflation adjusted terms, support for business innovation increased by 25 per cent between 1996-97 and 2012-13.

The taxation concessions accounted for over 70 per cent of Australian Government funding to business R&D in 2012-13. The current R&D Tax Incentive program under which the concessions are provided involves targeted R&D tax offsets intended to induce more companies to engage in R&D and to encourage R&D activities that may not otherwise have been conducted (AusIndustry 2014). Companies self-assess eligibility of their R&D activity against a set of prescribed criteria. Compliance auditing is used to manage funding risks. While the definition

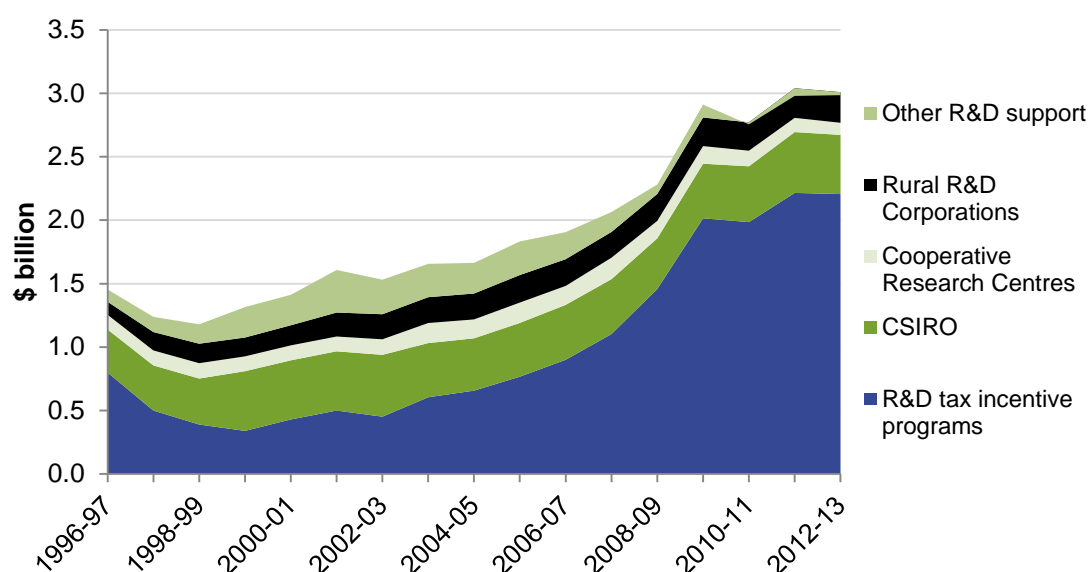
¹ Recognition of market impediments to optimal R&D outcomes led to an agreement signed by members of the World Trade Organization which created a temporary ‘safe harbour’ for certain R&D support programs against the imposition of countervailing measures by other countries. However, the safe harbour status of R&D, regional development and environmental compliance subsidies was originally only intended as a temporary measure scheduled to expire in 2000 (WTO 1994).

² The share of direct government funding of business R&D in Australia has fallen from 4.9 per cent in 2001 to 1.8 per cent in 2010. These figures compare with the OECD average of 6.8 per cent in 2001 and 8.6 per cent in 2011 (OECD 2013).

³ A Single Business Service Delivery Initiative was announced in the 2014-15 federal budget which will consolidate a number of innovation programmes from 1 July 2014. In 2009, the Framework of Principles for Innovation Initiatives was adopted by the Australian and State and Territory governments to enhance consistency and improve the overall accessibility and efficiency of government innovation measures across Australia.

of qualifying R&D activities does not attempt to explicitly quarantine or target funding support to R&D that would not have taken place without that support, it does provide a lower subsidy to the performance of R&D by larger firms (that is, firms with a turnover of \$20 million or more).

Figure 3.1 Budgetary R&D funding support to industry^a
\$ billion (nominal)



^a Prior to 1 July 2011, payments made under the R&D tax offset program were exempt from tax. In addition, companies that claimed the offset were unable to claim deductions for the R&D expenditures concerned. This was because payments made under the offset had already provided these companies with a benefit equivalent to the value of these deductions. The absence of these deductions constitutes a negative tax expenditure included in the Other R&D support category.

Sources: Based on data from Australian Treasury Tax Expenditures Statement, Commissioner of Taxation Annual Report and Commission estimates.

Likely impacts of the measure

A series of studies and inquiries into the provision of R&D support have, amongst other things, recognised that there was an in-principle case for assistance but there was a need to improve inducements rates of the R&D tax concession program to ensure net social benefits accrued from the scheme (BIE 1993, IC 1995; Lattimore 1997; CIE 2003; PC 2007). Another study found that government assistance had more influence on the innovation behaviour of small firms than of large firms (ABS 2007, p. 50). Findings related to R&D support are somewhat similar to the old adage for advertising expenditure: ‘that it is likely 50 per cent is wasted, but no one knows which 50 per cent’.

The studies also found that much of Australia's R&D activity involved product-based incremental change, with benefits more likely to be specific to the individual firm and likely to involve lower levels of spillovers, rather than truly novel and technically risky research (see for example, PC 2007, p. 383).

Although the studies took account of the opportunity cost of providing the R&D tax concession, they did not make it clear whether the tax concession affected the mix of R&D conducted or whether it induced *new* firms to establish and conduct R&D (a stated objective of the current scheme). An evaluation of the current R&D Tax Incentive program would shed more light on these issues and whether the inducement effect is likely to render this program socially beneficial.

Recent policy development activity

The Australian Government commissioned a review of Australia's national innovation system in 2008 (Cutler 2008). Identifying again a range of shortcomings with the existing arrangements, the review recommended replacing the tax concession with a more generous tax credit scheme on the grounds that the scheme would induce higher levels of R&D by small firms in particular. A modified version of these recommendations was subsequently adopted.

The definition of eligible R&D was also re-aligned to focus on more novel and technically risky innovation (box 3.1). Although the impacts associated with the re-designed program have yet to be formally evaluated, indications of funding trends suggest that the changes to R&D definitions may not be acting to restrict the types of activities being claimed and, as a consequence, the scheme may not be targeting high spillover R&D as intended.

In particular, the higher hurdle presented by the re-aligned definition could be expected to reduce the overall funding requirement (tax revenue foregone) of the scheme and the number of firms accessing it (despite a higher subsidy rate afforded eligible R&D than afforded in the previous scheme).⁴ Although the number of firms accessing the scheme appear to have declined,⁵ 2013-14 portfolio budget statements data (not shown in figure 3.1) indicate program funding for the R&D tax incentive

⁴ The subsidy under the R&D tax incentive program is equivalent to a 150 per cent tax deduction for firms with turnover less than \$20 million per year and a 133 per cent tax deduction for firms with turnover above \$20 million per year. This compares with a 125 per cent basic tax deduction (175 per cent for eligible R&D above a 3 year average) under the previous program.

⁵ Trends in the number of companies accessing the program were consistent with a stricter definition of R&D with this indicator showing a 9 per cent decline between 2010-11 and 2011-12 (Innovation Australia 2013, 2014).

in its first year of operation (2011-12) was nearly 20 per cent higher than the previous program year. Estimated revenue forgone in year two was higher again (Australian Government 2013a).⁶

Box 3.1 Eligible R&D activities under the current R&D Tax Incentive scheme

Core R&D activities are experimental activities whose outcome cannot be known or determined in advance on the basis of current knowledge, information or experience, but can only be determined by applying a systematic progression of work that:

- is based on principles of established science;
- proceeds from hypotheses to experiment, observation and evaluation, and leads to logical conclusions; and
- is conducted for the purpose of generating new knowledge (including new knowledge in the form of new or improved materials, products, devices, processes or services).

Source: AusIndustry (2012, p. 7).

Possible directions for future policy development

Public support for business R&D under current arrangements has not reduced the call on public funds that might have been anticipated by amendments to the definition of R&D and calls into question whether any refocusing on more novel and technically risky R&D activity has been induced. Accordingly, the R&D tax incentive could simply be viewed as a general tax cut to the sub-set of some 8300 companies registered to claim the concession (in 2011-12). Placed in context, the \$2 billion in public funding for the R&D Tax Incentive in 2012-13 represented 3 per cent of the \$68 billion of company tax collected in that year (Australian Government 2013b).

This suggests there may be merit in considering alternative approaches for supporting R&D. For example, an assessment of the economic impacts of a reduction in company taxes by an amount equivalent to current R&D concessions could provide a point of comparison for analysing the relative merits of R&D tax concessions.

A more direct approach could be to consider tightening the design of the current arrangements, however, the history of such changes to tax laws is not impressive.

⁶ The 2014-15 Portfolio Budget Statements indicate that data related to budgeted expenditure on the R&D Tax Incentive are not available.

Blunt instruments, such as using an historical R&D-to-sales ratio as a base against which genuinely additional R&D can be compared, are applied in other countries. An even simpler (although possibly less effective) alternative would be to use an historical average R&D spend as the base to compare increases in activity. This approach featured in the earlier R&D tax concession program but has not been carried over to the current program.

While R&D tax concessions remain capable of malleable interpretation for inflating tax claims, they diminish the in-principle case for *some* public support.

3.2 Foreign investment rules

Foreign investment rules may confer protection to domestic firms by restricting foreign competition. They can also impose costs on Australian firms by restricting their access to capital and strategic and other partnerships. International comparisons by the Organisation for Economic Co-operation and Development (OECD) indicate that Australia has a more restrictive regime than many other developed countries.

Nature of the measure

For all of its past, and for the expected future, Australia has drawn on foreign capital as a source of finance for new investment. Net foreign capital inflows to Australia have trended upwards over the last three decades and have increased substantially with the mining investment boom (figure 3.2, left hand panel). Over this period, domestic savings have also risen to represent 70 per cent of Australia's capital requirements. But this has not been enough to support the total capital needs of globally significant export-oriented developments — including in the resource areas of coal, iron ore and natural gas.

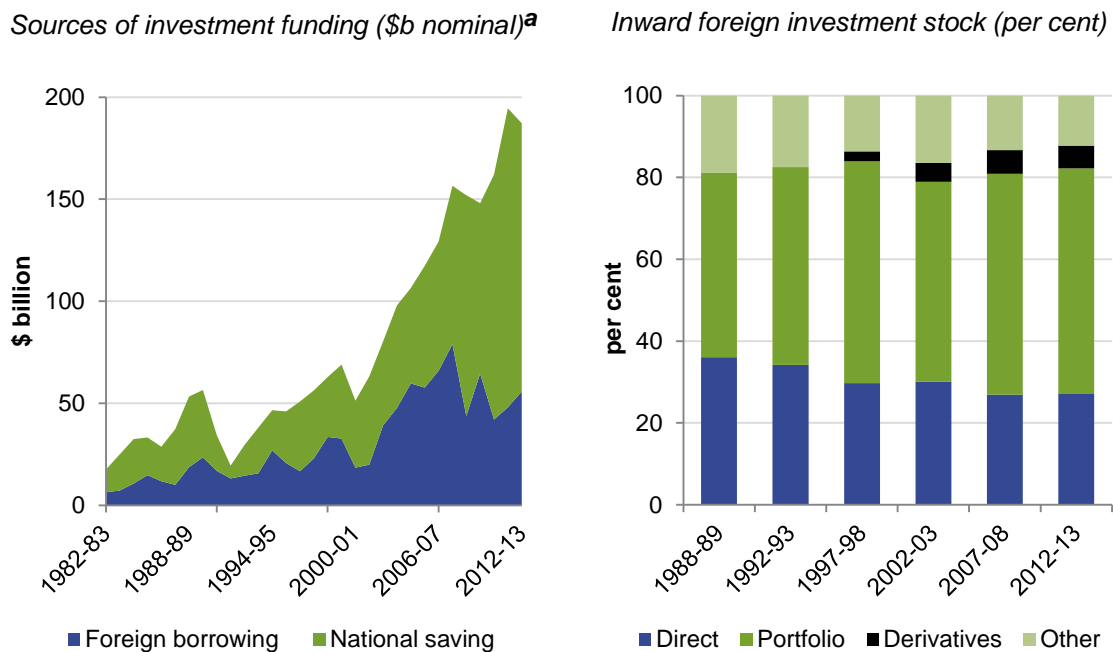
Accumulated inflows have typically taken the form of portfolio investment (in equities and debt securities). This investment raises foreign equity in Australian-located businesses. Portfolio investment, where the investor has no appreciable control over the operation of the enterprise, currently represents about 55 per cent of Australia's inward foreign investment stock (figure 3.2, right hand panel).

Foreign capital inflows have also involved direct investment — where the investor owns at least 10 per cent of an enterprise and is deemed to exercise some degree of control (ABS 2004). While direct investment inflows have more than doubled over the last 10 years, the relative importance of direct investment has declined from 36 per cent of the inward foreign investment stock in 1988-89 to 27 per cent in

2012-13. Reinvestment of earnings of mining firms in Australia, to finance mine expansions and new developments, has contributed to the increase in this category over time.

The remaining inflows have comprised financial derivatives (reflecting the highly traded nature of the Australian dollar), currency and deposits, and trade credit.

Figure 3.2 Investment funding source and inward foreign investment stock



^a The substantial increase in national saving since 2002-03 largely reflects changes in household saving. Foreign borrowing data are net of the large outflows of foreign capital (Australian offshore investment), particularly over the period since 2002-03.

Sources: ABS Cat. no.'s 5206.0 and 5302.0.

Australia's inward and outward foreign investment has evolved against the background of progressive financial market liberalisation which has allowed foreign and domestic investors to diversify their investment portfolios and maximise risk-adjusted returns.⁷ The benefits of that diversification would accrue across a disparate group of foreign and local investors including individual firms (both Australian and foreign owned), pension funds and general fund managers.

⁷ Deregulation of Australia's financial system began in the 1980s and globalisation of product and financial markets has seen considerable growth in Australian investment abroad. Australia's stock of foreign assets increased more than ten-fold between 1990 to 2013, greater than the eight-fold increase in Australia's stock of foreign liabilities over the same period (ABS Cat. no. 5302.0).

The Australian Government regulates foreign investment through the *Foreign Acquisitions and Takeovers Act* (FATA) 1975 (Cwlth) and specific legislation in certain ‘sensitive’ sectors or companies (box 3.2).⁸

Box 3.2 Foreign investment restrictions in ‘sensitive’ sectors

Specific legislated foreign investment and regulatory requirements in sensitive sectors include:

- foreign ownership in the banking sector must be consistent with the *Banking Act 1959*, the *Financial Sector (Shareholdings) Act 1998* and banking policy;
- aggregate foreign ownership in an Australian airline (including Qantas) is limited to 49 per cent (with any one foreign holding capped at 35 per cent);
- the *Airports Act 1996* limits foreign ownership of some airports to 49 per cent, with a 5 per cent airline ownership limit; and cross-ownership limits (where a foreign investor owns more than 15 per cent of Sydney airport) between Sydney airport and either Melbourne, Brisbane or Perth airports;
- the *Shipping Registration Act 1981* requires a ship to be majority Australian-owned if it is to be registered in Australia;
- aggregate foreign ownership of Telstra is limited to 35 per cent and individual foreign investors are only allowed to own up to 5 per cent; and
- foreign ownership in the media sector (television, newspapers and radio) above 5 per cent requires notification and approval, regardless of value.

Foreign non-residents can only invest in Australian real estate if that investment adds to the housing stock. Established dwellings cannot be purchased. Temporary residents can only buy an established dwelling if it is used as their residence.

Sources: Australian Treasurer (2013, p. 3); FIRB (2012a, b).

Regulatory restrictions on investment typically involve quantitative share ownership limits or the imposition of operational conditions in a small number of sectors or companies such as Qantas, through the *Qantas Sale Act 1992* (Cwlth), and BHP-Billiton, through conditions placed on the merger between the two companies by the Foreign Investment Review Board (FIRB) (Costello 2001).

The FATA Act contains notification and approval requirements for acquisitions of a substantial or controlling interest in a corporation or business above \$248 million for private investors from most countries. However, investors based in the United States or New Zealand receive more favourable treatment with a higher notification

⁸ The general application of the merger provisions of the *Australian Competition and Consumer Act 2010* can, in principle, also act as a restriction on foreign direct investment.

threshold of \$1078 million.^{9,10,11} The FIRB reviews or screens each notifiable foreign investment application against a *national interest test*. National interest considerations relate to national security, competition, other government policies (including taxation and environmental), impacts on the economy and community, and the character of the investor (Australian Treasurer 2013, pp. 7–8). The Act provides the Australian Treasurer with the power to block proposals or apply conditions to the way they are implemented (FATA Act 1975).

In 2012-13, the total value of foreign investment proposals approved by the FIRB was \$135.7 billion (a 20 per cent decline on the 2011-12 value) with 60 per cent of this directed at non-real estate activities, primarily in: mineral exploration and development (\$45.1 billion); services (\$25.9 billion); and manufacturing (\$6.5 billion). Agricultural investment proposals approved by FIRB (\$2.9 billion) accounted for just 3 per cent of non-real estate approvals in 2012-13 (FIRB 2014).

Australia is a signatory to several multilateral and bilateral investment agreements which condition or govern the foreign investment policy environment. These include the:

- WTO Agreement on Trade Related Aspects of Investment Measures (TRIMS);
- OECD Code of Liberalisation of Capital Movements (one of the few legally binding instruments of the OECD) which provides a framework for the progressive removal of barriers to the movement of capital; and
- provisions contained in Australia's 27 Bilateral Investment Treaties (BITs) and the investment chapters of the seven bilateral trade agreements which deal with investment flows between Australia and counter-signatories.

Likely impacts of the measure

Very few foreign investment proposals are rejected by the FIRB. In fact, only three business-related (non-real estate) proposals have been rejected (on national interest

⁹ For investment in prescribed sensitive sectors the general (or a lower) threshold applies to all countries.

¹⁰ Where an investor is a foreign government or an associated state-owned enterprise or sovereign wealth fund, all direct investment proposals must be notified to FIRB. According to the Australian Government, the FIRB looks for evidence of a commercial basis for the investment when assessing these particular proposals (Australian Government 2011, p. 5).

¹¹ Investors from the Republic of Korea and Japan will also be eligible for the higher threshold when the recently negotiated bilateral agreements come into force.

grounds) since 2001.¹² However, this outcome does not necessarily reflect the restrictiveness of Australia's foreign investment regime. The way the regime is applied may act to discourage potential investment proposals from being considered or advanced to the notification stage.

It also does not recognise the explicit limits placed on investment in sensitive sectors which, in effect, means that some investment options are not advanced. For example, the foreign ownership limit provisions in the *Qantas Sale Act 1992* are claimed to be limiting Qantas's ability to form strategic alliances with overseas airlines and access foreign capital (Joyce 2013).¹³ Telecommunications is another sector in which continuous offshore investment interest has been seen. Even though actual foreign ownership levels have for some time been beneath the legislated limits, this does not mean the limits have not acted to discourage foreign investment.

International comparisons of FDI regimes

International comparisons of FDI regimes indicate Australia's regime is relatively restrictive. The OECD periodically publishes comparisons of regulatory restrictions on inward foreign direct investment across member and selected non-member countries. Four broad categories of restrictions are considered: limitations on foreign ownership; screening or notification procedures; restrictions on employing foreign personnel; and management and operational restrictions (OECD 2010).

The latest results from the OECD show Australia's foreign direct investment regime ranked 16th of 58 countries in 2013 and was rated as more stringent than all the other developed member countries except Korea, New Zealand and Canada (OECD 2014).

Australia's restrictiveness index score of 0.128 in 2013, compared to the OECD average of 0.069.¹⁴ Equity restrictions and screening and notification requirements

¹² One of these proposals was in the resource sector (the proposed Shell takeover of Woodside Petroleum in 2001), one in financial services (the proposed Singapore Stock Exchange takeover of the Australian Stock Exchange in 2011) and one in agriculture (the proposed Archer Daniels Midland takeover of GrainCorp in 2013).

¹³ Importantly, foreign shareholding limits have not prevented Qantas from entering into strategic alliances in the past. For example, the most recent alliance with Emirates involves no equity stake in Qantas. Similarly, the earlier alliance between Qantas and British Airways (BA) began with a 25 per cent foundation investment by BA but continued long after BA had sold out of its equity stake.

¹⁴ A figure of 1 represents a completely restricted regime while 0 signifies a completely unrestricted regime. Some care needs to be exercised in these comparisons as European Union

were the largest contributors to Australia's score and rank. In line with the special sectoral requirements mentioned above, the greatest FDI restrictions (in order of restrictiveness) were assessed to be in: air transport (0.475); telecommunications (0.4); real estate investment (0.4); maritime transport (0.25); banking (0.2); media (0.2); radio and television broadcasting (0.2); and other media (0.2).

The restrictions in Australia's foreign direct investment regime are likely to make Australia a less attractive destination for foreign direct investment than would otherwise be the case. However, on their own, the OECD indexes are not comprehensive measures of restrictions in place or of how the rules are implemented. The indexes should therefore be treated with care. Indeed, Australia, Canada and New Zealand have an inward FDI stock relative to GDP that is larger than in most other OECD countries even though the three countries are among the most restrictive according to the OECD index.

There are fewer restrictions around most portfolio investment. Where they exist, they mainly relate to conditions associated with privatisation of government business enterprises (many of the restrictions listed in box 3.2) and the quarantining of the initial sale of shares in those privatisations to local investors. In the former case, conditionality could limit the capital raising capability of the business concerned and impede its commercial viability. In the latter case, any sales preferences to Australian residents and subsequent on-selling of securities to foreign interests could imply transfers from the Australian Government and create perceptions of sub-optimal privatisation strategies.

Depending on the nature of the restrictions and the operating environment of the businesses concerned, the various regulations and associated restrictions affecting foreign investment into Australia can impose costs on both affected businesses and the broader economy. Such costs could include: the loss of business and strategic partnership opportunities; restricted access to foreign markets; forgone productivity gains available from access to foreign technology and know-how; lower levels of competition that erodes incentives to innovate, invest and raise productivity; as well as fewer employment and income earning opportunities.

Recent policy development activity

Foreign investment restrictions have been the subject of numerous Parliamentary reviews in recent years, generally aimed at responding to the perceptions of the day.

(EU) member countries apply stricter controls on non-members than other EU countries. Accordingly, the effective level of restrictiveness depends on whether FDI is from within or from outside the EU.

In March 2009, the Senate Standing Committee on Economics was tasked with conducting an inquiry into foreign investment by state-owned enterprises (SSCE 2009). The Committee, amongst other things, recommended a need for greater transparency through provision of clearer criteria for the national interest test. This recommendation was noted by the Australian Government.

In 2011, an examination of Australia's current framework for foreign investment by the Senate Standing Committees on Rural and Regional Affairs and Transport considered that there were major deficiencies in the framework (SSRRAT 2013, pp. xxi-xxii). The committee recommended more stringent foreign investment screening processes, particularly in the agricultural sector.

Recently, the House of Representatives Standing Committee on Economics announced an inquiry into Australia's foreign investment policy as it applies to residential real estate (O'Dwyer 2014). The terms of reference for the inquiry include examining: the economic benefits of foreign investment in residential property; whether such investment is directly increasing the supply of new housing; how Australia's foreign investment framework compares with international experience; and whether the administration of that framework relating to residential property can be enhanced. The Committee is to report in October 2014.

Possible directions for future policy development

There has been no comprehensive review of impediments to flows of foreign capital, inwards or outwards, in recent times despite the continued significance of foreign investment to an economy with Australia's high development potential. It is possible that issues relevant to impediments to foreign investment arise in the course of the current Financial System Inquiry (Abbott 2013), but given its political significance, it is unlikely that any review will willingly look at the issue holistically without being specifically tasked to do so.

Aside from political considerations, there are other reasons for scrutiny of foreign investment, including: transfer pricing and tax avoidance and national sovereignty matters (particularly where the investor is a state-owned enterprise).

In view of the importance of foreign investment as a source of funding for new investment in Australia and the difficulty in establishing objective economic criteria for determining whether a particular investment is desirable, there may be merit in a holistic review. Such a review could consider tax laws, competition laws and the individual sectoral restrictions on foreign investment. In doing so, it could consider the effectiveness of current laws and administrative arrangements specific to particular capital-related issues and the potential for improvement.

Such a review may also consider whether to apply the same notification threshold to all countries in accordance with the WTO's Most Favoured Nation principle. This would involve uniform application of the lower threshold currently applying to the United States and New Zealand (and soon to apply to Korea and Japan) under bilateral trade agreements.

3.3 Regional development and special economic zones

Nature of the measure

Measures to promote regional development within countries can take a number of forms, including:

- special economic zones (sometimes referred to as 'free trade zones'), in which tariff concessions and other trade and finance facilitating incentives are made available and exemptions granted from some workplace and environmental regulations;
- geographically targeted taxation concessions;
- public provision of 'seed' infrastructure and services within a region, and
- promotion and support of a region as a 'cluster' (a geographic concentration of interconnected companies and institutions, often in a particular field).

This section focuses on the first of these measures.

Special economic zones have come into widespread use relatively recently. Since the establishment of the first 'modern' free trade zone in Ireland in 1959, the International Labour Organization (ILO) has estimated that by 2006 approximately 3500 such zones had been established in around 130 countries, employing around 66 million workers (ILO 2007). Such zones now form a substantial part of global supply chains.

In Australia's case, there has been one attempt to establish a special economic zone. In addition, Australian governments have implemented a variety of other measures that favour activities in designated areas, usually with the intent of promoting regional development (box 3.3).

In other countries, special economic zones have been used for a range of reasons, including:

- as a testing ground for experimental (often market liberalising) policies that are not permitted at the national level (including in China and, more recently, in Japan through its ‘strategic special zones’);
- to support wider economic reform and a shift from inward to outward-looking policies (including in South Korea, Taiwan, Malaysia and Thailand);
- to reduce the anti-export bias of high tariffs (such as in Mexico through its *maquiladora* program);
- to act as a ‘pressure valve’ to alleviate unemployment (including in Tunisia and the Dominican Republic); and
- to attract foreign investment (this is the focus of many new zones, particularly in the Middle East) (OECD 2007; FIAS 2008; East Asia Forum 2013).

Box 3.3 Measures intended to promote regional development in Australia

Various methods have been implemented with the intention of promoting regional development in Australia, including:

- *Special economic zones* — the (defunct) Darwin Trade Development Zone (1985 to 2003) is Australia’s only experience of a special economic zone to date — intended to attract industry to Darwin (Robins 1988; AustLII 2014);
- *Taxation concessions* — such as the Taxation Zone Rebate, introduced in 1945 to recognise the disadvantages to residents in specific areas of Australia;
- *Public provision of infrastructure or services* — such as the Ord River Irrigation Area, intended to establish a large scale area for irrigated agriculture in an isolated area (Department of Natural Resources 1976), the ‘growth centres’ of Albury-Wodonga and Bathurst-Orange, and the ‘new city’ of Monarto (in South Australia) (Freestone 2010); and
- *Support for clusters* — such as the Multifunction Polis (in Adelaide), intended to be a futuristic city with high technology industries to help Australia expand its technology base (Parker 1998).

In addition to measures such as these, the Australian Government has provided and continues to provide a range of budgetary assistance programs with an explicit or implicit geographic dimension; for example, the Tasmanian Freight Equalisation Scheme is intended to subsidise the cost of freighting qualifying goods by sea between Tasmania and the mainland.

Likely impacts of such measures

Special economic zones effectively provide preferential treatment for eligible businesses (or individuals) operating within the scope of the measure. Such

preferential treatment can be either direct — in the form of tax concessions, grants and subsidies, and exemptions from certain regulations — or indirect — in the form of an increased level of government provision of infrastructure or public services. The impact is to lower the operating costs or increase the revenues of firms within the scope of the measure relative to the level they would otherwise have been.

This preferential treatment comes at a cost to other businesses — those outside the scope of the measure — that may be competing for scarce labour and capital resources, and to businesses and households that may have to pay higher taxes or other government charges to fund the preferential treatment.

The main expected impact of such measures is typically couched in terms of achieving a permanent increase in economic activity above the level that would otherwise have prevailed (the longer-run dynamic impact). Whether such an increase is achieved can depend on whether the measure has a trade-creating or trade-diverting effect — that is, whether it increases economic activity in the economy as a whole or simply diverts some activity from outside the designated zone into the designated zone.

Measures that seek to ‘force development’ in situations not matched by an underlying potential competitive or comparative advantage, or where there are no clear regulatory or technical impediments to growth, have a heightened risk of imposing net costs on the community.

In this regard, the OECD observed that the use of special economic zones as a regional development tool has often been costly because such a motivation ‘often reflects political and social rather than economic and technical considerations’ (2007, p. 40). It further noted that the development of zones in remote locations ‘tends to require relatively high investments in infrastructure’ and that:

... job creation has not always been the result ... [because] ... while labour costs may be lower in some remote areas, this may not compensate for weaker linkages to markets and unreliable supporting services. (OECD 2007, p. 40)

Thus, measures such as the Darwin Trade Development Zone, the Ord River Irrigation Area, the ‘new city’ of Monarto and the Multifunction Polis — not one of which appeared to be aligned with any underlying potential competitive or comparative advantage — were unable to sustain a significant increase in economic activity following inception.

On the other hand, measures that are more likely to be associated with successful outcomes are those based on a potential competitive or comparative advantage or the removal of regulatory or technical impediments to growth. However, even in such cases, some caution appears warranted.

The Albury-Wodonga Development Corporation — established in the early 1970s to foster economic activity in the Albury-Wodonga ‘growth centre’ — is credited by some with accelerating the area’s population growth based on its advantage as a commercial centre situated on the main Sydney-Melbourne road and rail corridor (Freestone 2010). Nonetheless, despite its advantageous location, outcomes fell well short of expectations: the initial (1973) target to increase the population to 300 000 by the year 2000 was lowered in 1977 to ‘around 150 000’ and again in the early 1990s to 106 000 (slightly above the current population) (Freestone 2010).

Recent review and policy development activity

There have been numerous studies in recent years on special economic zones and regional development more broadly (box 3.4). In general, these studies have cautioned against the use of special economic zones. Some have noted the adverse effects of using zones as a way to achieve regional development objectives in view of the potentially high costs to government and negative effects outside the designated region.

Common themes emerging from these studies are that special economic zones:

- divert resources;
- have a significant risk of imposing net costs on the community; and
- are no substitute for broader domestic economic reform.

Moreover, if a measure failed to improve the underlying competitiveness of a region, there may be pressures on governments to maintain the support — rather than remove it (IC 1993).

Box 3.4 Some cautionary comments from policy reviews on special economic zones and regional development

A number of reports on special economic zones and regional development policies have been produced in recent years by a broad range of institutions:

- an OECD (2007) report on export processing zones examined their past and future role in trade and development — it concluded such zones are ‘suboptimal policy’ compared to general economic reform to improve the business environment (p. 6) and their use as a regional development tool ‘has often turned out costly’ (p. 40);
- a World Bank (Farole and Akinci 2011) report on special economic zones reviewed the progress of such zones and looked into their emerging challenges and future directions — it noted the many zone failures and found that to be successful ‘the commercial case must be present’ and that case ‘must be based on sustainable sources of competitiveness, not on fiscal incentives’ (p. 11);
- a Facility for Investment Climate Advisory Services — the investment advisory service of the World Bank (FIAS 2008) — report examined 30 years of experience of special economic zones — it observed that ‘one of the clearest lessons learned ... is that zones cannot and should not be viewed as a substitute for a country’s larger trade and investment reform efforts’ (p. 5) and that zones are more likely to fail financially if they feature ‘massive government capital outlays ... and/or, if they receive subsidized inputs’ (p. 38);
- a Grattan Institute (Daley and Lancey 2011) report explored the factors that drive regional development in Australia — it concluded that government spending ‘cannot make economic water flow uphill’ and that regional development policies should be clearly recognised as ‘subsidies to be justified on equity or social grounds, rather than hoping that they will generate self-sustaining economic growth’ (p. 3);
- the New South Wales Parliament (2012) Legislative Assembly Committee on Economic Development reported on the viability of special economic zones for promoting growth, employment and investment in regional New South Wales — it found persuasive arguments that zones ‘disadvantage neighbouring regions, ... detract from effective competition and may promote inefficiency’ (p. 44); and
- a Regional Australia Institute (2013) report focused on policy issues surrounding the future of Australia’s northern regions — it stated that a key policy challenge is to create an approach that ‘devolves genuine responsibility to people in the regions [and] incentivises their leadership’ (p. 8).

The Commission’s direct forebears also produced some related reports:

- the Industry Commission (IC 1993) reported on impediments to regional development — it noted the importance of ‘reforming labour markets, ... improving infrastructure provision and minimising ‘red tape’’ (pp. xxxii-xxxiii); and
- the Industries Assistance Commission (IAC 1987) reported on export concessions — it concluded that trade zones ‘are unlikely to yield economy-wide benefits’ (p. 40).

In Australia, a number of policy processes related to special economic zones and regional development have been proposed or are currently underway.

- The Joint Select Committee on Northern Australia is currently considering policies for developing the parts of Australia which lie north of the Tropic of Capricorn. The committee is to deliver its final report to the Australian Parliament on or before 6 July 2014. Its recommendations will inform a White Paper on developing northern Australia (see below) (Parliament of Australia 2014).
 - Some submissions to the committee have expressly called for northern Australia to be declared a special economic zone — for example, Australians for Northern Development and Economic Vision stated that ‘optimal policy is to create one [special economic zone] across all of Northern Australia ... [with] reduced State/Territory and Federal taxation — stamp duty, payroll tax, income and company tax’ (Parliament of Australia 2014, Inquiry into the Development of Northern Australia, sub. 147, p. 3).
- In February 2014, the Australian Government announced that the preparation of a White Paper on developing northern Australia was underway.

Possible directions for future review and policy development

The history of special economic zones is not a positive one. While it can be seen as an understandable tool for trialling a policy intended to apply more widely, a danger is that such wider application of successful trials may never occur. Further, firms advantaged by any tax or other support that is provided may have no basis for staying if that support is removed, creating an incentive to make the support permanent.

Efficient resource allocation is undermined.

And where the objective is to encourage development in regions currently considered unattractive for investment, it is crucial that the potential net benefits are well established (and optimism bias corrected) before expectations are raised. The lack of analysis is one of the most problematic aspects of calls for regional or special economic zones.

4 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 afforded by:

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

As well as providing estimates for these three categories, the Commission aggregates them to yield an estimate of the ‘combined’ assistance for four broad industry sectors of the Australian economy — ‘primary production’, ‘mining’, ‘manufacturing’ and ‘services’ — along with effective rates of assistance for the primary, mining and manufacturing sectors. For each category of assistance, the Commission provides more detailed estimates of assistance by 34 industry groupings. Where industry detail is not available, estimates are assigned to one of four ‘unallocated’ categories (primary production, manufacturing, services or other).

The Commission also disaggregates its estimates of budgetary assistance into categories (such as R&D, export assistance and support to small business) to facilitate more detailed assessments of changes in the composition and nature of assistance.

While the estimates cover a broad range of measures that afford support to industry, the estimates do not capture all Australian Government support for industry (box 4.1), nor State government assistance. The assistance provided through government regulation is also not included in the estimates.

The following sections present the most recent — 2012-13 — estimates and report on broad changes in the structure of industry assistance over the last four decades.

Box 4.1 Coverage of 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. Arrangements that may have assistance implications but are not part of the estimates include:

- quarantine restrictions;
- the allocation and pricing of water resources;
- the effects of government purchasing preferences and local content arrangements — for example, as they affect the manufacturing sector, information technology industries and broadcasting;
- regulatory restrictions on competition — such as those relating to pharmacies, air services, importation of books and media and broadcasting;
- anti-dumping and countervailing measures;
- general taxes and certain differential tax rates, including in relation to excises, the GST, payroll tax, superannuation and carbon emissions;
- State and Territory government support to industry, other than designated agricultural marketing arrangements and rural support programs;
- government programs affecting a range of services industries, mainly relating to the provision of health, education, and community services;
- government programs affecting national security and public safety, including police and defence programs;
- government programs and taxation concessions affecting professional sport and the arts;
- government programs affecting the labour market; and
- resource access arrangements including to mining, forestry and fisheries.

4.1 Tariff assistance

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

- Tariffs on imported goods increase the price at which those goods are sold on the Australian market and, thus, allow scope for domestic producers of competing products to increase their prices. These effects are captured by the Commission's estimates of output assistance.
- On the other hand, tariffs also increase the price of local and imported goods that are used as inputs and thus penalise local user industries. This 'penalty' is

reduced if tariff concessions are available to Australian producers. The penalties are reflected in the Commission's estimates of input assistance.

- Net tariff assistance represents the 'effective' 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.

Output assistance

The Commission estimates that the gross value of tariff assistance to domestic production was around \$7.8 billion in 2012-13 (table 4.1). The estimated declines in the years 2009-10 and 2010-11 mainly reflect reductions in assistance to passenger motor vehicles and parts, and textiles, clothing and footwear products in January 2010. The estimated decline in 2012-13 reflects lower output levels in tariff assisted activities (mainly metal and fabricated metal products, food, beverages and tobacco, and petroleum, coal, chemical and rubber products).

Table 4.1 **Tariff assistance, 2007-08 to 2012-13^a**
\$ million (nominal)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Output assistance	8891.2	8936.3	8396.0	8080.5	8115.0	7843.1
Input penalty	-6444.0	-6717.0	-6665.4	-6660.4	-7049.0	-7112.4
Net tariff assistance	2447.1	2219.3	1730.6	1420.1	1066.0	730.7

^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 at current prices data and supporting data, 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 \$7.1 billion in 2012-13. This compares with a penalty of around \$6.4 billion in 2007-08. The estimated penalty has increased in nominal terms with the general growth in the economy and rising price levels. This increase was moderated in both 2009-10 and 2010-11 by reductions in tariffs on passenger motor vehicles and parts, and textiles, clothing and footwear products in January 2010.

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 \$0.7 billion in 2012-13, down from nearly \$2.5 billion in 2007-08. This reflects both high relative growth in the services sector (which incurs significant tariff penalties), especially relative to the manufacturing sector (a significant beneficiary of tariff assistance), together with some reductions in tariffs applied to manufactured products.

In the Commission's tariff assistance estimates, preferences granted under Australia's preferential trading agreements are treated on the basis that domestic prices in Australia remain unchanged (box 4.2).

Box 4.2 Treatment of preferential tariffs 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; 2008).

Tariff assistance by industry grouping

Most tariff assistance on outputs is directed towards the manufacturing sector, and in particular the *Food, beverages and tobacco* (\$1.7 billion), *Metal and fabricated metal products* (\$1.7 billion), *Petroleum, coal, chemical and rubber products* (\$1 billion), and *Motor vehicles and parts* (\$0.8 billion) industry groups (table 4.2 left hand column).

Table 4.2 **Tariff assistance by industry grouping, 2012-13^{a,b}**
\$ million (nominal)

<i>Industry grouping</i>	<i>Output assistance</i>	<i>Input cost penalty</i>	<i>Net tariff assistance</i>
Primary production	241.9	-81.6	160.3
Horticulture and fruit growing	177.1	-11.2	165.9
Sheep, beef cattle and grain farming	0.2	-16.1	-15.9
Other crop growing	2.1	-4.0	-2.0
Dairy cattle farming	—	-2.0	-2.0
Other livestock farming	—	-4.1	-4.1
Aquaculture and fishing	1.0	-15.4	-14.4
Forestry and logging	61.7	-12.2	49.5
Primary production support services	0.0	-16.6	-16.6
Mining	1.0	-216.8	-215.8
Manufacturing	7600.1	-2078.4	5521.7
Food, beverages and tobacco	1739.8	-494.7	1245.1
Textile, leather, clothing and footwear	301.1	-61.5	239.6
Wood and paper products	640.3	-129.7	510.6
Printing and recorded media	220.2	-35.7	184.5
Petroleum, coal, chemical and rubber products	1024.1	-299.1	725.0
Non-metallic mineral products	247.6	-42.5	205.1
Metal and fabricated metal products	1675.3	-397.8	1277.5
Motor vehicle and parts	836.3	-308.0	528.3
Other transport equipment	77.3	-69.0	8.4
Machinery and equipment manufacturing	628.8	-189.5	439.3
Furniture and other manufacturing	209.5	-51.0	158.4
Services	—	-4735.5	-4735.5
Electricity, gas, water and waste services	—	-97.1	-97.1
Construction	—	-1698.1	-1698.1
Wholesale trade	—	-259.8	-259.8
Retail trade	—	-188.0	-188.0
Accommodation and food services	—	-523.6	-523.6
Transport, postal and warehousing	—	-211.8	-211.8
Information, media and telecommunications	—	-145.7	-145.7
Financial and insurance services	—	-9.7	-9.7
Property, professional and admin. services	—	-620.9	-620.9
Public administration and safety	—	-217.8	-217.8
Education and training	—	-120.3	-120.3
Health care and social assistance	—	-274.9	-274.9
Arts and recreation services	—	-79.1	-79.1
Other services	—	-288.7	-288.7
Total	7843.1	-7112.4	730.7

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

Source: Commission estimates.

Mining and primary production industries receive little tariff assistance on outputs, and tariffs are not levied on services. On the other hand, tariffs impose input-cost penalties on all industries (because of their cost-raising effects on inputs) (table 4.2 middle column). Around two thirds of the input penalty on tariffs is incurred by services industries.

All manufacturing industries are estimated to receive positive net tariff assistance, as the value of tariff assistance on outputs outweighs the cost impost of tariffs on inputs for each industry group (table 4.2 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 2012-13. Some import competing products in these two particular industry groups are protected by tariffs on imports (for example, grapes and softwood conifers).

The *Mining* industry together with all of the services industries (and most primary production industries) incurred negative net tariff assistance in 2012-13.

Net tariff assistance by industry sector

The estimated value of net tariff assistance for the manufacturing sector has decreased by around 14 per cent since 2007-08, largely reflecting reductions in tariff assistance to the *Textiles, clothing, footwear and leather*, and *Motor vehicles and parts* industries in January 2010 (table 4.3). 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 22 per cent (to over \$4.7 billion), reflecting growth in the use of tariff assisted manufactures as the sector has expanded. Similarly, the net tariff penalty on the mining sector has also increased over the period.

Table 4.3 Net tariff assistance by industry sector, 2007-08 to 2012-13^a
\$ million (nominal)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Primary production	78.1	125.0	142.3	139.3	145.6	160.3
Mining	-174.0	-179.5	-186.9	-184.0	-197.7	-215.8
Manufacturing	6419.7	6408.8	5967.8	5732.2	5734.0	5521.7
Service	-3876.6	-4135.1	-4192.5	-4267.4	-4615.9	-4735.5
Total	2447.1	2219.3	1730.6	1420.1	1066.0	730.7

^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 data 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.

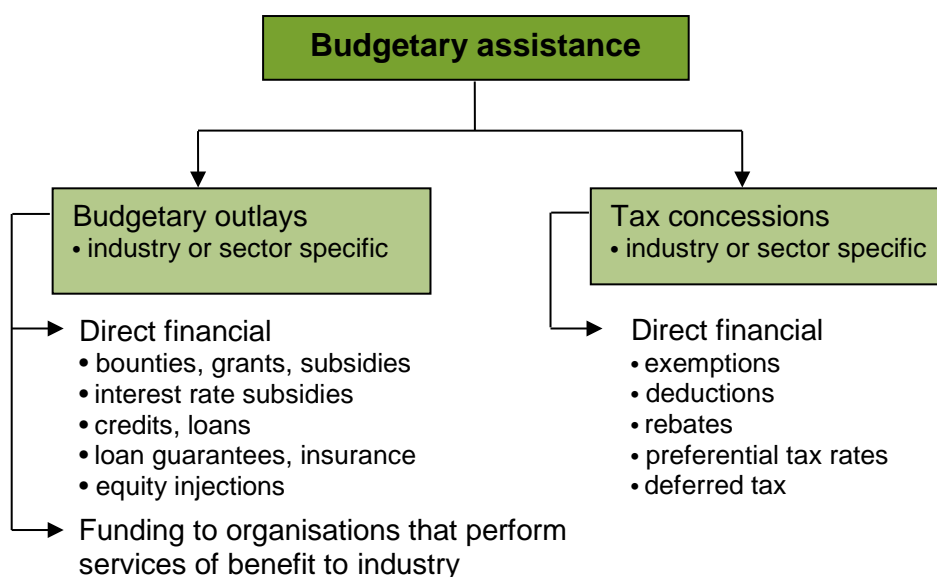
Source: Commission estimates.

Although the value of tariff assistance to primary production has trended higher over the period, it has varied from year-to-year with changes in the value of activity in the sector, including changes as a consequence of drought. In particular, between 2007-08 to 2012-13, 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.

4.2 Australian Government budgetary assistance

Budgetary assistance includes actual payments (outlays) and industry and sector specific tax concessions that have industry policy objectives (figure 4.1). Some measures provide assistance directly to firms, such as the Automotive Transformation Scheme and taxation concessions on R&D expenditures, while other budgetary support measures deliver benefits indirectly to an industry via intermediate organisations such as the Rural Industries Research and Development Corporations and the Commonwealth Scientific and Industrial Research Organisation (CSIRO).

Figure 4.1 **Forms of budgetary assistance**



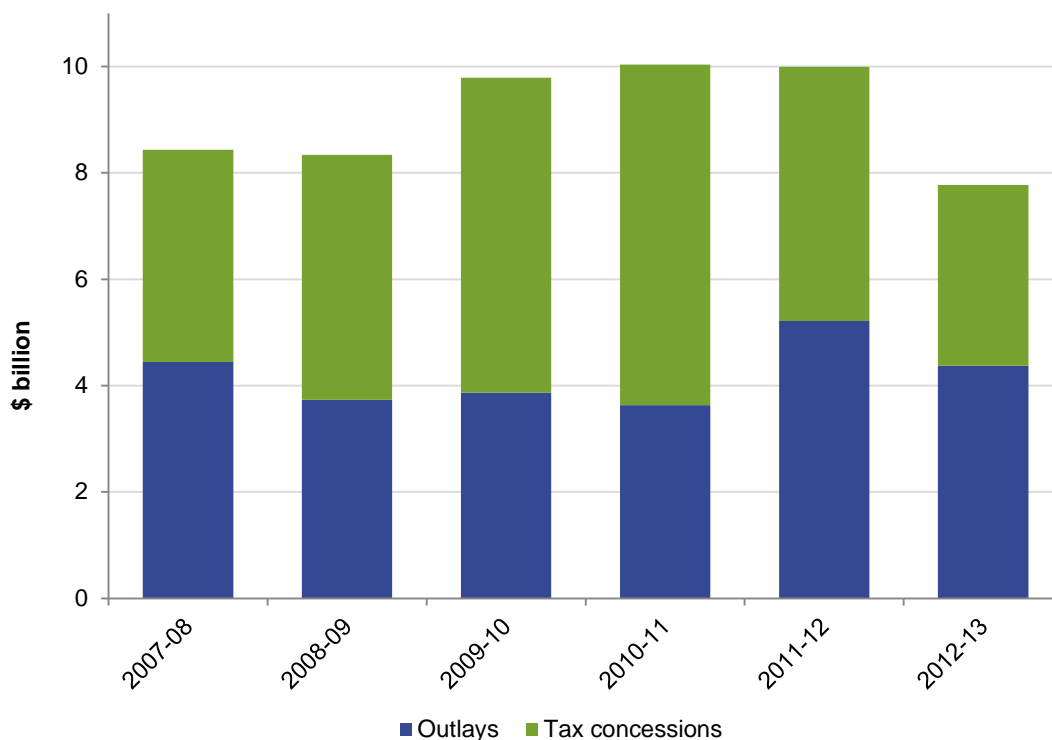
The budgetary assistance estimates are derived primarily from actual expenditures shown in departmental and agency annual reports, and the Australian Treasury Tax Expenditures Statement (TES). Industry and sectoral disaggregations are based primarily on supplementary information provided by relevant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

Aggregate budgetary assistance

The estimated gross value of budgetary assistance to Australian industry was around \$7.8 billion in 2012-13,¹ compared with \$10.0 billion in 2011-12 and \$8.4 billion in 2007-08 in nominal terms (figure 4.2). In real terms, this represents a decline of 22 per cent since 2011-12 and 20 per cent since 2007-08.

¹ Treasury estimate (in the TES) the value of exempting certain emissions activities from the carbon pricing mechanism to be around \$3.7 billion in 2012-13. These principally relate to agriculture and deforestation. These ‘concessions’ have not been incorporated into the assistance estimates, nor has the ‘tax’ effect of the carbon pricing mechanism on other activities. Treasury note that the value of exemptions will fall to zero from 1 July 2014, consistent with the revised carbon pricing arrangement applying from that time.

Figure 4.2 Budgetary assistance to industry, 2007-08 to 2012-13
\$ billion (nominal)



Sources: Commonwealth Budget and budget-related papers (various years); departmental annual reports (various years); Australian Government (2014); Commission estimates.

The main reasons for the reduction in aggregate budgetary assistance in 2012-13 are:

- the cessation of transitional assistance afforded by the Energy Security Fund (\$1 billion in 2011-12), Coal Sector Jobs Package (\$219 million in 2011-12) and Steel Transformation Plan (\$164 million in 2011-12), together with a number of other programs that were afforded around \$200 million in budgetary assistance in 2011-12;
- a decrease of around \$500 million in assistance afforded by the Small Business and General Business Tax Break;
- decreases of around \$80 million each in assistance afforded by the Farm Management Deposits Scheme and the Green Car Innovation Fund; and
- decreases of around \$50 million and \$45 million, respectively, in assistance afforded by the Sustainable Rural Water Use and Infrastructure Program and the Income tax averaging provisions scheme.

On the other hand, there were some increases in budgetary assistance in 2012-13, including:

- around \$50 million and \$40 million, respectively, in assistance under the Small Business Capital Gains Tax 50 Per Cent Reduction and the Offshore Banking Unit Tax Concession; and
- increases of around \$340 million in other on-going programs.

There were also changes in R&D arrangements that involved a reduction of \$940 million in industry assistance afforded by the R&D Tax Concession and Premium R&D Tax Concession in 2012-13, and a largely offsetting increase of \$931 million provided through the R&D Tax Offsets scheme. The R&D Tax Offsets scheme includes the R&D Tax Incentive, the replacement scheme for the R&D Tax Concession and Premium R&D Tax Concession.

Not all taxation concessions affording assistance to industry are quantified in the Treasury's annual TES. In cases where quantification is not practicable, the TES generally provides indicative ranges within which the value of the concession may fall. The 2013 TES identifies 50 business income tax measures which involve 'differential' tax treatment from the 'norm', some which may be considered industry assistance such as tax write-offs for horticulture plants, and tax deductions for horse breeding stock.

Activities targeted

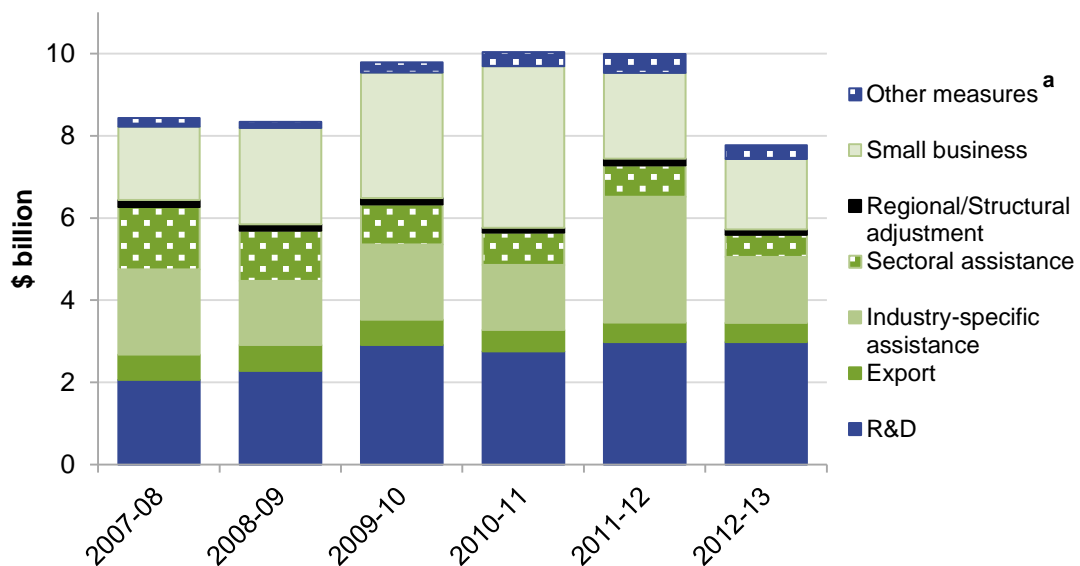
Budgetary assistance is often designed to encourage particular activities (such as R&D or exports) or to support particular firms, industries or sectors. To provide an indication of the distribution of assistance among activities and to facilitate more detailed assessments of changes in the composition and nature of assistance, the Commission 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 measures and the Offshore Banking Unit Taxation Concession;

- *Sector-wide* measures, such as ‘exceptional circumstances’ drought relief payments and the tax concessions under the Farm Management Deposits Scheme, in the case of the primary sector;
- *Small business* programs, such as the Small Business and General Business Tax Break, the small business capital gains tax concessions, the 25 per cent Entrepreneurs’ Tax Offset and the Small Business Advisory Services Program;
- *Regional* assistance, including the Tasmanian Freight Equalisation Scheme, Bass Strait Passenger Vehicle Equalisation Scheme and various structural adjustment programs with a regional focus; and
- 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 2012-13 was directed to R&D (38 per cent); small business (22 per cent); and specific industries (21 per cent) (figure 4.3).

Figure 4.3 Budgetary assistance by category, 2007-08 to 2012-13
\$ billion (nominal)



^a Includes Investment measures.

Source: Commission estimates.

This compares with a distribution of budgetary assistance comprised of R&D (24 per cent); specific industries (24 per cent); and small business (21 per cent) in 2007-08. Over the six year period 2007-08 to 2012-13, 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 and 2012-13, an overall reduction in drought related programs over the period, and a significant increase in transitional assistance in relation to the carbon pricing mechanism in 2011-12 and their subsequent winding down in 2012-13.

A number of budgetary measures included in the estimates relate to carbon emissions reduction, renewable energy and energy goals. These measures support a range of activities that span R&D, industry-specific, sector-specific and other measures. The measures amounted to around \$326 million (4 per cent) of estimated budgetary assistance in 2012-13, around \$1.4 billion lower than in 2011-12.

Some caution is required when interpreting these shares. While programs have been allocated to one category only (based on the nature of the support and main activities assessed as receiving that support), some have characteristics that relate to more than one category. For example, the R&D category includes rural R&D, which could also be considered sector specific.

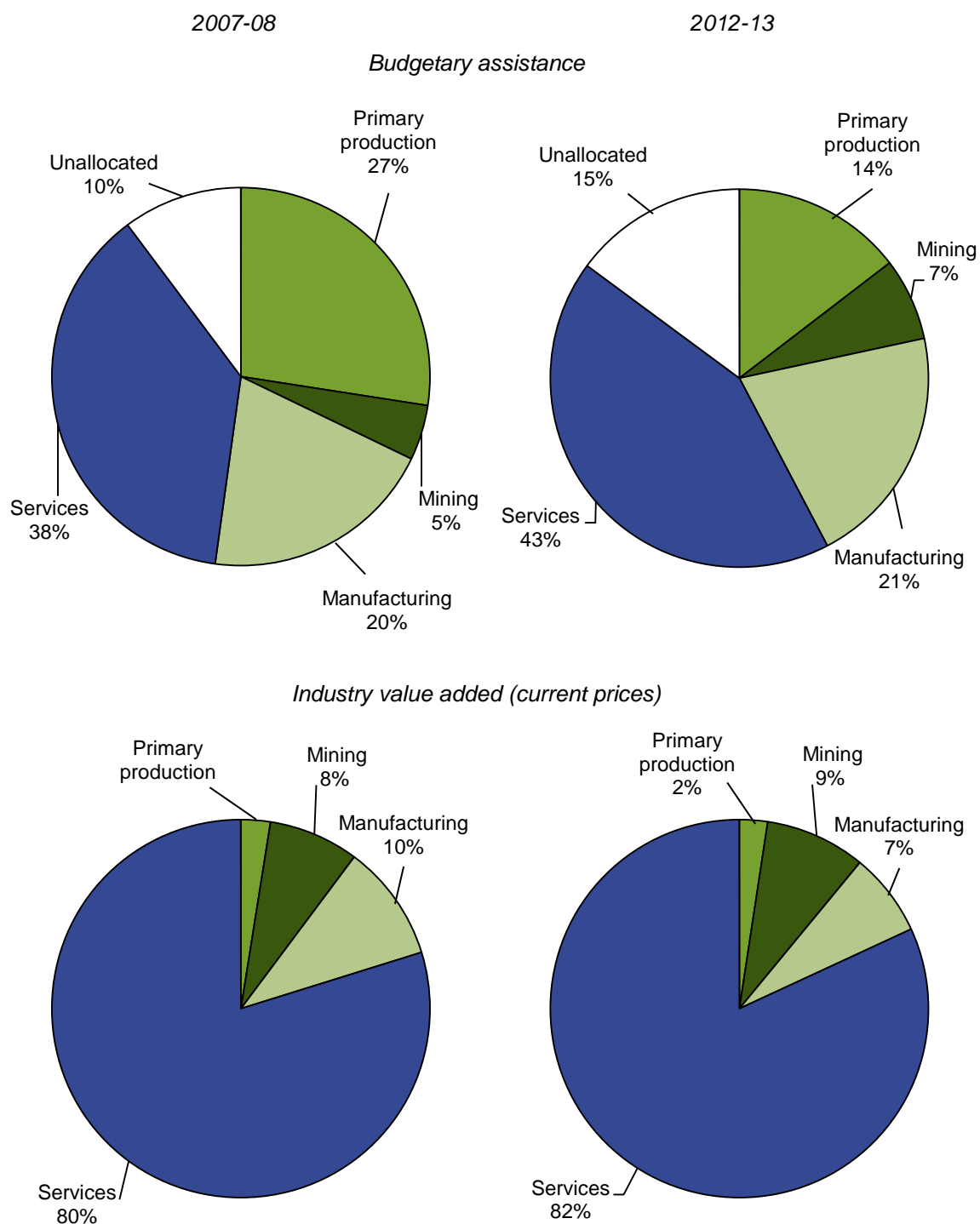
Sectoral and industry distribution

The Commission records the incidence of budgetary assistance by the initial benefiting industry, that is, the industry to which the assistance first accrues. Estimates are presented for 34 industry groupings, while four ‘unallocated’ categories are used for programs for which it has not been possible to confidently identify the initial benefiting industry or sector.

In 2012-13, most budgetary assistance was afforded through outlays for the primary production, mining and manufacturing sectors while for services, the majority of budgetary assistance was provided through tax concessions.

In 2012-13, the services sector is estimated to have received around 43 per cent of estimated budgetary assistance — up from around 38 per cent in 2007-08 (figure 4.4). The manufacturing and primary production sectors, which together contribute about 9 per cent of value added, received around one third of total estimated budgetary assistance in 2012-13, while the mining sector received relatively little measured budgetary assistance. While it has been practicable to assign an initial benefiting industry to over 80 per cent of budgetary assistance, the proportion not assigned to a benefiting industry has increased since 2007-08.

Figure 4.4 **Budgetary assistance and value added shares by industry sector, 2007-08 and 2012-13**



Sources: ABS (2013); Commission estimates.

The three industry groups receiving the largest levels of budgetary assistance accounted for around a quarter of estimated budgetary assistance to industry in 2012-13 (table 4.4).

- Budgetary assistance was highest for the *Property, professional and administrative services* industry (\$677.5 million) consisting mainly of the R&D tax concession programs and Small Business Capital Gains Tax concession measures;
- *Financial and insurance services* was the next highest recipient (\$640.3 million), including the R&D tax concession programs, Offshore Banking Unit Taxation Concession and the Concessional Rate of Withholding Tax concession.²
- *Mining* accounted for \$546.5 million, mainly in the form of R&D tax concession programs and assistance through CSIRO.

Although *Motor vehicles and parts* was the fourth largest industry group accounting for \$461.8 million in budgetary assistance in 2012-13, it has the highest effective rate of assistance of all industry groups (see below).

Budgetary assistance not assigned to an industry sector is reported in the *Unallocated other* category. That assistance accounted for around 15 per cent of total estimated budgetary assistance in 2012-13. The small business capital gains tax concessions (\$695 million), for which Industry allocation data is currently not available through taxation statistics, accounts for over half of the category. Other budgetary assistance not classified to industry included the Small Business and General Business Tax Break, Austrade, and the TCF Corporate Wear Program.

² Taxation concessions on retirement savings associated with Australia's compulsory superannuation arrangements, while providing incidental benefits to the finance sector as the provider of financial services, are not included in the Commission's assistance estimates.

Table 4.4 Budgetary assistance by industry grouping, 2012-13
\$ million (nominal)

	<i>Outlays</i>	<i>Tax concessions</i>	<i>Total budgetary assistance</i>
Primary production	762.7	370.0	1132.7
Horticulture and fruit growing	82.9	43.0	125.9
Sheep, beef cattle and grain farming	216.3	237.6	454.0
Other crop growing	41.7	19.2	60.9
Dairy cattle farming	26.8	23.1	49.9
Other livestock farming	22.1	15.2	37.3
Aquaculture and fishing ^a	62.4	9.2	71.6
Forestry and logging	35.2	8.6	43.8
Primary production support services	6.2	9.3	15.5
Unallocated primary production ^b	269.1	4.8	274.0
Mining	401.9	144.5	546.5
Manufacturing	1333.3	275.9	1609.2
Food, beverages and tobacco	65.3	37.0	102.3
Textile, leather, clothing and footwear	54.9	7.3	62.2
Wood and paper products	21.3	8.4	29.7
Printing and recorded media	13.2	7.5	20.7
Petroleum, coal, chemical and rubber products	297.1	25.1	322.2
Non-metallic mineral products	30.0	4.0	34.0
Metal and fabricated metal products	76.8	34.6	111.4
Motor vehicle and parts	426.6	35.2	461.8
Other transport equipment	26.2	4.0	30.2
Machinery and equipment manufacturing	193.3	34.6	227.9
Furniture and other manufacturing	35.6	4.3	39.9
Unallocated manufacturing ^b	93.1	73.9	167.0
Services	1597.2	1729.5	3326.7
Electricity, gas, water and waste services	116.2	13.4	129.6
Construction	67.1	101.4	168.5
Wholesale trade	122.2	77.5	199.7
Retail trade	57.5	69.3	126.8
Accommodation and food services	9.1	60.2	69.3
Transport, postal and warehousing	56.7	39.4	96.1
Information, media and telecommunications	171.6	186.1	357.7
Financial and insurance services	134.1	506.1	640.3
Property, professional and admin. services	384.4	293.0	677.5
Public administration and safety	13.5	4.0	17.5
Education and training	27.1	11.8	38.9
Health care and social assistance	102.1	56.1	158.1
Arts and recreation services	125.9	281.5	407.4
Other services	38.9	29.7	68.6
Unallocated services ^b	170.8	0.0	170.8
Unallocated other^b	280.0	875.8	1155.8
Total	4375.1	3395.8	7771.0

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

Source: Commission estimates.

4.3 Combined assistance

This section presents the results for combined tariff, budgetary assistance and agricultural pricing assistance. Combined assistance is reported in terms of the net value of assistance and its components, and the effective rate of assistance (box 4.3).

Box 4.3 Summary measures of combined assistance

In reporting its estimates of net combined assistance, the Commission adopts two summary measures.

- First, it reports total net assistance (also referred to in assistance methodologies as the net subsidy equivalent (NSE)), which is the dollar value of net assistance to the land, labour and capital resources used in a particular industry or activity. It indicates the level of transfers of income to benefiting producers from consumers, taxpayers and other firms. NSE estimates are reported for the four sectors and 34 industry groupings.
- The second summary measure is the effective rate of assistance (ERA). It measures the NSE of combined assistance to a particular industry in proportion to that industry's unassisted net output (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. That is, where there is some competition between industries for resources, those industries with relatively high effective rates of assistance are more likely, as a result of their assistance, to be able to attract resources away from those with lower rates of effective assistance. ERA estimates are reported for industries in the primary production, mining and manufacturing sectors. Effective rates of assistance are not published for the services sector.

Aggregate assistance

Total estimated gross combined assistance was \$15.6 billion in 2012-13, a decline of around \$2.5 billion from 2011-12 in nominal terms (table 4.5). This represents a decline of around 14 per cent in nominal terms with a similar proportional reduction estimated to have occurred in real terms.

Table 4.5 **Combined assistance, 2007-08 to 2012-13**

\$ million (nominal)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Tariff output assistance	8891.2	8936.3	8396.0	8080.5	8115.0	7843.1
Budgetary outlays	4447.6	3733.0	3868.3	3630.3	5212.9	4375.1
Tax concessions	3987.9	4607.1	5921.0	6405.9	4780.2	3395.8
Agricultural pricing assistance	120.1	0.2	-	-	-	-
Gross combined assistance	17446.7	17276.5	18185.2	18116.7	18108.1	15614.0
Tariff input assistance	-6444.0	-6717.0	-6665.4	-6660.4	-7049.0	-7112.4
Net combined assistance^a	11002.7	10559.5	11519.8	11456.2	11059.1	8501.6

– Nil. ^a Further information on the estimation and interpretation of net combined assistance is provided in the methodological annex to *Trade & Assistance Review 2011-12*. Estimates prior to 2011-12 differ from estimates published in earlier *Reviews*. Differences reflect the effects of re-benchmarking the estimates of tariff assistance and changes in source information.

Source: Commission estimates.

After considering the negative effects of tariff assistance on industry inputs, total estimated net combined assistance amounted to around \$8.5 billion in 2012-13, a decrease of around \$2.5 billion (in nominal terms) from 2011-12. Net tariff assistance and budgetary assistance declined by around \$0.3 billion and \$2.2 billion, respectively. Between the two years, the impost of tariffs on inputs remained relatively stable.

The year-to-year changes in combined assistance over the six year period 2007-08 to 2012-13, represent the net effect of changes in tariff assistance, budgetary outlays and tax concessions, as well as the reduction in support through agricultural pricing assistance. As noted above, the main influences on changes in tariff assistance are reductions in tariff rates and the scale of activities protected by tariffs, or bearing the cost of tariffs. Tariff output assistance has tended to decline while the tariff penalty on inputs has tended to increase. While the net effect of these changes is to reduce overall net tariff assistance, this estimate masks the distributional effects of assistance disparities between industries.

Value of combined assistance by industry grouping

Table 4.6 summarises, at the industry level, tariff and budgetary assistance for 2012-13. Reflecting the earlier discussion on individual elements, the manufacturing sector receives the highest level of net combined industry assistance

Table 4.6 Combined assistance by industry grouping, 2012-13^a
\$ million (nominal)

	Tariffs		Net tariff assistance	Budgetary		Net combined assistance
	Output	Input penalty		Outlays	Tax concess.	
Primary production	241.9	-81.6	160.3	762.7	370.0	1293.0
Horticulture and fruit growing	177.1	-11.2	165.9	82.9	43.0	291.8
Sheep, cattle and grain farming	0.2	-16.1	-15.9	216.3	237.6	438.0
Other crop growing	2.1	-4.0	-2.0	41.7	19.2	58.9
Dairy cattle farming	—	-2.0	-2.0	26.8	23.1	47.9
Other livestock farming	—	-4.1	-4.1	22.1	15.2	33.2
Aquaculture and fishing	1.0	-15.4	-14.4	62.4	9.2	57.1
Forestry and logging	61.7	-12.2	49.5	35.2	8.6	93.2
Primary production services	—	-16.6	-16.6	6.2	9.3	-1.1
Unallocated primary production	—	—	—	269.1	4.8	274.0
Mining	1.0	-216.8	-215.8	401.9	144.5	330.7
Manufacturing	7600.1	-2078.4	5521.7	1333.3	275.9	7130.9
Food, beverages and tobacco	1739.8	-494.7	1245.1	65.3	37.0	1347.3
Textile, clothing and footwear	301.1	-61.5	239.6	54.9	7.3	301.8
Wood and paper products	640.3	-129.7	510.6	21.3	8.4	540.3
Printing and recorded media	220.2	-35.7	184.5	13.2	7.5	205.2
Petroleum, coal and chemicals	1024.1	-299.1	725.0	297.1	25.1	1047.2
Non-metallic mineral products	247.6	-42.5	205.1	30.0	4.0	239.2
Metal and fabricated products	1675.3	-397.8	1277.5	76.8	34.6	1388.8
Motor vehicle and parts	836.3	-308.0	528.3	426.6	35.2	990.1
Other transport equipment	77.3	-69.0	8.4	26.2	4.0	38.5
Machinery and equipment	628.8	-189.5	439.3	193.3	34.6	667.2
Furniture and other products	209.5	-51.0	158.4	35.6	4.3	198.3
Unallocated manufacturing	—	—	—	93.1	73.9	167.0
Services	0.0	-4735.5	-4735.5	1597.2	1729.5	-1408.8
Electricity, gas, water and waste	—	-97.1	-97.1	116.2	13.4	32.4
Construction	—	-1698.1	-1698.1	67.1	101.4	-1529.6
Wholesale trade	—	-259.8	-259.8	122.2	77.5	-60.0
Retail trade	—	-188.0	-188.0	57.5	69.3	-61.2
Accommodation & food services	—	-523.6	-523.6	9.1	60.2	-454.3
Transport, postal & warehousing	—	-211.8	-211.8	56.7	39.4	-115.7
Information & telecommunications	—	-145.7	-145.7	171.6	186.1	212.0
Financial and insurance services	—	-9.7	-9.7	134.1	506.1	630.5
Property, professional & admin.	—	-620.9	-620.9	384.4	293.0	56.6
Public administration and safety	—	-217.8	-217.8	13.5	4.0	-200.4
Education and training	—	-120.3	-120.3	27.1	11.8	-81.5
Health care and social assistance	—	-274.9	-274.9	102.1	56.1	-116.7
Arts and recreation services	—	-79.1	-79.1	125.9	281.5	328.4
Other services	—	-288.7	-288.7	38.9	29.7	-220.1
Unallocated services	—	—	—	170.8	0.0	170.8
Unallocated other	—	—	—	280.0	875.8	1155.8
Total	7843.1	-7112.4	730.7	4375.1	3395.8	8501.6

— Nil. ^a Read in conjunction with notes to tables 2.2 and 2.4.

Source: Commission estimates.

because of the tariff assistance on its outputs. Although the services sector receives the most budgetary assistance (around \$3.3 billion in identifiable support), such assistance is outweighed by the estimated input tariff penalty (\$4.7 billion). The primary production sector received the majority of its assistance in the form of budgetary outlays, although some tariff protection continues to be afforded to a range of horticultural, crop and forestry products. A time series of net combined assistance (table 4.6 column 7) by industry grouping for the period 2007-08 to 2012-13 is presented in appendix A.

Effective rates of (combined) assistance

Estimated effective rates of combined assistance by industry grouping

For the manufacturing sector, the estimated effective rate of assistance — that is, the value of assistance as a proportion of (unassisted) value added — was 4.2 per cent in 2012-13, and was in line with the estimate for previous years (table 4.7). The effective rate for the primary sector in 2012-13 was 2.6 per cent. (It had reached 6.4 per cent in 2007-08, reflecting assistance afforded the industry for drought relief and the Dairy Structural Adjustment Program). The estimated effective rate of assistance from tariff and budgetary assistance for mining is negligible.

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

The *Textiles, leather, clothing and footwear* and *Motor vehicle and parts* industry groupings continue to have higher effective rates of combined assistance than other manufacturing activities. While remaining relatively high, the estimated effective rates of assistance to both industry groups have declined significantly over recent decades following substantial reductions in tariff rates and the removal of import quotas. Effective rates of assistance for these industries have also declined significantly since 2008-09, 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 new automotive assistance arrangements.

Table 4.7 Effective rate of combined assistance by industry grouping, 2007-08 to 2012-13^a

per cent

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Primary production^b	6.4	4.7	4.3	3.2	3.3	2.6
Horticulture and fruit growing	4.3	4.4	3.3	3.1	2.9	2.7
Sheep, beef cattle and grain	6.3	6.3	5.7	3.5	3.0	2.3
Other crop growing	6.9	2.0	1.9	1.0	1.6	1.5
Dairy cattle farming	13.2	4.5	5.9	3.5	2.7	2.1
Other livestock farming	1.7	1.2	1.1	0.9	1.4	0.8
Aquaculture and fishing	6.8	3.5	4.1	3.7	2.9	2.9
Forestry and logging	6.9	-1.3	4.5	5.3	6.6	4.9
Primary production services	0.2	0.3	0.1	0.0	0.0	0.0
Mining	0.2	0.2	0.2	0.2	0.4	0.2
Manufacturing^b	4.5	4.6	4.5	4.2	4.3	4.2
Food, beverages and tobacco	3.3	3.4	3.4	3.4	3.4	3.4
Textile, clothing and footwear	13.7	13.8	12.2	9.8	8.0	8.1
Wood and paper products	5.2	5.2	4.9	4.9	4.8	4.9
Printing and recorded media	3.6	3.5	3.5	3.5	3.6	3.7
Petroleum, coal & chemicals	2.8	3.1	3.1	3.1	3.1	3.2
Non-metallic mineral products	3.1	2.9	3.0	2.9	3.0	3.1
Metal and fabricated products	4.3	4.5	4.5	4.4	4.9	4.5
Motor vehicle and parts	13.2	13.1	12.8	9.5	10.3	8.9
Other transport equipment	0.7	0.9	0.9	0.8	0.8	0.8
Machinery and equipment	3.2	3.2	3.3	3.1	3.1	3.3
Furniture and other products	5.4	4.6	4.7	4.7	4.9	5.1

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

Source: Commission estimates.

Dairy cattle farming and Sheep, beef cattle and grain farming

The estimated effective rate of assistance for *Dairy cattle farming* declined markedly from 2007-08 to 2012-13 — from 13.2 per cent to 2.1 per cent. This reflects a decline in Exceptional Circumstances drought support and the cessation of payments under the Dairy Structural Adjustment Program in April 2008. Prior to the dairy industry's deregulation in July 2000, the effective rate of combined assistance was estimated to exceed 30 per cent.

Reflecting lower claims for Exceptional Circumstances drought support, the effective rate of assistance for the *Sheep, beef cattle and grain farming* group declined from 6.3 per cent in 2008-09 to 2.3 per cent in 2012-13. Declines were also estimated for some other agricultural industry groupings because of lower claims for drought support.

Forestry and logging

The estimated effective rate of assistance to *Forestry and logging* has changed markedly over recent years. The change from 6.9 per cent in 2007-08 to a negative 1.3 per cent for 2008-09 and then back to 4.5 per cent in 2009-10, as indicated above, reflects the impact of 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.

Effective rates of assistance to Forestry and logging have stabilised in more recent years at around 5 per cent reflecting new structural adjustment packages for the Tasmanian forestry industry.

Effective rates of assistance at the firm level

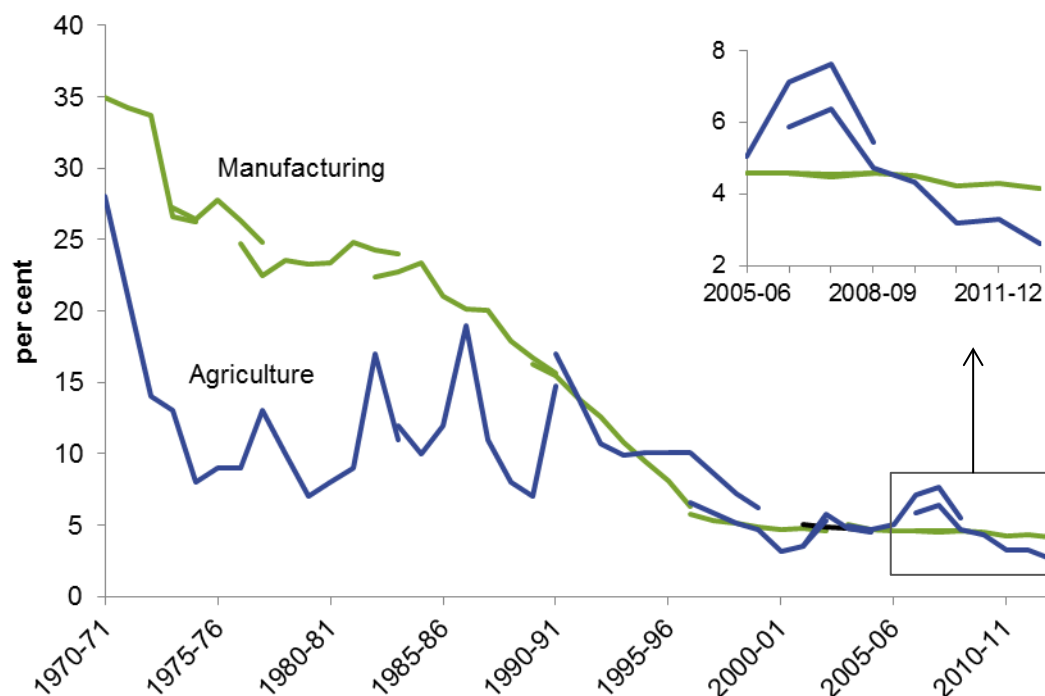
While present effective rates are historically low, the effective rate of assistance for an individual company or project can be quite significant. For example, a number of industry grant programs to both goods producing and service activities provide subsidy equivalents for supported projects well above industry averages. This can be quite distortionary, within an industry as well as at the economy-wide level.

4.4 Effective rates of assistance since 1970

The Commission has estimated assistance to the manufacturing and agricultural sectors since the early 1970s. The estimates have been derived in several ‘series’, each spanning a number of consecutive years, with each series retaining a common methodology, coverage of measures and data sources across those years. 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 4.5 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 4.5, estimates of the effective rate of assistance for the previous 2004-05 benchmarked series are reported for the years 2003-04 to 2008-09. Estimates for the new 2008-09 benchmark series are reported for the years 2006-07 to 2012-13. The overlapping estimates are also shown in expanded form in an insert in the figure.

Figure 4.5 Effective rates of assistance to manufacturing and agriculture,^a 1970-71 to 2012-13
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 decline in measured assistance to the manufacturing sector over the last 35 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, whereas since 2000, the rate has been around 5 per cent. Major influences on this decline over the past four decades have been the 25 per cent across-the-board tariff cut of 1973, the abolition of (subsequent) tariff quotas and the broad programs of tariff reductions that commenced in the late 1980s. Recent declines have been associated mainly with reductions in tariff assistance to the textile, clothing and footwear, and passenger motor vehicle industries. A 5 per cent tariff, 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 and industry and costs to government administration.

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

The rise in the effective rate of assistance to 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, as well as the Dairy Industry Structural Adjustment package. Such assistance has since declined significantly and the estimated assistance to the sector overall has declined to around 2.6 per cent.

5 Developments in industry assistance

This chapter provides an overview of Australian Government announcements and related developments pertaining to industry assistance since May 2013, the reporting date for *Trade & Assistance Review 2011-12*.

The reporting period relates to announcements made by the previous government up to the ‘caretaker’ period preceding the September 2013 federal election and announcements by the current government in the ensuing period. The overall level of program activity reported is less than in previous years. And while new expenditures were announced over the reporting period by the previous and current governments, the closure or winding back of some pre-existing measures was also announced. In addition, the current government did not accede to requests for firm-specific assistance from Qantas and SPC Ardmona.

As in previous years, developments in industry assistance are reported in the following groupings: research, development and innovation; primary industries; manufacturing; carbon emissions reduction and energy efficiency; regional assistance; broadcasting and communications; and other industry assistance developments.

5.1 Research, development and innovation

Support for business research and development (R&D), including innovation and commercialisation, forms a significant component of the Australian Government’s budgetary assistance to industry. As measured by the Commission, it accounted for around 38 per cent of budgetary assistance to industry in 2012-13 (chapter 4). This section reports on developments relating to research, development and innovation since May 2013.

R&D tax incentive

In February 2013, the then Australian Government announced that from 1 July 2013 very large businesses with aggregate Australian turnover of \$20 billion or more will not be eligible to receive the R&D tax incentive. This change was expected to

reduce budgetary outlays by \$1.1 billion over the forward estimates period (Combet and Swan 2013).

The measure was introduced into the House of Representatives on 14 November 2013 as the Tax Laws Amendment (Research and Development) Bill 2013. The Bill passed the House on 9 December 2013 and is currently before the Senate (Hockey and Sinodinos 2013).

Industry Innovation Precincts Programme

In February 2013, the then Australian Government released an industry and innovation statement — *A Plan for Australian Jobs* — which consisted of three broad streams (Australian Government 2013a). The second of these streams was ‘supporting Australian industry to win new business abroad’, which included provision of \$238.4 million between 2012-13 and 2016-17 to establish, administer and operate up to 10 Industry Innovation Precincts.

Only two Industry Innovation Precincts have been established:

- one in the manufacturing sector — operating as META (Manufacturing Excellence Taskforce Australia); and
- one in the food sector — operating as Food Innovation Australia Ltd (Department of Industry 2014b).

The Australian Government has announced that the Industry Innovation Precincts Programme will close on 31 December 2014 (Department of Industry 2014b).

National Collaborative Research Infrastructure Strategy

As part of the 2013-14 federal budget, the then Australian Government announced that the National Collaborative Research Infrastructure Strategy (NCRIS) would receive an additional \$185.9 million in funding over two years from 1 July 2013 (Emerson and Farrell 2013).

The NCRIS was initially a seven year strategy from 2004-05 to 2010-11. The additional two years of funding is intended to ensure that national collaborative research infrastructure facilities continue to function while review and evaluation are undertaken. The additional funding will support the research infrastructure funded under the initial NCRIS program and the Super Science Initiative’ (DIICCSRTE 2013).

5.2 Primary industries

In 2012-13, Australian Government support for the primary industries is estimated to be around 14 per cent of federal budgetary support to industry (chapter 4). This section reports on developments directly affecting agriculture and fishing, and the export of primary products since May 2013.

Tasmanian Forests Intergovernmental Agreement 2013

In May 2013, the Tasmanian and Australian Governments signed a new Tasmanian Forests Intergovernmental Agreement (TFIGA 2013). TFIGA 2013 builds on but does not replace the Tasmanian Forests Intergovernmental Agreement 2011 (TFIGA 2011). It sets out the measures to be supported and the funding responsibilities of the two governments. It updates the funding commitments that both governments have made since the TFIGA 2011 was signed.

Key funding elements under the TFIGA 2013 include:

- \$25 million toward sawmiller exit and structural adjustment packages;
- \$20 million toward support for affected workers and contractors;
- \$100 million for an Economic Diversification Package (this funding is now to be provided in the form of the Tasmanian Jobs and Growth Plan (section 5.5));
- \$15.8 million toward Plantation Manufacturing Innovation and Investment;
- \$13.5 million toward the investigation and implementation of sustainable solutions for forest residues;
- \$7 million per annum, increasing to \$9 million per annum, indexed, for reserve management; and
- up to \$15 million to assist Forestry Tasmania with transitioning its operations (Department of the Environment, pers. comm., 30 May 2014; Tasmanian Government 2013).

Forest Stewardship Council

In May 2013, the then Australian Government committed to providing \$500 000 in 2013-14 to assist Forest Stewardship Council Australia with the first stages of its development of a national forest certification standard (Sidebottom 2013). The standard is intended to provide consumers with independent assurance that the wood products they purchase are sourced from sustainably managed forests.

Drought support

National drought program reform

In May 2013, the Australian and State and Territory governments signed an Intergovernmental Agreement on National Drought Program Reform (IGA). The IGA followed the national review of drought policy (which commenced in 2008 and included the Productivity Commission's inquiry into Government Drought Support (PC 2009)) and a subsequent two year pilot of measures conducted in regions of Western Australia that sought to test a new approach to drought assistance.

The IGA outlines the key roles and responsibilities for each government in implementing — from 1 July 2014 — the new approach. Under the approach, five measures will be implemented:

- a farm household support payment (the 'Farm Household Allowance' — see below);
- taxation measures, including changes to the Farm Management Deposits Scheme;
- a national approach to farm business training;
- a coordinated, collaborative approach to the provision of social support services; and
- tools and technologies to inform farmer decision making (Ludwig 2013a).

Farm Household Allowance

The Australian Government's main contribution to the IGA will be the Farm Household Allowance. In the 2013-14 federal budget, the then Australian Government allocated \$99.4 million over four years for the Farm Household Allowance (Joyce 2014d). The allowance is an uncapped, demand-driven program intended to provide farm families with income support for up to three years in times of hardship. It is scheduled to start from 1 July 2014. To qualify, among other things, a recipient must:

- be a farmer or a partner of a farmer;
- satisfy an income and assets tests; and
- be willing to enter into a financial improvement agreement.

The Farm Household Allowance will replace the Interim Farm Household Allowance which currently provides income assistance to farmers (which in turn replaced the Transitional Farm Family Payment on 1 March 2014) (DAFF 2014b).

Drought assistance package

In November 2013, the Australian Government announced up to \$7 million in support for Queensland and up to \$3 million for New South Wales to assist farm businesses in those states with the installation of water-related infrastructure to supply animals with emergency water during drought (Joyce 2013a, Joyce 2014b).

In addition to this initial assistance to Queensland and New South Wales, in February 2014, the Australian Government announced a \$320 million drought assistance package. The main components of the package are: bringing forward 'more generous' criteria for accessing income support from 1 July 2014 to 1 March 2014 (through the Interim Farm Household Allowance); drought concessional loans intended to assist farm businesses to recover from the effects of drought (\$280 million); additional funds for existing state emergency water infrastructure schemes (\$12 million); additional funds for pest management in drought-affected areas (\$10 million); and increased social and mental health services in communities affected by drought (\$10.7 million) (Joyce 2014c).

Farm Finance Concessional Loans scheme

In November 2013, the Australian Government announced the reallocation of scheme funds following a review of the Farm Finance Concessional Loans Scheme (Joyce 2013a).

Under the previous allocation, funds for concessional loans had been allocated equally between the states and the Northern Territory. The new allocation increased the availability of loans in jurisdictions with a higher number of farm businesses and where farm businesses are faced with worsening conditions. Under the new allocation, a \$40 million reserve fund was established in 2014-15 to enable the Australian Government to respond to emerging issues (Joyce 2013b).

Post-entry quarantine facility

In the 2012-13 federal budget, the Government made a commitment of \$379.9 million over seven years to fund the design and construction of a new government-owned and operated post-entry quarantine facility in Mickleham, Victoria. The 2013-14 federal budget made \$60.6 million available for initial expenditures on this project (DAFF 2014a). Post-entry quarantine facilitates the importation of high-risk animal and plant commodities. It is a key component of Australia's biosecurity system that is intended to support the competitiveness and productivity of Australian agriculture. The new facility will consolidate all existing

Department of Agriculture, Fisheries and Forestry-operated post-entry quarantine facilities at a single integrated site. The Department of Agriculture, Fisheries and Forestry recoups a portion of the costs associated with post-entry quarantine arrangements through user fees.

National Food Plan

In July 2012, the then Australian Government released the National Food Plan green paper (DAFF 2012), which presented a series of policy options for ‘Australia’s food future’ (Ludwig 2012). The then Australian Government subsequently released the National Food Plan in May 2013 (DAFF 2013). The plan specified 16 goals and was supported by several new measures (Ludwig 2013b).

Following the 2013 federal election, the Government commenced the development of a White Paper on Agricultural Competitiveness, taking into account the work undertaken in the preparation of the National Food Plan.

Agriculture Competitiveness White Paper

In December 2013, the Australian Government announced the terms of reference for an Agriculture Competitiveness White Paper. The White Paper will ‘consider issues including food security, improving farmgate returns, debt, drought management, supply chain competitiveness, investment, job creation, infrastructure, skills and training, research and development, regulatory effectiveness and market access’ (Joyce 2013c).

Creation of the Australian Grape and Wine Authority

In December 2013, the Australian Parliament passed legislation to create the Australian Grape and Wine Authority. The new Authority, which will commence on 1 July 2014, will replace the Grape and Wine Research and Development Corporation (GWRDC) and the Wine Australia Corporation. It will be the single statutory authority for the wine industry, covering activities such as R&D and marketing (Ludwig 2013c).

GWRDC is funded by grapegrowers and winemakers, who pay levies on the annual winegrape crush, and the Australian Government, which provides matching funds. The Australian Grape and Wine Authority will undertake the same functions as the two merged organisations and operate under the existing levy and fees structure.

Animal welfare projects

In July 2013, the then Australian Government announced funding of \$1.8 million for seven projects intended to support improvements in animal welfare in Australia's overseas livestock export markets. Recipients of funding include: Meat and Livestock Australia; the Australian Livestock Exporters' Council; and the World Organisation for Animal Health (Fitzgibbon 2013).

Farm Management Deposits Scheme

The Australian Government is currently legislating to amend the Farm Management Deposits (FMD) Scheme. The FMD Scheme is a risk management tool that supports farmers' ability to prepare for climate variability and market fluctuations (National Rural Advisory Council 2012). It allows primary producers to set aside pre-tax primary production income in one income tax year and withdraw it as taxable income in a later year.

The proposed amendments are intended to allow more farmers to access the FMD Scheme and make existing FMD accounts easier to manage (Joyce 2014a). The off-farm income threshold would be increased from \$65 000 to \$100 000, thus allowing primary producers to earn a higher level of off-farm income as part of their risk management strategy and still place primary production income into a FMD. Allowing primary producers to consolidate existing FMD accounts without taxation penalties will simplify the management of FMDs for both primary producers and deposit taking institutions. The changes are due to take effect from 1 July 2014 once the legislation has passed the Australian Parliament.

5.3 Manufacturing sector

Australian Government support for the manufacturing sector comprised around 21 per cent of total federal budgetary assistance in 2012-13 (chapter 4). This section reports on developments directly affecting the manufacturing sector since May 2013.

Ta Ann Tasmania

In June 2013, the then Australian Government announced funding of \$26 million for Ta Ann Tasmania Pty Ltd, a veneer maker, to support the company to stay in production following timber supply losses arising from the Tasmanian Forests Agreement (section 5.2). The funds are intended to help the company to adjust to a

108 000 cubic metre a year reduction in peeler billets and to diversify its product base.

The funding is in addition to existing Australian Government commitments made under the TFIGA 2013 (Burke, Collins and Sidebottom 2013).

Safeguards inquiries into imports of processed tomato products and processed fruit products

In June 2013, the then Australian Government asked the Productivity Commission to undertake two 6-month inquiries into whether safeguard action is warranted against imports of processed tomato products and imports of processed fruit products.

The inquiries were undertaken in accordance with the World Trade Organization (WTO) safeguard investigation procedure.

In December 2013, the final reports of the Productivity Commission safeguards inquiries into the import of processed fruit and processed tomato products were publicly released. The Commission found, in both cases, conditions were not such that safeguard measures would be justified under the WTO agreement (PC 2013a, 2013b).

SPC Ardmona

In December 2013, the Minister for Industry announced the formation of a high-level panel to advise the Government on assistance to SPC Ardmona Operations Limited following a ‘specific request’ from the company (Macfarlane 2013a). At a joint press conference held by the Prime Minister and the Minister for Industry in January 2014, the Minister for Industry stated that SPC Ardmona’s request had been rejected (ABC 2014a).

In February 2014, the Victorian Government announced it had committed funding of \$22 million towards a \$100 million ‘co-investment’ in SPC Ardmona, intended to ‘transform [the company’s] operations, modernise food processing and increase its ... product range’ (Naphthine 2014).

Cadbury

In February 2014, the Prime Minister stated that the Australian Government would proceed with an election commitment to provide \$16 million to Cadbury

Australia (Abbott 2014b). The funding is intended mainly to support an upgrade of tourism facilities at the company's chocolate factory in Claremont, Tasmania. The 2014-15 federal budget confirmed funding of \$16 million to Cadbury (DFAT 2014a).

Passenger motor vehicle industry

Productivity Commission inquiry on automotive manufacturing

In October 2013, the Australian Government asked the Commission to undertake an inquiry into public support for Australia's automotive manufacturing industry, including passenger motor vehicle and automotive component production.

The Commission published a Position Paper on 31 January 2014 (PC 2014a). In that paper, it noted that Australia's automotive manufacturing industry is undergoing significant change, with Ford Motor Company of Australia and General Motors Holden having announced that their manufacturing plants will close by the end of 2017. Following the release of the Position Paper, Toyota Motor Corporation Australia announced its manufacturing plants would also close by the end of 2017.

The Commission's final report was sent to the Australian Government on 31 March 2014. Under the *Productivity Commission Act 1998*, the Government is required to table the final report in each House of the Parliament within 25 sitting days of receipt.

2013-14 Mid-Year Economic and Fiscal Outlook

In December 2013, the Australian Government released the 2013-14 Mid-Year Economic and Fiscal Outlook. It included budgetary reductions of \$500 million in funding for the Automotive Transformation Scheme from 2014-15 to 2017-18. The scheme has provided assistance to the automotive manufacturing industry since 2011, when it replaced the Automotive Competitiveness and Investment Scheme.

Energy White Paper

In December 2013, the Minister for Industry, Ian Macfarlane, released an issues paper to begin consultation on the Australian Government's Energy White Paper, which is scheduled for completion in September 2014 (Macfarlane 2013b).

Amongst other things, the White Paper will consider: policy and regulatory reform to secure reliable, competitively and transparently priced energy for a growing population and productive economy, including the efficiency and effectiveness of

regulatory bodies; [and] the appropriate role for government in the energy sector (Department of Industry 2014a).

Cooperative Research Centres

In February 2014, the Australian Government announced the creation of three new Cooperative Research Centres (CRCs) and the extension of four existing CRCs. CRCs are intended to bring together industry, researchers, the community and governments to create opportunities and develop solutions to assist Australian industry (Macfarlane 2014).

The three new CRCs are:

- the Rail Manufacturing CRC (\$31 million) which will seek to develop products, technologies and supply chain networks to increase the capability and global competitiveness of the rail industry;
- the Data to Decisions CRC (\$25 million) which will seek to develop tools to enhance Australia's defence and national security sector's capability to use 'big data' to reduce national security threats; and
- the Space Environment Management CRC (\$19.8 million) which will seek to monitor, analyse and manage space debris and develop new technologies and strategies to help preserve the space environment for the benefit of Australia.

The four extended CRCs are:

- the Hearing CRC (\$28 million) which intends to develop new devices, therapies and service delivery models to improve the prevention, detection and remediation of hearing disorders;
- the Cancer Therapeutics CRC (\$34 million) which intends to translate cancer biology research into lead and preclinical stage drug candidates for a range of different cancers;
- the Capital Markets CRC (\$32.4 million) which intends to develop operational technologies that enhance the integrity and efficiency of capital markets in Australia and globally; and
- the Sheep Industry Innovation CRC (\$15.5 million) which intends to enhance sheep wellbeing and productivity, value-based trading of sheep meat and the delivery of affordable technologies for the Australian sheep industry (Macfarlane 2014).

5.4 Carbon emissions reduction and energy efficiency

As reported in chapter 4, assistance measures in the area of carbon emissions reduction and energy efficiency amounted to around \$326 million in 2012-13, that is, 4 per cent of Australian Government assistance to industry.

This section reports on more recent announcements relating to carbon emissions reduction and energy efficiency programs. While reporting focuses on announcements of new programs or variations of pre-existing programs, some items cover major outlays under previously announced programs.

Carbon tax, Jobs and Competitiveness Program; Energy Security Measures and Steel Transformation Plan

In November 2013, the Australian Government introduced into the Parliament the Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 and related bills, with the intention of abolishing the carbon tax. These bills provide that the business compensation measures related to the carbon tax under the Jobs and Competitiveness Program, Energy Security Fund and Steel Transformation Plan would cease. The package of bills was defeated in the Senate in March 2014. The Government intends to reintroduce the carbon tax repeal bills.

While these measures were intended as compensation for the carbon tax, they will have had industry assistance implications to the extent that they favoured some activities over others.

Other carbon tax-related industry assistance programs

The Australian Government's 2013-14 Mid-Year Economic and Fiscal Outlook contained details of the cessation of other business compensation measures that had been introduced as part of the former Government's carbon tax package. Among the measures to be abolished are the Energy Efficiency Information Grants, the Clean Energy Skills Package, the Coal Sector Jobs Package and Clean Technology Programmes.

While these measures were intended as compensation for the carbon tax, they will have had industry assistance implications to the extent that they favoured some activities over others.

Clean Energy Finance Corporation

In April 2013, the then Australian Government issued the investment mandate of the Clean Energy Finance Corporation (CEFC) (Swan, Combet and Wong 2013). The CEFC is a \$10 billion fund that is intended to provide concessional finance for qualifying projects in the areas of energy supply, energy use and designated clean energy technologies.

Under its enabling legislation — the *Clean Energy Finance Corporation Act 2012* (Cwlth) — CEFC's financing activities were to be funded through a special appropriation from the Australian Government of \$2 billion to a special account each year for five years, commencing from 1 July 2013.

The CEFC works with project proponents and any co-financiers to secure finance for qualifying projects. It may provide concessional finance in the form of lower pricing, higher risk and/or longer duration packages (Clean Energy Finance Corporation 2013a). To do this, the CEFC accepts a higher level of risk — relative to expected returns — than do project financiers with which the CEFC directly competes (box 5.1). The higher level of risk is borne by the Australian Government.

Box 5.1 **Clean Energy Finance Corporation's funding of the Macarthur Wind Farm**

In July 2013, the CEFC announced details of its first transaction — a \$50 million refinancing of the \$1 billion Macarthur Wind Farm in Victoria.

Private investors had offered to provide the additional finance that the Macarthur Wind Farm sought — at an interest rate that reflected the risks associated with a project of this type. The (then) co-owners of the wind farm — AGL Energy Limited and the New Zealand Government-owned Meridian Energy — instead received funding from the CEFC, which offered to provide finance at a lower interest rate than offered by private investors. (Meridian Energy subsequently sold its share of the venture to Malakoff Corporation Berhad, a Malaysian company.)

The CEFC effectively provided assistance to the venture in the form of an interest rate subsidy.

Source: Clean Energy Finance Corporation (2013b).

In November 2013, the Australian Government introduced to Parliament the Clean Energy Finance Corporation (Abolition) Bill 2013 with the intention of abolishing the CEFC (Sinodinos 2013). The bill was defeated in the Senate in December 2013. The Clean Energy Finance Corporation (Abolition) Bill 2013 [No. 2] is currently before Parliament.

Regional Australia's Renewables initiative

In June 2013, the then Australian Government announced the \$400 million Regional Australia's Renewables (RAR) initiative that is intended to support the development of qualifying renewable energy in off-grid and fringe-of-grid areas (Gray 2013a). The initiative comprises the RAR Industry Program and the Community and Regional Renewable Energy Program. These programs support the application of renewable energy technology suitable for industrial applications and work with electricity distributors to demonstrate qualifying energy technologies that can feed into community grids.

The measure is funded by the \$3 billion Australian Renewable Energy Agency (ARENA) that was established in July 2012.

Emerging Renewables Program

In June 2013, the then Australian Government announced that ARENA had increased funding for the Emerging Renewables Program to \$215 million. The program is intended to help prove the commercial potential of technologies (Gray 2013a).

Advanced Biofuels Investment Readiness Program

In response to an Advanced Biofuels Study conducted in 2011, the Australian Government launched a \$15 million competitive merit-based Advanced Biofuels Investment Readiness (ABIR) Program in February 2012 (Ferguson 2012). ARENA assumed responsibility for the ABIR Program on 1 July 2012. The ABIR Program was intended to support pre-commercial demonstration projects that produce high energy renewable fuels that can be 'dropped in' to existing refining infrastructure.

In February 2013, ARENA announced two successful projects under the ABIR Program:

- \$4.4 million to Muradel Pty Ltd for its Advancing Established and Integrated Marine Microalgae Biofuel to Commercialisation project in Whyalla, South Australia; and
- \$5.4 million to Licella Pty Ltd for its Biomass to Bio-crude: Producing Advanced Drop-in Fuels for Australia project in Somersby, New South Wales.

The ABIR Program has been closed and no further assessments under this program will be undertaken. However, proponents of biofuel projects are able to apply for funding under the Emerging Renewables Program (ARENA 2014).

Carbon capture and storage research facilities

In July 2013, the then Australian Government announced that the CRC for Greenhouse Gas Technologies will be eligible to receive over \$50 million to develop a new network of carbon capture and storage research facilities. The funding is intended to support a series of field facilities, onshore and offshore monitoring systems and laboratories. The project falls under the Clean Energy Future package (Gray 2013b).

Renewable Energy Target scheme

In February 2014, the Australian Government released the terms of reference for a review into the Renewable Energy Target (RET) Scheme. The review will ‘consider the contribution of the RET in reducing emissions, its impact on electricity prices and energy markets, as well as its costs and benefits for the renewable energy sector, the manufacturing sector and Australian households’ (Macfarlane and Hunt 2014). The review is due to report in mid-2014.

Emissions Reduction Fund White Paper

In April 2014, the Australian Government released the Emissions Reduction Fund White Paper. The White Paper sets out the design for the Emissions Reduction Fund, which is intended to be the main element of the Government’s climate change policy. According to the announcement, the forward estimates commitment to the Emissions Reduction Fund will be \$2.55 billion, to be used largely for purchasing emissions reductions (Hunt 2014). While the program is to be directed at environmental goals, it will have industry assistance implications to the extent that it favours some activities over others.

5.5 Regional assistance programs

This section reports on assistance announcements directed at regional activities, including assistance to regional business, infrastructure development and natural disaster recovery support that may have industry assistance implications. Federal

support in regions is often associated with co-contributions by relevant state jurisdictions.

While announcements covered in this section relate to measures with a regional focus, including the maintenance of certain regional employment, the measures are often targeted at specific businesses, activities or industries. The level of assistance provided may not be large at the national level, but the subsidy equivalent to recipient businesses could be substantial.

Adjustment assistance to passenger motor vehicle producing regions

Melbourne's North Innovation and Investment Fund and Geelong Region Innovation and Investment Fund

The Melbourne's North Innovation and Investment Fund was established to give effect to an announcement by the then Australian Government and the Victorian Government on 23 May 2013 that they would provide funding support to regions affected by Ford Motor Company of Australia's cessation of vehicle and engine manufacturing operations in Australia, which the company announced will occur by October 2016.

Funding over the three financial years from 2013-14 to 2015-16 will be provided to the Melbourne North region and the Geelong region (funding to the latter will be through the Geelong Region Innovation and Investment Fund which was established in 2007 (*Trade & Assistance Review 2006-07*)). The Australian Government will contribute \$30 million to the two funds; the Victorian Government \$9 million; and Ford Motor Company of Australia \$10 million. The total funding of \$49 million is to be split evenly between the two funds. The Melbourne's North Innovation and Investment Fund will provide grants of a minimum of \$50 000 that are intended to support 'innovative, job creation projects that strengthen and diversify the Melbourne North regional economy and employment base' (AusIndustry 2013).

National Industry Investment and Competitiveness Agenda

In December 2013, the Australian Government announced:

- measures intended to support regions impacted by the wind-down of General Motors Holden's manufacturing operations;
- reviews of the South Australian and Victorian economies; and

-
- development of a National Industry Investment and Competitiveness Agenda — to be released later in 2014 — which will focus on measures intended to promote national competitiveness and productivity (Abbott and Macfarlane 2013).

At the same time, the Australian Government announced its intention to develop a Growth Fund as part of the agenda, intended to support projects in regions facing pressure in their manufacturing sectors. In April 2014, the Australian Government announced that the \$155 million Growth Fund would commence in 2014-15 and include:

- a \$30 million Skills and Training Programme intended to assist automotive employees to have their skills recognised and provide training for new jobs, while they are still employed;
- a \$15 million boost to the Automotive Industry Structural Adjustment Programme intended to provide careers advice and assist automotive employees to secure new jobs;
- a \$20 million Automotive Diversification Programme intended to assist automotive supply chain firms capable of diversifying to enter new markets;
- a \$60 million Next Generation Manufacturing Investment Programme intended to accelerate private sector investment in high value non-automotive manufacturing sectors in Victoria and South Australia; and
- a \$30 million Regional Infrastructure Programme intended to support investment in non-manufacturing opportunities in affected regions.

The Australian Government will contribute \$100 million to the Growth Fund, with the remainder to be provided by state government and company contributions (Abbott and Macfarlane 2014).

The Productivity Commission submitted its report on *Australia's Automotive Manufacturing Industry* to the Australian Government on 31 March 2014. Under the *Productivity Commission Act 1998* (Cwlth), the Government is required to table the final report in each House of the Parliament within 25 sitting days of receipt.

McLaren Vale Water Plan

In August 2013, the McLaren Vale Water Plan was launched, with the then Australian Government providing \$3.3 million in funding for the plan under the National Water Security Plan for Cities and Towns program.

Under the plan, the Australian Government will provide one-off payments to eligible irrigators to connect to the recycled water pipeline and pay for half of the licensing fee charged by the Willunga Basin Water Company (Rishworth 2013).

Productivity Commission inquiry into Tasmanian shipping and freight

The Commission undertook an inquiry into Tasmanian shipping and freight. Its draft report was released on 24 January 2014 and the final report was sent to the Australian Government on 7 March 2014, but has yet to be publicly released. Under the *Productivity Commission Act 1998* (Cwlth), the Government is required to table the final report in each House of the Parliament within 25 sitting days of receipt.

In the draft report, the Commission considered that the Australian Government should put less emphasis on freight subsidy schemes and more emphasis on policy reforms that have national and Tasmanian benefits (such as coastal shipping reform) and those that directly enhance the competitiveness and productivity of the Tasmanian economy (PC 2014b).

The Australian Government has stated its intention to retain the Tasmanian Freight Equalisation Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme.

Tasmanian Jobs and Growth Package

In October 2013, the Australian Government announced a Tasmanian Jobs and Growth Package (box 5.2). The package complements the Economic Growth Plan for Tasmania. It comprises a package of measures totalling \$106 million aimed at stimulating Tasmania's economy by supporting growth and employment (Truss 2013). The package supersedes the previous Government's Tasmanian Jobs and Growth Plan announced in July 2013 (King and Rudd 2013) and has its origins in the Tasmanian Forests Intergovernmental Agreement 2013 (section 5.2 above).

A number of projects funded under the package provide direct assistance to businesses, while other elements of the package are directed at community activities. Business recipients include Ta Ann Tasmania Pty Ltd for a plywood mill, SFM Forest Products for its 'hydrowood' project, Caterpillar Elphinstone Pty Ltd for advanced manufacturing development, Tassal Group Limited for a fish protein and oil facility and Huon Aquaculture Group Pty Ltd for a processing facility (box 5.2).

Box 5.2 Tasmanian Jobs and Growth Package

The Tasmanian Jobs and Growth Package includes funding for a number of already planned projects that are intended to support the economic development of Tasmania. Recipients of the funding are businesses and business groups, community organisations, local councils and education facilities.

Business and business groups

Around \$52 million has been allocated to 21 individual businesses and business groups. For example, Ta Ann Tasmania Pty Ltd is to receive \$7.5 million for a plywood mill, SFM Forest Products is to receive \$5 million for its 'hydrowood' project, Caterpillar Elphinstone Pty Ltd is to receive \$5 million for advanced manufacturing development, Tassal Group Limited is to receive \$3.85 million for a fish protein and oil facility and Huon Aquaculture Group Pty Ltd is to receive \$3.5 million for the construction of a processing facility.

Community organisations

Almost \$3.4 million has been allocated to five community groups and community projects. For example, the Macquarie House Catalyst Project is to receive \$3 million, the Australian Fly Fishing Museum \$261 000 and the Sandy Bay Sailing Club \$60 000.

Local councils

Around \$18.8 million has been allocated to five local councils. For example, the Launceston City Council is to receive \$6 million for redevelopment of the North Bank Precinct and Clarence City Council is to receive \$5 million for the Kangaroo Bay Community and Economic Development Project.

Education facilities

\$16.5 million has been allocated to two education facilities. The University of Tasmania is to receive \$13 million for Sense-T stage 2 development and Guildford Young College is to receive \$3.5 million for a creative arts link building.

Other measures

\$15.5 million has been allocated to two Australian Government measures. These comprise \$11 million allocated for an Innovation and Investment Fund and \$4.5 million for a Regional Tourism Package.

Source: Truss (2013).

5.6 Broadcasting and communications

Since May 2013, the Australian Government has made several announcements regarding broadcasting and communications policies and related activities.

Government response to the Convergence Review and Finkelstein Inquiry

In March 2013, the then Minister for Broadband, Communication and the Digital Economy announced the Australian Government's response to the Convergence Review and Finkelstein Inquiry (Conroy 2013a). A number of the announced measures were implemented through the *Broadcasting Legislation Amendment (Convergence Review and Other Measures) Act 2013* (Cwlth) (the 'Convergence Review Act') and the *Television Licence Fees Amendment Act 2013* (Cwlth) (the 'Licence Fees Act').

The Convergence Review Act made changes to Australian content requirements for commercial television broadcasters by introducing new Australian content quotas for digital multichannels and introducing greater flexibility in the use of multichannels to fulfil existing content sub-quotas. This Act also capped at three the number of commercial television broadcasting licences that may be allocated in each relevant licence area. The Licence Fees Act implemented a permanent 50 per cent reduction to the licence fees paid by commercial television broadcasters, which followed previous temporary reductions to licence fees that were provided by way of rebates of between 16.5 and 50 per cent of license fees between 2009-10 and 2011-12.

Digital Enterprise, Digital Local Government and Digital Business Kit programs

In May 2013, the then Australian Government announced an additional \$12.9 million of funding for Digital Enterprise and Digital Local Government programs. The funding has delivered an extra 22 Digital Enterprise services that are intended to help small and medium enterprises and not-for-profit organisations to improve the way that they do business and deliver services online, and provide for the roll out of an additional 15 Digital Local Government projects (Conroy 2013b).

In May 2013, the then Australian Government opened applications for the Digital Enterprise – Virtual Advisor program (Conroy 2013b). This new online component of the Digital Enterprise program has been operating since November 2013 and is intended to assist Aboriginal and Torres Strait Islander businesses in regional and remote communities to improve their online presence and competitiveness.

In May 2013, the then Australian Government also announced that it would provide funding of \$5 million for the Digital Business Kit program. The program has funded nine peak bodies to develop and promote sector-specific Digital Business Kits to

help small and medium enterprises take advantage of high-speed broadband and engage in the digital economy (Conroy 2013c).

National Strategy for Cloud Computing

In May 2013, the Australian Government released the National Strategy for Cloud Computing. The strategy is intended to open up the annual \$5 billion Australian Government expenditure on ICT to cloud computing by requiring federal government agencies to consider cloud services for new IT purchases. It is also intended to promote the benefits of cloud computing to small businesses, not-for-profit organisations and local government (Conroy 2013d).

5.7 Other industry assistance developments

Tourism

Passenger Movement Charge

In October 2013, the Australian Government confirmed that the Passenger Movement Charge on travellers will be frozen at its existing level for the full term of the current Parliament (Robb 2013). The action is intended to make Australia a more competitive destination for international travellers.

Small business

Taxation measures for small businesses

In June 2013, the then Australian Government announced a number of taxation measures worth \$5.2 billion that are intended to help small businesses (those with turnover of less than \$2 million):

- a \$6500 instant write-off for purchases of new equipment (Swan 2013a);
- an immediate deduction for the first \$5000 of motor vehicle purchases (Swan 2013a); and
- the ability to ‘carry back’ losses to offset past profits (as recommended by the Henry Review) (Swan 2013b).

These changes were to apply from 2012-13 onwards.

The Australian Government has announced its intention to repeal these three measures. A Bill containing provisions to repeal the measures was introduced into parliament on 13 November 2013.

Infrastructure

Tax concession for designated major infrastructure projects

In July 2013, a new tax loss measure for designated major infrastructure projects commenced. Under this measure, the Infrastructure Coordinator can designate projects eligible for the tax concession, with a prerequisite that a project has been assessed as ‘Ready to Proceed’ on Infrastructure Australia’s Priority Project List (Albanese and Bradbury 2013).

Transport (Qantas)

Foreign ownership restrictions

The *Qantas Sale Act 1992* (Cwlth) limits foreign ownership of Qantas Airways Limited to 49 per cent. It also stipulates a 35 percent limit for all foreign airline shareholdings combined, and that a single foreign entity can hold no more than 25 per cent of the airline’s shares. These restrictions potentially disadvantage Qantas.

In March 2014, the Australian Government announced that it will move to a single regulatory framework for all Australian international airlines (Abbott and Hockey 2014). According to the announcement, the Government will introduce legislation to remove the foreign ownership restrictions and conditions that apply to Qantas’ business operations contained in Part 3 of the *Qantas Sale Act 1992* (Cwlth). It is intended that the legislation will provide additional flexibility for Qantas that is consistent with other airlines based in Australia.

Request for unsecured loan and debt guarantee

At a press conference on 5 March 2014, the Prime Minister stated that Qantas had asked the Australian Government to assist the airline through a \$3 billion unsecured loan and a short term debt guarantee, and announced that the Government had rejected the request (ABC 2014b).

6 Recent developments in trade policy

Recent developments in Australia's trade policy environment include:

- ongoing efforts to conclude the Doha Round of World Trade Organization (WTO) trade negotiations;
- trade-related aspects of the upcoming meeting of the twenty leading industrial countries (G20) chaired by Australia and other plurilateral developments; and
- negotiation of preferential bilateral and regional trade agreements and the intention to pursue further agreements.

There are contrasting comparative economic benefits of trade liberalisation. Bilateral and regional trade agreements are often seen as valuable reform initiatives in their own right. In practice, they are generally not the most effective way to improve the welfare of nations, where preference should be given to unilateral action to reduce or eliminate trade barriers, or to comprehensive global reform. Negotiation and compliance costs associated with preferential agreements (including detailed and complex rules of origin) and the potential for diversion of trade from lower cost sources of supply are consequences of bilateral agreements. Australia suffers from reduced market access where other nations gain preferential bilateral trade access. Pursuing more such agreements can make it difficult to pursue the better course, as tariffs and other trade-impeding devices are 'reserved' as negotiating coinage for continuing rounds of future bilateral negotiations.

There have also been recent developments in Investor-State Dispute Settlement (ISDS) provisions which are contained in some preferential trade and investment agreements.

A number of legal actions against the Australian Government by private investors from other countries under WTO processes and firms under ISDS dispute settlement mechanisms have also occurred.

6.1 Multilateral, plurilateral and regional developments

World Trade Organization 9th Ministerial Conference

The 9th Ministerial Conference of the WTO was held in Bali, Indonesia from 3 to 6 December 2013. The meeting focused on reaching agreement on a package of matters that would contribute to a conclusion of the Doha Round of multilateral trade negotiations launched in 2001. Progress with Doha Round negotiations had stalled in 2008 and expectations for outcomes in Bali were low. Nevertheless, the package was agreed. It contained the Agreement on Trade Facilitation — which will facilitate the cross-border movement of goods — some decisions on agriculture and some developing country initiatives (box 6.1).

In spite of the reservations that preceded the meeting, the conference was viewed as a success. The WTO Director-General noted:

... the decisions we have taken [in Bali] are an important stepping stone towards the completion of the Doha Round (Azevêdo 2013a).

In advance of the meeting, the WTO Director-General had emphasised the advantages of multilateral trade agreements over the alternatives.

It's no secret that governments have been exploring other channels for liberalizing trade. These are positive initiatives, but they offer no substitute for global agreements and global rules. Regional or plurilateral agreements by definition are exclusive and the countries most often excluded from these pacts are the poorest and weakest (Azevêdo 2013b).

The comparative benefits of multilateral reform over preferential arrangements are widely accepted. However, the potential benefits available from unilateral action to remove impediments to trade also warrant consideration in wider assessments of trade liberalisation strategies.

Past Commission work has modelled the economic impacts of merchandise trade liberalisation at the unilateral, regional and multilateral level. It found that around 60 per cent of all gains for Australia from the elimination of remaining tariffs globally would be achieved from Australia acting alone in removing all of its remaining tariffs on imports (PC 2010, p. 214). Unilateral action would narrow the range of matters requiring cross-country negotiation. Importantly, the benefits directly available from domestic economic reform suggest that it should not be delayed to retain 'bargaining coin' in multilateral as well as regional and bilateral trade negotiations.

Box 6.1 WTO 9th Ministerial Conference outcomes**Trade facilitation**

Red tape, lack of transparency and certainty involved in moving goods across borders are significant restrictions on trade. Citing work by the United Nations, the WTO noted the average customs transaction involved 20-30 different parties, 40 documents, 200 data elements (30 of which are repeated at least 30 times) and the re-keying of 60-70 per cent of all data at least once. Before the Conference, the OECD estimated that a trade facilitation agreement could reduce trade costs by 10 per cent for advanced economies and up to around 15 per cent for developing countries. Subsequently, a consensus agreement on trade facilitation was reached at the Ministerial Conference. The agreement included measures to accelerate cross-border movement of goods by simplifying and harmonising customs procedures and documentation and improving predictability of customs regulations through more effective cooperation between customs and other authorities on compliance issues.

Agricultural sector outcomes

Agricultural sector negotiations prior to the Bali meeting covered issues associated with export competition; tariff rate quota administration; public stockholding and cotton.

- The export competition stream covered: export subsidies; export financing support; food aid; and trade distorting activities of state owned enterprises. WTO members reaffirmed their commitment to parallel elimination of all export subsidies.
- The tariff rate quota stream establishes rules on procedural and transparency aspects of tariff rate quotas and a mechanism to address low fill rate quotas. The Ministerial decision supports greater transparency, dialogue, monitoring and review.
- The public stockholding stream covers purchases of products at administered prices by some developing countries for food security purposes up to capped amounts under the WTO Agreement on Agriculture. Members agreed to an interim mechanism for these systems with greater transparency and safeguards on such measures and to negotiate for a permanent solution.
- The sector-specific cotton stream recognised the importance of cotton to developing country economies, particularly the least developed, with WTO members reaffirming their commitment to address cotton issues within WTO agricultural negotiations.

Least developing country (LDC) initiatives

Provisions beneficial to LDCs were discussed including: simplified rules of origin for LDC products; preferential access to LDC service suppliers; improving the cotton trade environment; and encouraging duty and quota free market access. Members agreed to list allowable general services programs (to promote rural development and alleviate poverty). An undertaking to enhance transparency and monitoring for trade-related aspects of cotton was signed, but fell short of the 2005 announcement that export subsidies would be eliminated and domestic support for cotton reduced.

Sources: Azevêdo (2013a,b), DFAT (pers. comm. 19 June 2014), European Commission (2013), WTO (2013a, p. 3).

Group of 20 (G20)

The G20 began in 1999 as a meeting of Finance Ministers and Central Bank Governors following the Asian financial crisis. In 2008, the first G20 Leaders Summit was held, and the group played a key role in responding to the global financial crisis. G20 leaders have met eight times since 2008. The next meeting is in Brisbane on 15-16 November 2014 (G20 2014).

The focus of G20 Summits has gradually expanded to include avenues to strengthen the global economy, improve financial regulation, reform the governance of international financial institutions and discussion of key economic reforms required in G20 member countries. The G20 agenda also covers work on such issues as trade, development, anti-corruption, food security and employment. In February 2014, G20 Finance Ministers and Central Bank Governors committed to develop new measures that would raise the level of G20 output by at least 2 per cent above the currently projected level in the next five years.

Australia has assumed the presidency of the G20 for 2014. In his address to the World Economic Forum at Davos, Switzerland, the Australian Prime Minister listed (in order) trade, taxation, infrastructure, employment and banking as the main areas where specific outcomes would be sought at the G20 Leaders Summit in Brisbane. On trade matters, the Prime Minister has stated:

At the very least, the G20 should renew its commitment against protectionism and in favour of freer markets. Each country should renew its resolve to undo any protectionist measures put in place since the [Global Financial] Crisis. Better still, each country should commit to open up trade through unilateral, bi-lateral, plurilateral and multi-lateral actions and through domestic reforms to help businesses engage more fully in global commerce. As a trading nation, Australia will make the most of its G20 presidency to promote free trade (Abbott 2014a, p. 4).

Australia will host a G20 Trade Ministers meeting on 19 July 2014 to discuss actions G20 members can adopt to reduce barriers to global trade.

Asia-Pacific Economic Cooperation

Established in 1989, APEC has become an important non-binding forum for encouraging greater economic integration in the region through the promotion of unilateral reform and facilitating collaboration between government officials, business and academics in support of open and transparent markets and economic growth. The annual APEC Leaders' meeting provides strategic direction to APEC's work program and is complemented by ministerial meetings on topics including trade, food security, energy, telecommunications and small and medium enterprises.

China is hosting APEC in 2014. At the APEC Trade Ministers' meeting in Qingdao in May 2014, Ministers agreed to take steps toward APEC's goal of a Free Trade Area of the Asia-Pacific (FTAAP). This included enhanced information sharing on preferential trade agreements, capacity building for trade agreement negotiators and analysis toward a FTAAP. Trade Ministers also agreed to a strategic blueprint on strengthening cooperation among APEC members on issues including global value chains and trade facilitation, investment climates, small and medium enterprises, services, and disaster resilience.

Trade Ministers in Qingdao also issued a statement of support for the multilateral trading system. This included support for early and effective implementation of the WTO Agreement on Trade Facilitation (box 6.1), an extension of the current 'standstill' agreement on protectionism from 2016 to 2018 as well as the advancement of negotiations on liberalisation of environmental goods and expansion of the WTO Information Technology Agreement. The APEC Ministers' meeting (Trade and Foreign Ministers) will be held on 7-8 November 2014 in Beijing and the Leaders' meeting on 10-11 November 2014 also in Beijing.

Other plurilateral negotiations

In addition to discussions within the APEC forum, Australia participated in WTO negotiations related to three plurilateral agreements over the past year. Specifically, Australia's trade minister announced in January 2014 that Australia would join 13 other WTO members to negotiate a plurilateral agreement to remove tariffs on a range of environmental goods. Negotiations will initially focus on the list of environmental goods agreed by APEC leaders in 2012 (DFAT 2014g).

Negotiations to review the WTO's Information Technology Agreement (which entered into force in 1997) with the aims of expanding the number of products covered by commitments to eliminate tariffs, increase country membership (from the current 75 signatories to 79) and develop non-binding principles for non-tariff barriers such as international standards, registration requirements and transparency of regulatory measures also commenced during the year (DFAT 2014h). Australia is also jointly leading (with the United States and the European Union) negotiations on a Trade in Services Agreement (TISA). Negotiations began in early 2013 with the latest round chaired by Australia between 28 April and 2 May 2014. Negotiation topics included market access, new and enhanced disciplines for financial services, domestic regulation and transparency, e-commerce and telecommunications, air and maritime transport (DFAT 2014i).

6.2 Preferential trade agreements

In the Asia-Pacific region, the number of preferential trade agreements has increased substantially over the last two decades or so. In 1990, there were only five preferential agreements in force in the region, accounting for around 20 per cent of all trade agreements across the globe. By 2000, 20 agreements were in force in the Asia-Pacific including regional agreements such as the North American Free Trade Agreement and Association of South East Asian Nations (ASEAN) agreements. By the end of 2013, the number of preferential trade agreements in force in the region had risen to 157, accounting for over 40 per cent of all trade agreements. (WTO 2014e).

Bilateral agreements

Over the past year, Australia has signed a bilateral trade agreement with Korea and concluded negotiations on an economic partnership agreement with Japan. Australia also has trade agreements currently in force with New Zealand (in force since 1983), Singapore (2003), Thailand (2005), the United States (2005), Chile (2009), ASEAN and New Zealand (2010) and Malaysia (2013), and is negotiating agreements with a number of other countries including China, India and Indonesia.

Korea

Australia and Korea concluded negotiations on a bilateral trade agreement between the two countries in December 2013 and released the full text of the agreement in February 2014. The agreement was signed in April 2014. The negotiated text along with a national interest analysis was tabled in the Australian Parliament in May 2014. The agreement will be considered by the Joint Standing Committee on Treaties which is expected to provide a report to the Australian Parliament in September 2014. Passage of the relevant legislation is expected to occur toward the end of 2014 (DFAT 2014d, p. 1).¹

The agreement covers a range of topics including (but not limited to) trade in goods and services, trade remedies, trade facilitation, investment, government procurement, telecommunications, financial services, movement of natural persons, intellectual property rights, technical barriers to trade, competition policy, labour

¹ The Australian Parliament does not have the constitutional power to amend a treaty signed by the executive arm of government. Current processes do not allow for independent, arms-length, review before an agreement is finalised and signed.

and environmental standards, and investor-state dispute settlement mechanisms (box 6.2).

Box 6.2 Key features of the Korea-Australia agreement

Goods trade

- Australia to provide duty-free access for eligible imports from Korea within 8 years.
- Subject to eligibility requirements, phased access to duty-free entry for 99.8 per cent of Australian exports (by value) to Korea over 20 years with access to duty-free entry for 84 per cent of current exports on entry into force.
- Phased reductions in Korean applied tariffs on imports from Australia include:
 - elimination (on entry into force) of tariffs on Australian raw sugar, wheat, wine and some horticultural products with tariffs on most other Australian agricultural products eliminated over short time frames;
 - removal of the 40 per cent tariff on Australian beef exports progressively over 15 years;
 - elimination of duty-free quotas for Australian cheese, butter and infant formula and the removal of high tariffs on many other dairy products between 3 and 20 years; and
 - phasing out of tariffs on Australian manufactures, resources and energy exports within 10 years.

Services trade and investment

- Increase in the screening threshold for Korean private investment in Australia in non-sensitive sectors from \$248 million to \$1078 million in line with the threshold applied to New Zealand, the United States and Japan (on entry into force).
- Progressive reduction of Korean market access barriers including Australian:
 - legal firms to establish representative offices in Korea;
 - accountancy firms to establish offices in Korea;
 - telecom providers to own Korean telecom firms within 2 years; and
 - financial services providers to supply specified services ‘cross border’.
- Provision for an investor-state dispute settlement mechanism. The agreement excludes non-discriminatory regulatory actions by a Party that are designed and applied to achieve public welfare objectives, such as in the areas of public health, safety, and the environment.

Other areas

- Guaranteed access for skilled service suppliers, investors and business visitors.
- Commitment to improve mutual recognition for professional qualifications.
- IP protection in Korea to be broadly equivalent to Australian IP protections.
- Guaranteed access to Korean government procurement for Australian firms.

Source : DFAT (2014c).

According to economic modelling commissioned by the Department of Foreign Affairs and Trade (DFAT), with changes in goods trade under the Korea-Australia agreement, GDP is projected to be \$650 million higher in 2030 than would be the case without the agreement. A net increase in jobs of 1745 in 2015 and 950 in 2030 is projected compared to the outcome if an agreement had not been implemented (CIE 2014, p. 13). While the modelling reported the implications for Australia of a Korea-US and Korea-EU agreement if Australia did not secure an agreement, it did not report on the implications of unilateral tariff reductions by Australia or partner economies.

As in previous agreements, an extensive list of agreement-specific rules of origin and supporting customs procedures have been developed to prevent goods being trans-shipped from non-signatory countries to take advantage of the preferential tariff rates under the agreement. Some five thousand product-specific rules of origin are specified in the Korea-Australia agreement. This will further add to the administratively complex set of origin requirements with potentially considerable compliance cost burdens on business (section 6.3).

Japan

After seven years and seventeen rounds of negotiations, the governments of Australia and Japan concluded negotiations on an Economic Partnership Agreement (EPA) on 7 April 2014 in Tokyo. The EPA is expected to be signed by both governments in the second half of 2014, after which the final text would be made public. According to DFAT, on coming into force, the EPA will provide for preferential market access for Australian producers across a range of eligible agricultural, industrial, energy and mineral products as well as bilateral commitments on services and investment (box 6.3). As with other preferential trade agreements, eligibility for trade preferences will be subject to rules of origin negotiated under the agreement. At this stage, details on the rules of origin that will be applied are not available.

Box 6.3 Selected provisions of the Australia-Japan Economic Partnership Agreement

The Department of Foreign Affairs and Trade reports that on coming into force the agreement would provide preferential access to the Japanese market for a range of eligible Australian products.

- Australian exports of beef, sugar, horticulture, wine and seafood would be granted preferential access to the Japanese market and tariffs would be bound at zero on bilateral trade in wool, cotton, lamb and beer.
- Bilateral tariffs on Australian frozen beef exports to Japan would be halved to 19.5 per cent over 18 years and on fresh beef exports to 23.5 per cent over 15 years, with significant front-loading of the tariff cuts.
- In addition to the existing global quota, Australian fresh cheese exporters would obtain an additional duty-free quota allowance, increasing over time, to reach 20 000 tonnes. The 29.8 per cent tariff on out of quota cheese imports would remain.
- Tariffs on most horticulture and seafood exports would be eliminated.
- The bilateral tariff on Australian exports of international standard raw sugar to Japan would be reduced to zero and reduced levies would also apply.
- Bilateral tariffs of up to 30 per cent on some manufactured products meeting eligibility requirements would be eliminated. Bilateral tariffs on cars would be eliminated, except for the specific tariff on used cars which would be retained.
- All bilateral tariffs on energy and mineral exports would be eliminated within 10 years.

Under the agreement, Australia would raise the screening threshold for private Japanese investment in non-sensitive sectors to the threshold applied to private investment from New Zealand, the United States and Korea (on entry into force).

The agreement also includes bilateral commitments on intellectual property and provides for national treatment of the goods, services and suppliers of either Party for government procurement above agreed value thresholds. The EPA will not contain an investor state-dispute settlement mechanism.

Source: DFAT (2014e).

Regional agreements

In addition to bilateral agreements, Australia is a negotiating party to two possible regional trade agreements — the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP). Both proposals could serve to harmonise the disparate provisions (for example, with respect to rules of origin) contained in existing bilateral agreements among negotiating parties to the respective agreements. However, there is a likelihood that a RCEP or a TPP bloc

will discriminate against nations excluded from the respective agreements, to the detriment of efficient resource allocation, global trade and growth. There is also a risk that specific provisions within these agreements including those relating to intellectual property, investor state dispute settlement and product-specific rules of origin will impose net costs on trading partner economies. These concerns have been heightened by a lack of transparency of the actual provisions being negotiated; which would matter less if — following negotiation — there was a transparent, arms-length process of assessment that preceded political commitments being made. Currently, there is not.

Regional Comprehensive Economic Partnership

RCEP is an ASEAN-centred proposal for a regional preferential trading bloc which would initially include the ten ASEAN member states and countries which have an existing trade agreement with ASEAN. Those countries are Australia, China, India, Japan, Korea and New Zealand.² RCEP would create the world's largest trading bloc with the 16 participating countries accounting for almost half the world's population, 30 per cent of global GDP and more than 25 per cent of global exports (DFAT 2014f). Negotiations began in early 2013 and aim to be completed by the end of 2015. The key features of the proposed RCEP agreement are described in box 6.4.

In consideration of the different levels of development of the participating countries, the RCEP framework includes '... appropriate forms of flexibility including provision for special and differential treatment, plus additional flexibility to the least-developed ASEAN Member States, consistent with the existing ASEAN+1 FTAs ...' (ASEAN 2013, p. 1). While RCEP partly aims to address concerns about the 'noodle bowl' of overlapping bilateral agreements between negotiating parties, the flexibility provisions and the lack of commonality in the existing five ASEAN+1 agreements and the 23 ratified bilateral agreements as well as varying internal policies could prove difficult to harmonise and consolidate under a comprehensive RCEP agreement. For example, there are substantive differences in rules of origin for individual goods across agreements which could prove difficult to harmonise.

² Australia and a number of these countries are also engaged in negotiations for the TPP.

Box 6.4 **Regional Comprehensive Economic Partnership features**

The core of the RCEP negotiating agreement will cover:

- trade in goods – intended to progressively eliminate tariff and non-tariff barriers on *substantially* all trade in goods;
- services – intended to substantially eliminate restrictions and/or discriminatory measures consistent with the WTO General Agreement on Trade in Services (GATS);
- investment – intended to address issues of investment promotion, protection, facilitation and liberalisation;
- economic and technical cooperation – intended to narrow development gaps among parties including through electronic commerce;
- intellectual property – intended to reduce IP-related barriers to trade and investment including through protection and enforcement of intellectual property rights;
- competition – intended to curtail anti-competitive practices while being cognisant of significant differences in the capacities of national regimes in this area;
- dispute settlement – intended to provide for an effective, efficient and transparent process of consultation and dispute settlement; and

RCEP negotiations will also consider including other issues covered by trade agreements among RCEP participating countries, and take into account new and emerging issues relevant to business.

Source : ASEAN (2013).

Trans-Pacific Partnership

The concept of a TPP agreement developed from an existing trade agreement between Brunei, Chile, New Zealand and Singapore (known as the Trans-Pacific Economic Partnership Agreement) signed in 2005. The original goal was to create a model regional agreement that could be expanded to include additional members from the APEC group of countries. In addition to the four foundation members, eight other countries have since joined the negotiations. In chronological order of their engagement, these countries are the United States, Australia, Peru, Vietnam, Malaysia, Mexico, Canada and Japan. South Korea and Taiwan have also expressed interest in joining. The latest ministerial meeting was held in Singapore on 19 and 20 May 2014. The timeline for completion of negotiations remains unclear.

A defining feature of the original TPP agreement was that it provided, over time, for the provision of preferential tariff rates between members on all goods, including agriculture. The agreement would also be comprehensive in that it would cover trade in goods and services, rules of origin, trade remedies, sanitary and phytosanitary measures, technical barriers to trade, intellectual property,

government procurement, competition policy, temporary entry of business persons and dispute settlement procedures.

In addition to these topics, the TPP negotiations have broadened to encompass financial services, investment, electronic commerce, telecommunications, regulatory coherence and competitiveness issues. TPP negotiation groups have also been established to consider labour and environmental issues. A stated aim of the TPP is that the agreement would facilitate a consolidation of the differences (particularly rules of origin) in existing bilateral agreements used by current and prospective TPP members.

The confidential nature of the TPP negotiating text has been contentious particularly in respect of intellectual property and investor-state dispute settlement provisions. It has been argued that it is not common practice (including in Australia) to release negotiating texts of agreements before they are finalised on the grounds that public disclosure could undermine negotiations and, given their evolving nature, do little to better inform public debate (Robb 2014).

Once an agreement involving Australia has been signed by the negotiating parties, the text is subjected to scrutiny, but not amendment, in the Australian Parliament before ratification. However, by that stage, the government of the day has staked its credibility on the agreement being ratified. The Commission is unaware of any trade agreement that has been rejected in response to parliamentary scrutiny. An independent, arms-length process that precedes commitment by the government would be preferable.

Assessing the potential impacts of proposed agreements

Trade preferences granted through bilateral and regional trade agreements, if fully utilised, can increase trade and investment flows between partner countries. Reporting of the outcomes of agreement negotiations invariably focuses on the positive impacts of these bilateral flows between signatories to the agreement.

What is less commonly reported are the potential negative impacts of trade and investment that is diverted from more efficient sources of supply and the availability of even greater gains through unilateral action by the Australian Government to eliminate tariffs and other impediments to trade. The costs associated with a protracted negotiation process and compliance burden associated with preferential agreements, including complex and confusing rules of origin, are similarly under-reported.

In its 2010 report into bilateral and regional trade agreements, the Commission concluded that any increases in national income accruing from preferential agreements are likely to be modest. The Commission also concluded that current processes for assessing bilateral and regional agreements lacked transparency and tended to oversell the likely benefits. To help ensure that bilateral and regional trade agreements entered into are in Australia's best interests, it recommended that a full and independent, arms-length assessment of a proposed agreement should be made after negotiations have concluded — covering all of the actual negotiated provisions. It recommended (amongst other things):

The Australian Government should improve the scrutiny of the potential impacts of prospective trade agreements, and opportunities to reduce barriers to trade and investment more generally. ... It should commission and publish an independent and transparent assessment of the final text of the agreement, at the conclusion of negotiations, but before an agreement is signed (PC 2010, p. 312).

The expanding involvement of Australia in preferential trading arrangements adds to the imperative of this recommendation to ensure Australia maximizes the benefits from international trade and investment opportunities.

6.3 Rules of origin

Rules of origin establish which goods produced in a partner country to a bilateral or regional preferential trade agreement should be accorded preferential tariff treatment. The product-specific rules of origin in Australia's agreements have their own requirements that are subject to detailed negotiations in their formation. The individual rules can be expressed at the 2 digit chapter, 4 digit heading, the 6 digit subheading levels or for groupings of tariff line items of the Harmonized System (HS) of international trade items. As a consequence, the number of individual rules in any one agreement can be substantial and, moreover, vary between agreements (table 6.1). For example, the number of individual rules in agreements entered into by Australia varies from a single three-tiered rule in the Singapore-Australia trade agreement to some 5200 separate rules listed in the recently signed Korea-Australia agreement.

Table 6.1 Count of listed rules of origin by trade agreement
Number of rules listed in agreements

	<i>New Zealand</i>	<i>Singapore</i>	<i>Thailand</i>	<i>USA</i>	<i>Chile</i>	<i>ASEAN</i>	<i>Malaysia</i>	<i>Korea</i>
Number	2826	1	2900	980	2803	3102	2658	5205

Source: Commission estimates.

While the number of listed rules in agreements is a result of how the rules are presented in agreement schedules and varies considerably, the rules apply to a similar total number of individual HS 6 digit commodity items. The Commission understands that the more detailed listing of 6 digit rules in the Korean agreement (compared with other agreements) is intended to simplify the use of the origin-rule schedule for firms. Irrespective of the effectiveness of the Korean agreement in achieving the simplification goal, the different rule structure across agreements means that a firm trading with multiple countries with which Australia has signed a trade agreement faces greater complexity and compliance costs through the need to interpret the different rules of origin schedules.

With the large number of separately negotiated product-specific rules across agreements there also comes considerable variation in the origin rules for individual products between agreements. Underlying the differences in rules of origin requirements between agreements is a number of different methods for determining origin (box 6.5). A specific example of how these differences manifest in actual agreements with respect to a single tariff item (curtains, blinds and valances) is shown in box 6.6.

Box 6.5 Rules of Origin tests in Australia's preferential trading agreements

Australia's preferential trade agreements contain a range of approaches for conferring origin that businesses must consider when sourcing inputs to attain concessional rates for their products. The three common tests used for determining origin are:

- Change in tariff classification test – a good is transformed if there is a change in tariff classification under the Harmonized Commodity Description and Coding System.
- Specified process test – a good is transformed if it has undergone specified manufacturing or processing operations which confer origin of the country in which they were carried out.
- Regional value content test – a good is transformed if a threshold percentage value of locally or regionally produced inputs is reached in the exporting country.

These rules are variously applied individually or in combination with one another. In some agreements, such as the ASEAN – Australia – New Zealand and the Malaysia – Australia agreements, a choice between rules is afforded.

Source: PC (2010, p. 79, pp. 242-243).

Box 6.6 Rules of origin for Curtains (including drapes) and interior blinds; curtain or bed valances (HS item 6303)

In order to qualify for concessional entry, *Curtains (including drapes) and interior blinds; curtain or bed valances* [HS item 6303] must meet the following criteria:

- *Australia-United States*. Change to heading 6303 from any other chapter [except from a range of other specified headings or chapters] provided that the good is both cut (or knit to shape) and sewn or otherwise assembled in the US or Australia.
- *Thailand-Australia*. Change to heading 6303 from any other chapter, provided that any non-originating material that is fabric is pre-bleached or unbleached, and that there is a regional value content of not less than 55 per cent.
- *Australia-New Zealand*. Change to heading 6303 from any other chapter, provided that where the starting material is fabric, the fabric is raw and fully finished in the territory of the Parties; or No change in tariff classification is required, provided that there is a regional value content of not less than 45 per cent based on the build down method.
- *Australia-Chile*. Change to heading 6303 from any other chapter provided that where the starting material is fabric, the fabric is raw and fully finished in the territory of the parties.
- *Australia-Malaysia*. Change to heading 6303 from any other chapter, provided that where the starting material is fabric, the fabric was greige fabric that: (a) is dyed or printed; and (b) is finished in Australia or Malaysia to render it directly usable.

In other agreements, the qualifying criteria are described at the HS 6 digit level. For example, in order to qualify for concessional entry, the 6 digit sub-item *Curtains (including drapes) and interior blinds; curtain or bed valances – Knitted or crocheted: of synthetic fibres* [item 6303.12] must meet the following criteria:

- *ASEAN-Australia-New Zealand*. CC [Change to subheading from any other chapter], provided that where the starting material is fabric, the fabric is raw or unbleached fabric and fully finished in the territory of one or more of the Parties.
- *Korea-Australia*. CC [Change to subheading from any other chapter], provided that where the starting material is fabric, the fabric was greige fabric is dyed or printed and finished in the territory of one or both of the Parties to render it directly usable.

Exceptions within groups can also apply such that different rules apply to 6 (or 8) digit items within a group. For example, in the *ASEAN-Australia-New Zealand* agreement, within the group Molybdenum and articles thereof, including waste and scrap [HS item 8102] the following criteria apply to items within the group:

RVC(40) or CC for items 8102.10, 8102.94; RVC(40) or CTSH for items 8102.95, 8102.96, 8102.99; and Origin shall be conferred to a good of this subheading that is derived from production or consumption in a Party for item 8102.97.

Source: Australian Customs and Border Protection Service (2014).

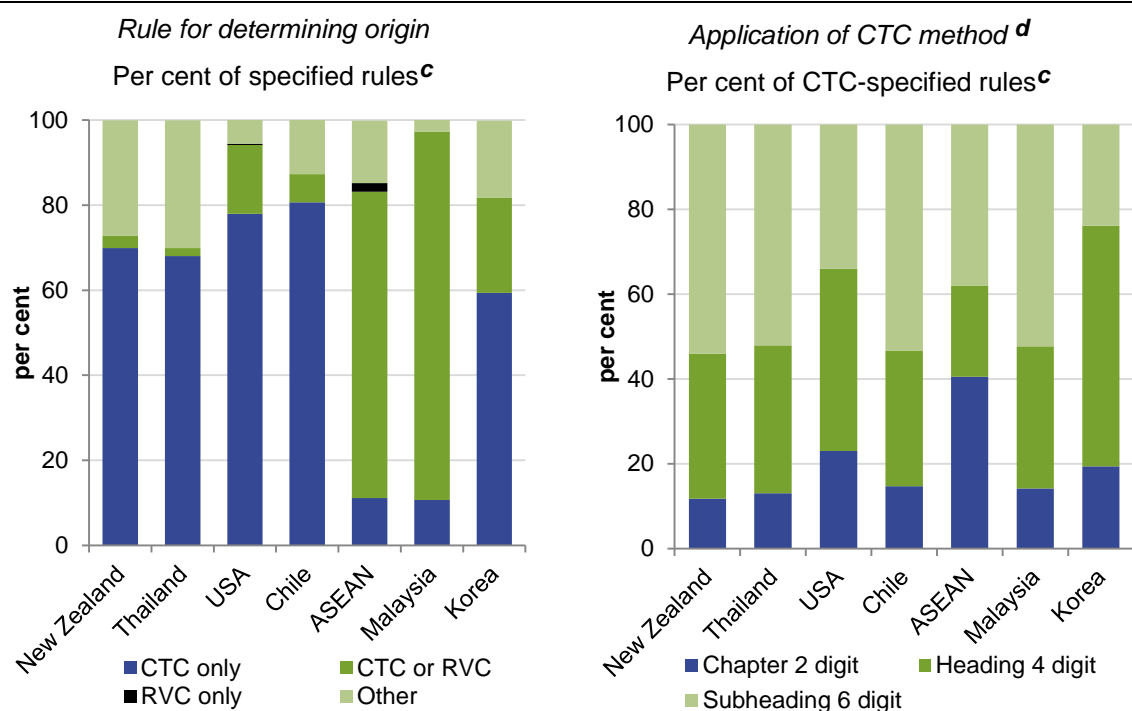
Comparing a selection of Australia's bilateral agreements demonstrates the diversity of approaches for conferring origin that businesses must consider when sourcing inputs to attain preferential access for their products (figure 6.1). The most frequent rules for determining origin are now based on a Change in Tariff Classification (CTC) (figure 6.1, left hand panel) test but there is considerable variability in how such rules are combined with other rules and how they are applied. For example, CTC-only tests represent just 11 per cent of origin rules as specified in the ASEAN and Malaysian agreements with a further 72 and 87 per cent respectively being CTC or RVC rules. In the US and Korea agreements, 78 per cent and 59 per cent of the rules as specified are CTC-only rules. The choice of origin rule in the ASEAN and Malaysia agreements, while adding complexity, also provides flexibility that has not been afforded widely in other agreements.³

Adding to the complexity, agreements often, but not always, specify rules of origin that require application of more than one rule (for example, a combination of a CTC rule and a Regional Value Content rule) or a CTC rule with an exception, which narrows the scope of the CTC rule by carving out specific products.

Although the CTC method is the most common approach, there is also considerable variation in how the rules are actually applied between agreements. For example, more than 50 per cent of the CTC origin rules in the New Zealand, Thailand, Chile and Malaysian agreements require change from a detailed HS 6 digit subheading item level (to another chapter, heading or subheading item), compared to just 24 per cent in the Korean agreement (figure 6.1, right hand panel).

³ The diversity of approaches across agreements is also apparent when agreements are compared at the individual HS 6 digit rules commodity item level. For example, using a disaggregated HS-6 digit approach, 85 per cent of items would be counted as having rules that are CTC-based in the US agreement, compared to 78 per cent when the count is based on listed rules. Comparing the US and Korean agreements on the basis of rules at the 6 digit item level, the 85 per cent counted as CTC-based in the US agreement would compare to 59 per cent in the Korea agreement. Similarly, CTC or RVC rules account for 10 per cent and 22 per cent of all rules, while other rules account for 3 per cent and 18 per cent of rules, respectively.

Figure 6.1 **Summary of methods used to determine origin in recent preferential trade agreements with Australia^{a,b}**



^a 'CTC' refers to a change in tariff classification test. 'RVC' refers to a regional value content rule. 'Other' includes, for example, combined CTC and RVC rules, CTC rules with exceptions and specified process tests that require particular production methods to be used to qualify for preferential entry. ^b The agreement with Singapore is not included as it applies a single three-tiered test of origin based on location of production and, for manufactured goods, an RVC requirement. ^c Individual rules can be expressed at the 4 digit heading level, the 6 digit subheading level or for groupings of tariff line items. The number of listed rules therefore differs between agreements. ^d When the Australia-New Zealand Closer Economic Relations agreement entered into force in 1983, an RVC rule with a simple technical test was the main rule applied. The revised rules reported replaced that rule and have been in force since 1 January 2007.

Source: Commission estimates.

The range and variable application of rules adds to the compliance costs for firms engaging in trade.⁴ In addition to the actual rules, rules of origin chapters in trade agreements also contain agreement-specific procedures for certifying origin.⁵ Recent studies have suggested that the costs associated with these requirements

⁴ Firms have the option of not utilising the preferential concessions available under the agreement to avoid these compliance costs but this effectively reduces the benefits that can stem from any agreement.

⁵ In addition to differing between agreements, the certification rules in preferential agreements differ from those in the Revised Kyoto Convention of 2006. The procedures from this Convention are now part of the implementation of the WTO Agreement on Trade Facilitation (ATF), an outcome of the WTO 9th Ministerial (Bali) Conference. The implementation guidance is provided in the new web tool introduced by the World Customs Organization (WCO 2014).

could be as high as 25 per cent of the value of goods traded within ASEAN (APEC 2009, p. 67). In a joint Australian and New Zealand Productivity Commission study on strengthening trans-Tasman economic relations, the Commissions found that the ‘... main issue for bilateral trade between Australia and New Zealand is the distortions and compliance costs that arise from the [Closer Economic Relations] CER RoO ...’ (Australian Productivity Commission and New Zealand Productivity Commission 2012, p. 108).

The Australian Chamber of Commerce and Industry (ACCI) has also reported from an industry perspective that:

Preferential agreements, while potentially providing ‘freer’ trade between the agreement parties, are specifically designed to be restricted to the parties and so exclude non-parties by way of complex ‘rules of origin’.

When the hundreds of trade agreements across the globe are negotiated in aggregate by nations a complex barrier of administrative obligations and procedures emerges, which traders must understand and overcome for each specific agreement in order to obtain benefit. These agreement-by-agreement administrative barriers are an added cost to business, add risk for delay of goods should documentation and other requirements be addressed incorrectly, and ultimately risk reducing the streamlining of international trade (ACCI 2013, p. iii).

The Commission’s study into bilateral and regional trade agreements argued that given the number of prospective bilateral agreements which Australia is seeking to negotiate, the opportunity to adopt a more coherent approach to determining origin was an important consideration. In this context, it favoured the composite approach adopted in the ASEAN–Australia–New Zealand FTA which gives exporters the flexibility of using either the regional value content test or the change in tariff classification test to determine origin (PC 2010, p. 245).

The Commission also recommended that, in future trade agreement negotiations, Australia seek the inclusion of a waiver of origin-rule requirements to be applied where the margin of a preference for a particular product is 5 percentage points or less. In such cases, there should be little or no incentive to tranship when the margin of preference is within this range and, accordingly, a waiver would deliver broad based gains and should reduce compliance costs (PC 2010, p. 245). This recommendation followed a similar recommendation in the Commission’s study into the CER rules of origin (PC 2004a).

In 2012, the Australian and New Zealand Productivity Commissions suggested that waiving rules of origin for all items where tariffs are no greater than 5 per cent would reduce compliance and administrative costs for a significant proportion of trans-Tasman trade. It also contended that such a waiver could be built on by

reducing the few remaining tariffs that exceed 5 per cent to that level (Australian Productivity Commission and New Zealand Productivity Commission 2012, p. 9).⁶

While a waiver may provide interim relief for businesses, the simplest and most beneficial approach to addressing *inter alia* rules of origin would be to unilaterally reduce tariff barriers on a most favoured nation basis, thereby eliminating altogether the need for preferential rules of origin on imports.

6.4 Dispute settlement

Disputes under the WTO

Since the Commission last reported on dispute settlement activity in the WTO (PC 2013c, pp. 112–113), Australia has had one new complaint brought against it. That complaint (DS467) was brought by Indonesia on 20 September 2013 and concerned ‘... certain Australian laws and regulations that impose restrictions on trademarks, geographical indications, and other plain packaging requirements on tobacco products and packaging’ (WTO 2013b).

According to the WTO (2013b), Indonesia claims that Australia’s measures 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). Indonesia is the fifth country to lodge a complaint against Australia’s tobacco plain packaging laws following the complaints by the Ukraine (DS434 13 March 2012), Honduras (DS435 4 April 2012), the Dominican Republic (DS441 18 July 2012) and Cuba (DS458 6 May 2013). In addition to the complainant countries, a large number of other countries have requested (and been granted permission) to join the dispute as third parties.⁷

⁶ Currently, about 50 per cent of Australian tariff line items attract an MFN tariff of 5 per cent or less. Nearly all remaining tariff line items are zero rated. A relatively small number of mainly textile and clothing items currently have tariffs above 5 per cent. These tariffs are legislated to be reduced to 5 per cent on 1 January 2015.

⁷ These countries are Argentina, Brazil, Canada, Chile, China, Ecuador, the European Union, Egypt, Guatemala, India, Japan, the Republic of Korea, Malawi, Malaysia, Mexico, Moldova, New Zealand, Nicaragua, Nigeria, Norway, Oman, Panama, Peru, the Philippines, the Russian Federation, Saudi Arabia, Singapore, South Africa, Chinese Taipei, Thailand, Trinidad and Tobago, Turkey, the United States, Uruguay, Zambia and Zimbabwe.

WTO dispute settlement panels have now been established in relation to all five complaints against Australia's tobacco plain packaging laws and on 5 May 2015, the Director-General of the WTO appointed the panellists who will hear these disputes.

Investor-state dispute legal proceedings against the Australian Government

Some trade agreements and investment treaties entered into by the Australian Government contain investor-state dispute settlement (ISDS) provisions for settling disputes between an investor of one party to the agreement and the other government. Under the provisions, dispute settlement options can include third-party arbitration.

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 lodged a dispute against the Australian Government over tobacco plain packaging requirements, which is subject to third-party arbitration being administered by the Permanent Court of Arbitration (PCA). The most recent arbitration hearing relating to this case (PCA Case No. 2012-12) was held on 20-21 February 2014 in Toronto, Canada. The outcome of that hearing favoured Australia's argument for bifurcation (the separation of proceedings into a preliminary jurisdictional phase and a subsequent merits phase, if required). The Tribunal also issued a timetable for consideration by the Parties which would involve the hearing on preliminary jurisdictional objections being held early in 2015.

In June 2013, the United Nations Conference on Trade and Development (UNCTAD) released a report on the functioning of ISDS regimes and a range of reform options that could be considered (UNCTAD 2013). The UNCTAD report noted that in many cases foreign investors have challenged policies adopted by States in the public interest and queried whether an international arbitration panel consisting of three individuals chosen on an ad hoc basis can be seen as a legitimate means of assessing the validity of those public policy decisions. It also found that despite the intent of ISDS arbitration to be timely and low cost, actual ISDS practice had seen the opposite outcomes with the costs of actions exerting significant pressures on public finances and creating potential disincentives for public interest regulation.

UNCTAD's proposed reform options to address these issues included: promoting alternative dispute resolutions; tailoring of the existing ISDS system; limiting

investor access to ISDS (narrowing the scope for investors to invoke ISDS provisions); introducing appeals facilities; and replacing the current system of ad hoc tribunals with a standing international investment court. The report also noted that while collective action would go further in addressing current problems with ISDS systems, such a response would face greater difficulty in implementation and require agreement between a large number of States.

In its report on bilateral and regional trade agreements (PC 2010, p. xxxviii), the Commission recommended that the Australian Government should not include matters in bilateral and regional trade agreements that would serve to increase barriers to trade, raise costs or affect established social policies without a comprehensive review of the implications and available options for change. With specific reference to ISDS, the Commission recommended that the Australian Government should seek to avoid the inclusion of investor-state dispute settlement provisions in bilateral and regional trade agreements that grant foreign investors in Australia substantive or procedural rights greater than those enjoyed by Australian investors.

6.5 Anti-dumping activity

During 2012-13, 13 new investigations were *initiated* by the Australian Customs and Border Protection Service (appendix C). This is a decrease from 22 new investigations in the previous year. Also during the year, 12 new measures were *imposed*. This is an increase from four new measures in the previous year. No measures *expired* during 2012-13. In the 2012 calendar year, there were 209 anti-dumping and 23 countervailing cases initiated worldwide (appendix C). The most were by Brazil (48), followed by India (21), the European Union (19), Canada (17), and the United States (16). Australia and Turkey ranked equal sixth (14). The previous year Australia had been the tenth most active.

A Detailed estimates of Australian Government assistance to industry

Chapter 4 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 2007-08 to 2012-13.

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.

Tables A.10 to A.13 detail budgetary assistance to primary, mining, manufacturing and services industry groupings, respectively. For each industry, budgetary assistance measures are also identified according to the activity assisted, such as exports and R&D. Table A.14 covers budgetary measures for which information about the industry benefiting is not available.

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.

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/annualreports/trade-assistance>).

Table A.1 Net tariff assistance by industry grouping, 2007-08 to 2012-13^a
\$ million (nominal)

<i>Industry grouping</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Primary production	78.1	125.0	142.3	139.3	145.6	160.3
Horticulture and fruit growing	104.8	135.7	144.2	145.3	151.2	165.9
Sheep, beef cattle and grain farming	-15.2	-15.0	-12.4	-15.1	-15.7	-15.9
Other crop growing	-1.4	-1.8	-2.2	-2.2	-2.3	-2.0
Dairy cattle farming	-2.9	-2.9	-1.8	-2.0	-2.1	-2.0
Other livestock farming	-3.5	-3.8	-3.5	-3.8	-3.9	-4.1
Aquaculture and fishing	-20.3	-15.4	-12.7	-13.5	-14.4	-14.4
Forestry and logging	31.5	42.1	45.4	46.4	49.3	49.5
Primary production support services	-14.9	-13.7	-14.7	-15.7	-16.4	-16.6
Unallocated primary production ^b	—	—	—	—	—	—
Mining	-174.0	-179.5	-186.9	-184.0	-197.7	-215.8
Manufacturing	6419.7	6408.8	5967.8	5732.2	5734.0	5521.7
Food, beverages and tobacco	1226.7	1230.5	1245.9	1261.8	1276.0	1245.1
Textile, leather, clothing and footwear	633.3	591.2	370.6	261.6	251.2	239.6
Wood and paper products	616.3	586.6	587.4	558.4	513.7	510.6
Printing and recorded media	246.8	212.1	191.2	193.3	173.1	184.5
Petroleum, coal, chemical and rubber	730.5	722.5	733.6	728.3	749.7	725.0
Non-metallic mineral products	236.6	245.0	231.5	225.8	212.4	205.1
Metal and fabricated metal products	1365.1	1436.4	1329.9	1400.5	1404.5	1277.5
Motor vehicle and parts	774.8	756.0	672.3	513.5	537.1	528.3
Other transport equipment	6.3	5.2	7.1	8.1	8.5	8.4
Machinery and equipment manufacturing	438.0	453.2	443.4	426.9	446.6	439.3
Furniture and other manufacturing	145.2	170.1	154.9	154.0	161.1	158.4
Unallocated manufacturing ^b	—	—	—	—	—	—
Services	-3876.6	-4135.1	-4192.5	-4267.4	-4615.9	-4735.5
Electricity, gas, water and waste services	-68.3	-71.3	-71.1	-73.9	-82.9	-97.1
Construction	-1244.1	-1359.2	-1428.5	-1500.6	-1657.6	-1698.1
Wholesale trade	-249.3	-249.6	-248.2	-250.7	-259.8	-259.8
Retail trade	-160.3	-167.4	-165.5	-169.8	-181.7	-188.0
Accommodation and food services	-423.2	-450.4	-469.3	-493.7	-525.7	-523.6
Transport, postal and warehousing	-222.4	-225.2	-203.0	-187.5	-204.7	-211.8
Information, media and telecommunications	-143.5	-148.7	-150.4	-143.6	-145.5	-145.7
Financial and insurance services	-7.6	-8.4	-8.5	-8.9	-9.3	-9.7
Property, professional and admin. services	-482.9	-511.9	-528.0	-544.3	-591.8	-620.9
Public administration and safety	-187.7	-204.3	-202.0	-200.6	-212.6	-217.8
Education and training	-92.9	-101.9	-105.0	-105.8	-114.9	-120.3
Health care and social assistance	-227.4	-242.5	-242.9	-243.4	-255.4	-274.9
Arts and recreation services	-72.2	-74.5	-74.7	-73.3	-76.8	-79.1
Other services	-294.9	-319.7	-295.5	-271.2	-297.1	-288.7
Unallocated services ^b	—	—	—	—	—	—
Unallocated other^b	—	—	—	—	—	—
Total	2447.1	2219.3	1730.6	1420.1	1066.0	730.7

— 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, 2007-08 to 2012-13
\$ million (nominal)

<i>Industry grouping</i>	<i>2007-08</i>	<i>2008-08</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Primary production	2315.4	1830.4	1639.8	1358.1	1453.1	1132.7
Horticulture and fruit growing	139.8	184.6	167.2	153.9	137.2	125.9
Sheep, beef cattle and grain farming	1087.1	1055.6	818.6	628.4	566.6	454.0
Other crop growing	175.0	65.9	82.1	46.4	75.7	60.9
Dairy cattle farming	308.4	144.2	120.4	83.8	67.5	49.9
Other livestock farming	60.0	47.3	39.5	36.5	58.3	37.3
Aquaculture and fishing	173.9	75.1	78.0	81.5	70.5	71.6
Forestry and logging	54.8	-63.8	34.7	49.1	76.6	43.8
Primary production support services	23.9	24.2	18.3	16.1	17.3	15.5
Unallocated primary production ^a	292.6	297.5	281.1	262.4	383.5	274.0
Mining	397.7	440.8	537.5	538.3	785.2	546.5
Manufacturing	1687.9	1720.0	1936.4	1699.7	1853.1	1609.2
Food, beverages and tobacco	90.2	114.4	124.9	126.9	111.8	102.3
Textile, leather, clothing and footwear	130.6	127.4	135.5	134.3	58.6	62.2
Wood and paper products	69.2	71.8	25.3	22.9	20.1	29.7
Printing and recorded media	19.9	10.0	9.9	10.6	14.6	20.7
Petroleum, coal, chemical and rubber	213.0	249.3	264.2	293.8	287.1	322.2
Non-metallic mineral products	28.1	14.3	20.0	19.9	22.7	34.0
Metal and fabricated metal products	137.0	120.3	114.9	109.6	272.2	111.4
Motor vehicle and parts	584.5	557.9	726.5	520.5	629.4	461.8
Other transport equipment	27.4	32.0	33.4	30.1	28.9	30.2
Machinery and equipment manufacturing	175.2	180.8	199.7	185.0	181.4	227.9
Furniture and other manufacturing	50.1	24.2	26.5	25.5	34.3	39.9
Unallocated manufacturing ^a	162.8	217.8	255.5	220.6	192.0	167.0
Services	3173.4	3433.3	3417.3	2923.7	4240.1	3326.7
Electricity, gas, water and waste services	108.8	107.3	151.3	104.3	1106.1	129.6
Construction	122.9	150.3	140.1	127.3	135.7	168.5
Wholesale trade	121.0	193.7	250.6	245.5	260.6	199.7
Retail trade	272.3	334.3	183.3	131.4	112.5	126.8
Accommodation and food services	66.6	78.0	47.4	45.7	62.1	69.3
Transport, postal and warehousing	107.9	124.3	119.9	105.1	115.0	96.1
Information, media and telecommunications	177.5	140.7	157.8	196.2	276.7	357.7
Financial and insurance services	745.3	918.7	867.9	722.6	766.8	640.3
Property, professional and admin. services	528.0	668.8	657.6	551.8	626.0	677.5
Public administration and safety	14.9	18.6	24.6	24.3	14.2	17.5
Education and training	25.6	35.2	34.0	28.8	30.6	38.9
Health care and social assistance	194.8	171.6	145.5	130.6	151.1	158.1
Arts and recreation services	494.3	275.4	394.6	293.4	349.3	407.4
Other services	49.1	56.2	48.0	47.4	54.4	68.6
Unallocated services ^a	144.2	160.2	194.7	169.3	179.0	170.8
Unallocated other^a	861.1	915.6	2258.3	3516.4	1661.5	1155.8
Total	8435.4	8340.0	9789.2	10036.1	9993.1	7771.0

– 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,
2007-08 to 2012-13^a**
\$ million (nominal)

<i>Industry grouping</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Primary production	2513.5	1955.6	1782.0	1497.4	1598.8	1293.0
Horticulture and fruit growing	244.6	320.3	311.4	299.2	288.4	291.8
Sheep, beef cattle and grain farming	1071.9	1040.6	806.2	613.3	550.8	438.0
Other crop growing	173.6	64.0	79.8	44.2	73.4	58.9
Dairy cattle farming	425.5	141.6	118.6	81.8	65.3	47.9
Other livestock farming	56.5	43.5	36.0	32.7	54.4	33.2
Aquaculture and fishing	153.5	59.6	65.2	68.0	56.1	57.1
Forestry and logging	86.3	-21.8	80.1	95.4	125.9	93.2
Primary production support services	9.0	10.4	3.6	0.4	0.9	-1.1
Unallocated primary production ^b	292.6	297.5	281.1	262.4	383.5	274.0
Mining	223.8	261.3	350.6	354.2	587.5	330.7
Manufacturing	8107.6	8128.9	7904.2	7431.9	7587.1	7130.9
Food, beverages and tobacco	1316.9	1344.9	1370.8	1388.7	1387.8	1347.3
Textile, leather, clothing and footwear	763.9	718.5	506.1	395.9	309.8	301.8
Wood and paper products	685.5	658.4	612.7	581.2	533.8	540.3
Printing and recorded media	266.7	222.1	201.2	204.0	187.7	205.2
Petroleum, coal, chemical and rubber	943.5	971.8	997.8	1022.2	1036.8	1047.2
Non-metallic mineral products	264.7	259.3	251.5	245.6	235.1	239.2
Metal and fabricated metal products	1502.1	1556.8	1444.8	1510.0	1676.7	1388.8
Motor vehicle and parts	1359.3	1313.9	1398.8	1034.0	1166.6	990.1
Other transport equipment	33.7	37.2	40.5	38.2	37.4	38.5
Machinery and equipment manufacturing	613.2	634.0	643.1	611.9	628.0	667.2
Furniture and other manufacturing	195.3	194.2	181.4	179.5	195.3	198.3
Unallocated manufacturing ^b	162.8	217.8	255.5	220.6	192.0	167.0
Services	-703.3	-701.8	-775.2	-1343.7	-375.7	-1408.8
Electricity, gas, water and waste services	40.6	36.0	80.2	30.4	1023.2	32.4
Construction	-1121.1	-1209.0	-1288.4	-1373.4	-1521.9	-1529.6
Wholesale trade	-128.2	-55.9	2.4	-5.2	0.8	-60.0
Retail trade	112.0	166.9	17.8	-38.4	-69.3	-61.2
Accommodation and food services	-356.6	-372.5	-421.8	-447.9	-463.6	-454.3
Transport, postal and warehousing	-114.5	-100.9	-83.1	-82.4	-89.7	-115.7
Information, media and telecommunications	34.0	-8.0	7.4	52.6	131.2	212.0
Finance and insurance	737.7	910.3	859.5	713.8	757.5	630.5
Property, professional and admin. services	45.1	156.9	129.6	7.5	34.2	56.6
Public administration and safety	-172.8	-185.7	-177.4	-176.3	-198.3	-200.4
Education and training	-67.3	-66.6	-70.9	-77.0	-84.3	-81.5
Health care and social assistance	-32.7	-70.9	-97.5	-112.9	-104.4	-116.7
Arts and recreation services	422.1	200.9	319.9	220.2	272.5	328.4
Other services	-245.7	-263.5	-247.5	-223.8	-242.6	-220.1
Unallocated services ^b	144.2	160.2	194.7	169.3	179.0	170.8
Unallocated other^b	861.1	915.6	2258.3	3516.4	1661.5	1155.8
Total	11002.7	10559.5	11519.8	11456.2	11059.1	8501.6

– 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.

Source: Commission estimates.

**Table A.4 Output tariff assistance by industry grouping,
2007-08 to 2012-13^a**
\$ million (nominal)

<i>Industry grouping</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Primary production	154.1	200.4	214.7	216.3	226.3	241.9
Horticulture and fruit growing	111.1	143.8	154.1	155.1	161.3	177.1
Sheep, beef cattle and grain farming	0.1	0.1	0.1	0.1	0.2	0.2
Other crop growing	1.3	1.7	2.2	2.3	2.4	2.1
Dairy cattle farming	—	—	—	—	—	—
Other livestock farming	—	—	—	—	—	—
Aquaculture and fishing	1.2	0.9	0.9	0.9	1.0	1.0
Forestry and logging	40.4	53.9	57.4	57.8	61.4	61.7
Primary production support services	—	—	—	—	—	—
Unallocated primary production ^b	—	—	—	—	—	—
Mining	0.8	0.8	0.8	0.9	0.9	1.0
Manufacturing	8736.3	8735.1	8180.5	7863.4	7887.8	7600.1
Food, beverages and tobacco	1726.5	1733.4	1745.6	1763.2	1783.1	1739.8
Textile, leather, clothing and footwear	779.1	727.2	459.5	328.7	315.6	301.1
Wood and paper products	775.3	737.9	737.8	700.2	644.2	640.3
Printing and recorded media	296.6	254.8	229.0	230.7	206.6	220.2
Petroleum, coal, chemical and rubber	1024.6	1015.5	1034.6	1028.8	1059.0	1024.1
Non-metallic mineral products	286.0	296.2	279.6	272.5	256.4	247.6
Metal and fabricated metal products	1786.9	1896.2	1749.3	1836.6	1841.9	1675.3
Motor vehicle and parts	1154.2	1126.1	1025.6	812.8	850.2	836.3
Other transport equipment	82.4	67.3	76.8	75.2	78.6	77.3
Machinery and equipment manufacturing	628.0	649.8	635.2	611.1	639.3	628.8
Furniture and other manufacturing	196.8	230.6	207.4	203.6	213.0	209.5
Unallocated manufacturing ^b	—	—	—	—	—	—
Services	0.0	0.0	0.0	0.0	0.0	0.0
Electricity, gas, water and waste services	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Wholesale trade	—	—	—	—	—	—
Retail trade	—	—	—	—	—	—
Accommodation and food services	—	—	—	—	—	—
Transport, postal and warehousing	—	—	—	—	—	—
Information, media and telecommunications	—	—	—	—	—	—
Financial and insurance services	—	—	—	—	—	—
Property, professional and admin. services	—	—	—	—	—	—
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	8891.2	8936.3	8396.0	8080.5	8115.0	7843.1

— 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, 2007-08 to 2012-13^a
\$ million (nominal)

<i>Industry grouping</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Primary production	-76.1	-75.4	-72.4	-77.0	-80.7	-81.6
Horticulture and fruit growing	-6.3	-8.1	-9.9	-9.8	-10.2	-11.2
Sheep, beef cattle and grain farming	-15.4	-15.2	-12.5	-15.3	-15.9	-16.1
Other crop growing	-2.7	-3.5	-4.5	-4.5	-4.7	-4.0
Dairy cattle farming	-2.9	-2.9	-1.8	-2.0	-2.1	-2.0
Other livestock farming	-3.5	-3.8	-3.5	-3.8	-3.9	-4.1
Aquaculture and fishing	-21.5	-16.3	-13.6	-14.5	-15.4	-15.4
Forestry and logging	-8.9	-11.8	-12.0	-11.4	-12.2	-12.2
Primary production support services	-14.9	-13.7	-14.7	-15.7	-16.4	-16.6
Unallocated primary production ^b	—	—	—	—	—	—
Mining	-174.7	-180.2	-187.7	-184.9	-198.6	-216.8
Manufacturing	-2316.6	-2326.3	-2212.7	-2131.2	-2153.9	-2078.4
Food, beverages and tobacco	-499.8	-502.9	-499.7	-501.4	-507.0	-494.7
Textile, leather, clothing and footwear	-145.8	-136.1	-88.9	-67.1	-64.4	-61.5
Wood and paper products	-159.0	-151.3	-150.4	-141.8	-130.5	-129.7
Printing and recorded media	-49.8	-42.8	-37.8	-37.4	-33.5	-35.7
Petroleum, coal, chemical and rubber	-294.0	-293.0	-301.0	-300.5	-309.3	-299.1
Non-metallic mineral products	-49.4	-51.2	-48.1	-46.7	-44.0	-42.5
Metal and fabricated metal products	-421.8	-459.8	-419.4	-436.1	-437.4	-397.8
Motor vehicle and parts	-379.3	-370.1	-353.4	-299.3	-313.1	-308.0
Other transport equipment	-76.0	-62.1	-69.7	-67.0	-70.1	-69.0
Machinery and equipment manufacturing	-190.0	-196.6	-191.8	-184.2	-192.7	-189.5
Furniture and other manufacturing	-51.7	-60.5	-52.5	-49.6	-51.9	-51.0
Unallocated manufacturing ^b	—	—	—	—	—	—
Services	-3876.6	-4135.1	-4192.5	-4267.4	-4615.9	-4735.5
Electricity, gas, water and waste services	-68.3	-71.3	-71.1	-73.9	-82.9	-97.1
Construction	-1244.1	-1359.2	-1428.5	-1500.6	-1657.6	-1698.1
Wholesale trade	-249.3	-249.6	-248.2	-250.7	-259.8	-259.8
Retail trade	-160.3	-167.4	-165.5	-169.8	-181.7	-188.0
Accommodation and food services	-423.2	-450.4	-469.3	-493.7	-525.7	-523.6
Transport, postal and warehousing	-222.4	-225.2	-203.0	-187.5	-204.7	-211.8
Information, media and telecommunications	-143.5	-148.7	-150.4	-143.6	-145.5	-145.7
Financial and insurance services	-7.6	-8.4	-8.5	-8.9	-9.3	-9.7
Property, professional & admin. services	-482.9	-511.9	-528.0	-544.3	-591.8	-620.9
Public administration and safety	-187.7	-204.3	-202.0	-200.6	-212.6	-217.8
Education and training	-92.9	-101.9	-105.0	-105.8	-114.9	-120.3
Health care and social assistance	-227.4	-242.5	-242.9	-243.4	-255.4	-274.9
Arts and recreation services	-72.2	-74.5	-74.7	-73.3	-76.8	-79.1
Other services	-294.9	-319.7	-295.5	-271.2	-297.1	-288.7
Unallocated services ^b	—	—	—	—	—	—
Unallocated other^b	—	—	—	—	—	—
Total	-6444.0	-6717.0	-6665.4	-6660.4	-7049.0	-7112.4

— 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, 2007-08 to 2012-13
\$ million (nominal)

<i>Industry grouping</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Primary production	1877.3	1425.4	1275.4	1055.1	958.7	762.7
Horticulture and fruit growing	83.1	132.8	125.1	120.1	87.5	82.9
Sheep, beef cattle and grain farming	840.8	740.3	601.9	453.0	245.5	216.3
Other crop growing	151.7	40.9	58.0	25.2	45.2	41.7
Dairy cattle farming	270.7	104.4	99.1	67.4	38.9	26.8
Other livestock farming	45.5	28.5	25.4	23.8	35.1	22.1
Aquaculture and fishing	166.1	68.3	66.5	66.8	56.2	62.4
Forestry and logging	26.8	14.9	18.2	34.9	63.9	35.2
Primary production support services	4.3	5.6	5.2	2.8	4.6	6.2
Unallocated primary production ^a	288.3	289.8	275.9	261.2	381.8	269.1
Mining	95.5	115.6	171.4	194.4	406.9	401.9
Manufacturing	791.7	794.0	955.2	993.7	1408.2	1333.3
Food, beverages and tobacco	64.7	62.5	53.0	56.2	32.8	65.3
Textiles, leather, clothing and footwear	115.8	112.9	122.2	123.2	51.1	54.9
Wood and paper products	61.1	60.3	14.5	11.6	6.9	21.3
Printing and recorded media	15.8	5.4	5.2	4.9	7.7	13.2
Petroleum, coal, chemical and rubber	178.2	197.3	209.6	241.6	228.3	297.1
Non-metallic mineral products	12.7	6.7	8.3	8.4	9.8	30.0
Metal and fabricated metal products	95.5	61.6	62.1	58.0	213.6	76.8
Motor vehicle and parts	18.8	26.9	150.6	195.8	583.7	426.6
Other transport equipment	16.5	23.0	24.4	21.2	18.8	26.2
Machinery and equipment manufacturing	116.1	121.3	124.8	114.5	102.8	193.3
Furniture and other manufacturing	40.9	16.6	19.7	19.2	27.5	35.6
Unallocated manufacturing ^a	55.6	99.4	160.9	139.0	125.2	93.1
Services	1419.1	1195.4	1169.7	1040.6	2077.2	1597.2
Electricity, gas, water and waste services	90.4	90.8	119.8	74.3	1075.2	116.2
Construction	16.9	20.7	23.1	21.6	25.6	67.1
Wholesale trade	44.5	54.6	58.1	56.8	63.0	122.2
Retail trade	182.1	200.3	82.9	59.2	39.2	57.5
Accommodation and food services	5.8	7.0	8.0	5.6	4.8	9.1
Transport, postal and warehousing	50.3	53.2	56.5	54.2	60.3	56.7
Information, media and telecommunications	115.5	112.3	111.4	106.0	98.3	171.6
Financial and insurance services	30.2	49.8	62.0	67.3	71.1	134.1
Property, professional and admin. services	167.3	184.2	185.6	170.9	193.6	384.4
Public administration and safety	12.7	13.2	19.0	19.2	10.7	13.5
Education and training	14.0	19.7	22.6	20.5	20.0	27.1
Health care and social assistance	114.1	89.4	89.4	85.3	94.2	102.1
Arts and recreation services	421.7	128.7	120.5	113.2	117.3	125.9
Other services	13.3	11.6	16.1	17.3	24.9	38.9
Unallocated services ^a	140.2	160.2	194.7	169.3	179.0	170.8
Unallocated other^a	264.0	202.6	296.5	346.6	361.9	280.0
Total	4447.6	3733.0	3868.3	3630.3	5212.9	4375.1

– 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,
2007-08 to 2012-13**
\$ million (nominal)

<i>Industry grouping</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Primary production	438.1	404.9	364.4	303.0	494.4	370.0
Horticulture and fruit growing	56.7	51.8	42.1	33.8	49.7	43.0
Sheep, beef cattle and grain farming	246.3	315.3	216.6	175.4	321.0	237.6
Other crop growing	23.3	25.0	24.0	21.2	30.5	19.2
Dairy cattle farming	37.7	39.8	21.3	16.4	28.6	23.1
Other livestock farming	14.5	18.8	14.1	12.6	23.2	15.2
Aquaculture and fishing	7.7	6.8	11.5	14.7	14.3	9.2
Forestry and logging	28.0	-78.7	16.5	14.2	12.8	8.6
Primary production support services	19.6	18.6	13.1	13.3	12.7	9.3
Unallocated primary production ^a	4.4	7.6	5.1	1.2	1.8	4.8
Mining	302.3	325.2	366.1	343.9	378.3	144.5
Manufacturing	896.2	926.0	981.2	706.0	444.9	275.9
Food, beverages and tobacco	25.4	51.8	71.9	70.7	79.0	37.0
Textile, leather, clothing and footwear	14.7	14.4	13.3	11.1	7.5	7.3
Wood and paper products	8.1	11.5	10.8	11.3	13.2	8.4
Printing and recorded media	4.1	4.6	4.8	5.7	6.9	7.5
Petroleum, coal, chemical and rubber	34.8	52.0	54.6	52.2	58.7	25.1
Non-metallic mineral products	15.3	7.6	11.8	11.4	12.9	4.0
Metal and fabricated metal products	41.5	58.7	52.8	51.6	58.6	34.6
Motor vehicle and parts	565.7	531.0	575.9	324.7	45.7	35.2
Other transport equipment	10.9	9.0	9.0	9.0	10.2	4.0
Machinery and equipment manufacturing	59.1	59.5	74.9	70.5	78.7	34.6
Furniture and other manufacturing	9.2	7.6	6.9	6.2	6.8	4.3
Unallocated manufacturing ^a	107.2	118.4	94.6	81.6	66.8	73.9
Services	1754.3	2237.9	2247.6	1883.1	2163.0	1729.5
Electricity, gas, water and waste services	18.4	16.5	31.5	30.0	30.8	13.4
Construction	106.0	129.6	117.0	105.7	110.1	101.4
Wholesale trade	76.6	139.1	192.5	188.8	197.6	77.5
Retail trade	90.2	134.1	100.3	72.2	73.3	69.3
Accommodation and food services	60.8	71.0	39.5	40.1	57.3	60.2
Transport, postal and warehousing	57.5	71.2	63.4	50.9	54.7	39.4
Information, media and telecommunications	62.0	28.4	46.4	90.2	178.4	186.1
Financial and insurance services	715.1	868.9	805.9	655.3	695.7	506.1
Property, professional and admin. services	360.7	484.6	471.9	380.8	432.4	293.0
Public administration and safety	2.2	5.4	5.5	5.1	3.5	4.0
Education and training	11.6	15.5	11.5	8.3	10.7	11.8
Health care and social assistance	80.7	82.2	56.1	45.3	56.9	56.1
Arts and recreation services	72.6	146.8	274.1	180.3	232.0	281.5
Other services	35.8	44.7	31.9	30.2	29.5	29.7
Unallocated services ^a	4.0	-	-	-	-	-
Unallocated other^a	597.1	713.0	1961.8	3169.8	1299.6	875.8
Total	3987.9	4607.1	5921.0	6405.9	4780.2	3395.8

– 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, 2007-08 to 2012-13^a
per cent

<i>Industry grouping</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Primary production^b	0.3	0.3	0.4	0.3	0.3	0.3
Horticulture and fruit growing	1.3	1.3	1.1	1.0	1.0	1.0
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	0.0	0.1	0.2	0.2	0.1	0.2
Forestry and logging	2.0	2.0	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	2.5	2.4	2.3	2.2	2.2
Food, beverages and tobacco	2.1	2.1	2.1	2.1	2.1	2.1
Textile, leather, clothing and footwear	8.4	8.4	6.7	4.9	4.9	4.9
Wood and paper products	3.8	3.8	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	1.3	1.6	1.6	1.6	1.6	1.6
Non-metallic mineral products	2.0	2.0	2.0	2.0	2.0	2.0
Metal and fabricated metal products	1.7	1.9	1.9	1.9	1.9	1.9
Motor vehicle and parts	8.1	8.0	7.1	5.1	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	2.0	2.0	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, 2007-08 to 2012-13^a
per cent

<i>Industry grouping</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Primary production^b	0.3	0.3	0.3	0.3	0.3	0.3
Horticulture and fruit growing	0.2	0.2	0.2	0.2	0.2	0.2
Sheep, beef cattle and grain farming	0.2	0.2	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	1.1	1.4	1.3	1.2	1.2	1.2
Forestry and logging	1.1	1.1	1.0	1.0	1.0	1.0
Primary production support services ^a	0.6	0.6	0.5	0.5	0.5	0.5
Mining	0.5	0.5	0.5	0.5	0.5	0.5
Manufacturing^b	1.0	1.1	1.1	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	3.6	3.6	2.9	2.3	2.3	2.3
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	1.8
Petroleum, coal, chemical and rubber	0.6	0.7	0.8	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	0.6	0.7	0.7	0.7	0.7	0.7
Motor vehicle and parts	3.3	3.3	2.9	2.6	2.6	2.5
Other transport equipment	2.0	2.0	1.9	1.8	1.8	1.8
Machinery and equipment manufacturing	1.4	1.4	1.4	1.3	1.3	1.3
Furniture and other manufacturing	1.9	1.9	1.8	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.

Table A.10 Australian Government budgetary assistance to primary industry, 2007-08 to 2012-13^a

\$ million (nominal)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Horticulture and fruit growing						
<i>Industry-specific measures</i>						
Assistance to the vegetable industry	1.1	<0.1	–	–	–	–
Australian Wine Industry Support	–	–	–	–	–	0.5
Citrus Canker Eradication	0.6	–	–	–	–	–
Premium Fresh Tasmania - assistance	–	–	–	–	–	0.5
Tax deduction for horticultural plantations	5.0	5.0	5.0	6.0	6.0	6.0
Tax deduction for grape vines	-1.0	-4.0	-7.0	-7.0	-7.0	-6.0
Wine Australia Corporation	–	–	–	2.7	2.8	2.7
<i>Sector-specific measures</i>						
Exceptional Circumstances – interest rate subsidy	13.5	34.0	27.6	26.0	8.7	–
Exceptional Circumstances – relief payments	–	26.6	23.2	17.6	0.8	–
Farm Bis Program	1.4	–	–	–	–	–
Farm Help	0.4	0.3	<0.1	–	<0.1	–
Farm Management Deposits Scheme	14.4	20.5	14.7	4.2	20.4	18.2
Income tax averaging provisions	10.9	9.9	8.9	16.3	15.2	9.7
Industry partnerships program	2.8	0.9	–	–	–	–
Interim Income Support	–	–	0.1	<0.1	<0.1	–
Rural Financial Counselling Service	2.0	2.1	2.1	2.1	2.3	2.4
Tax deduction for conserving or conveying water	2.0	2.0	3.7	4.7	4.7	4.7
<i>Rural R&D measures</i>						
Grape and Wine R&D Corporation	11.4	11.7	13.7	12.3	10.3	9.7
Horticulture Australia Limited – R&D	34.5	39.8	40.5	40.5	42.0	41.4
Rural Industries R&D Corporation	2.5	2.7	2.2	2.4	3.4	2.1
<i>General export measures</i>						
Export Market Development Grants Scheme	0.9	1.4	1.0	1.3	1.0	1.0
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–

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Table A.10 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	0.2	0.2	<0.1	–	–
COMET Program	<0.1	<0.1	0.1	<0.1	–	–
Commercial Ready Program	0.6	0.5	0.1	–	–	–
Commercialisation Australia	–	–	–	0.2	0.3	<0.1
CSIRO	9.0	7.9	8.6	8.7	9.7	7.3
New Industries Development Program	0.3	<0.1	–	–	–	–
Premium R&D tax concession	–	0.1	0.2	0.1	0.1	–
Pre-seed fund	<0.1	–	–	–	–	–
R&D tax concession	0.9	0.9	1.5	1.5	1.8	1.5
R&D tax offsets	1.7	4.0	4.4	4.7	5.3	14.1
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.5	0.7	0.6	0.5	0.5	0.5
Australian Tourism Development Program	0.1	–	–	–	–	–
Enterprise Connect Innovation Centres	–	–	–	–	0.1	<0.1
North East Tasmania Innovation and Investment Fund	–	–	0.4	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	1.0	1.5	–	–
Scottsdale Industry and Community Development Fund	0.3	0.5	–	–	–	–
Small business capital gains tax asset exemption	0.6	–	1.8	0.6	2.1	2.3
Small business capital gains tax 50 per cent reduction	14.0	9.1	7.5	3.6	3.2	3.4
Small business capital gains tax retirement exemption	7.7	6.0	4.1	2.6	2.2	2.1
Small business capital gains tax rollover deferral	1.7	1.7	1.2	0.7	0.5	0.6
South East South Australia Innovation and Investment Fund	–	–	–	–	0.5	0.9
Tasmanian Innovation and Investment Fund	–	–	–	–	0.4	0.3
Total	139.8	184.6	167.2	153.9	137.2	125.9
Sheep, beef cattle and grain farming						
<i>Industry-specific measures</i>						
National Livestock Identification System	4.7	0.2	0.2	–	–	–
Northern Australia Beef Industry Strategy	–	–	–	–	0.5	–
Indigenous Pastoral Project	–	–	–	–	–	–
Wheat Export Authority Supplementation	2.0	–	–	–	–	–

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Table A.10 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Sector-specific measures</i>						
Exceptional Circumstances – interest rate subsidy	457.7	359.1	256.2	182.8	15.8	–
Exceptional Circumstances – relief payments	229.3	230.3	168.3	93.4	4.1	–
Farm Bis Program	7.2	–	–	–	–	–
Farm Help	1.5	1.0	–	–	–	–
Farm Management Deposits Scheme	64.0	80.4	57.3	19.5	168.3	103.7
Income tax averaging provisions	59.8	54.4	48.2	88.0	82.3	62.7
Industry partnerships program	0.8	0.2	–	–	–	–
Interim Income Support	4.8	1.0	0.4	0.2	<0.1	–
Rural Financial Counselling Service	6.1	7.8	7.8	6.6	6.7	6.9
Tax deduction for conserving or conveying water	13.3	13.3	11.4	14.3	14.3	14.3
<i>Rural R&D measures</i>						
Wool R&D	12.3	11.4	10.5	11.3	12.5	13.3
Grains R&D Corporation	28.9	36.9	50.1	53.4	55.9	62.8
Harvesting Productivity Initiative	–	–	1.1	0.1	–	–
Meat and Livestock Australia R&D	34.5	31.4	38.1	35.6	37.1	38.3
Rural Industries R&D Corporation	1.7	1.0	0.8	0.8	1.0	2.5
<i>General export measures</i>						
EFIC national interest business ^b	1.0	0.9	0.4	0.8	0.5	0.3
Export Market Development Grants Scheme	0.5	0.6	0.8	0.6	0.4	0.4
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
<i>General R&D measures</i>						
COMET Program	0.1	<0.1	<0.1	–	–	–
Cooperative Research Centres	12.9	12.1	11.5	9.8	6.1	3.7
CSIRO	33.5	44.3	47.8	48.9	81.9	70.7
New Industries Development Program	0.1	<0.1	–	–	–	–
R&D tax concession	0.8	1.7	2.8	2.8	3.3	1.1
R&D tax offsets	1.3	2.1	7.2	7.7	8.7	14.2

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Table A.10 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	1.6	1.7	1.7	1.6	1.6	1.3
Enterprise Connect Innovation Centres	–	–	–	<0.1	<0.1	<0.1
Live Animal Exports Business Assistance	–	–	–	–	13.3	2.3
Small business capital gains tax asset exemption	14.4	18.8	10.8	3.6	12.7	14.3
Small business capital gains tax 50 per cent reduction	52.4	79.6	43.7	21.1	18.5	20.2
Small business capital gains tax retirement exemption	24.2	30.3	22.8	14.8	12.2	11.9
Small business capital gains tax rollover deferral	15.8	35.0	17.8	9.6	7.8	8.3
Tasmanian Freight Equalisation Scheme	–	–	0.8	0.8	0.8	0.9
Temporary Assistance for Tasmanian Exporters	–	–	–	–	0.1	–
Total^a	1087.1	1055.6	818.6	628.4	566.6	454.0
Other crop growing						
<i>Industry-specific measures</i>						
Sugar Industry Reform Program	35.6	4.5	–	–	–	–
Tobacco Grower Adjustment Assistance	14.4	0.3	–	0.1	–	–
<i>Sector-specific measures</i>						
Exceptional Circumstances – interest rate subsidy	23.8	7.8	31.8	–	2.1	–
Exceptional Circumstances – relief payments	32.8	0.9	<0.1	–	<0.1	–
Farm Bis Program	0.2	–	–	–	–	–
Farm Help	0.2	0.2	–	–	–	–
Farm Management Deposits Scheme	8.9	9.0	6.5	1.9	11.9	9.0
Income tax averaging provisions	3.8	3.4	6.7	12.2	11.4	3.7
Interim Income Support	0.7	0.1	<0.1	–	<0.1	–
Rural Financial Counselling Service	0.6	0.8	0.9	0.8	0.9	0.9
Tax deduction for conserving or conveying water	1.8	1.8	1.5	1.8	1.8	1.8
<i>Rural R&D measures</i>						
Cotton R&D Corporation	3.1	2.4	3.0	5.7	9.5	11.8
Rural Industries R&D Corporation	0.9	0.8	1.4	0.9	0.8	0.7
Sugar R&D Corporation	6.3	6.1	5.8	5.9	5.4	4.3
<i>General export measures</i>						
Export Market Development Grants Scheme	0.2	0.4	0.6	0.4	0.5	0.6

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Table A.10 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	0.1	0.5	0.3	<0.1	–
COMET Program	0.1	0.2	<0.1	<0.1	–	–
Commercial Ready Program	0.6	–	–	–	–	–
Commercialisation Australia	–	–	–	–	–	0.1
Cooperative Research Centres	9.0	8.3	6.5	3.5	3.0	–
CSIRO	22.8	7.0	7.5	7.7	23.0	23.2
New Industries Development Program	<0.1	<0.1	–	–	–	–
R&D tax concession	–	0.6	1.1	1.1	1.3	0.3
R&D tax offsets	–	0.9	–	–	–	<0.1
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.1	0.1	0.1	0.1	0.1	0.1
Scottsdale Industry and Community Development Fund	0.3	–	–	–	–	–
Small business capital gains tax asset exemption	–	–	0.5	0.2	0.5	0.6
Small business capital gains tax 50 per cent reduction	5.0	6.0	5.3	2.6	2.2	2.4
Small business capital gains tax retirement exemption	2.1	2.1	1.3	0.9	0.7	0.7
Small business capital gains tax rollover deferral	1.7	2.0	1.0	0.6	0.5	0.5
Total	175.0	65.9	82.1	46.4	75.7	60.9
Dairy cattle farming						
<i>Sector-specific measures</i>						
Exceptional Circumstances – interest rate subsidy	136.5	45.3	38.1	23.3	2.9	–
Exceptional Circumstances – relief payments	108.8	36.5	35.0	17.9	0.8	–
Farm Bis Program	0.4	–	–	–	–	–
Farm Help	0.2	0.2	–	–	–	–
Farm Management Deposits Scheme	8.3	11.4	7.2	2.1	15.4	9.5
Income tax averaging provisions	16.5	15.0	4.4	7.9	7.4	7.7
Interim Income Support	2.3	0.5	0.1	<0.1	<0.1	–
Rural Financial Counselling Service	1.7	1.3	1.7	1.2	1.0	1.0
Tax deduction for conserving or conveying water	1.3	1.3	1.5	1.8	1.8	1.8
<i>Rural R&D measures</i>						
Dairy Research and Development	18.3	19.2	19.6	18.8	18.6	19.3
<i>General export measures</i>						
Export Market Development Grants Scheme	0.1	–	<0.1	–	–	–
TRADEX	0.6	0.5	0.5	0.3	0.3	0.4

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Table A.10 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General R&D measures</i>						
Cooperative Research Centres	–	–	3.0	4.8	4.8	4.8
CSIRO	2.3	1.3	1.4	1.5	10.7	1.8
New Industries Development Program	0.1	<0.1	–	–	–	–
R&D tax offsets	–	–	–	–	–	<0.1
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.2	0.2	0.2	0.2	0.2	0.1
North East Tasmania Innovation and Investment Fund	–	–	0.1	–	–	–
Scottsdale Industry and Community Development Fund	–	0.1	–	–	–	–
Small business capital gains tax 50 per cent reduction	6.0	5.6	4.9	2.4	2.1	2.3
Small business capital gains tax retirement exemption	2.6	3.1	1.8	1.2	0.9	0.9
Small business capital gains tax rollover deferral	2.1	2.8	0.9	0.5	0.4	0.4
Total[Ⓒ]	308.4	144.2	120.4	83.8	67.5	49.9
Other livestock farming						
<i>Sector-specific measures</i>						
Exceptional Circumstances – interest rate subsidy	8.6	5.9	3.4	1.5	0.4	–
Exceptional Circumstances – relief payments	7.8	4.3	2.0	1.5	0.1	–
Farm Bis Program	0.2	–	–	–	–	–
Farm Help	0.4	<0.1	–	–	–	–
Farm Management Deposits Scheme	5.1	6.1	4.1	1.1	12.3	4.8
Income tax averaging provisions	4.1	3.7	3.6	6.6	6.2	4.5
Industry partnerships program	1.0	0.3	–	–	–	–
Interim Income Support	0.2	<0.1	<0.1	<0.1	<0.1	–
Rural Financial Counselling Service	0.2	0.2	0.2	0.3	0.3	0.3
Tax deduction for conserving or conveying water	1.1	1.1	1.6	2.0	2.0	2.0
<i>Rural R&D measures</i>						
Egg Research and Development	1.0	1.0	1.0	1.6	1.9	1.8
Pig Research and Development	3.7	2.8	4.0	4.3	4.6	4.5
Rural Industries R&D Corporation	4.7	4.9	4.1	3.9	4.4	4.6
<i>General export measures</i>						
Export Market Development Grants Scheme	0.6	0.9	0.6	0.6	0.2	0.6
<i>General R&D measures</i>						
Cooperative Research Centres	7.2	7.2	8.0	8.2	6.8	7.2
CSIRO	9.8	0.9	1.0	1.0	15.3	3.1
New Industries Development Program	0.1	<0.1	–	–	–	–
R&D tax concession	–	0.3	0.6	0.6	0.6	1.8
R&D tax offsets	–	–	0.9	1.0	1.1	<0.1

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Table A.10 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.2	0.2	0.2	0.2	0.2	0.3
Enterprise Connect Innovation Centres	–	–	<0.1	–	–	<0.1
North East Tasmania Innovation and Investment Fund	–	–	0.1	–	–	–
Small business capital gains tax 50 per cent reduction	2.3	4.9	2.2	1.1	0.9	1.0
Small business capital gains tax retirement exemption	0.8	1.9	1.4	0.9	0.7	0.7
Small business capital gains tax rollover deferral	0.9	0.5	0.4	0.2	0.2	0.2
<i>Total</i>	<i>60.0</i>	<i>47.3</i>	<i>39.5</i>	<i>36.5</i>	<i>58.3</i>	<i>37.3</i>
Aquaculture and fishing						
<i>Industry-specific measures</i>						
Fisheries Structural Adjustment Package	25.3	16.7	9.6	1.8	–	–
Fishing Structural Adjustment Package – Management Levy Subsidy	5.0	–	–	–	–	–
Great Barrier Reef Structural Adjustment	67.8	–	–	–	–	–
<i>Sector-specific measures</i>						
Exceptional Circumstances – interest rate subsidy	–	0.1	0.1	13.3	<0.1	–
Exceptional Circumstances – relief payments	–	0.2	0.2	0.1	<0.1	–
Farm Bis Program	0.8	–	–	–	–	–
Farm Help	–	<0.1	–	–	–	–
Income tax averaging provisions	5.9	5.4	5.5	9.9	9.3	5.6
Industry partnerships program	0.2	0.1	–	–	–	–
Interim Income Support	–	–	<0.1	<0.1	<0.1	–
Rural Financial Counselling Service	0.1	0.1	0.1	0.1	0.1	0.1
Tax deduction for conserving or conveying water	–	–	<0.1	<0.1	<0.1	<0.1
<i>Rural R&D measures</i>						
Fishing industry R&D	16.3	16.3	16.3	16.5	16.6	17.2
Fisheries Research Program	–	1.9	2.2	–	–	–
Fisheries Resources Research Fund	3.1	3.2	3.8	1.6	0.1	2.1
Torres Strait Prawn Fisheries Program	21.1	0.2	–	–	–	–
<i>General export measures</i>						
Export Market Development Grants Scheme	0.3	0.5	0.9	0.6	0.4	0.4
TRADEX	<0.1	<0.1	<0.1	<0.1	<0.1	<0.1
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–

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Table A.10 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	–	0.3	0.1	–	–
COMET Program	0.1	–	–	–	–	–
Commercial Ready Program	3.4	1.9	1.2	0.2	<0.1	–
Commercialisation Australia	–	–	–	0.1	1.1	1.7
Cooperative Research Centres	6.5	5.0	5.4	5.4	5.4	5.1
CSIRO	10.5	15.6	16.8	17.1	21.0	13.9
New Industries Development Program	0.1	<0.1	–	–	–	–
Premium R&D tax concession	0.1	0.1	0.4	0.3	0.3	0.4
R&D Start	0.1	–	–	–	–	–
R&D tax concession	0.9	1.1	2.5	2.5	2.8	1.3
R&D tax offsets	5.4	5.7	5.4	5.8	6.5	17.1
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	<0.1	0.1	0.7	0.7	0.7	0.7
Australian Tourism Development Program	<0.1	–	–	–	–	–
Enterprise Connect Innovation Centres	<0.1	<0.1	0.1	–	<0.1	<0.1
Industry Cooperative Innovation Program	0.2	0.3	–	0.1	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.5	0.4	–	–
Small business capital gains tax 50 per cent reduction	0.4	0.1	1.8	0.9	0.8	0.8
Small business capital gains tax retirement exemption	0.3	–	0.3	0.2	0.1	0.1
Small business capital gains tax rollover deferral	–	–	0.4	0.2	0.2	0.2
South Australia Innovation and Investment Fund	–	–	–	<0.1	–	–
South East South Australia Innovation and Investment Fund	–	–	–	–	0.1	–
Tasmanian Freight Equalisation Scheme	–	0.7	3.6	3.7	3.5	4.1
Tasmanian Innovation and Investment Fund	–	–	–	–	0.8	0.7
Temporary Assistance for Tasmanian Exporters	–	–	–	–	0.5	–
Total	173.9	75.1	78.0	81.5	70.5	71.6
Forestry and logging						
<i>Industry-specific measures</i>						
12-month prepayment rule	5.0	-95.0	–	–	–	–
Tasmanian Contractors Assistance Program	–	–	–	16.9	–	–
Tasmanian Forest Industry Adjustment Package	–	–	–	–	42.4	0.3
Tasmanian Forests Agreement – Implementation Package	–	–	–	–	–	20.3

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Table A.10 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Sector-specific measures</i>						
Exceptional Circumstances – interest rate subsidy	–	<0.1	–	–	<0.1	–
Income tax averaging provisions	3.4	3.1	3.9	7.0	6.6	2.4
Industry partnerships program	0.1	<0.1	–	–	–	–
Rural Financial Counselling Service	<0.1	<0.1	<0.1	<0.1	0.1	0.1
Tax deduction for conserving or conveying water	0.1	0.1	0.1	0.2	0.2	0.2
<i>Rural R&D measures</i>						
Forest and Wood Products R&D	2.0	2.1	1.8	2.6	2.4	1.8
Rural Industries R&D Corporation	0.9	1.1	–	–	–	–
<i>General export measures</i>						
Export Market Development Grants Scheme	<0.1	<0.1	0.1	0.1	0.1	–
<i>General R&D measures</i>						
Commercial Ready Program	0.6	0.4	–	–	–	–
Cooperative Research Centres	4.2	4.6	4.8	3.8	3.2	–
CSIRO	17.6	6.2	6.7	6.8	10.5	8.5
R&D tax concession	0.1	0.1	0.2	0.2	0.2	0.1
R&D tax offsets	1.0	–	1.0	1.0	1.2	<0.1
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.3	0.3	0.3	0.3	0.3	0.2
North East Tasmania Innovation and Investment Fund	–	–	0.2	–	–	–
Scottsdale Industry and Community Development Fund	0.4	0.2	–	–	–	–
Small business capital gains tax asset exemption	0.6	0.4	–	–	–	–
Small business capital gains tax 50 per cent reduction	10.8	6.9	6.6	3.2	2.8	3.0
Small business capital gains tax retirement exemption	4.4	3.1	3.3	2.1	1.8	1.7
Small business capital gains tax rollover deferral	3.2	2.2	2.1	1.1	0.9	1.0
Tasmanian Freight Equalisation Scheme	–	0.3	3.7	3.7	3.5	4.2
Temporary Assistance for Tasmanian Exporters	–	–	–	–	0.5	–
<i>Total</i>	<i>54.8</i>	<i>-63.8</i>	<i>34.7</i>	<i>49.1</i>	<i>76.6</i>	<i>43.8</i>

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Table A.10 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Primary production support services						
<i>Sector-specific measures</i>						
Exceptional Circumstances – interest rate subsidy	<0.1	1.2	1.6	–	1.8	–
Exceptional Circumstances – relief payments	–	–	–	–	0.3	–
FarmBis Program	<0.1	–	–	–	–	–
Income tax averaging provisions	5.7	5.2	3.9	7.0	6.6	3.8
Interim Income Support	–	–	–	–	<0.1	–
Tax deduction for conserving or conveying water	0.3	0.3	0.1	0.2	0.2	0.2
<i>General export measures</i>						
Export Market Development Grants Scheme	0.5	0.7	0.7	0.4	0.3	0.4
TRADEX	<0.1	<0.1	<0.1	<0.1	<0.1	<0.1
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	0.3	0.7	0.3	<0.1	–
COMET Program	0.1	0.1	0.1	0.1	<0.1	–
Commercial Ready Program	1.2	0.9	0.3	<0.1	–	–
Commercialisation Australia	–	–	–	<0.1	0.1	0.4
R&D tax concession	0.9	0.9	1.7	1.7	2.0	0.9
R&D tax offsets	2.2	2.5	1.8	1.9	2.1	5.1
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	1.7	1.8	1.2	1.2	1.2	1.5
Enterprise Connect Innovation Centres	–	–	–	<0.1	<0.1	–
Illawarra Region Innovation and Investment Fund	–	–	–	–	–	0.3
Industry Cooperative Innovation Program	<0.1	–	–	–	–	–
Innovation Investment Fund for South Australia	0.2	–	–	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.1	–	–	–
Scottsdale Industry and Community Development Fund	0.1	–	–	–	–	–
Small business capital gains tax 50 per cent reduction	5.4	6.2	3.5	1.7	1.5	1.6
Small business capital gains tax retirement exemption	4.5	1.7	0.8	0.5	0.4	0.4
Small business capital gains tax rollover deferral	1.1	2.5	1.9	1.0	0.8	0.9
Total	23.9	24.2	18.3	16.1	17.3	15.5

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Table A.10 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Unallocated primary production						
<i>Industry-specific measures</i>						
Australian Animal Health Laboratory	7.2	7.1	7.2	7.3	7.4	7.5
Exotic Disease Preparedness program	0.9	1.0	1.7	0.6	0.6	0.6
<i>Sector-specific measures</i>						
Carbon Farming Futures	–	–	–	–	27.3	20.5
Carbon Farming Initiative	–	–	–	0.3	2.0	1.8
Caring for our country – Landcare	9.0	35.2	32.1	34.0	36.8	35.1
Climate Change Adjustment Program	–	3.5	12.4	8.7	16.2	0.6
Drought assistance – Murray Darling Basin grants to irrigators	144.3	60.4	0.8	–	–	–
Drought assistance – professional advice	6.2	14.2	12.5	7.1	1.9	<0.1
Drought assistance – re-establishment assistance	4.6	17.6	20.0	23.9	16.4	2.2
Drought assistance – technical information workshop	6.1	–	–	–	–	–
Environmental Stewardship Program	–	–	8.9	13.3	13.2	11.0
Exceptional Circumstances – interest rate subsidy	<0.1	3.9	–	–	<0.1	–
Exceptional Circumstances – relief payments	–	22.8	13.9	14.6	0.3	1.6
Farm Bis Program	0.2	–	–	–	–	–
Farm Help	0.1	–	0.1	–	–	–
Farm Management Deposits Scheme	4.4	7.6	5.1	1.2	1.8	4.8
Industry Partnerships Program	0.3	0.1	–	–	–	–
Interim Income Support	–	–	<0.1	<0.1	<0.1	–
National Landcare Program	35.5	–	–	–	–	–
Promoting Australian Produce Program	–	3.0	1.3	3.8	–	–
Regional assistance	0.1	–	–	–	–	–
Rural Financial Counselling Service	2.8	2.3	2.2	1.7	1.9	1.9
Sustainable Rural Water Use and Infrastructure Program	0.1	17.3	54.2	59.2	191.8	140.5
<i>Rural R&D measures</i>						
Climate Change Adaptation Partnerships Program	–	10.1	19.3	10.8	8.5	–
Climate Change and Productivity Research Program	–	10.0	15.0	15.0	6.2	–
Land and water resources R&D	13.0	13.0	5.7	–	–	–
National Weeds and Productivity Research Program	–	3.1	4.1	4.0	4.0	–
Rural Industries R&D Corporation	5.4	5.8	5.0	5.1	5.4	4.3

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Table A.10 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General R&D measures</i>						
Cooperative Research Centres	23.7	22.4	19.1	10.8	9.5	9.3
CSIRO	17.1	24.4	26.3	26.9	17.1	15.5
R&D tax offsets	–	–	–	–	–	<0.1
<i>Other measures</i>						
Indigenous Carbon Farming Fund	–	–	–	–	–	0.9
Tasmanian Freight Equalisation Scheme	11.6	12.6	14.1	14.1	13.3	15.9
Temporary Assistance for Tasmanian Exporters	–	–	–	–	2.0	–
<i>Total</i>	292.6	297.5	281.1	262.4	383.5	274.0
Total outlays	1877.3	1425.4	1275.4	1055.1	958.7	762.7
Total tax concessions	438.1	404.9	364.4	303.0	494.4	370.0
Total budgetary assistance	2315.4	1830.4	1639.8	1358.1	1453.1	1132.7

– Nil. Figures may not add to totals due to rounding. ^a The estimates are derived primarily from Australian Government departmental annual reports and Treasury's Tax Expenditure Statements and unpublished information provided by relevant agencies. ^b The estimates reported in this item are net National Interest Business outlays. These payments are insurance pay-outs. Because any difference between the National Interest Business scheme's borrowing and lending rates is underwritten by the Australian Government, the scheme may provide assistance to agricultural exporters. ^c Does not include funding provided under the Australian Government's Dairy Industry Adjustment Package, which has been included in the estimates of 'agricultural pricing and regulatory assistance' reported in recent *Reviews*. The Commission estimates that the package provided dairy farmers remaining in the industry with assistance totalling \$120.1 million in 2007-08.

Source: Commission estimates.

**Table A.11 Australian Government budgetary assistance to mining,
2007-08 to 2012-13^a**

\$ million (nominal)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Industry-specific measures</i>						
Coal Mining Abatement Support Package	–	–	–	–	–	1.0
Coal Sector Jobs Package	–	–	–	–	218.8	–
Greenhouse gas abatement program	0.4	0.1	–	–	–	–
National Low Emissions Coal Initiative	–	8.7	32.3	47.6	25.6	22.4
<i>Sector-specific measures</i>						
Capital expenditure deduction for mining	20.0	15.0	10.0	7.0	2.0	2.0
<i>General export measures</i>						
Export Market Development Grants	1.6	1.6	2.2	1.4	1.8	1.2
TRADEX	0.6	0.5	0.5	0.3	0.3	0.3
<i>General investment measures</i>						
Development allowance	0.2	–	–	–	–	–
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	0.9	1.6	0.9	0.3	–
COMET Program	0.1	0.1	0.3	<0.1	<0.1	–
Commercial Ready Program	9.2	3.7	0.2	–	–	–
Commercialisation Australia	–	–	–	0.1	0.9	1.9
Cooperative Research Centres	8.0	3.5	6.7	10.6	11.3	10.7
CSIRO	46.6	59.1	63.8	65.2	71.2	80.7
Innovation Investment Fund	0.3	0.4	–	–	–	–
New Industries Development Program	<0.1	<0.1	–	–	–	–
Premium R&D tax concession	121.0	111.4	129.9	111.7	115.4	24.5
R&D Start	0.1	0.1	–	–	–	–
R&D tax concession	156.8	195.4	222.6	222.6	256.9	113.8
R&D tax offsets	28.7	36.1	63.3	68.1	76.5	283.5
Renewable Energy Development	0.5	0.8	0.3	–	–	–

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Table A.11 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.2	0.2	0.2	0.2	0.2	0.3
Enterprise Connect Innovation Centres	<0.1	<0.1	0.2	0.2	0.1	0.2
Innovation Investment Fund for South Australia	–	0.3	0.3	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.2	<0.1	–	–
Small business capital gains tax 50 per cent reduction	2.1	1.9	2.1	1.3	2.6	2.8
Small business capital gains tax retirement exemption	1.4	0.5	0.9	0.8	0.9	0.9
Small business capital gains tax rollover deferral	–	0.2	–	–	–	–
South East South Australia Innovation and Investment Fund	–	–	–	–	–	0.1
Tasmanian Freight Equalisation Scheme	–	0.1	0.2	0.2	0.2	0.2
Temporary Assistance for Tasmanian Exporters	–	–	–	–	<0.1	–
<i>Total</i>	<i>397.7</i>	<i>440.8</i>	<i>537.5</i>	<i>538.3</i>	<i>785.2</i>	<i>546.5</i>
Total outlays	95.5	115.6	171.4	194.4	406.9	401.9
Total tax concessions	302.3	325.2	366.1	343.9	378.3	144.5
Total budgetary assistance	397.7	440.8	537.5	538.3	785.2	546.5

– Nil. Figures may not add to totals due to rounding. ^a The estimates are derived primarily from Australian Government departmental annual reports and Treasury's Tax Expenditure Statements and unpublished information provided by relevant agencies.

Source: Commission estimates.

Table A.12 Australian Government budgetary assistance to manufacturing, 2007-08 to 2012-13^a

\$ million (nominal)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Food, beverages and tobacco						
<i>Industry-specific measures</i>						
Assistance for upgrade of Simplot Processing Plant (Tasmania)	–	–	–	2.0	1.0	–
Australian HomeGrown Campaign	0.9	–	–	–	–	–
Australian Wine Industry – Support	–	–	–	–	–	0.5
Brandy preferential excise rate	4.0	5.0	4.0	4.0	4.0	4.0
Clean Technology Investment – Food and Foundries Program	–	–	–	–	1.2	20.8
Food Processing in Regional Australia	2.3	–	–	–	–	–
National food industry strategy	0.5	–	–	–	–	–
Regional Food Producers' Innovation and Productivity Program	–	–	3.0	5.1	0.4	–
Wine Australia Corporation	–	–	–	2.7	2.8	2.7
<i>General export measures</i>						
Export Market Development Grants Scheme	13.8	16.0	14.4	11.4	8.1	6.6
TRADEX	0.9	0.8	0.7	0.5	0.5	0.5
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	–	0.4	0.3	0.3	–
COMET Program	0.1	0.1	<0.1	0.1	–	–
Commercial Ready Program	1.6	2.0	0.3	0.1	–	–
Commercialisation Australia	–	–	0.1	0.8	0.4	1.4
Cooperative Research Centres	2.6	0.4	0.3	–	–	–
CSIRO	18.2	17.8	19.2	19.6	5.1	3.1
New Industries Development Program	0.1	<0.1	–	–	–	–
Premium R&D tax concession	5.4	13.9	20.2	17.3	17.9	4.3
R&D Start	0.2	0.3	–	–	–	–
R&D tax concession	9.3	25.8	41.0	41.0	47.3	18.4
R&D tax offsets	4.3	6.3	10.2	10.9	12.3	28.8
Renewable Energy Development Initiative	–	1.8	0.2	–	–	–

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Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.2	0.2	0.2	0.2	0.2	0.3
Australian Tourism Development Program	0.1	–	–	–	–	–
Enterprise Connect Innovation Centres	0.2	0.2	0.6	0.9	0.8	0.6
Geelong Innovation and Investment Fund	–	1.0	–	0.2	–	–
Illawarra Region Innovation and Investment Fund	–	–	–	–	–	0.2
Innovation Investment Fund for South Australia	2.3	1.6	1.4	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	2.5	1.9	–	–
Scottsdale Industry and Community Development Fund	0.1	–	–	–	–	–
Small business capital gains tax asset exemption	0.4	–	–	–	–	–
Small business capital gains tax 50 per cent reduction	3.5	3.0	3.1	4.1	4.5	4.9
Small business capital gains tax retirement exemption	1.5	1.8	1.8	2.2	3.3	3.2
Small business capital gains tax rollover deferral	0.2	1.3	1.0	1.4	1.3	1.4
South Australia Innovation and Investment Fund	–	0.3	0.5	–	–	–
South East South Australia Innovation and Investment Fund	–	–	–	–	–	<0.1
Tasmanian Freight Equalisation Scheme	17.5	14.8	–	–	–	–
Tasmanian Innovation and Investment Fund	–	–	–	–	0.5	0.5
Total	90.2	114.4	124.9	126.9	111.8	102.3
Textile, leather, clothing and footwear						
<i>Industry-specific measures</i>						
Clothing and Household Textile Building Innovative Capability Program	–	–	–	–	22.6	22.3
Howe leather – loan repayment	-3.4	-3.1	–	–	–	–
TCF Project Diversification Scheme	5.0	4.5	4.6	4.2	–	–
TCF Small Business Program	2.0	2.1	1.7	2.1	2.0	1.8
TCF Strategic Capability Program	–	–	<0.1	5.2	8.7	7.2
TCF Strategic Investment Program – Post 2005	97.4	96.5	98.5	99.2	–	–
TCF Structural Adjustment Scheme	2.3	1.3	5.9	2.3	6.2	1.3
<i>Sector-specific measures</i>						
Clean Technology Investment – General Program	–	–	–	–	–	0.3

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Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General export measures</i>						
Export Market Development Grants Scheme	5.4	8.0	6.9	5.3	4.6	6.4
TRADEX	7.2	6.1	5.5	3.5	3.7	3.9
<i>General R&D measures</i>						
COMET Program	<0.1	<0.1	<0.1	<0.1	–	–
Commercial Ready Program	0.7	0.9	0.7	0.2	–	–
Commercialisation Australia	–	–	–	–	0.1	0.1
CSIRO	9.6	4.9	5.3	5.4	3.1	4.1
Premium R&D tax concession	0.1	0.4	0.5	0.4	0.4	0.3
R&D tax concession	0.4	0.9	1.0	1.0	1.2	1.1
R&D tax offsets	1.2	2.2	2.7	2.9	3.3	10.9
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.8	0.9	0.9	0.9	0.9	0.7
Australian Tourism Development Program	<0.1	–	–	–	–	–
Enterprise Connect Innovation Centres	0.1	0.1	0.2	0.4	0.4	0.4
Geelong Innovation and Investment Fund	–	–	–	0.2	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.2	<0.1	–	–
Small business capital gains tax 50 per cent reduction	0.7	1.2	0.4	0.5	0.5	0.6
Small business capital gains tax retirement exemption	0.5	–	0.3	0.4	0.6	0.6
Small business capital gains tax rollover deferral	0.1	0.5	0.1	0.1	0.1	0.1
Tasmanian Freight Equalisation Scheme	0.4	0.2	–	–	–	–
Total	130.6	127.4	135.5	134.3	58.6	62.2
Wood and paper products						
<i>Industry-specific measures</i>						
Australian Paper's Maryville Pulp and Paper – Assistance	–	–	–	–	–	4.2
Australia's Forest Industry – Preparing for the Future	–	3.3	6.9	3.5	–	–
Integrated Forest Products Grant	4.0	–	–	–	–	–
Tasmanian Community Forest Agreement	26.0	35.3	–	–	–	–
<i>Sector-specific measures</i>						
Clean Technology Investment – General Program	–	–	–	–	–	8.0
<i>Rural R&D measures</i>						
Forest and Wood Products R&D Corporation	1.4	1.7	1.7	1.8	1.5	0.9

(continued next page)

Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General export measures</i>						
Export Market Development Grants Scheme	1.0	0.9	0.8	0.7	0.4	0.3
TRADEX	0.7	0.6	0.5	0.3	0.4	0.4
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	0.1	–	–	–	–
COMET Program	0.1	<0.1	–	<0.1	–	–
Commercial Ready Program	2.4	0.4	<0.1	–	–	–
Cooperative Research Centres	2.3	–	–	–	–	–
CSIRO	0.4	2.2	2.4	2.4	0.9	0.7
Premium R&D tax concession	1.3	0.3	–	–	–	<0.1
R&D tax concession	3.9	6.0	7.9	7.9	9.1	3.3
R&D tax offsets	1.9	2.1	2.5	2.6	3.0	5.9
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.3	0.3	0.3	0.3	0.3	1.1
Enterprise Connect Innovation Centres	<0.1	<0.1	0.2	0.5	0.4	0.4
North East Tasmania Innovation and Investment Fund	–	–	<0.1	–	–	–
Scottsdale Industry and Community Development Fund	2.4	1.1	–	–	–	–
Small business capital gains tax 50 per cent reduction	1.8	2.8	1.2	1.7	1.8	2.0
Small business capital gains tax retirement exemption	–	1.4	0.9	1.1	1.6	1.6
Small business capital gains tax rollover deferral	0.1	0.1	–	–	–	–
South East South Australia Innovation and Investment Fund	–	–	–	–	0.3	0.6
Tasmanian Freight Equalisation Scheme	19.3	13.2	–	–	–	–
Tasmanian Innovation and Investment Fund	–	–	–	–	0.4	0.3
Total	69.2	71.8	25.3	22.9	20.1	29.7
Printing and recorded media						
<i>Industry-specific measures</i>						
TCF Small Business Program	–	–	<0.1	<0.1	–	–
<i>Sector-specific measures</i>						
Clean Technology Investment – General Program	–	–	–	–	–	1.9
<i>General export measures</i>						
Export Market Development Grants Scheme	0.8	0.6	0.4	0.2	0.2	0.1
TRADEX	0.3	0.2	0.2	0.1	0.1	0.1

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Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
<i>General R&D measures</i>						
COMET Program	0.2	<0.1	–	<0.1	–	–
Commercial Ready Program	11.0	1.1	0.3	<0.1	–	–
CSIRO	<0.1	0.6	0.7	0.7	<0.1	<0.1
Premium R&D tax concession	0.6	0.2	–	–	–	0.3
R&D Start	0.9	–	–	–	–	–
R&D tax concession	0.9	0.6	0.9	0.9	1.1	1.0
R&D tax offsets	2.7	3.1	3.5	3.8	4.3	11.0
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.2	0.2	0.2	0.2	0.2	0.4
Enterprise Connect Innovation Centres	<0.1	<0.1	0.2	0.2	0.2	0.2
Illawarra Region Innovation and Investment Fund	–	–	–	–	2.9	–
Scottsdale Industry and Community Development Fund	0.3	–	–	–	–	–
Small business capital gains tax asset exemption	1.1	–	–	–	–	–
Small business capital gains tax 50 per cent reduction	0.8	1.3	2.2	3.0	3.3	3.6
Small business capital gains tax retirement exemption	0.2	2.0	1.2	1.5	2.2	2.2
Small business capital gains tax rollover deferral	<0.1	–	–	–	–	–
Tasmanian Innovation and Investment Fund	–	–	–	–	0.1	<0.1
Total	19.9	10.0	9.9	10.6	14.6	20.7
Petroleum, coal, chemical and rubber products						
<i>Industry-specific measures</i>						
Biofuels Infrastructure Grants	7.2	–	–	–	–	–
CSL – Commonwealth assistance	–	–	–	9.3	10.6	8.0
Ethanol production subsidy	56.7	79.8	102.7	124.7	115.3	108.9
Greenhouse gas abatement program	1.6	0.3	–	–	–	–
Pharmaceutical Partnerships Program	18.5	8.1	1.7	–	–	–
Product Stewardship (Oil) program	36.0	40.5	33.0	35.0	36.0	33.4
Small scale mammalian cell production facility	–	–	1.0	1.0	4.0	4.0
<i>Sector-specific measures</i>						
Clean Technology Investment – General Program	–	–	–	–	–	8.0

(continued next page)

Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General export measures</i>						
Export Market Development Grants Scheme	7.2	8.2	9.7	7.0	5.3	6.2
TRADEX	2.6	2.2	2.0	1.3	1.4	1.4
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	1.3	1.8	0.8	0.2	–
COMET Program	0.6	0.5	0.5	0.3	<0.1	–
Commercial Ready Program	9.2	5.9	1.1	0.5	0.1	–
Commercialisation Australia	–	–	0.5	2.5	2.5	3.5
Cooperative Research Centres	13.8	8.2	9.0	8.0	7.0	2.6
CSIRO	2.9	17.1	18.5	18.9	16.6	33.2
Innovation Investment Fund	–	–	0.5	0.9	1.2	1.2
National Stem Cell Centre	6.0	5.5	5.0	4.5	–	–
New Industries Development Program	0.1	<0.1	–	–	–	–
Premium R&D tax concession	11.6	9.9	13.2	11.3	11.7	3.9
Pre-seed fund	0.5	–	–	–	–	–
R&D Start	0.4	0.1	–	–	–	–
R&D tax concession	17.4	38.3	38.6	38.6	44.6	18.3
R&D tax offsets	15.7	20.7	23.9	25.7	28.9	86.6
Renewable Energy Development Initiative	1.6	0.7	–	–	–	–
Renewable Energy Equity Fund	0.1	–	–	–	–	–
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.2	0.1	0.1	0.1	0.1	0.4
Enterprise Connect Innovation Centres	<0.1	<0.1	0.5	0.9	0.6	0.8
Geelong Innovation and Investment Fund	–	–	–	0.2	–	–
Illawarra Region Innovation and Investment Fund	–	–	–	–	–	0.8
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.3	–	–	–
Scottsdale Industry and Community Development Fund	–	0.1	–	–	–	–
Small business capital gains tax 50 per cent reduction	2.1	0.4	0.7	0.9	1.0	1.0
Small business capital gains tax retirement exemption	1.0	1.2	–	–	–	–
South Australian Innovation and Investment Fund	–	–	–	1.4	–	–
Tasmanian Innovation and Investment Fund	–	–	–	–	<0.1	<0.1
<i>Total</i>	<i>213.0</i>	<i>249.3</i>	<i>264.2</i>	<i>293.8</i>	<i>287.1</i>	<i>322.2</i>

(continued next page)

Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Non-metallic mineral products						
<i>Sector-specific measures</i>						
Clean Technology Investment – General Program	–	–	–	–	–	5.7
<i>General export measures</i>						
Export Market Development Grants Scheme	0.9	0.5	0.7	0.4	0.4	0.3
TRADEX	0.3	0.2	0.2	0.1	0.1	0.2
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	–	0.4	<0.1	–	–
Clean Technology Innovation Program	–	–	–	–	–	0.1
COMET Program	0.5	0.2	0.1	<0.1	–	–
Commercial Ready Program	1.2	0.4	<0.1	–	–	–
Commercialisation Australia	–	–	–	0.1	0.3	0.6
CSIRO	1.0	0.3	0.4	0.4	1.5	1.9
Premium R&D tax concession	6.6	1.3	2.4	2.0	2.1	<0.1
R&D Start	0.1	<0.1	–	–	–	–
R&D tax concession	6.2	5.2	8.7	8.7	10.1	3.0
R&D tax offsets	4.1	5.1	6.2	6.7	7.5	21.1
Renewable Energy Development Initiative	4.9	–	–	–	–	–
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.2	0.2	0.2	0.2	0.2	0.4
Enterprise Connect Innovation Centres	<0.1	<0.1	0.1	0.1	0.1	0.1
Geelong Innovation and Investment Fund	–	–	–	0.7	–	–
Illawarra Region Innovation and Investment Fund	–	–	–	–	–	0.1
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.4	<0.1	–	–
Small business capital gains tax 50 per cent reduction	1.3	0.7	0.3	0.3	0.4	0.4
Small business capital gains tax retirement exemption	0.7	–	–	–	–	–
South East South Australia Innovation and Investment Fund	–	–	–	–	–	0.2
Tasmanian Innovation and Investment Fund	–	–	–	–	<0.1	–
Total	28.1	14.3	20.0	19.9	22.7	34.0

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Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Metal and fabricated metal products						
<i>Industry-specific measures</i>						
Clean Technology Investment – Food and Foundries Program	–	–	–	–	–	0.9
Greenhouse gas abatement program	1.1	0.2	–	–	–	–
Investment incentives to HIs melt – grant	20.0	–	–	–	–	–
Steel Transformation Plan	–	–	–	–	164.0	–
<i>Sector-specific measures</i>						
Clean Technology Investment – General Program	–	–	–	–	–	3.1
<i>General export measures</i>						
Export Market Development Grants Scheme	3.4	3.8	3.0	2.6	2.2	2.2
TRADEX	2.2	1.9	1.7	1.1	1.1	1.2
<i>General investment measures</i>						
Development allowance	0.1	–	–	–	–	–
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	0.9	1.8	0.1	–	–
Clean Technology Innovation Program	–	–	–	–	–	0.1
COMET Program	0.5	0.3	0.2	0.1	–	–
Commercial Ready Program	2.4	2.4	2.4	0.4	–	–
Commercialisation Australia	–	–	–	<0.1	1.1	2.4
Cooperative Research Centres	8.3	8.3	8.1	7.8	5.5	–
CSIRO	46.2	26.5	28.6	29.2	22.5	31.9
Innovation Investment Fund	–	–	0.1	0.2	0.2	0.2
Premium R&D tax concession	11.9	13.9	7.8	6.7	6.9	6.8
R&D Start	1.1	–	–	–	–	–
R&D tax concession	16.0	31.1	40.8	40.8	47.1	22.7
R&D tax offsets	8.8	12.4	13.4	14.4	16.2	33.5

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Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	1.1	1.1	1.0	1.0	1.0	1.4
Enterprise Connect Innovation Centres	0.2	0.2	0.9	1.3	0.9	1.0
Geelong Innovation and Investment Fund	–	–	–	<0.1	–	–
Illawarra Region Innovation and Investment Fund	–	–	–	–	–	0.1
Industry Cooperative Innovation Program	0.1	–	–	–	–	–
Innovation Investment Fund for South Australia	–	0.3	0.3	–	–	–
North East Tasmania Innovation and Investment Fund	–	–	<0.1	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.8	1.3	–	–
Small business capital gains tax asset exemption	–	0.9	–	–	–	–
Small business capital gains tax 50 per cent reduction	4.9	5.1	0.8	1.1	1.2	1.3
Small business capital gains tax retirement exemption	4.8	4.2	0.5	0.6	1.0	0.9
Small business capital gains tax rollover deferral	0.6	0.5	0.2	0.2	0.2	0.2
South Australia Innovation and Investment Fund	–	1.6	2.5	0.5	–	–
South East South Australia Innovation and Investment Fund	–	–	–	–	0.1	0.5
Tasmanian Freight Equalisation Scheme	3.4	4.8	–	–	–	–
Tasmanian Innovation and Investment Fund	–	–	–	–	0.8	0.7
Total	137.0	120.3	114.9	109.6	272.2	111.4
Motor vehicles and parts						
<i>Industry-specific measures</i>						
ACL Bearings	2.0	–	–	–	–	–
Automotive competitiveness and investment scheme – Stage 2	506.9	479.1	520.9	282.7	–	–
Automotive Industry Structural Adjustment Program	–	7.9	18.1	17.0	16.8	–
Automotive Market Access Program	–	–	0.5	0.5	0.5	–
Automotive New Markets Initiative	–	–	–	–	–	2.9
Automotive Supply Chain Development Program	–	0.1	3.9	5.8	5.4	4.4
Automotive Transformation Scheme	–	–	–	93.3	381.0	334.4
Ford Australia Assistance	–	–	–	–	34.0	–
Green Car Innovation Fund	–	–	108.1	63.0	125.5	47.4
Investment incentive for Holden	2.0	–	2.7	–	–	–

(continued next page)

Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Sector-specific measures</i>						
Clean Technology Investment – General Program	–	–	–	–	–	0.8
<i>General export measures</i>						
Export Market Development Grants Scheme	1.1	1.6	2.0	1.3	0.9	1.0
TRADEX	46.8	39.7	35.7	22.9	24.4	25.6
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	0.3	1.0	0.2	0.2	–
COMET Program	0.4	0.2	0.2	0.1	<0.1	–
Commercial Ready Program	0.8	0.5	0.2	–	–	–
Commercialisation Australia	–	–	–	0.5	1.2	0.8
Cooperative Research Centres	6.4	6.1	6.1	5.5	5.0	10.7
CSIRO	1.1	0.5	0.6	0.6	4.4	2.2
Premium R&D tax concession	0.8	0.7	4.7	4.0	4.2	1.0
Pre-seed fund	0.1	0.1	–	–	–	–
R&D Start	–	<0.1	–	–	–	–
R&D tax concession	10.9	11.1	13.6	13.6	15.7	7.0
R&D tax offsets	5.0	9.6	7.1	7.6	8.6	22.1
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.1	0.1	0.1	0.1	0.1	0.1
Enterprise Connect Innovation Centres	<0.1	<0.1	0.2	–	0.2	0.1
Industry Cooperative Innovation Program	<0.1	–	–	–	–	–
Small business capital gains tax 50 per cent reduction	0.1	0.1	0.9	1.2	1.3	1.5
South Australia Innovation and Investment Fund	–	–	–	0.5	–	–
Total	584.5	557.9	726.5	520.5	629.4	461.8
Other transport equipment						
<i>General export measures</i>						
Export Market Development Grants Scheme	1.3	1.2	1.3	1.5	1.1	1.0
TRADEX	0.2	0.2	0.2	0.1	0.1	0.1

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Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	–	0.3	0.2	–	–
COMET Program	0.2	0.2	0.1	0.1	–	–
Commercial Ready Program	0.1	0.3	<0.1	–	–	–
Commercialisation Australia	–	–	–	–	0.6	0.5
Cooperative Research Centres	5.7	6.7	7.4	5.2	5.1	6.0
CSIRO	2.5	5.2	5.6	5.8	3.1	3.5
Innovation Investment Fund	0.7	0.2	–	–	–	–
Premium R&D tax concession	3.3	1.1	0.8	0.7	0.7	0.3
R&D Start	0.1	–	–	–	–	–
R&D tax concession	5.9	5.9	7.2	7.2	8.3	2.4
R&D tax offsets	5.8	7.7	7.4	7.9	8.9	15.0
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.5	0.5	0.4	0.4	0.4	0.4
Enterprise Connect Innovation Centres	<0.1	<0.1	0.1	0.4	<0.1	0.1
Geelong Innovation and Investment Fund	–	0.1	–	–	–	–
Industry Cooperative Innovation Program	–	0.3	0.3	0.1	–	–
North East Tasmania Innovation and Investment Fund	–	–	0.2	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.1	<0.1	–	–
Scottsdale Industry and Community Development Fund	–	0.2	–	–	–	–
Small business capital gains tax 50 per cent reduction	0.4	0.1	0.5	0.6	0.7	0.7
Small business capital gains tax retirement exemption	0.6	1.3	–	–	–	–
South Australia Innovation and Investment Fund	–	0.9	1.5	–	–	–
Total	27.4	32.0	33.4	30.1	28.9	30.2
Machinery and equipment manufacturing						
<i>Sector-specific measures</i>						
Clean Technology Investment – General Program	–	–	–	–	–	1.3
Exceptional Circumstances – interest rate subsidy	–	–	–	<0.1	–	–
<i>General export measures</i>						
Export Market Development Grants Scheme	13.8	16.3	19.5	11.6	9.7	8.1
TRADEX	5.7	4.9	4.4	2.8	3.0	3.1
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–

(continued next page)

Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	7.2	11.8	7.3	2.9	–
Clean Technology Innovation Program	–	–	–	–	–	0.8
COMET Program	2.2	1.8	1.7	0.8	0.1	–
Commercial Ready Program	28.2	17.0	4.5	0.7	<0.1	–
Commercialisation Australia	–	–	0.1	4.1	11.4	12.6
Cooperative Research Centres	2.5	3.8	2.8	2.5	2.0	–
CSIRO	13.6	19.1	20.6	21.1	3.7	5.0
Innovation Investment Fund	1.4	0.3	–	–	–	–
New Industries Development Program	<0.1	<0.1	–	–	–	–
Premium R&D tax concession	19.1	13.8	22.3	19.2	19.8	5.2
Pre-seed fund	1.8	0.3	0.8	–	–	–
R&D Start	4.3	<0.1	–	–	–	–
R&D tax concession	29.1	35.2	47.1	47.1	54.4	24.6
R&D tax offsets	41.8	51.5	58.8	63.2	71.0	164.3
Renewable Energy Development Initiative	1.9	0.2	0.1	–	–	–
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.3	0.3	0.3	0.3	0.3	0.4
Enterprise Connect Innovation Centres	0.2	0.2	1.0	1.1	1.1	0.9
Geelong Innovation and Investment Fund	–	1.0	–	0.1	–	–
Illawarra Region Innovation and Investment Fund	–	–	–	–	0.7	0.1
Industry Cooperative Innovation Program	<0.1	–	–	–	–	–
Innovation Investment Fund for South Australia	4.2	2.6	2.2	–	–	–
North East Tasmania Innovation and Investment Fund	–	–	<0.1	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.9	0.6	–	–
Scottsdale Industry and Community Development Fund	0.1	–	–	–	–	–
Small business capital gains tax asset exemption	0.7	–	–	–	–	–
Small business capital gains tax 50 per cent reduction	1.5	3.3	0.8	1.0	1.1	1.2
Small business capital gains tax retirement exemption	2.6	2.0	–	–	–	–
South Australia Innovation and Investment Fund	–	–	–	1.5	–	–
Tasmanian Innovation and Investment Fund	–	–	–	–	0.1	<0.1
<i>Total</i>	<i>175.2</i>	<i>180.8</i>	<i>199.7</i>	<i>185.0</i>	<i>181.4</i>	<i>227.9</i>

(continued next page)

Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Furniture and other manufacturing						
<i>Sector-specific measures</i>						
Clean Technology Investment – General Program	–	–	–	–	–	0.1
<i>General export measures</i>						
Export Market Development Grants Scheme	4.0	6.0	7.6	5.7	6.0	6.1
TRADEX	2.3	1.9	1.7	1.1	1.2	1.2
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
<i>General R&D measures</i>						
COMET Program	0.7	0.3	0.6	0.3	<0.1	–
Commercial Ready Program	8.1	0.9	0.5	<0.1	–	–
Commercialisation Australia	–	–	0.1	0.3	2.1	3.0
Cooperative Research Centres	2.5	4.0	6.0	6.8	6.8	6.8
CSIRO	15.4	<0.1	<0.1	<0.1	6.7	4.5
Premium R&D tax concession	0.2	0.4	1.5	1.3	1.4	0.1
Pre-seed fund	–	–	0.2	–	–	–
R&D Start	2.8	0.1	0.1	–	–	–
R&D tax concession	1.0	1.7	2.3	2.3	2.7	1.0
R&D tax offsets	4.6	3.8	4.1	4.5	5.0	14.5
Renewable Energy Development Initiative	0.7	–	–	–	–	–
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.6	0.6	0.7	0.7	0.7	0.9
Enterprise Connect Innovation Centres	0.2	0.2	0.4	0.3	0.3	0.2
Illawarra Region Innovation and Investment Fund	–	–	–	–	0.3	0.2
Industry Cooperative Innovation Program	0.2	–	–	–	–	–
Innovation Investment Fund for South Australia	0.3	–	–	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.1	1.5	–	–
Small business capital gains tax 50 per cent reduction	2.6	1.7	0.6	0.8	0.9	1.0
Small business capital gains tax retirement exemption	2.5	1.2	–	–	–	–
Small business capital gains tax rollover deferral	<0.1	–	–	–	–	–
Structural Adjustment Fund for South Australia	–	<0.1	–	–	–	–
Tasmanian Freight Equalisation Scheme	1.4	1.1	–	–	–	–
Tasmanian Innovation and Investment Fund	–	–	–	–	0.2	0.1
Total	50.1	24.2	26.5	25.5	34.3	39.9

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Table A.12 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Unallocated manufacturing						
<i>Industry-specific measures</i>						
Advanced electricity storage	2.8	8.7	–	–	–	–
<i>Sector-specific measures</i>						
Clean Business Australia – Re-tooling for Climate Change	–	0.7	4.9	7.6	4.2	–
Clean Technology Investment – General Program	–	–	–	–	<0.1	–
<i>General export measures</i>						
Duty Drawback	107.2	118.4	94.6	74.5	62.5	69.1
<i>General R&D measures</i>						
Cooperative Research Centres	3.5	2.5	2.0	–	–	–
CSIRO	2.9	20.8	22.5	23.0	12.8	12.3
Energy Innovation Fund	–	5.8	49.8	30.0	32.7	–
Manufacturing Technology Innovation Centre	–	–	–	–	–	2.9
R&D tax offsets	–	–	–	–	–	<0.1
<i>Other measures</i>						
Enterprise Connect Innovation Centres	–	–	10.6	9.2	0.1	<0.1
Innovation Investment Fund for South Australia	–	0.2	0.2	–	–	–
Small business capital gains tax asset exemption	–	–	–	7.1	4.3	4.8
South Australia Innovation and Investment Fund	–	1.2	2.0	–	–	–
Structural Adjustment Fund for South Australia	–	0.3	–	–	–	–
Tasmanian Freight Equalisation Scheme	46.4	59.1	69.0	69.2	65.5	78.0
Temporary Assistance for Tasmanian Exporters	–	–	–	–	9.9	–
<i>Total</i>	162.8	217.8	255.5	220.6	192.0	167.0
Total outlays	791.7	794.0	955.2	993.7	1408.2	1333.3
Total tax concessions	896.2	926.0	981.2	706.0	444.9	275.9
Total budgetary assistance	1687.9	1720.0	1936.4	1699.7	1853.1	1609.2

– Nil. Figures may not add to totals due to rounding. ^a The estimates are derived primarily from Australian Government departmental annual reports and Treasury's Tax Expenditure Statements and unpublished information provided by relevant agencies.

Source: Commission estimates.

**Table A.13 Australian Government budgetary assistance to services,
2007-08 to 2012-13^a**

\$ million (nominal)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Electricity, gas, water and waste services						
<i>Industry-specific measures</i>						
Carbon Capture and Solar Flagships Program	–	–	61.8	7.1	6.8	13.8
Energy Brix Australia Corporation	–	–	–	–	–	9.1
Energy Security Fund – transitional assistance	–	–	–	–	1000.0	–
Greenhouse gas abatement program	4.1	0.7	–	–	–	–
Low emission technology development fund	3.1	1.6	–	–	–	–
Remote renewable power generation program	29.9	39.1	4.4	–	–	–
Solar Flagships Programs	–	–	0.1	17.3	3.8	–
<i>General export measures</i>						
Export Market Development Grants	0.6	0.6	0.8	0.5	0.3	0.3
TRADEX	0.1	0.1	0.1	0.1	0.1	0.1
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
Infrastructure bonds scheme	2.6	2.6	0.3	0.3	0.3	–
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	1.3	3.3	0.3	<0.1	–
Clean Technology Innovation Program	–	–	–	–	–	0.2
COMET Program	0.7	0.6	0.3	0.3	–	–
Commercial Ready Program	0.9	0.7	0.3	0.1	–	–
Commercialisation Australia	–	–	–	0.3	0.9	0.4
Cooperative Research Centres	4.0	–	–	–	–	–
CSIRO	38.0	32.4	34.9	35.7	48.6	52.0
Innovation Investment Fund	2.2	–	1.2	2.2	2.8	2.8
Premium R&D tax concession	6.9	3.8	10.5	9.0	9.3	3.7
R&D tax concession	4.3	8.5	17.7	17.7	20.5	8.7
R&D tax offsets	5.1	7.1	9.6	10.4	11.6	36.2
Renewable Energy Development Initiative	1.8	6.1	2.3	–	–	–

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.2	0.3	0.2	0.2	0.2	0.4
Enterprise Connect Innovation Centres	<0.1	<0.1	0.1	0.2	0.3	0.2
Illawarra Region Innovation and Investment Fund	–	–	–	–	0.2	1.2
Industry Cooperative Innovation Program	<0.1	0.1	0.1	<0.1	–	–
Innovation Investment Fund for South Australia	–	0.4	0.4	–	–	–
Small business capital gains tax 50 per cent reduction	2.3	0.8	1.1	2.7	0.5	0.5
Small business capital gains tax retirement exemption	1.7	0.5	1.5	–	–	–
Small business capital gains tax rollover deferral	0.2	–	–	–	–	–
South East South Australia Innovation and Investment Fund	–	–	–	–	–	0.1
Total	108.8	107.3	151.3	104.3	1106.1	129.6
Construction						
<i>Sector-specific measures</i>						
Clean Technology Investment – General Program	–	–	–	–	–	4.0
<i>General export measures</i>						
Export Market Development Grants Scheme	1.1	1.6	1.1	0.6	0.9	0.3
TRADEX	<0.1	<0.1	<0.1	<0.1	<0.1	<0.1
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	0.6	0.4	–	<0.1	–
COMET Program	0.3	<0.1	0.2	<0.1	–	–
Commercial Ready Program	1.8	1.8	0.9	<0.1	0.5	–
Commercialisation Australia	–	–	–	–	–	0.3
Cooperative Research Centres	1.5	–	0.4	–	–	2.0
CSIRO	1.4	1.2	1.3	1.4	2.8	2.6
Innovation Investment Fund	<0.1	–	–	–	–	–
Premium R&D tax concession	4.3	5.9	12.5	10.8	11.2	4.1
R&D Start	–	0.4	0.3	–	–	–
R&D tax concession	13.7	13.1	20.0	20.0	23.1	18.6
R&D tax offsets	10.5	14.9	17.4	18.7	21.0	57.3

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	48.5	50.4	52.1	50.8	50.8	52.0
Australian Tourism Development Program	<0.1	–	–	–	–	–
Enterprise Connect Innovation Centres	<0.1	<0.1	0.2	0.3	0.5	0.5
Industry Cooperative Innovation Program	0.2	–	–	–	–	–
North East Tasmania Innovation and Investment Fund	–	–	<0.1	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.9	0.6	–	–
Scottsdale Industry and Community Development Fund	0.1	–	–	–	–	–
Small business capital gains tax asset exemption	1.6	4.3	2.0	2.1	2.8	3.1
Small business capital gains tax 50 per cent reduction	21.6	30.4	16.4	11.2	14.9	16.2
Small business capital gains tax retirement exemption	11.5	16.0	8.9	8.7	6.2	6.1
Small business capital gains tax rollover deferral	4.8	9.5	5.0	2.1	1.2	1.3
Small business programs	–	0.1	0.1	–	–	–
South Australia Innovation and Investment Fund	–	–	–	<0.1	–	–
South East South Australia Innovation and Investment Fund	–	–	–	–	–	<0.1
<i>Total</i>	<i>122.9</i>	<i>150.3</i>	<i>140.1</i>	<i>127.3</i>	<i>135.7</i>	<i>168.5</i>
Wholesale trade						
<i>Industry-specific measures</i>						
Ethanol Distribution Program	1.7	2.0	–	–	–	–
TCF Small Business Program	–	–	0.2	<0.1	<0.1	<0.1
<i>Sector-specific measures</i>						
Exceptional Circumstances – interest rate subsidy	–	–	–	<0.1	–	–
<i>General export measures</i>						
Export Market Development Grants Scheme	12.5	14.3	13.8	11.1	10.3	10.6
TRADEX	3.5	2.9	2.6	1.7	1.8	1.9
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	0.4	1.2	0.1	0.1	–
COMET Program	0.3	0.2	0.1	0.1	–	–
Commercial Ready Program	–	1.6	0.8	–	–	–
Commercialisation Australia	–	–	–	0.2	1.8	0.8
Premium R&D tax concession	17.0	27.7	63.9	55.0	56.8	8.7
R&D Start	0.2	–	–	–	–	–
R&D tax concession	25.6	62.2	99.3	99.3	114.7	41.3
R&D tax offsets	29.7	36.2	41.6	44.7	50.3	109.1
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	1.1	1.1	1.2	1.2	1.2	1.1
Enterprise Connect Innovation Centres	0.1	0.1	0.1	0.3	0.3	0.3
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.2	<0.1	–	–
Small business capital gains tax asset exemption	3.3	2.6	2.2	2.3	3.0	3.4
Small business capital gains tax 50 per cent reduction	13.6	21.8	11.7	16.4	12.6	13.7
Small business capital gains tax retirement exemption	9.7	15.4	8.2	4.9	7.6	7.4
Small business capital gains tax rollover deferral	2.8	5.3	3.3	8.0	–	–
South Australia Innovation and Investment Fund	–	–	–	0.1	–	–
South East South Australia Innovation and Investment Fund	–	–	–	–	0.1	1.5
Total	121.0	193.7	250.6	245.5	260.6	199.7
Retail trade						
<i>Industry-specific measures</i>						
Ethanol Distribution Program	4.5	5.0	–	–	–	–
Greenhouse gas abatement program	0.2	<0.1	–	–	–	–
LPG Vehicle Scheme	163.2	175.8	65.2	40.9	18.8	5.2
TCF Small Business Program	–	–	<0.1	<0.1	–	<0.1
<i>Sector-specific measures</i>						
Exceptional Circumstances – interest rate subsidy	–	–	–	0.1	–	–
<i>General export measures</i>						
Export Market Development Grants Scheme	1.5	2.1	1.4	1.2	1.2	1.0
TRADEX	4.4	3.7	3.4	2.2	2.3	2.4
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General R&D measures</i>						
COMET Program	0.2	0.1	0.1	<0.1	–	–
Commercial Ready Program	–	0.2	<0.1	–	–	–
Commercialisation Australia	–	–	–	<0.1	0.1	0.6
Premium R&D tax concession	1.9	0.7	1.8	1.6	1.6	0.9
R&D tax concession	6.0	8.8	11.1	11.1	12.8	6.3
R&D tax offsets	12.5	16.9	15.6	16.8	18.9	50.4
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	2.5	2.8	2.9	2.8	2.8	3.1
Enterprise Connect Innovation Centres	0.1	0.1	0.1	0.1	0.2	0.1
North East Tasmania Innovation and Investment Fund	–	–	0.1	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.3	<0.1	–	–
Small business capital gains tax asset exemption	3.8	3.6	8.3	1.6	2.1	2.4
Small business capital gains tax 50 per cent reduction	37.1	58.9	35.4	28.1	29.1	31.7
Small business capital gains tax retirement exemption	27.1	33.0	21.3	19.0	17.0	16.5
Small business capital gains tax rollover deferral	7.3	22.5	16.2	5.9	5.6	5.9
South East South Australia Innovation and Investment Fund	–	–	–	–	–	0.2
<i>Total</i>	<i>272.3</i>	<i>334.3</i>	<i>183.3</i>	<i>131.4</i>	<i>112.5</i>	<i>126.8</i>
Accommodation and food services						
<i>General export measures</i>						
Export Market Development Grants Scheme	4.1	5.0	6.5	4.3	3.2	3.3
<i>General R&D measures</i>						
COMET Program	–	–	0.1	<0.1	–	–
Commercialisation Australia	–	–	–	–	0.1	<0.1
CSIRO	–	<0.1	<0.1	<0.1	<0.1	<0.1
R&D tax concession	1.1	0.4	0.5	0.5	0.5	0.3
R&D tax offsets	1.4	2.0	1.2	1.3	1.5	5.5

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.9	1.0	1.0	1.0	1.0	0.8
Australian Tourism Development Program	0.2	–	–	–	–	–
Enterprise Connect Innovation Centres	–	–	<0.1	<0.1	<0.1	0.3
North East Tasmania Innovation and Investment Fund	–	–	0.1	–	–	–
Small business capital gains tax asset exemption	6.6	8.1	0.6	0.6	0.8	0.9
Small business capital gains tax 50 per cent reduction	32.1	33.5	22.1	23.5	31.7	34.7
Small business capital gains tax retirement exemption	14.5	13.3	8.6	11.7	13.0	12.7
Small business capital gains tax rollover deferral	5.7	14.7	6.8	2.8	10.3	10.9
Total	66.6	78.0	47.4	45.7	62.1	69.3
Transport, postal and warehousing						
<i>Industry-specific measures</i>						
Bass Strait Passenger Vehicle Equalisation	30.1	35.1	36.5	36.5	34.6	34.5
Payment scheme for Airservices Australia's en route charges	5.8	4.7	4.1	4.0	4.2	1.0
<i>Sector-specific measures</i>						
Exceptional Circumstances – interest rate subsidy	–	–	–	0.4	0.3	–
Exceptional Circumstances – relief payments	–	–	–	0.9	<0.1	–
Interim Income Support	–	–	–	<0.1	<0.1	–
<i>General export measures</i>						
Export Market Development Grants Scheme	5.9	6.0	8.3	5.6	2.7	2.6
TRADEX	0.5	0.5	0.4	0.3	0.3	0.3
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
Infrastructure bonds scheme	2.4	2.4	0.2	0.2	0.2	–
Infrastructure borrowing's tax offset scheme	3.8	0.4	–	–	–	–
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	0.7	0.8	–	–	–
COMET Program	0.1	0.1	0.1	<0.1	<0.1	–
Commercial Ready Program	1.3	–	–	–	–	–
Commercialisation Australia	–	–	<0.1	<0.1	0.7	0.6
CSIRO	2.7	1.1	1.2	1.2	5.3	1.4
Premium R&D tax concession	4.8	6.2	15.3	13.2	13.6	3.9
R&D tax concession	8.2	9.1	15.2	15.2	17.5	10.3
R&D tax offsets	4.3	5.4	5.1	5.5	6.2	16.2

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	11.1	12.4	12.6	12.3	12.3	13.3
Australian Tourism Development Program	<0.1	–	–	–	–	–
Enterprise Connect Innovation Centres	<0.1	<0.1	0.1	0.1	0.1	0.1
Illawarra Region Innovation and Investment Fund	–	–	–	–	–	<0.1
Industry Cooperative Innovation Program	–	0.2	0.2	–	–	–
North East Tasmania Innovation and Investment Fund	–	–	0.1	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.1	–	–	–
Small business capital gains tax asset exemption	1.3	4.8	1.3	1.4	1.8	2.0
Small business capital gains tax 50 per cent reduction	13.4	17.1	10.7	6.2	7.7	8.4
Small business capital gains tax retirement exemption	9.2	13.2	5.2	2.1	1.3	1.3
Small business capital gains tax rollover deferral	2.9	5.0	2.5	–	–	–
Tasmanian Innovation and Investment Fund	–	–	–	–	0.2	0.2
Temporary Assistance for Tasmanian Exporters	–	–	–	–	5.9	–
<i>Total</i>	<i>107.9</i>	<i>124.3</i>	<i>119.9</i>	<i>105.1</i>	<i>115.0</i>	<i>96.1</i>
Information, media and telecommunications						
<i>Industry-specific measures</i>						
ABC and SBS Digital Interference Scheme	<0.1	<0.1	<0.1	–	–	–
Community Broadcasting Program	–	–	–	–	<0.1	14.9
Rebate for broadcasting licence fees	–	–	–	45.0	130.0	155.0
Regional Equalisation Plan	23.7	0.3	1.3	1.3	1.1	1.0
Vodafone Hutchison Australia – Tasmania Call Centre Expansion	–	–	–	–	–	4.0
<i>General export measures</i>						
Export Market Development Grants Scheme	22.4	27.7	27.8	19.4	19.2	18.2
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	0.2	0.1	0.1	–	–
Clean Technology Innovation Program	–	–	–	–	–	0.8
COMET Program	1.1	1.2	1.0	0.6	<0.1	–
Commercial Ready Program	2.8	1.8	0.4	–	–	–
Commercialisation Australia	–	–	0.4	2.6	8.1	9.3
Cooperative Research Centres	4.4	4.4	4.4	4.4	4.4	4.4
CSIRO	35.1	24.2	26.1	26.7	12.1	17.0
ICT centre of excellence	26.8	27.3	25.4	25.9	25.0	23.8
Innovation Investment Fund	–	–	<0.1	0.1	0.1	0.1
Premium R&D tax concession	1.9	2.2	6.2	5.3	5.5	8.0
Pre-seed fund	1.0	0.7	0.4	–	–	–
R&D Start	0.2	–	–	–	–	–
R&D tax concession	29.3	21.2	33.9	33.9	39.1	17.6
R&D tax offsets	21.4	23.2	24.1	25.9	29.2	79.0
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	1.4	1.5	1.4	1.4	1.4	3.0
Enterprise Connect Innovation Centres	0.1	0.1	0.1	0.1	0.1	0.1
Illawarra Region Innovation and Investment Fund	–	–	–	–	–	0.1
Industry Cooperative Innovation Program	0.2	0.5	0.3	0.3	–	–
Innovation Investment Fund for South Australia	–	0.9	0.8	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.1	<0.1	–	–
Small business capital gains tax 50 per cent reduction	3.2	3.1	3.5	3.3	1.4	1.5
Small business capital gains tax retirement exemption	1.9	0.2	–	–	–	–
Small business capital gains tax rollover deferral	0.6	–	0.2	–	–	–
Total	177.5	140.7	157.8	196.2	276.7	357.7
Financial and insurance services						
<i>Industry-specific measures</i>						
High Costs Claims scheme	3.2	19.5	21.4	24.5	20.3	33.4
Offshore Banking Unit tax concession	320.0	265.0	245.0	180.0	145.0	185.0
TCF Small Business Program	–	–	<0.1	–	–	–
United Medical Protection support	0.1	–	–	–	–	–
Venture Capital Limited Partnerships	10.5	11.5	11.5	11.5	11.5	11.5

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>General export measures</i>						
Export Market Development Grants Scheme	0.5	0.9	1.2	0.6	0.2	0.8
TRADEX	<0.1	<0.1	<0.1	<0.1	<0.1	<0.1
<i>General investment measures</i>						
Development allowance	<0.1	—	—	—	—	—
Land transport infrastructure borrowing's tax offset scheme	1.3	0.1	—	—	—	—
<i>General R&D measures</i>						
COMET Program	0.1	0.2	<0.1	0.1	—	—
Commercial Ready Program	1.8	—	—	—	—	—
Commercialisation Australia	—	—	—	—	0.9	1.1
CSIRO	0.8	0.7	0.7	0.7	2.2	<0.1
Innovation Investment Fund	3.1	1.9	3.0	5.3	6.9	6.9
Premium R&D tax concession	28.1	68.1	81.0	69.6	67.6	18.6
Pre-seed fund	2.2	—	2.0	—	—	—
R&D tax concession	46.5	95.6	158.7	158.7	172.2	77.5
R&D tax offsets	18.0	26.2	33.6	36.1	40.6	91.8
Renewable Energy Equity Fund	0.3	—	—	—	—	—
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	5.6	6.0	5.6	5.5	5.5	1.2
Concessional rate of withholding tax	—	30.0	70.0	155.0	185.0	140.0
Enterprise Connect Innovation Centres	—	—	<0.1	<0.1	—	<0.1
Industry Cooperative Innovation Program	—	0.3	—	—	—	—
Pooled development funds	11.0	10.0	5.0	5.0	40.0	0.5
Small business capital gains tax asset exemption	14.5	34.6	21.9	4.1	5.4	6.1
Small business capital gains tax 50 per cent reduction	113.6	169.7	100.8	31.5	24.6	26.9
Small business capital gains tax retirement exemption	86.4	113.9	72.6	21.0	27.7	26.9
Small business capital gains tax rollover deferral	77.6	64.4	33.7	13.3	11.2	11.8
Small business programs	—	0.1	0.1	—	—	—
Total	745.3	918.7	867.9	722.6	766.8	640.3
Property, professional and administrative services						
<i>Industry-specific measures</i>						
Biotechnology Innovation Fund	<0.1	—	—	—	—	—
Pharmaceuticals Partnerships Program	—	—	0.3	—	—	—
Solar cities initiative	9.1	7.2	11.7	—	—	—
TCF Small Business Program	0.3	0.3	0.5	0.3	0.3	0.6

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Sector-specific measures</i>						
Clean Technology Investment – General Program	–	–	–	–	–	0.2
Exceptional Circumstances – interest rate subsidy	–	–	–	<0.1	–	–
<i>General export measures</i>						
Export Market Development Grants	26.9	35.7	37.2	26.8	27.1	25.7
TRADEX	0.4	0.4	0.3	0.2	0.2	0.2
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	1.1	4.5	3.1	0.6	–
Clean Technology Innovation Program	–	–	–	–	–	0.3
COMET Program	6.5	3.9	3.1	1.4	<0.1	–
Commercial Ready Program	23.3	36.2	11.6	3.2	0.1	–
Commercialisation Australia	–	–	1.0	10.0	13.6	18.7
Cooperative Research Centres	12.4	7.7	9.3	11.5	11.9	12.4
CSIRO	6.1	2.0	2.2	2.2	2.1	1.8
Innovation Investment Fund	4.4	2.3	1.3	2.3	3.0	3.0
National Enabling Technologies Strategy	–	–	0.2	0.2	0.3	0.5
Premium R&D tax concession	38.9	43.3	96.2	82.7	86.0	23.4
Pre-seed fund	4.3	2.2	1.9	–	–	–
R&D Start	0.4	1.1	0.2	–	–	–
R&D tax concession	73.3	103.5	153.1	153.1	179.2	88.3
R&D tax offsets	55.7	69.9	96.2	103.4	130.5	317.9
Renewable Energy Development Initiative	1.0	8.8	1.4	–	–	–
Renewable Energy Equity Fund	1.4	–	–	–	–	–
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	35.1	39.7	38.4	37.4	37.4	44.4
Australian Tourism Development Program	1.3	–	–	–	–	–
Enterprise Connect Innovation Centres	2.8	2.8	1.4	2.6	3.7	2.4
Illawarra Region Innovation and Investment Fund	–	–	–	–	0.3	0.8
Indigenous Tourism Business Ready	–	0.4	–	–	–	–
Industry Cooperative Innovation Program	0.7	0.6	0.1	<0.1	–	–
Innovation Investment Fund for South Australia	–	0.8	0.7	–	–	–

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Other measures (continued)</i>						
Small business capital gains tax asset exemption	23.3	23.5	14.8	9.2	12.1	13.6
Small business capital gains tax 50 per cent reduction	98.6	136.2	82.2	61.0	62.9	68.7
Small business capital gains tax retirement exemption	69.7	81.6	54.9	33.5	38.0	36.9
Small business capital gains tax rollover deferral	21.4	56.5	31.9	3.7	16.5	17.5
Small business Online Program	–	–	–	2.4	–	–
Small business programs	10.6	1.2	0.6	–	–	–
South Australia Innovation and Investment Fund	–	–	–	1.5	–	–
South East South Australian Innovation and Investment Fund	–	–	–	–	–	0.1
Tasmanian Innovation and Investment Fund	–	–	–	–	0.1	–
Total	528.0	668.8	657.6	551.8	626.0	677.5
Public administration and safety						
<i>General export measures</i>						
Export Market Development Grants Scheme	0.3	0.4	0.3	0.2	0.1	0.2
TRADEX	0.2	0.2	0.1	0.1	0.1	0.1
<i>General R&D measures</i>						
COMET Program	0.1	<0.1	0.2	0.1	–	–
Commercialisation Australia	–	–	–	0.2	0.1	0.3
CSIRO	9.7	10.5	11.3	11.6	7.7	5.1
Premium R&D tax concession	–	–	0.6	0.5	–	0.3
R&D tax concession	0.6	0.5	3.0	3.0	0.9	0.7
R&D tax offsets	0.7	1.6	6.4	6.9	2.0	7.8
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	0.8	0.9	0.8	0.8	0.8	1.1
Australian Tourism Development Program	0.1	–	–	–	–	–
Enterprise Connect Innovation Centres	0.2	0.2	0.7	0.2	0.8	<0.1
Small business capital gains tax 50 per cent reduction	0.4	2.0	0.8	0.8	1.7	1.8
Small business capital gains tax retirement exemption	0.2	1.9	0.2	–	–	–
Small business programs	1.6	0.5	0.2	–	–	–
Total	14.9	18.6	24.6	24.3	14.2	17.5

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Education and training						
<i>General export measures</i>						
Export Market Development Grants Scheme	8.6	12.3	14.9	11.1	9.2	7.6
<i>General investment measures</i>						
Development allowance	<0.1	–	–	–	–	–
<i>General R&D measures</i>						
COMET Program	0.3	0.2	0.1	<0.1	0.1	–
Commercial Ready Program	0.1	0.6	0.5	0.2	0.1	–
Commercialisation Australia	–	–	–	0.5	0.8	1.2
CSIRO	1.1	0.6	0.7	0.7	2.2	3.1
Premium R&D tax concession	0.5	0.1	0.2	0.2	0.2	0.1
R&D tax concession	0.6	0.4	0.7	0.7	0.8	0.7
R&D tax offsets	2.8	4.1	4.1	4.4	5.0	15.0
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	4.8	5.4	5.4	5.3	5.3	6.2
Australian Tourism Development Program	0.1	–	–	–	–	–
Enterprise Connect Innovation Centres	0.7	0.7	1.7	1.1	2.6	0.1
Indigenous Tourism Business Ready Program	–	0.2	–	–	–	–
Small business capital gains tax asset exemption	–	–	0.1	0.1	0.2	0.2
Small business capital gains tax 50 per cent reduction	3.6	4.7	2.3	2.1	4.3	4.7
Small business capital gains tax retirement exemption	1.8	4.1	2.4	–	–	–
Small business capital gains tax rollover deferral	0.2	0.8	0.4	–	–	–
Small business Online Program	–	–	–	2.3	–	–
Small business programs	0.4	0.8	0.4	–	–	–
South East South Australia Innovation and Investment Fund	–	–	–	–	–	0.1
Structural Adjustment Fund for South Australia	–	0.2	–	–	–	–
Tasmanian Freight Equalisation Scheme	–	<0.1	0.1	0.1	0.1	0.1
Temporary Assistance for Tasmanian Exporters	–	–	–	–	<0.1	–
Total	25.6	35.2	34.0	28.8	30.6	38.9

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Health care and social assistance						
<i>Industry-specific measures</i>						
Premium Support scheme	23.5	16.1	17.2	13.1	11.4	9.3
<i>General export measures</i>						
Export Market Development Grants Scheme	1.4	1.8	2.1	1.7	1.6	1.2
TRADEX	0.3	0.3	0.2	0.2	0.2	0.2
<i>General investment measures</i>						
Development allowance	<0.1	—	—	—	—	—
<i>General R&D measures</i>						
COMET Program	1.5	0.4	0.3	0.2	<0.1	—
Commercial Ready Program	7.8	2.3	0.2	—	—	—
Commercialisation Australia	—	—	<0.1	0.6	1.4	1.5
Cooperative Research Centres	24.1	19.6	15.9	14.3	14.3	10.0
CSIRO	49.2	40.5	43.6	44.6	53.1	53.4
Innovation Investment Fund	—	0.6	0.7	1.2	1.6	1.6
Premium R&D tax concession	0.5	0.6	1.6	1.4	1.4	0.3
Pre-seed fund	1.1	0.9	0.2	—	—	—
R&D Start	0.2	—	—	—	—	—
R&D tax concession	1.6	2.6	4.0	4.0	4.6	1.9
R&D offsets	5.3	6.7	8.9	9.6	10.8	22.9
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	10.4	12.7	10.4	10.2	10.2	11.6
Australian Tourism Development Program	<0.1	—	—	—	—	—
Enterprise Connect Innovation Centres	—	—	<0.1	—	<0.1	0.1
Illawarra Region Innovation and Investment Fund	—	—	—	—	—	2.0
Industry Cooperative Innovation Program	—	0.5	0.1	—	—	—
Small business capital gains tax asset exemption	3.8	0.7	1.8	1.9	2.6	2.9
Small business capital gains tax 50 per cent reduction	36.1	36.4	18.1	15.7	19.0	20.7
Small business capital gains tax retirement exemption	21.2	21.5	15.5	11.0	18.2	17.7
Small business capital gains tax rollover deferral	6.8	7.5	4.4	0.9	0.8	0.9
Total	194.8	171.6	145.5	130.6	151.1	158.1

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Arts and recreation services						
<i>Industry-specific measures</i>						
Australian Film Commission	53.0	—	—	—	—	—
Australian Film Finance Corporation	70.5	—	—	—	—	—
Equine Influenza Emergency Assistance Package	256.8	—	—	—	—	—
Exemption of film tax offset payments	2.0	17.0	38.0	36.0	32.0	55.0
Film Australia	13.3	—	—	—	—	—
Film industry tax incentives – 10B & 10A	-13.0	-14.0	-22.0	-18.0	-17.0	-14.0
Film industry offsets	69.0	128.2	242.0	152.0	204.0	226.0
Indigenous Broadcasting Program	14.0	13.7	14.4	14.7	15.0	15.4
Screen Australia	—	102.9	93.6	89.4	91.8	98.1
<i>General export measures</i>						
Export Market Development Grants Scheme	5.6	5.9	6.5	4.9	4.6	4.1
<i>General investment measures</i>						
Development allowance	<0.1	—	—	—	—	—
<i>General R&D measures</i>						
COMET Program	0.4	0.1	0.2	0.1	—	—
Commercial Ready Program	0.2	—	—	—	—	—
Commercialisation Australia	—	—	—	—	—	0.1
Cooperative Research Centres	3.5	3.0	2.0	—	—	—
CSIRO	2.4	1.4	1.6	1.6	1.2	1.1
Premium R&D tax concession	—	—	0.7	0.6	0.6	0.1
R&D tax concession	0.2	0.8	1.6	1.6	1.8	1.2
R&D tax offsets	1.2	1.6	2.1	2.3	2.6	5.0
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	5.9	6.3	6.1	5.9	5.9	8.2
Australian Tourism Development Program	0.9	—	—	—	—	—
Enterprise Connect Innovation Centres	—	—	<0.1	0.1	0.1	0.1
Illawarra Region Innovation and Investment Fund	—	—	—	—	1.9	1.8
Small business capital gains tax 50 per cent reduction	3.7	5.3	4.4	2.1	4.6	5.0
Small business capital gains tax retirement exemption	3.4	2.3	2.2	—	—	—
Small business capital gains tax rollover deferral	1.3	0.8	1.1	—	—	—
Tasmanian Freight Equalisation Scheme	—	<0.1	0.2	0.2	0.1	0.2
Temporary Assistance for Tasmanian Exporters	—	—	—	—	<0.1	—
Total	494.3	275.4	394.6	293.4	349.3	407.4

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Other services						
<i>Industry-specific measures</i>						
TCF Small Business Program	–	–	<0.1	–	–	–
<i>General export measures</i>						
Export Market Development Grants Scheme	1.7	2.4	3.1	2.2	1.4	1.6
<i>General R&D measures</i>						
Clean Business Australia – Climate Ready Program	–	0.1	<0.1	–	–	–
COMET Program	<0.1	0.1	<0.1	<0.1	–	–
Commercial Ready Program	<0.1	<0.1	–	–	–	–
CSIRO	1.2	<0.1	<0.1	<0.1	<0.1	<0.1
Premium R&D tax concession	1.8	1.2	1.9	1.6	1.7	0.7
R&D tax concession	2.9	3.7	5.4	5.4	6.2	3.2
R&D tax offsets	6.3	6.0	9.4	10.1	11.4	24.3
Renewable Energy Development Initiative	1.5	–	–	–	–	–
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	8.6	9.9	10.6	10.3	10.3	13.6
Australian Tourism Development Program	1.7	–	–	–	–	–
Enterprise Connect Innovation Centres	–	–	0.5	1.6	12.1	12.7
Industry Cooperative Innovation Program	<0.1	2.2	2.6	0.9	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	0.1	<0.1	–	–
Small business capital gains tax asset exemption	1.8	1.5	1.0	1.1	1.4	1.6
Small business capital gains tax 50 per cent reduction	12.3	15.1	8.0	7.9	8.1	8.9
Small business capital gains tax retirement exemption	6.3	8.0	3.6	4.0	1.8	1.7
Small business capital gains tax rollover deferral	2.1	5.2	1.5	–	–	–
Small business Online Program	–	–	–	2.4	–	–
Small business programs	0.8	0.7	0.4	–	–	–
South East South Australia Innovation and Investment Fund	–	–	–	–	<0.1	0.3
Tasmanian Innovation and Investment Fund	–	–	–	–	0.1	<0.1
Total	49.1	56.2	48.0	47.4	54.4	68.6

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Table A.13 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Unallocated services						
<i>Industry-specific measures</i>						
ICT Incubators Program	1.7	–	–	–	–	–
<i>General export measures</i>						
Tourism Australia	135.8	137.6	141.6	136.1	136.8	129.7
<i>General R&D measures</i>						
CSIRO	2.0	2.3	2.5	2.6	1.3	1.2
R&D tax offsets	–	–	–	–	–	<0.1
<i>Other measures</i>						
Clean Business Australia – Green Building Fund	–	–	16.7	24.0	31.9	24.7
Enterprise Connect Innovation Centres	–	–	–	<0.1	–	–
Film Licensed Investment Company Scheme	4.0	–	–	–	–	–
Indigenous Tourism Business Ready Program	0.4	0.6	–	–	–	–
Queensland Tourism Assistance Package	–	0.3	–	–	–	–
Small business Online Program	–	–	7.2	–	–	–
Stockman's Hall of Fame	0.4	–	–	–	–	–
Tasmanian Forest Tourism Initiative	–	15.2	18.1	3.3	–	–
Tourism Industry Regional Development	–	–	–	–	–	7.0
TQUAL grants	–	4.2	8.6	3.3	9.0	8.3
<i>Total</i>	<i>144.2</i>	<i>160.2</i>	<i>194.7</i>	<i>169.3</i>	<i>179.0</i>	<i>170.8</i>
Total outlays	1419.1	1195.4	1169.7	1040.6	2077.2	1597.2
Total tax concessions	1754.3	2237.9	2247.6	1883.1	2163.0	1729.5
Total budgetary assistance	3173.4	3433.3	3417.3	2923.7	4240.1	3326.7

– Nil. Figures may not add to totals due to rounding. ^a The estimates are derived primarily from Australian Government departmental annual reports and Treasury's Tax Expenditure Statements and unpublished information provided by relevant agencies.

Source: Commission estimates.

**Table A.14 Australian Government budgetary assistance,
Unallocated other, 2007-08 to 2012-13^{a,b}**
\$ million (nominal)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Industry-specific measures</i>						
Australian Seafood Industry Council	0.1	—	—	—	—	—
Australian Space Science Program	—	—	4.8	11.2	12.2	12.7
National Energy Efficiency Initiative – Smart Grid, Smart City	—	—	—	33.7	51.0	9.1
National Urban Water & Desalination Plan	—	10.0	16.2	46.0	88.9	64.2
Pharmaceuticals Partnerships Program	16.6	7.3	—	—	—	—
Tasmanian wheat freight subsidy	0.9	0.3	0.1	—	—	—
TCF Small Business Program	—	—	—	—	0.2	<0.1
<i>Sector-specific measures</i>						
Farm Help	—	—	—	—	<0.1	—
<i>General export measures</i>						
Austrade	98.0	109.2	111.4	118.8	100.3	96.0
Australian Made Campaign	0.9	0.4	1.1	—	—	—
Clean Energy Trade and Investment Strategy	—	—	5.0	5.0	4.9	—
EFIC national interest business	8.2	7.4	3.1	4.4	3.7	2.5
International Food & Agricultural Service	36.7	—	—	—	—	—
<i>General investment measures</i>						
Development allowance	0.1	—	—	—	—	—
Regional headquarters program	0.5	0.5	0.5	0.5	0.5	0.5
<i>General R&D measures</i>						
Australian Centre for Renewable Energy	—	—	15.5	14.4	23.8	59.6
Clean Business Australia – Climate Ready Program	—	—	2.0	—	—	—
COMET Program	—	0.1	<0.1	—	—	—
Commercial Ready Program	24.3	0.1	—	—	—	—
Innovation Access Program	1.1	—	—	—	—	—
Innovation Investment Follow-on Fund	—	—	40.9	17.2	1.0	4.8
Innovation Investment Fund	—	2.6	—	—	—	—
National Enabling Technologies Strategy	—	—	0.1	0.4	0.6	0.3
Premium R&D tax concession	1.4	2.6	3.9	3.3	3.4	—
Pre-seed fund	—	2.7	—	—	—	—
R&D Start	1.5	—	—	—	—	—
R&D tax concession	4.7	7.0	13.6	13.6	15.7	—
R&D tax offsets payments – exemption	-120.0	-140.0	-170.0	-200.0	-235.0	-200.0
R&D tax offsets	21.8	30.3	35.7	38.4	43.2	<0.1
Renewable Energy Development Initiative	3.4	—	—	—	—	—

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Table A.14 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Other measures</i>						
25 per cent entrepreneurs' tax offset	28.8	34.8	36.5	35.6	35.6	28.6
Asia Marketing Fund	–	–	–	–	–	8.5
Asia Pacific Partnership on Clean Development and Climate	–	–	19.8	11.0	2.3	0.2
Beaconsfield Community Fund	2.4	–	–	–	–	–
Digital Enterprise Program	–	–	–	–	4.0	1.9
Energy Efficiency Information Grants	–	–	–	–	–	4.6
Enterprise Connect Innovation Centres	0.3	0.3	1.4	3.9	–	–
Capital gains tax relief for statutory licences	90.0	–	–	–	–	–
Fishing Structural Adjustment Package – Onshore Business Restructure Program	5.7	–	–	–	–	–
Geelong Innovation & Investment Fund	–	–	7.0	–	–	–
Home Based Business Seminars	0.3	–	–	–	–	–
Illawarra Region Innovation and Investment Fund	–	–	–	–	–	0.1
Industry Cooperative Innovation Program	2.7	–	–	–	–	–
Innovation Investment Fund for South Australia	0.1	<0.1	<0.1	–	–	–
Insulation Industry Assistance Package	–	–	–	22.9	–	–
Intermediary Access Program	1.9	–	–	–	–	–
Low Emissions Technology and Abatement Program	3.1	1.7	–	–	–	–
North West and Northern Tasmania Innovation and Investment Fund	–	–	<0.1	–	–	–
Port Kembla Industry Facilitation Fund	2.6	–	–	–	–	–
Procurement strategy	–	–	1.8	3.5	6.4	–
Regional partnerships program	18.6	14.5	6.2	0.2	–	–
Small Business – Simplified depreciation rules	–	60.0	80.0	130.0	-45.0	-15.0
Small Business Advisory Services	–	11.9	16.4	9.0	12.1	8.0
Small business capital gains tax asset exemption	22.2	31.2	23.0	59.1	73.2	82.0
Small business capital gains tax 50 per cent reduction	270.3	334.7	203.7	284.5	265.8	290.4
Small business capital gains tax retirement exemption	163.0	191.7	113.5	204.3	210.6	204.9
Small business capital gains tax rollover deferral	58.7	108.4	66.1	127.5	111.4	117.9
Small business programs	–	0.3	0.2	–	–	–
Small business Support Line	–	–	1.3	–	–	–

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Table A.14 (continued)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<i>Other measures (continued)</i>						
Structural Adjustment Fund for South Australia	7.0	–	–	–	–	–
Sustainable Regions program	4.7	0.9	–	–	–	–
Tasmanian Freight Equalisation Scheme	1.2	2.5	6.6	6.6	6.3	7.5
Taxation assistance for victims of Australian natural disasters	11.0	8.0	8.0	6.0	58.0	31.0
TCF Corporate Wear Program	66.6	74.1	93.1	85.4	85.4	85.4
Temporary Assistance for Tasmanian Exporters	–	–	–	–	0.9	–
The Small and General Business Tax Break	–	–	1490.0	2420.0	720.0	250.0
<i>Total</i>	<i>861.1</i>	<i>915.6</i>	<i>2258.3</i>	<i>3516.4</i>	<i>1661.5</i>	<i>1155.8</i>
Total outlays	264.0	202.6	296.5	346.6	361.9	280.0
Total tax concessions	597.1	713.0	1961.8	3169.8	1299.6	875.8
Total budgetary assistance	861.1	915.6	2258.3	3516.4	1661.5	1155.8

– Nil. Figures may not add to totals due to rounding. ^a The estimates are derived primarily from Australian Government departmental annual reports and Treasury's Tax Expenditure Statements and unpublished information provided by relevant agencies. ^b Includes programs or amounts of funding where the initial benefiting industry is not stated and/or has not been ascertained.

Source: Commission estimates.

B Defence industry engagement programs

This appendix identifies defence industry engagement programs, the nature of the support to industry, and how much is expended by the Australian Government (table B.1). (In some cases it identifies funding from sources other than the Australian Government.)

Most of the programs are not separate line items in the budget, rather they are funded from within the appropriations to the Defence Materiel Organisation (DMO), the Department of Defence and the Defence Science and Technology Organisation (DSTO). For some programs the expenditure can be found on the program's web page, grant recipient reporting information and/or documents announcing the program. In some cases, it is unclear whether the aggregate funding announced in the past has subsequently been adjusted, in particular following budget cuts to Defence in 2012 and 2013.

Not identified in this appendix are defence industry engagement programs of State or Territory governments.

Table B.1 Defence industry support

<i>Program</i>	<i>Description</i>	<i>Type of support</i>	<i>Funding and timing</i>	<i>Recipients information</i>
Australian Industry Capability (AIC)	<p>The AIC program leverages work for local suppliers by including in tender requirements a definition that, for tenders to represent value for money, tenderers must describe how their proposed approach will enhance defence industry capability. There are three levels of Defence Capabilities.</p> <p>Priority Industry Capabilities (PICs) are those industry capabilities deemed to confer an essential strategic advantage by being resident within Australia and which, if not available, will significantly undermine defence self-reliance and ADF operational capability. There are currently 12 designated PICs, including, acoustic technologies and systems, in-service support of Collins class submarine combat systems, and ship dry docking facilities.</p> <p>Strategic Industry Capabilities (SICs) are those industry capabilities that provide Australia with enhanced defence self-reliance, ADF operational capability, or longer term procurement certainty. There are currently 12 designated SICs, including, for example, composite and exotic materials, guided weapons, naval shipbuilding and repair, maintenance and upgrading of armoured vehicles and aircraft.</p> <p>Project/Product Specific Industry Capabilities (PSICs) are those industry capabilities determined by procurement sponsors as being required to enhance the capability being delivered through inclusion of Australian industry. PSICs are determined on a case-by-case basis.</p>	Preference for local supply	<p>Not applicable</p> <p>The AIC and its predecessors replaced arrangements that ended in the 1990s involving explicit local activity percentages and allowing local bid premiums</p>	<p>Beneficiaries not individually identifiable</p> <p>Industry Participation Plans indicate nature of local activity</p>

<i>Program</i>	<i>Description</i>	<i>Type of support</i>	<i>Funding and timing</i>	<i>Recipients information</i>
Global Supply Chains (GSC)	Funding to multinationals to deploy staff inside their organisations to act as the internal sponsor promoting Australian industry into the business units of the company; to actively seek out opportunities for Australian industry; train Australian industry in the company's purchasing practices and methods; educate Australian industry in the company's requirements; and help make Australian industry globally competitive.	Budgetary outlay (DMO expenditure) Paid to multinational prime contractors	Annual expenditure not identified Intended \$59 million 2009–2019	Currently, seven multinational primes with active annexes are identified, but not amounts
Priority Industry Capability Innovation Program (PICIP)	Provides matched grants (up to \$4 million) to Australian defence companies to develop, adopt and commercialise innovative technologies, methodologies, materials or systems in areas defined as PICs. The program is intended to focus on assisting small to medium sized enterprises to pursue innovative defence industry projects. Grantees who successfully commercialise their project may be required to make payments to the Government, based on the gross sales revenue generated by the project's output.	Budgetary outlay (DMO expenditure) Discretionary grant to companies Potentially repayable	\$10.4 million 2012-13 \$13.3 million 2011-12 Intended \$44.9 million 2011 to 2019	Recipients and amounts identifiable
Skilling Australian Defence Industry (SADI)	The SADI program started in 2005 with three main aims: to up-skill existing employees in the defence industry; to improve the quality and quantity of skills training in defence industry; and to generate additional skilled positions. Since its inception, nearly 200 defence companies and organisations have been provided with funding support.	Budgetary outlay (DMO expenditure) Discretionary grant to defence companies	Over \$20 million 2012-13 Intended \$215 million 2005 to 2015	Recipients and amounts identifiable Over 200 grants 2012-13

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Table B.1 (continued)

<i>Program</i>	<i>Description</i>	<i>Type of support</i>	<i>Funding and timing</i>	<i>Recipients information</i>
Defence Industry Innovation Centre (DIIC)	The Centre provides a range of services intended to link small and medium defence businesses to new ideas, technologies and markets. As well as offering the complete suite of Enterprise Connect Services (a DIISR program available generally to Australian SMEs), the Centre delivers three main services to businesses: the Defence Industry Change Plan (DICP) which provides defence specific advice, guidance and implementation support to businesses; the Supplier Continuous Improvement Program (SCIP) which is a change program; and the Business Review which involves a top-to-bottom analysis of a business which is carried out on site. Business advisers also provide connections to researchers, industry associations, training and other sources of funding and advice. All of these services are confidential and delivered at no charge. Funding is available through the Tailored Advisory Service (TAS) to help businesses implement the recommendations that flow from a Business Review or SCIP.	Budgetary outlay (DMO expenditure) Service provider Free of charge to defence business	Annual expenditure not identified Commenced 2009	Recipients not identified
Industry Skilling Program Enhancement (ISPE)	The program is intended to expand the pool of skilled workers from which defence industry can recruit, enhance work and career pathways and address specific skills gaps in defence industry capability. Package elements include targeting surplus workers in other industries experiencing downturns, school curriculum pathway programs, developing higher education masters courses, engineering internships, and branding the defence industry sector as a career.	Budgetary outlay (DMO expenditure) Discretionary grant to defence companies and service providers	\$0.3 million 2012-13 Intended \$60.8 million 2008 to 2014	Recipients and amounts identifiable
Capability and Technology Demonstrator (CTD)	The CTD Program was established in 1997 to give Australian defence industry opportunities to demonstrate how its ideas and technologies could enhance Australian Defence Force (ADF) capability. Over 100 technology demonstrations have been funded with 14 CTDs having entered service with the ADF.	Budgetary outlay (Department of Defence) Discretionary grant to defence companies	Annual expenditure not identified Over \$250 million to date over 18 Rounds Commenced 1997	Recipients are identified but amounts are in-confidence

<i>Program</i>	<i>Description</i>	<i>Type of support</i>	<i>Funding and timing</i>	<i>Recipients information</i>
Rapid Prototyping, Development and Evaluation (RPDE)	A collaboration between Defence, industry and academia, intended to address complex, high-risk problems. Defence funds about three quarters of program expenditure. Personnel from industry and academia are paid from the project budget. Each project activity has a Defence sponsor.	Budgetary outlay (Department of Defence)	Around \$8 million	Participants identified but not amounts
		Research collaboration	Commenced 2004	
		Participation by application	Annual funding reduced from around \$12 million in 2012	
Defence Materials Technology Centre (DMTC)	DMTC is intended to support the development and delivery of new materials technologies and manufacturing processes to enhance Australia's defence capability. It is a collaborative partnership approach between Defence, defence industries and research agencies, based on the Co-operative Research Centre (CRC) model used for non-defence industry R&D. Operational funding in 2012 13 comprised \$6.8m (Australian Government), \$4.0m (industry and other income, including State government), and \$7.7 million (the research sector). DMTC operates as a public company, limited by guarantee.	Budgetary outlay	\$6.8 million	Projects identified, but not individual companies
		Collaborative research	Commenced 2008	
New Aircraft Combat Capability (NACC)	Intended to enable Australian companies and research organisations to support the development of new or improved capability to win work in the production, sustainment and follow-on development of the F-35 Joint Strike Fighter.	Budgetary outlay (Department of Defence)	Intended \$8.2 million 2011-12 to 2013-14	Recipients and amounts identifiable
		Discretionary grant to defence companies		

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Table B.1 (continued)

<i>Program</i>	<i>Description</i>	<i>Type of support</i>	<i>Funding and timing</i>	<i>Recipients information</i>
Defence Science and Technology Organisation (DSTO)	The Defence Science and Technology Organisation (DSTO) is charged with applying science and technology to protect and defend Australia and its national interests. DSTO engagement with industry occurs through a range of commercial and collaborative arrangements that build strong working relationships, provide industry access to DSTO research, facilities and expertise, and allow the transfer to industry of DSTO intellectual property for commercialisation.	Budgetary outlay (DSTO appropriation) Third party research	\$434.1 million Established 1974 from predecessors	
Defence Science Access Network (DSAN)	The network is intended to encourage more collaboration between industry, particularly small and medium-sized enterprises (SMEs) and DSTO.	Budgetary outlay (DMO expenditure)	Amount unknown	Participants unknown
Defence Industry Study Course (DISC)	The Defence Industry Study Course (DISC) is a Defence-run program of seminars and visits designed for future leaders in industry, Defence and other government agencies. It began in 1953 as the Industrial Mobilisation Course (MIC). Education and training services that are not fully cost recovered from recipients can be construed as assistance. The DMO Institute (DMOI) had previously provided training courses only for DMO staff but has recently been opened to participation by industry.	Budgetary outlay Education service Course fees charged	Amount unknown Commenced 1953	Participants unknown
Defence Materiel Organisation Institute (DMOI) and DMOI Expansion Program.	The DMOI was established in 2005 with the primary responsibility for the delivery of non-systems based training courses for the DMO workforce. The DMO Institute Expansion Program is one element of the Industry Skilling Program Enhancement (ISPE) package announced in 2008. The DMOI had previously provided training courses only for DMO staff but has recently been opened to participation by industry. Education and training services that are not fully cost recovered from recipients can be construed as assistance.	Budgetary outlay (DMO expenditure)	Amount unknown Commenced 2005 and 2008, respectively	Participants unknown

<i>Program</i>	<i>Description</i>	<i>Type of support</i>	<i>Funding and timing</i>	<i>Recipients information</i>
Defence Letter of Recognised Supply (LoRS)	The Letter of Recognised Supply provides companies with evidence of their supply to the Australian Defence Organisation, to assist in bidding for new work or marketing their capabilities to non-defence customers. To receive the Letter of Recognised Supply a company needs to meet the standards of supply demanded by the Australian Defence Organisation. Products and services need to be supplied on time, on budget and to specification.	Performance certification	Not applicable	Recipients unknown
Defence Export Unit (DEU) (Incorporated in 2012 into the Australian Military Sales Office – see below)	The DEU aims to assist Australian defence companies to access export markets and global supply chains through marketing and promotion services, much like Austrade. The DEU promotes the collective Australian defence industry sector overseas under the banner of 'Team Australia'.	Budgetary outlay (DMO expenditure)	Annual expenditure not known Intended \$34 million 2007 to 2017	Recipients unknown
Australian Military Sales Office (AMSO)	The purpose of the AMSO is to make it easier for Australian defence manufacturers to promote and export their products and making it easier for other governments to buy them. AMSO is intended to be a one-stop-shop for Australian defence manufacturers seeking to export their products. It is also intended to help Australian exporters showcase their products and capabilities at international defence exhibitions under the 'Team Australia' branding.	Budgetary outlay (DMO expenditure)	Amount not known Commenced 2012	Recipients unknown
Defence Export Control Office (DECO)	The DECO is responsible to the Minister for Defence for regulating the export of defence and dual-use goods as part of Australia's system of export controls. DECO provides a range of services and information to assist exporters understand and comply with Australia's export control requirements.	Budgetary outlay (DMO expenditure) Export control and advice	Amount not known	

C Anti-dumping and countervailing activity

Dumping is said to occur when an overseas supplier exports a good to Australia at a price below its ‘normal value’ in the supplier’s home market. If dumping causes, or threatens to cause, material injury to local producers of like goods, then remedial action — mainly the imposition of special customs duties — can be taken against the imported goods concerned.

Similarly, countervailing duties can be imposed on imports which benefit from certain subsidies from an overseas government and which cause or threaten injury to a local industry producing like goods.

Australia’s anti-dumping and countervailing legislation (contained in the *Customs Act 1901*, the *Customs Tariff (Anti-Dumping) Act 1975* and the *Customs Regulations 1926*), is based on WTO agreements that, amongst other things, aim to discipline the use of anti-dumping measures as an alternative form of protection. Though WTO members are not obliged to enact such legislation, they are required to comply with the agreed requirements should they wish to take action against dumped imports.

Australia’s anti-dumping system is administered by the Anti-Dumping Commission, a division of the Australian Customs and Border Protection Service (Customs and Border Protection). It investigates claims of dumping and makes recommendations to the Minister, and also oversees anti-dumping and countervailing measures in force. The investigation process goes through several, time-limited, stages and includes appeal processes.

Under Australia’s anti-dumping rules, anti-dumping duties may be imposed up to the level of the assessed dumping margin (or the subsidy provided by an overseas government). Australian rules also include a ‘lesser duty rule’. Under this rule, a smaller duty sufficient to increase the price of the overseas good to a ‘non-injurious’ level may sometimes be imposed. As an alternative to the imposition of a duty, the overseas supplier (and also the overseas government in countervailing cases) can make a formal price undertaking on terms that would remove the injury or the threat of injury.

Once in place, anti-dumping measures typically remain in force for five years, with scope for extensions for additional five-year periods, following further review.

C.1 Australian anti-dumping and countervailing activity

During 2012-13, 13 new investigations were *initiated* by Customs and Border Protection (table C.1). This is a decrease from 22 new investigations in the previous year. Also during the year, 12 new measures were *imposed*. This is an increase from four new measures in the previous year. No measures *expired* during 2012-13.

Table C.1 Australian anti-dumping and countervailing activity, 2012-13

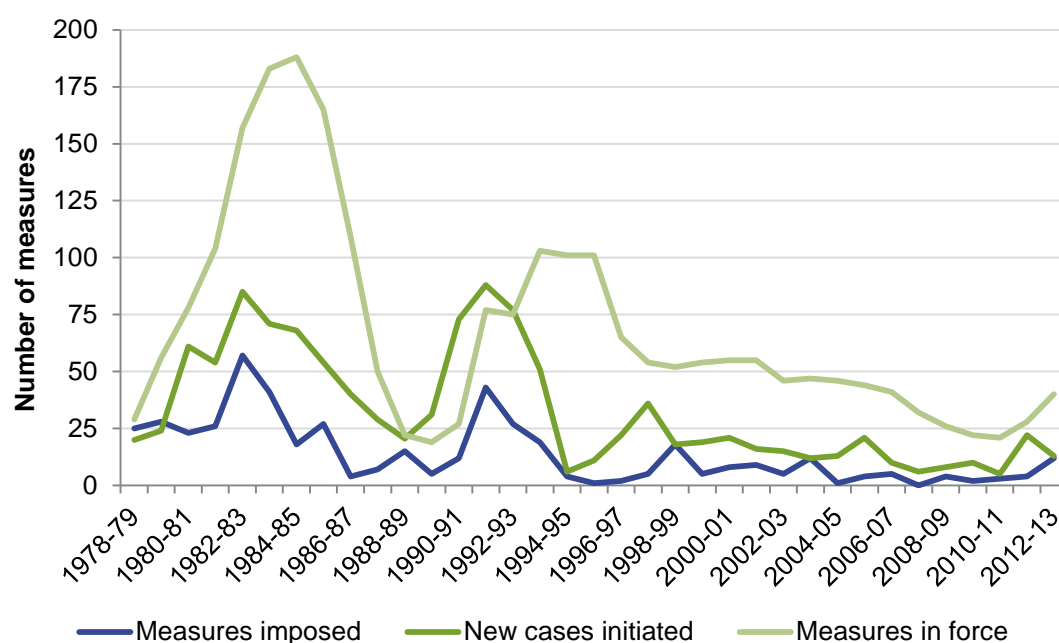
<i>Commodity</i>	<i>Industry grouping</i>	<i>Country of export</i>
Initiations^{a,b}		
Zinc coated (galvanised) steel (dumping)	Metal product manufacturing	China, Korea, Taiwan
Aluminium zinc coated steel (dumping)	Metal product manufacturing	China, Korea, Taiwan
Zinc coated (galvanised) steel (countervailing)	Metal product manufacturing	China
Aluminium zinc coated steel (countervailing)	Metal product manufacturing	China
Hot rolled plate steel (dumping and countervailing)	Metal product manufacturing	China, Indonesia, Japan, Korea, Taiwan
New Measures Imposed		
Aluminium road wheels (dumping)	Machinery and equipment manufacturing	China
Aluminium road wheels (countervailing)	Machinery and equipment manufacturing	China
Hot rolled coil steel (dumping)	Metal product manufacturing	Taiwan, Korea, Malaysia, Japan
Hollowed structural sections (dumping)	Metal product manufacturing	China, Korea, Malaysia, Taiwan
Hollowed structural sections (countervailing)	Metal product manufacturing	China
Polyvinyl chloride homopolymer resin (dumping)	Petroleum, coal, chemical and associated products	Korea

^a Formal investigations by Customs and Border Protection. Complaints by industry must meet certain requirements before investigations are initiated. ^b Initiations are counted as actions applying to one commodity from one economy. Actions may be solely dumping, solely countervailing or both dumping and countervailing.

Source: Australian Customs Dumping Notices (monthly status reports).

Measures in force declined from 1995-96 to 2010-11, as expirations had been exceeding new impositions. However, the upturn in investigations in 2011-12, and the subsequent 12 new measures imposed in 2012-13, has resulted in an increase in the number of measures in force to 40 (figure C.1).

Figure C.1 **Australian anti-dumping and countervailing activity, 1978-79 to 2012-13^{a,b}**



^a An investigation or measure is recorded as an action applying to one commodity from one economy. If multiple economies are involved, they are treated as separate actions. ^b New investigations refer to investigations by Customs and Border Protection of complaint cases that have met the screening requirements. The number of complaints raised by industry may be greater.

Source: Australian Customs Dumping Notices (monthly status reports).

Of the 101 initiated investigations over the last decade, 41 per cent related to products in the *Metal products* industry grouping (table C.2).

Table C.2 Australian anti-dumping and countervailing new investigations, 2003-04 to 2012-13^a

<i>Industry grouping</i>	2010-11	2011-12	2012-13	2003-04 to 2012-13	
				Number of cases	Per cent of total ^b
Food, beverages and tobacco	2	0	0	14	14
Wood and paper products	0	8	0	18	18
Petroleum, coal, chemical and associated products	3	2	0	15	15
Non-metallic mineral products	–	1	0	9	9
Metal product manufacturing	–	9	13	41	41
Machinery and equipment manufacturing	–	2	0	4	4
Total	5	22	13	101	100

– Nil. ^a Formal investigations by Customs and Border Protection. Complaints by industry must meet certain requirements before investigations are initiated. Initiations are recorded as investigations of one commodity from one economy. Cases where dumping and subsidisation are alleged for the same economy and commodity are counted as two distinct initiations. ^b The sum of the percentages for the industry groupings may not add to the total due to rounding.

Source: Australian Customs Dumping Notices (monthly status reports).

Of the 101 initiated investigations over the decade to 2012-13, 75 per cent were against suppliers from Asia (table C.3). All 13 investigations in 2012-13 related to imports from Asia.

Table C.3 Australian initiations of anti-dumping and countervailing cases by trading region and economy, 2003-04 to 2012-13^a

Region/economy	2010-11	2011-12	2012-13	2003-04 to 2012-13	
				Total	Per cent ^b
North America	2	2	—	8	8
Canada	1	1	—	4	4
United States	1	1	—	4	4
South America	—	—	—	2	2
Brazil	—	—	—	1	1
Chile	—	—	—	1	1
European Union	—	6	—	16	16
Austria	—	1	—	1	1
Belgium/Luxembourg	—	—	—	0	0
Finland	—	—	—	0	0
France	—	—	—	1	1
Germany	—	1	—	3	3
Greece	—	—	—	3	3
Italy	—	—	—	2	2
Sweden	—	1	—	1	1
United Kingdom	—	—	—	0	0
Other European Union	—	3	—	5	5
Asia	3	14	13	75	75
China	—	4	5	29	29
Hong Kong	—	—	—	0	0
India	—	—	—	0	0
Indonesia	1	—	1	7	7
Japan	—	1	1	3	3
South Korea	1	3	3	14	14
Malaysia	—	2	—	6	6
Philippines	—	—	—	1	1
Singapore	—	—	—	0	0
Thailand	1	2	—	9	9
Taiwan	—	2	3	6	6
Other	—	—	—	0	0
Saudi Arabia	—	—	—	0	0
South Africa	—	—	—	0	0
Other	—	—	—	0	0
Total	5	22	13	101	100

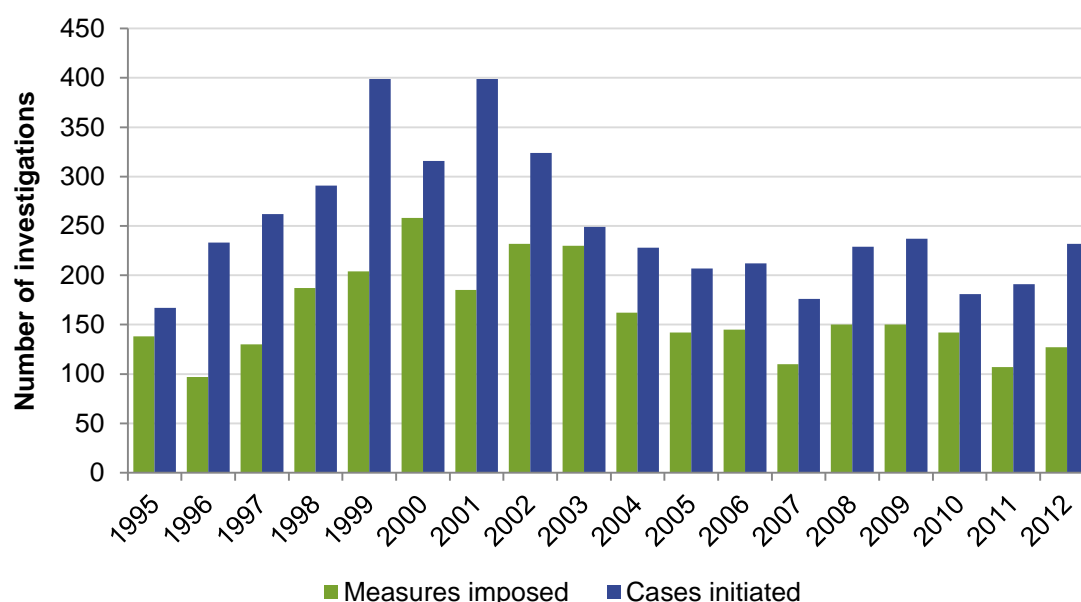
— Nil. ^a Cases are defined as actions applying to one commodity from one economy. Cases where dumping and subsidisation are alleged for the same economy and commodity are counted as two distinct initiations. ^b The sum of the percentages for the individual economies may not add to the regional totals due to rounding.

Source: Australian Customs Dumping Notices (monthly status reports).

C.2 International anti-dumping and countervailing activity

In the 2012 calendar year, there were 209 anti-dumping and 23 countervailing cases initiated worldwide (figure C.2).¹ Brazil initiated the highest number of cases (48), followed by India (21), the European Union (19), Canada (17), and the United States (16). Australia and Turkey ranked equal sixth (14). In the previous year, Australia had been the tenth most active.

Figure C.2 **Anti-dumping and countervailing global investigations and measures imposed, 1995 to 2012**



Sources: WTO (2014a); WTO (2014b); WTO (2014c); WTO (2014d).

From the commencement of the WTO in 1995 through to 31 December 2012, there have been over 2700 dumping and countervailing measures imposed, of which India, the United States, and the European Union accounted for around 40 per cent. Australia ranked tenth in terms of the number of measures imposed over the period.

¹ WTO data are on a calendar year basis whereas the Australian data in section C.1 are on a financial year basis.

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