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Productivity Commission

Trade and Assistance Review 2019-20

Productivity Commission
Annual Report Series



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The Productivity Commission

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

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

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

Foreword

This *Review* delivers the Commission’s estimates of assistance provided to businesses for the year to June 2020.

The *Review* is set against a background of unprecedented industry assistance to counter the economic impacts of the COVID-19 pandemic, although most of this assistance has been provided in 2020–21. While this means that most of the assistance provided through the pandemic is not covered in this year’s estimates — instead, it will be covered in next year’s *Review* — chapter 2 outlines many of the measures that governments have introduced to support businesses during the pandemic.

Many of the measures introduced during the pandemic have supported the survival of inherently efficient businesses. Nonetheless a key policy challenge will be the orderly removal of assistance as Australia’s economic recovery continues.

The Commission’s analysis shows that most of the assistance provided to businesses in 2019–20 was through budgetary outlays and tax concessions, pointing to the increasing prominence (over many decades) of these forms of assistance over more traditional border protection measures such as tariffs.

The severe economic impacts of the pandemic have been accompanied by worsening trade relations with China, also canvassed in this *Review*. The *Review* finds that the economy has generally been resilient to this major development.

Foreign direct investment has not been immune to the effects of the pandemic and geopolitical developments, with a significant reduction in flows in 2020 compared to recent years. Substantial changes to Australia’s regulatory framework for foreign investment have also occurred over the past year. Future *Reviews* will continue to monitor foreign investment developments as this is now a standing function for this series. Regular reporting on foreign investment aims to promote greater community understanding about the nature of foreign investment in Australia and the benefits and risks it brings to the Australian economy.

In preparing this *Review*, the Commission has received advice, feedback and data from officials in Australian Government agencies, for which the Commission is very grateful.

Michael Brennan
Chair
July 2021

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Abbreviations and explanations

Abbreviations

ABS	Australian Bureau of Statistics
ASEAN	Association of Southeast Asian Nations
BIT	Bilateral Investment Treaty
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DFAT	Department of Foreign Affairs and Trade
DSB	Dispute Settlement Body
EGA	Environmental Goods Agreement
ERAs	Effective Rates of Assistance
FATA	<i>Foreign Acquisitions and Takeovers Act 1975 (Cwlth)</i>
FDI	Foreign Direct Investment
FIRB	Foreign Investment Review Board
GDP	Gross Domestic Product
MPIA	Multi-Party Interim Appeal Arbitration Arrangement
PACER	Pacific Agreement on Closer Economic Relations
PC	Productivity Commission
R&D	Research and development
RBA	Reserve Bank of Australia
RCEP	Regional Comprehensive Economic Partnership
TiSA	Trade in Services Agreement
WTO	World Trade Organization

Explanations

Billion	The convention used for a billion is a thousand million (10 ⁹).
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1 Assistance estimates

Key points

- There was a small increase in assistance provided to industry by the Australian Government in 2019-20 compared to the previous financial year. However, effective rates of assistance (ERAs) for most industries remain at, or near, historic lows.
 - While the Commission's estimates of assistance for 2019-20 includes some measures that were introduced in response to the COVID-19 pandemic, the majority of these were implemented in the 2020-21 financial year, and as such, will be covered in next year's estimates.
- In gross terms, industry and sectorial assistance totalled about \$13.7 billion in 2019-20. Of this: \$1.8 billion was in the form of tariffs; \$5.1 billion was in the form of budgetary outlays; and \$6.7 billion was in the form of tax concessions.
- The benefits afforded by tariffs to one industry are typically offset by costs to others through higher input prices. At the industry level, this effect can lead to negative rates of assistance, as was the case for the public administration and safety and construction industries.
 - If this input tariff penalty (estimated to be \$1.5 billion) is included, the economy-wide value of assistance declines to \$12.1 billion – an increase of \$0.4 billion from the previous year.
- The services sector received the most assistance in absolute terms but a disproportionately small amount of assistance relative to the sector's value added. While assistance to the primary production and manufacturing sectors is at or near historic lows, these two sectors continued to receive a disproportionately large share of assistance given their value added.
- Assistance varied widely at the industry level. For example, the motor vehicles and parts and textiles, clothing and footwear industries had ERAs that remain significantly above other industries in the manufacturing sector. Variation in ERAs was even more pronounced across industries in the agricultural sector.

The Australian Government assists industries and businesses through a broad range of measures, including programs, regulations and policies. The Productivity Commission has a statutory obligation to report annually on the effect of assistance to industry on the economy as a whole and fulfills this obligation in the *Trade and Assistance Review*. The *Productivity Commission Act 1998* (Cwlth) 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 accruing to, a person in respect of carrying on a business or activity.¹

¹ s. 10(3)

While government assistance benefits the recipient businesses and industries, it invariably imposes costs on others. Subsidies must be funded through additional tax revenue, debt, or forgone government expenditure elsewhere. Tariffs increase the prices of imports and locally produced substitutes, which affects consumers and business input users. Regulations, even if designed to promote community goals, can deliver implicit assistance — such as through local procurement rules (a common feature of Australia’s defence procurement policy) and statutory barriers to entry (pharmacies for example) — that can also affect prices.

The effects of measures that might confer assistance to industry on the overall wellbeing of the community depends on their type and design. Many measures are intended to stimulate activities that markets under-provide (such as research and development, and certain environmental outcomes) and to promote social goals. Others, like tariffs, unequivocally impose negative net impacts on the wider community. But whatever their net impacts, it is useful to transparently monitor the magnitude and nature of measures that benefit industries — a task that the *Trade and Assistance Review* fulfils annually. Accordingly, successive *Reviews* update and publish estimates of the assistance provided by:

- import tariffs
- budgetary outlays (predominantly subsidies, grants and concessional loans)
- tax concessions.

While the Commission sometimes considers regulations that provide assistance, it is not practical in this report to cover the vast swathe of regulations that may assist (or penalise) particular industries or businesses.

This chapter presents an overview of the 2019-20 assistance estimates. The chapter:

- provides estimates of combined assistance to industry from tariffs, budgetary outlays and tax concessions, and examines effective rates of assistance (ERAs) for different industries (which indicate the amount of assistance an industry receives compared to its value added) (section 1.1)
- examines the assistance provided by tariffs in more detail, including by looking at which industries receive the greatest assistance from tariffs and which industries bear the greatest penalties (section 1.2)
- examines assistance provided by budgetary outlays and tax concessions (section 1.3).

Detailed tables of estimates — covering 34 industry groupings and four sectors — are provided in appendix B (which is available on the Commission’s website). These tables provide — among other things:

- a snapshot of tariff, budgetary and combined assistance to industries in 2019-20 (tables B.3 to B.5)
- time series data on assistance to industries, including data on ERAs and the value of assistance received through tariffs, budgetary outlays and tax concessions (tables B.6 to B.15)

-
- time series data on the value of assistance provided by particular budgetary assistance measures by industry (tables B.16 to B.20).

This chapter should be read in conjunction with appendix A and the methodological annex that accompanies this *Review*. These documents contain detail on the methodology the Commission uses to produce assistance estimates, including what types of assistance are within the *Review*'s scope.

Given this chapter delivers estimates of assistance for the 2019-20 financial year, the estimates do not cover most of the substantial assistance provided to industries and businesses by the Australian Government in response to the economic impacts of the COVID-19 pandemic (most of this assistance was provided in the 2020-21 financial year). Where the Commission has found program expenditure data for COVID-19 related industry assistance measures for the 2019-20 financial year, this has been included in the assistance estimates. However, the vast number of new measures (spanning across many departmental portfolios) that were introduced during the pandemic — each varying in objectives, design and timing (chapter 2) — means that it is difficult to be certain that the Commission has captured all COVID-related assistance relevant to the 2019-20 estimates.² The Commission may revise the 2019-20 estimates in the next *Review* should more information become available.

1.1 Aggregate assistance levels and rates

Net combined assistance was \$12.1 billion in 2019-20

In gross terms, tariff and budgetary assistance to industry totalled about \$13.7 billion in 2019-20 — comprising \$1.8 billion of output tariff assistance, \$5.1 billion of budgetary outlays, and \$6.7 billion of tax concessions (figure 1.1). After allowing for the effects of tariffs on the cost of inputs (the tariff input penalty, section 1.2) — which totalled \$1.5 billion — estimated net assistance amounted to about \$12.1 billion in 2019-20. This was an increase of \$0.4 billion compared to 2018-19, which is the result of:

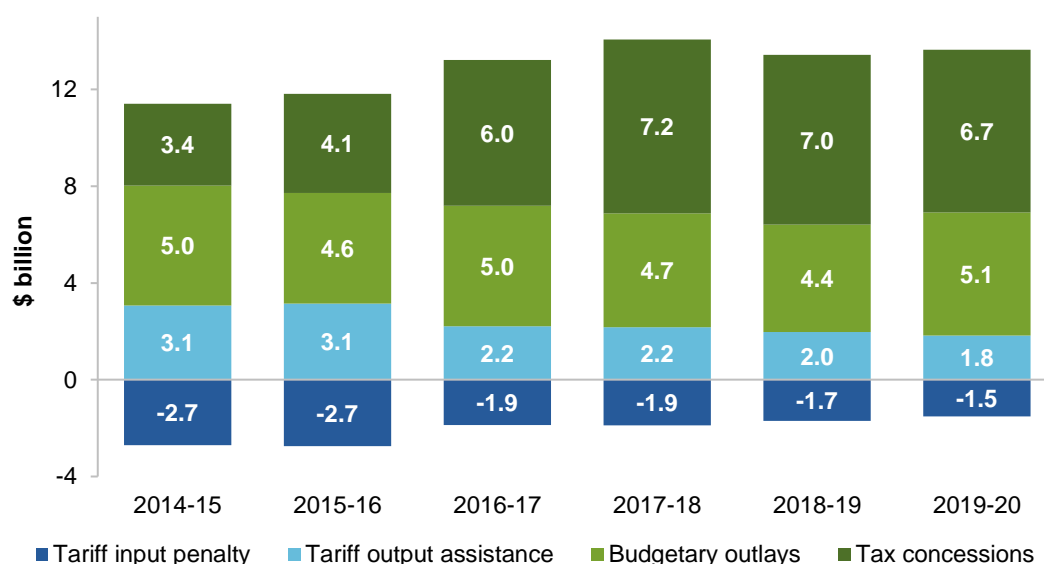
- a \$0.03 billion increase in net tariff assistance
- a \$0.67 billion increase in assistance provided by budgetary outlays
- a \$0.29 billion decrease in assistance provided through tax concessions.³

² The methodological annex accompanying this *Review* contains a list of new programs the Commission has included in the 2019-20 assistance estimates.

³ The Commission's estimates of budgetary assistance are in nominal values, and any discrepancy with previous *Reviews* reflect modification in the assistance values provided by relevant agencies. The tariff assistance estimates, however, are estimated indexed to a reference year series based on 2016-17 ABS input-output data (the latest available at the time of undertaking the exercise). These are re-indexed to nominal values in 2019-20 by using growth over this period in ABS industry gross value added and supporting data at current prices. Because of this price adjustment, the tariff and combined assistance results for the years from 2014-15 to 2018-19 do not match those in previous *Reviews*, although the same

The assistance estimates for 2019-20 continue a longer term trend that has seen assistance delivered mostly through budgetary measures rather than through tariffs.

Figure 1.1 Aggregate estimates of measurable assistance
Gross assistance (nominal), 2014-15 to 2019-20



Source: Commission estimates.

Assistance varied across sectors, industries and businesses

In absolute terms, the services sector received the most assistance ...

Of the assistance that can be allocated to specific sectors, the largest amount went to the services sector (table 1.1). On an industry basis, the largest recipients of assistance were the property, professional and administrative services and the financial and insurance industries (the nature of this assistance is discussed in section 1.3).

However, the cumulative effect of government assistance made some service industries effectively worse off. In particular, the construction and public administration and safety industries faced tariff input penalties that more than offset the value of assistance received through other measures (the benefits and costs of tariffs for particular industries is discussed in section 1.2).

qualitative story holds. For details of the re-indexing process, see the *Trade and Assistance Review Estimates User Guide* (Salma, Wells and Forbes 2016).

Table 1.1 Combined assistance by industry grouping, 2019-20

\$ million (nominal)^a

	<i>Net tariff assistance</i>	<i>Budgetary outlays</i>	<i>Tax concessions</i>	<i>Net combined assistance</i>
Primary production	125.8	970.8	661.7	1 758.4
Horticulture and fruit growing	45.6	111.8	79.3	236.7
Sheep, cattle and grain farming	93.6	280.5	429.1	803.2
Other crop growing	-0.8	48.5	45.6	93.2
Dairy cattle farming	-4.2	29.5	29.8	55.1
Other livestock farming	-2.4	35.5	21.7	54.8
Aquaculture and fishing	-3.5	80.3	20.0	96.8
Forestry and logging	-0.4	17.1	16.4	33.1
Primary production services	-2.1	15.7	16.4	30.0
Unallocated primary production ^b	—	352.0	3.6	355.5
Mining	-52.2	213.9	203.4	365.1
Manufacturing	1 158.0	933.9	542.7	2 634.6
Food, beverages and tobacco	336.6	83.8	35.9	456.3
Textiles, clothing and footwear	28.8	31.9	6.7	67.4
Wood and paper products	126.5	7.7	9.0	143.3
Printing and recorded media	14.5	41.0	13.2	68.7
Petroleum, coal and chemicals	152.8	214.1	33.8	400.7
Non-metallic mineral products	63.2	17.5	9.0	89.7
Metal and fabricated products	166.5	78.9	99.8	345.1
Motor vehicles and parts	102.2	74.4	26.0	202.6
Other transport equipment	55.0	20.1	9.2	84.3
Machinery and equipment	79.7	172.6	39.6	291.9
Furniture and other products	32.2	31.0	4.2	67.4
Unallocated manufacturing ^b	—	160.9	256.3	417.2
Services	-924.6	2 534.3	2 639.0	4 248.8
Electricity, gas, water and waste	-18.3	94.1	14.2	90.0
Construction	-352.0	45.7	123.3	-182.9
Wholesale trade	-54.0	89.5	80.1	115.5
Retail trade	-31.5	38.8	90.3	97.6
Accommodation and food services	-67.9	10.6	85.8	28.5
Transport, postal and warehousing	-40.2	385.0	82.1	426.8
Information and communications	-12.7	230.6	27.9	245.7
Financial and insurance services	-3.0	123.6	991.0	1 111.6
Property, professional and admin.	-88.3	1 013.4	531.0	1 456.1
Public administration and safety	-49.8	20.7	6.9	-22.3
Education and training	-18.5	31.9	15.7	29.1
Health care and social assistance	-72.6	105.4	107.6	140.4
Arts and recreation services	-27.9	157.9	435.1	565.1
Other services	-87.7	49.6	48.2	10.1
Unallocated services ^b	—	137.5	—	137.5
Unallocated other^b	—	446.4	2 681.6	3 128.1
Total	307.0	5 099.4	6 728.5	12 134.9

^a Totals may not add due to rounding ^b Unallocated includes programs for which details of the initial benefiting industry cannot be readily identified.

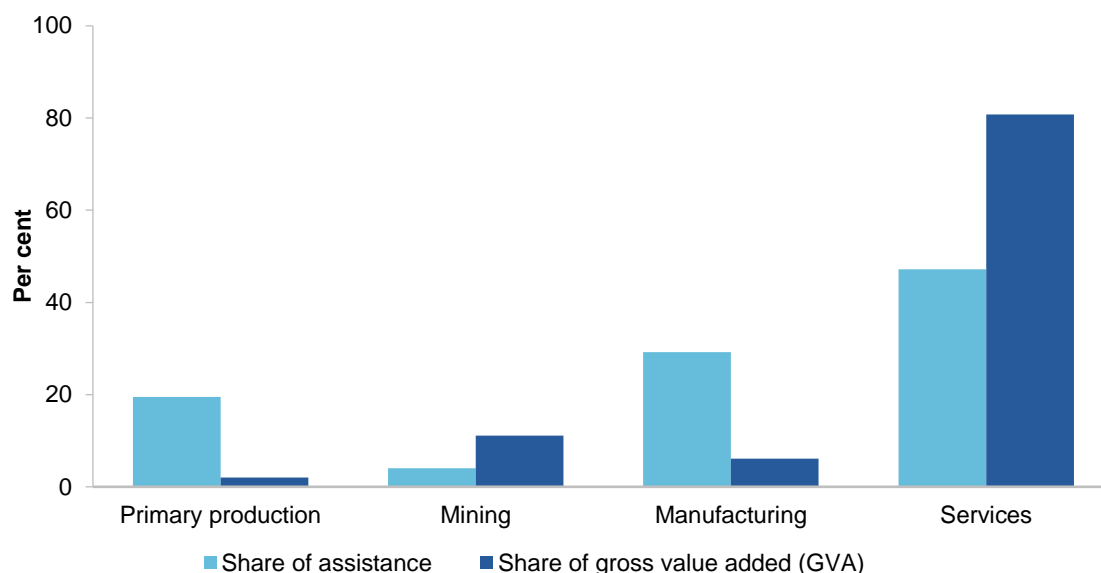
Source: Commission estimates.

... but the primary production and manufacturing industries received the most assistance relative to their value added

Relative to their value added, the primary production and manufacturing sectors received a disproportionately large amount of assistance (figure 1.2).

- The primary production sector (mostly agriculture) received about 20 per cent of net assistance in 2019-20 (about \$1.8 billion), despite accounting for only 2 per cent of the economy's gross value added. Most of this support was in the form of budgetary assistance.
- The manufacturing sector received about 29 per cent of net assistance (about \$2.6 billion) despite accounting for only 6 per cent of value added. About 44 per cent of this support was in the form of tariff assistance.
- In contrast, while the services sector received about 47 per cent of net assistance (about \$4.2 billion), this was much smaller than its share of value added, which exceeded 80 per cent.
- Similarly, the mining sector received only about 4 per cent of assistance (\$0.4 billion), despite accounting for about 11 per cent of value added, meaning it was the least assisted sector relative to its size.

Figure 1.2 **Assistance provided across sectors^a**
2019-20



^a Does not include assistance that could not be allocated to a particular sector

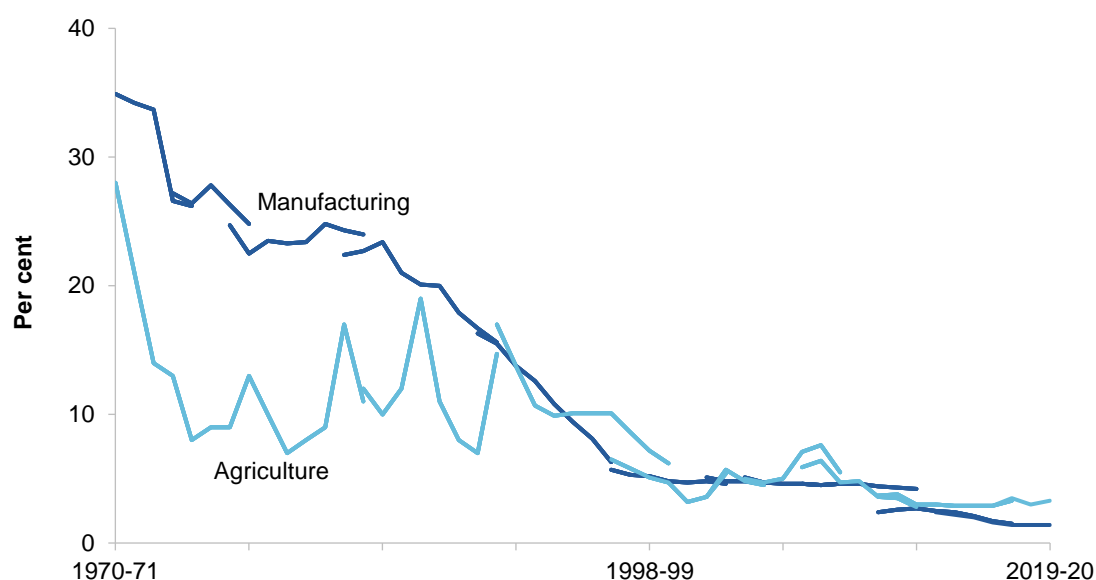
Sources: Commission estimates; ABS (*Australian System of National Accounts*, 2019, Cat. no. 5204.0, table 5).

A useful measure of how much assistance a sector or industry receives is its ERA, which reflects the extent that assistance to a sector or industry enables it to attract economic resources relative to others. It is measured as the value of combined assistance to a particular industry expressed as a share of that industry's *unassisted* net output (that is, the industry's unassisted value added).⁴

Over the past half century, assistance provided to the manufacturing sector has fallen steeply, particularly from the mid-1980s to the mid-1990s (figure 1.3), reflecting the decline in trade restrictions on manufactured imports. For example, import quotas for textiles, clothing and footwear — for a long period, a prime source of protection for that industry — were abolished in 1993 (Emmery 1999, p. 13). Another example is passenger motor vehicles, where tariffs were progressively reduced from nearly 60 per cent in the mid-1980s to 5 per cent by 2010 (DIIS 2020, p. 7). In 2019-20, the ERA for the manufacturing sector remained at its historic low.

Assistance to the agriculture sector has fluctuated, in part because it has often been provided on a specific-purpose basis rather than delivered through tariffs (IC 1995, p. 17). Nevertheless, assistance to the agricultural sector is now very close to a historic low.

Figure 1.3 A long-run downward trend in protection
Effective rates of assistance (ERA)^a, 1970-71 to 2019-20^b



^a 'Agriculture' refers to selected agriculture activities up to and including 2000-01, and primary production thereafter. ^b Breaks and overlapping series represent a change of methodology and/or data sources.

Source: Commission estimates.

⁴ ERAs are not calculated for industries in the services sector.

However, changes in ERAs at a sector level can hide variations and changes in assistance provided to industries and individual businesses within sectors.

All manufacturing industries now have ERAs below 3 per cent, although some industries, including motor vehicles and parts and textiles, clothing and footwear, have ERAs that are still significantly above the average of the manufacturing sector (figure 1.4, table B.6 in appendix B).

There is also variation in the assistance to agricultural industries. While assistance to some agricultural industries has fallen in recent years (such as dairy farming), assistance to others has remained stable (such as aquaculture and fishing) or even increased (such as other crop growing) (figure 1.5). Some of these changes may reflect the underlying volatility of agricultural assistance estimates.⁵

The ongoing decline in manufacturing assistance means that it is now assisted less than agriculture (as measured by sector-wide ERAs). The average ERA of industries in the agricultural sector is over twice the average ERA of industries in the manufacturing sector (3.3 per cent compared with 1.4 per cent), and assistance rates for *all* industries comprising the manufacturing sector are now lower than the average assistance rate for the agricultural sector.

Assistance at a firm- or activity-level can also be distortionary

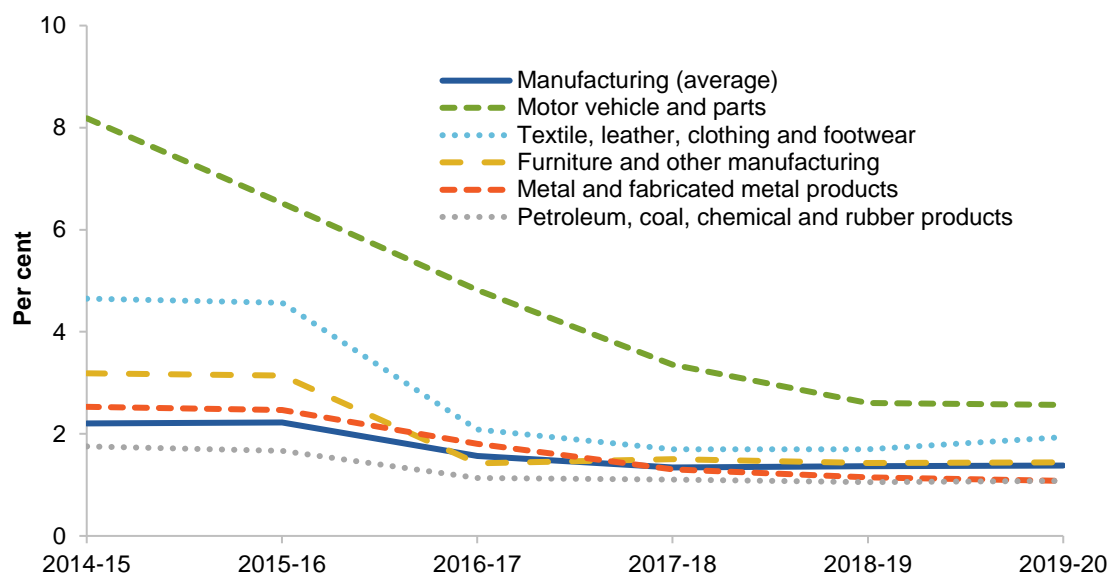
Even when ERAs are low at a sector or industry level, large ERAs can still arise for particular businesses if governments provide budgetary assistance (such as a grant or subsidy, section 1.3) to particular businesses or for particular activities. Such assistance can provide recipient businesses with a significant competitive advantage (especially over other businesses in their industry) and can be highly distortionary, as resources — such as finance, labour or equipment — may be redirected away from other more productive businesses and activities that are not receiving the same level of assistance from government.

The Productivity Commission has previously identified measures with the potential to provide substantially higher levels of assistance to select businesses, such as measures that subsidise freight to and from Tasmania (PC 2014b) and government co-investment grants (PC 2015).

⁵ Volatility in agricultural estimates occurs because the assistance benchmarks are affected by variations in prices, while drought and other factors impact output. The volatility of estimates was particularly acute throughout the 1970s and 1980s (figure 1.3).

Figure 1.4 Some manufacturing industries continue to receive more assistance than others ...

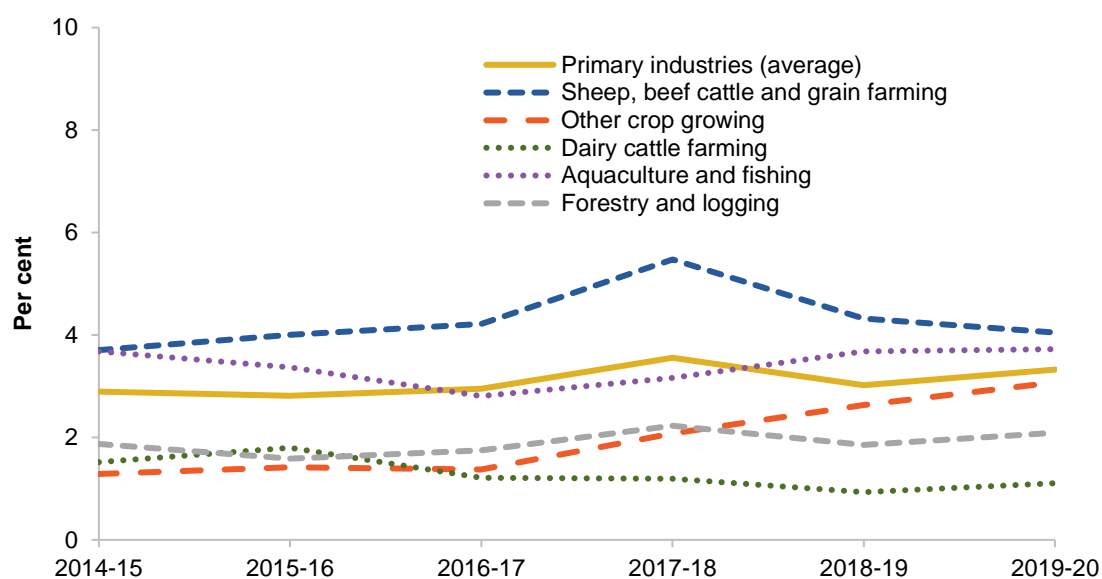
Effective rates of assistance (ERAs) in manufacturing, 2014-15 to 2019-20



Source: Commission estimates.

Figure 1.5 ... while assistance to agriculture industries is more dispersed

Effective rates of assistance (ERAs) in agriculture, 2014-15 to 2019-20



Source: Commission estimates.

1.2 A closer look at tariff assistance

The estimates outlined above relate to all types of assistance to business. They conceal some important subtleties in the way tariff assistance affects industries.

The Commission's estimates of tariff assistance are divided into three categories — output assistance, input penalties, and net assistance.⁶

- *Output assistance* — by taxing imported goods, tariffs improve the price competitiveness of domestically produced goods that directly compete with imports in the Australian market, allowing domestic businesses to earn greater returns.
- *Input penalties* — the imposition of tariffs also increases the price of local and imported goods that are used as inputs for other firms and sectors, and thus penalises local industries that rely on goods subject to tariffs (although this can be reduced if concessions are available, effectively providing a refund for the embedded tariffs in purchased goods).
- *Net tariff assistance* — calculated as output tariff assistance less the tariff input penalty for each industry.

In 2019-20, the aggregate *gross* amount of assistance (output assistance) to businesses from tariffs totalled just over \$1.8 billion, down from \$2 billion in 2018-19 and over \$3 billion in 2014-15 (figure 1.6). *Net* tariff assistance is much lower — about \$0.3 billion in 2019-20. This is to be expected, given the benefit afforded by tariffs to one industry is typically offset by higher input costs to others. In effect, this residual net assistance just reflects the tariff penalty that is not borne by industry, but by other groups. For example, a tariff on a final good may assist the industry producing that good without adding to the input costs of other industries but, even then, consumers of this good still pay for this tariff assistance through higher prices.

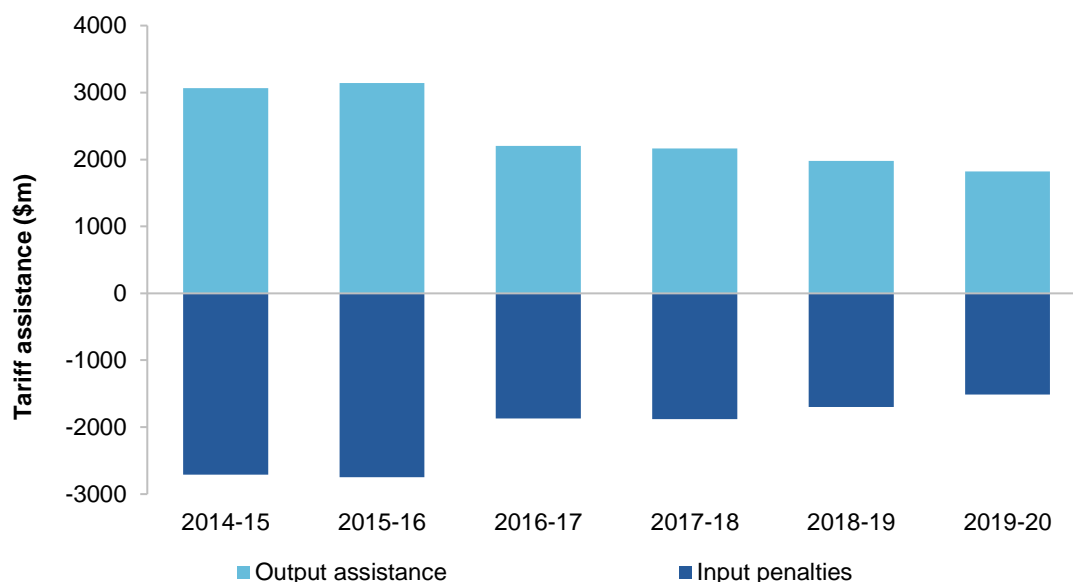
The recent decline in gross tariff assistance can be partly attributed to the growing share of Australia's imports covered by bilateral and regional trade agreements. Although the Commission has expressed concerns that the economic benefits of these agreements are often overstated and their risks understated (PC 2010), bilateral and regional trade agreements have nonetheless resulted in lower tariffs on imports. For example, the share of Australia's merchandise imports from countries with which Australia has a free trade agreement in force has grown from less than 10 per cent in 2003-04 to almost 70 per cent in 2019-20 (figure 1.7). This has contributed to a reduction in duties paid on imports to Australia. In the past six years alone, the average duty on imports (not including excises) more than halved from 1.09 per cent in 2014-15 to 0.50 per cent in 2019-20.⁷

⁶ The Commission's estimates of tariff assistance are equivalent to the budget outlay that would be expected to have the same effect on producer prices and volumes of production, not the amount of duty collected.

⁷ This figure was calculated by the Commission using an unpublished ABS import clearances dataset.

Figure 1.6 The assistance provided by (and cost of) tariffs continues to shrink

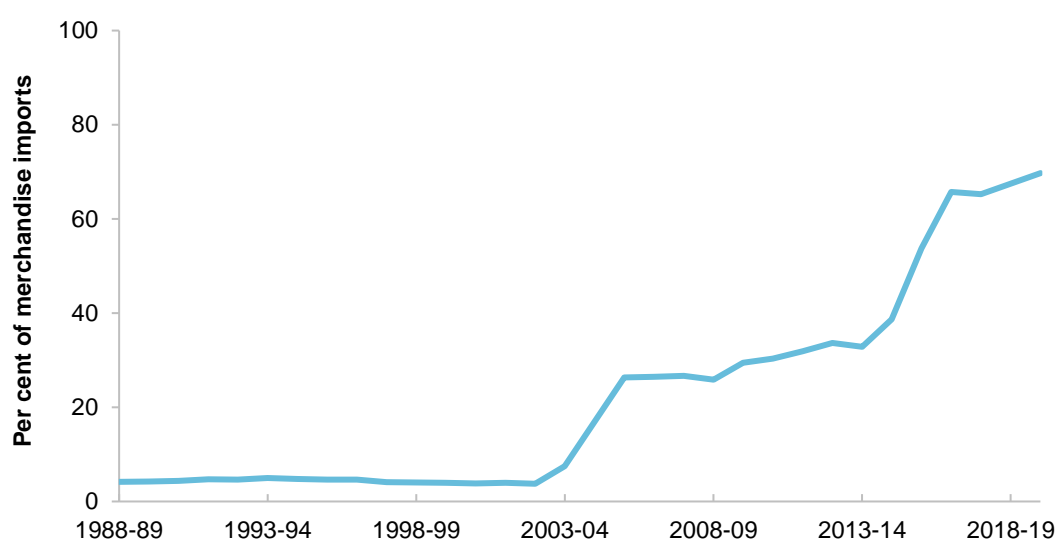
Output assistance and input penalties of tariffs, 2014-15 to 2019-20



Source: Commission estimates.

Figure 1.7 More of Australia's imports are covered by a free trade agreement than ever before

Share of Australia's merchandise imports from countries with which Australia has a free trade agreement, 1988-89 to 2019-20



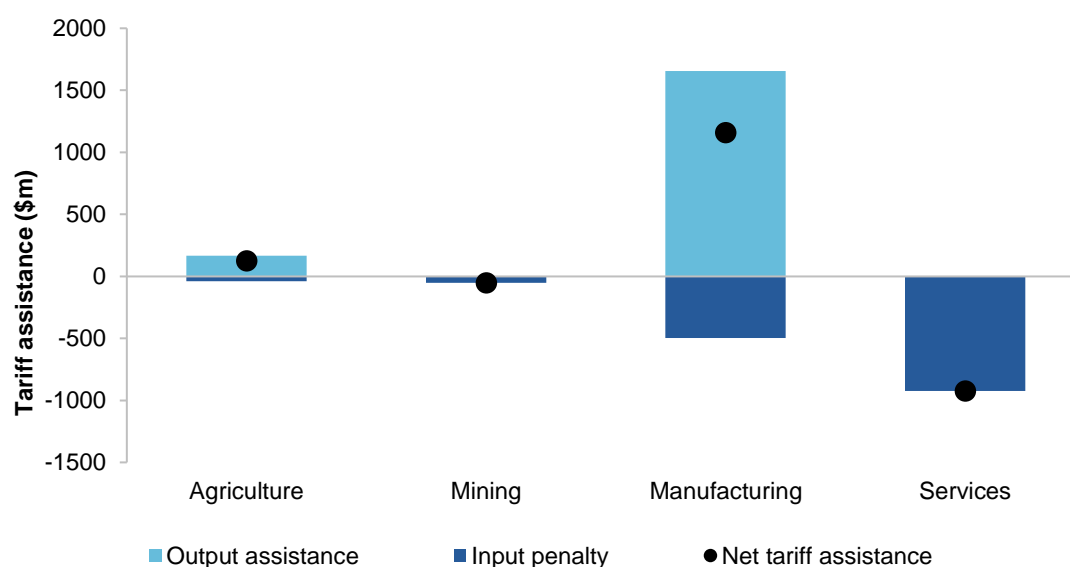
Source: Commission estimates using ABS *International Trade in Goods and Services*, cat. no. 5368.0 (table 14b).

However, while the prevalence of tariffs has been declining at an economy-wide level, their impact on resource allocation is still relevant to policymakers. Differences in assistance rates across sectors or industries risks distorting efficient resource allocation by encouraging resources to flow towards sectors, industries and businesses that receive large amounts of assistance relative to their value added and away from those subject to relatively large tariff input penalties.

Tariff assistance by sector

Nearly all output assistance from tariffs (\$1.7 billion or 91 per cent of the total) went to businesses in the manufacturing sector in 2019-20 (figure 1.8, table 1.2). As tariffs only apply to imported goods (not services), businesses in the services sector do not obtain *any* output assistance from tariffs. Yet the services sector bears most of the costs associated with tariffs because tariffs raise the cost of its inputs. The input penalty faced by the services sector exceeded \$0.9 billion in 2019-20. The mining sector also faced an input penalty of about \$53 million — far larger than the assistance it received through tariffs (which was less than \$1 million). Given that Australia’s mining industries are export-orientated price takers, this penalty has an adverse impact on the competitiveness of Australia’s mining exports.

Figure 1.8 **Tariffs benefit manufacturing — and harm services — the most**
Output, input and net tariff assistance, by sector, 2019-20



Source: Commission estimates.

Table 1.2 Tariff assistance by industry grouping, 2019-20
\$ million (nominal)^a

	<i>Tariff output assistance</i>	<i>Tariff input penalty</i>	<i>Net tariff assistance</i>
Primary production	165.6	-39.8	125.8
Horticulture and fruit growing	50.0	-4.4	45.6
Sheep, cattle and grain farming	110.6	-17.0	93.6
Other crop growing	0.3	-1.1	-0.8
Dairy cattle farming	—	-4.2	-4.2
Other livestock farming	—	-2.4	-2.4
Aquaculture and fishing	0.1	-3.6	-3.5
Forestry and logging	0.1	-0.5	-0.4
Primary production services	4.4	-6.6	-2.1
Unallocated primary production ^b	—	—	—
Mining	0.7	-52.9	-52.2
Manufacturing	1 656.0	-498.0	1 158.0
Food, beverages and tobacco	616.5	-279.9	336.6
Textiles, clothing and footwear	40.4	-11.5	28.8
Wood and paper products	151.3	-24.8	126.5
Printing and recorded media	17.2	-2.7	14.5
Petroleum, coal and chemicals	192.1	-39.3	152.8
Non-metallic mineral products	77.8	-14.6	63.2
Metal and fabricated products	209.1	-42.6	166.5
Motor vehicles and parts	132.8	-30.6	102.2
Other transport equipment	72.1	-17.1	55.0
Machinery and equipment	101.2	-21.5	79.7
Furniture and other products	45.6	-13.4	32.2
Unallocated manufacturing ^b	—	—	—
Services	—	-924.6	-924.6
Electricity, gas, water and waste	—	-18.3	-18.3
Construction	—	-352.0	-352.0
Wholesale trade	—	-54.0	-54.0
Retail trade	—	-31.5	-31.5
Accommodation and food services	—	-67.9	-67.9
Transport, postal and warehousing	—	-40.2	-40.2
Information and communications	—	-12.7	-12.7
Financial and insurance services	—	-3.0	-3.0
Property, professional and admin.	—	-88.3	-88.3
Public administration and safety	—	-49.8	-49.8
Education and training	—	-18.5	-18.5
Health care and social assistance	—	-72.6	-72.6
Arts and recreation services	—	-27.9	-27.9
Other services	—	-87.7	-87.7
Unallocated services ^b	—	—	—
Unallocated other^b	—	—	—
Total	1 822.3	-1 515.3	307.0

^a Totals may not add due to rounding. ^b Unallocated includes programs for which details of the initial benefiting industry cannot be readily identified.

Source: Commission estimates.

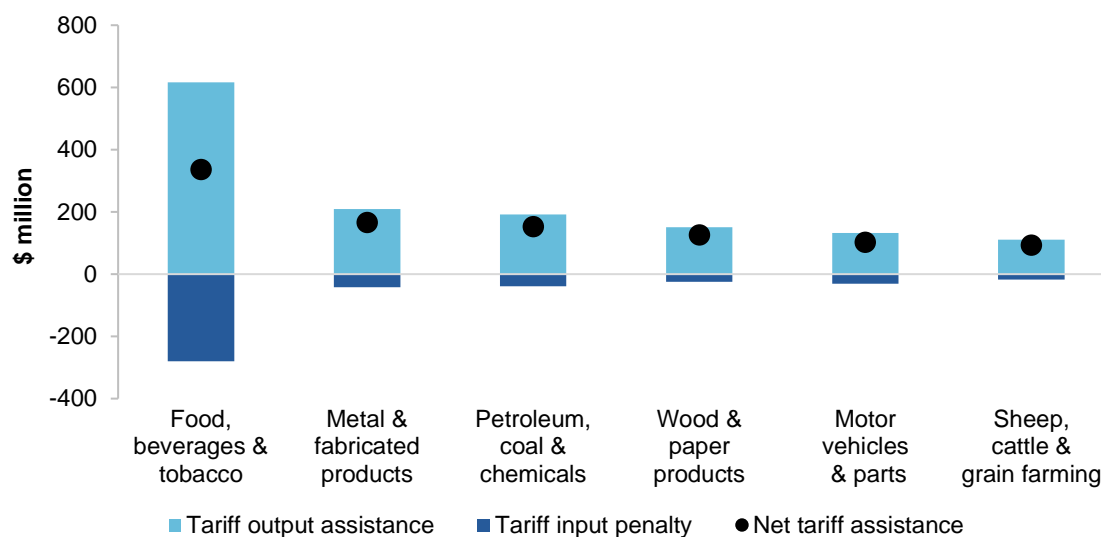
Tariff assistance by industry

In absolute terms, the food, beverages and tobacco industry received the most net assistance from tariffs in 2019-20, exceeding \$300 million (figure 1.9). However, the motor vehicles and parts industry received the highest rate of assistance as a proportion of its value added (figure 1.10).

As outlined above, most of the costs of tariffs are borne by businesses in the services sector, and all service industries received negative net tariff assistance. The largest cost was borne by the construction industry, which faced a \$350 million penalty from tariffs (figure 1.11).

Figure 1.9 **The food, beverage and tobacco industry was most assisted by tariffs in dollar terms ...**

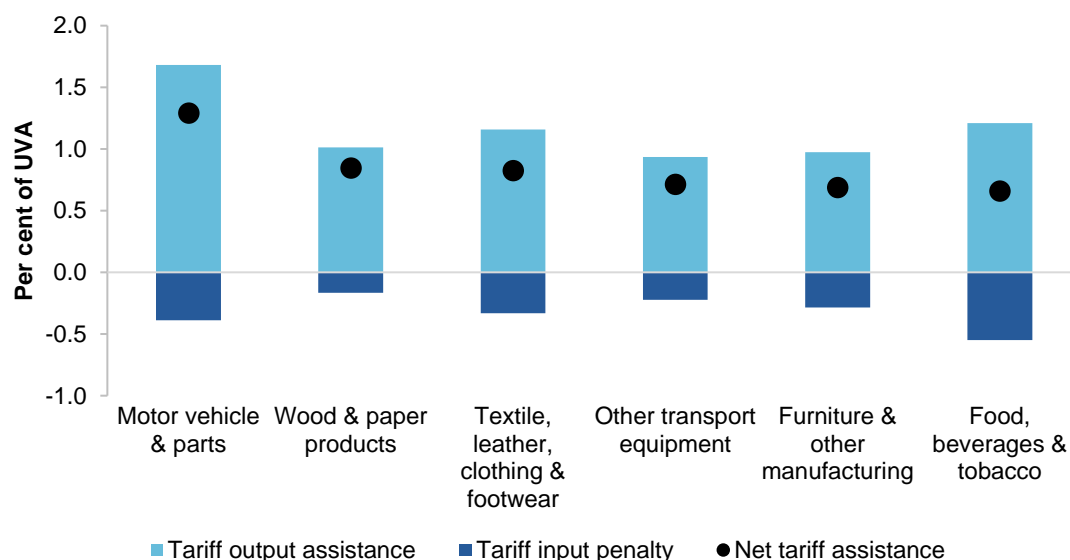
Industries receiving the most tariff assistance, 2019-20



Source: Commission estimates.

Figure 1.10 ... and the motor vehicles and parts industry was most assisted by tariffs relative to its value added

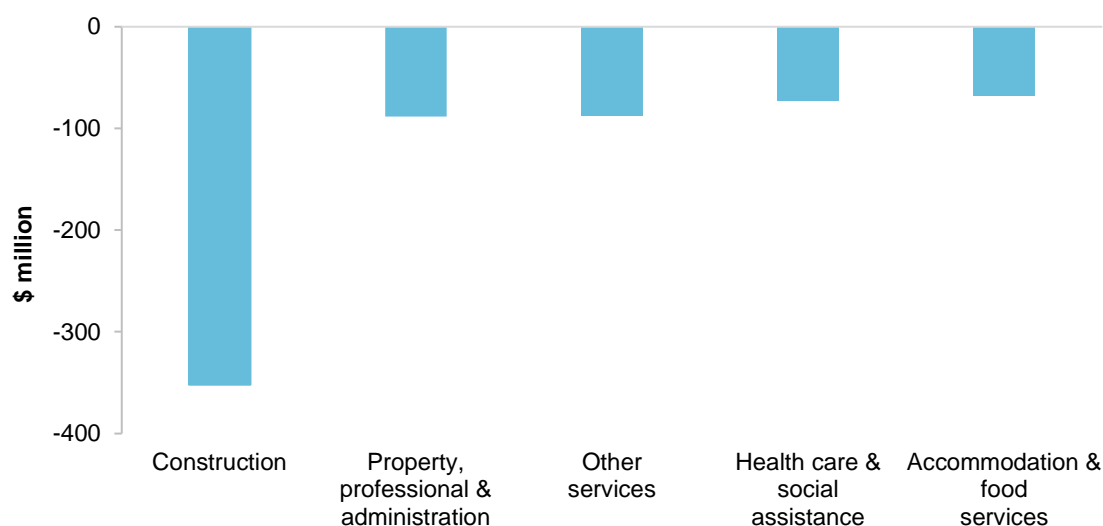
Industries receiving the most tariff assistance as a proportion of their unassisted value added, 2019-20



Source: Commission estimates.

Figure 1.11 The construction industry was penalised the most by tariffs

Industries with the largest negative net tariff assistance, 2019-20



Source: Commission estimates.

1.3 A closer look at budgetary assistance

The Commission's estimates of budgetary assistance are divided into two categories.

- *Budgetary outlays* — program funding provided by the Australian Government that assists businesses. Budgetary outlays most commonly take the form of grants, subsidies, loans, guarantees or funding for organisations to perform commercially beneficial services. Budgetary outlays may provide financial assistance directly to businesses — as is the case with the Automotive Transformation Scheme for example — or deliver assistance indirectly via intermediate organisations such as through the rural R&D corporations and the Commonwealth Scientific and Industrial Research Organisation (CSIRO).
- *Tax concessions* — assistance by way of differential tax treatment that provides benefits to some businesses but not others.

Budgetary outlays and tax concessions are included in the Commission's assistance estimates when they provide a pecuniary benefit to some businesses but not others. This differential treatment can arise across a range of dimensions, including:

- business size — for example, incorporated small businesses are subject to lower corporate tax rates than large businesses (box 1.1)
- the types of activities a business undertakes — for example, tax concessions are provided for R&D activities, which provides a benefit for businesses that undertake R&D but no benefit to those that do not
- the industry a business operates in — for example, financial incentives are provided for businesses in the film industry to assist them to make film and television productions in Australia
- where a business is located.

The inclusion of a particular budgetary outlay or tax concession in the Commission's assistance estimates does not necessarily mean that the measure is undesirable. However, there are often design challenges in policies that target apparently desirable goals, such as more R&D. For instance, programs may have poor additionality and their funding may have adverse efficiency impacts on investment and labour market supply (so-called 'deadweight' costs). The *Trade and Assistance Review* provides a transparent and consistent estimate of the value of budgetary assistance and who benefits — which is essential for any discussions about the benefits and costs of particular programs or measures.

Where possible, the Commission allocates budgetary assistance to the industry that benefits from it. This is undertaken on an 'initial benefiting industry' basis — that is, assistance is allocated to the industry that 'hosts' the business(es) that *initially* benefits from a program or measure. For some measures, such as assistance provided through rural R&D corporations and the R&D Tax Incentive, the Commission typically uses the industry allocation provided by the department or agency that oversees these measures. Appendix A, and the methodological annex that accompanies this *Review*, provide more information on the

budgetary outlays and tax concessions that are included in the estimates of assistance and how this assistance is allocated across industries.

Box 1.1 Lower tax rates for small business — an example of assistance based on business size

In May 2016, the Australian Government announced its intention to reduce the company tax rate for all businesses to 25 per cent (from the prevailing rate of 30 per cent) by 2026-27. However, the tax cuts that were passed by the Parliament only afforded a lower company tax rate for small businesses.

The lower company tax rate, and the annual turnover ceiling for qualifying for this rate, have changed over time. For the 2019-20 tax year, subject to certain conditions, an incorporated business with a turnover of under \$50 million faced a corporate tax rate of 27.5 per cent, while the tax rate for all other incorporated businesses remained at 30 per cent. The company tax rate for small businesses is scheduled to fall further — to 26 per cent in 2020-21, and to 25 per cent in 2021-22 and beyond.

The Commission has included the value of the assistance provided to small businesses associated with their favourable tax treatment since the 2016-17 *Trade and Assistance Review*. That *Review* noted that:

While some may debate that [the small business tax cut] is assistance, it advantages one form of business over another. And if it persists over time it will skew growth and investment artificially. (p.iii)

If the corporate tax rate was the same for all businesses — as was originally proposed — then the advantage to small business would disappear, as would the rationale to include it in the assistance estimates.

Sources: ATO (2020b); PC (2018).

Budgetary assistance in 2019-20

In 2019-20, the Australian Government provided just over \$11.8 billion in budgetary assistance. Most — about 57 per cent — of this assistance was provided through tax concessions (figure 1.12). The proportion of assistance provided through tax concessions has been relatively constant over the past three years, after growing significantly between 2014-15 and 2017-18. (This growth was driven primarily by a range of tax concessions for small businesses).

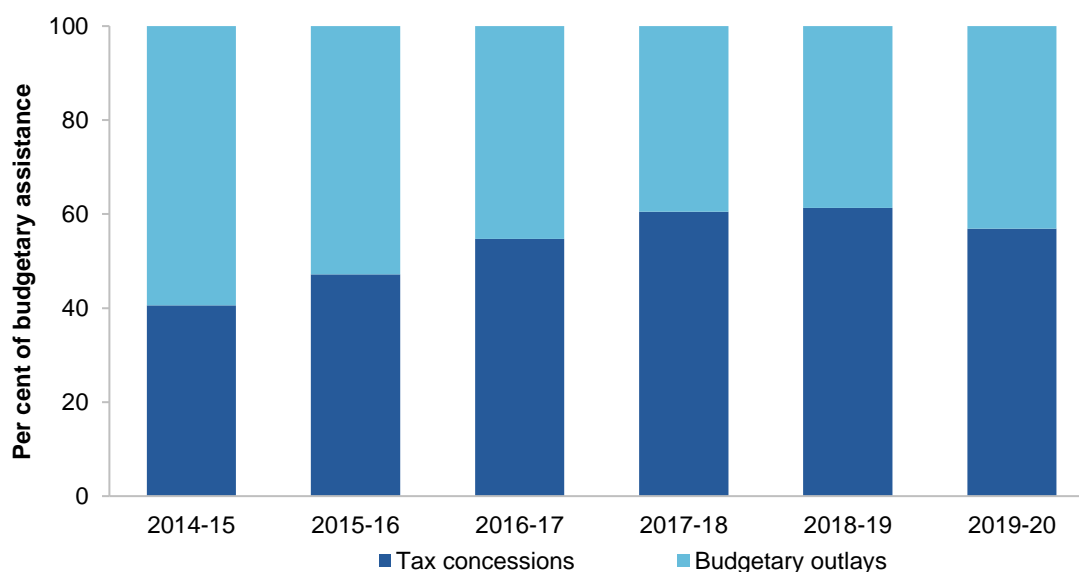
To enable more granular assessments of changes in the composition and nature of budgetary assistance, the Commission has categorised its estimates into seven groups (figure 1.13, for details see tables B.16 to B.20 in appendix B). The majority of budgetary assistance in 2019-20 was directed to:

- small business (\$4.2 billion or 35 per cent) — including \$2.1 billion for the Small Business Capital Gains Tax scheme, \$1.1 billion for the concessional taxation of small business and \$0.5 billion for the Small Business Simplified Depreciation scheme

- R&D (\$3.8 billion or 32 per cent) — including \$2.4 billion through the R&D tax incentive, \$145 million for Cooperative Research Centres, and \$616 million for CSIRO research (box 1.2).

Figure 1.12 Most budgetary assistance is now tax concessions

Share of budgetary assistance by assistance type, 2014-15 to 2019-20



Source: Commission estimates.

Of the \$11.8 billion of budgetary assistance, the Commission was able to allocate \$8.7 billion to particular sectors:

- about \$1.6 billion went to the agriculture sector (mostly to the sheep, beef cattle and grain farming industry)
- about \$0.4 billion went to the mining sector
- about \$1.5 billion went to the manufacturing sector
- about \$5.2 billion went to the services sector. Most services sector assistance went to the property, professional and administrative industry (\$1.5 billion, largely from R&D tax incentives and the small business simplified depreciation rules) and to the financial and insurance industry (\$1.1 billion, mostly from the Offshore Banking Unit concession and the concessional rate of withholding tax).

Over the six-year period covered by this *Review*, budgetary assistance to the mining and manufacturing sectors has fallen by 18 and 16 per cent respectively. Meanwhile, assistance to the primary industry and services sectors has grown by 17 per cent and 30 per cent respectively (figure 1.14). The introduction of small business tax concessions has also seen unallocated assistance grow.

Within each sector's constituent industries, there have also been significant changes over recent years. A stark example is the 71 per cent decline in budgetary assistance for the motor vehicle and parts industry, which dropped from over \$351 million in 2014-15 to just over \$100 million in 2019-20 (table B.8 in appendix B). This largely reflects the winding down of the Automotive Transformation Scheme.

Box 1.2 A snapshot of R&D assistance in 2019-20

Assistance for R&D was estimated to be about \$3.8 billion in 2019-20.

Most of this assistance (about \$2.4 billion) was provided through the R&D Tax Incentive. The incentive has two components.

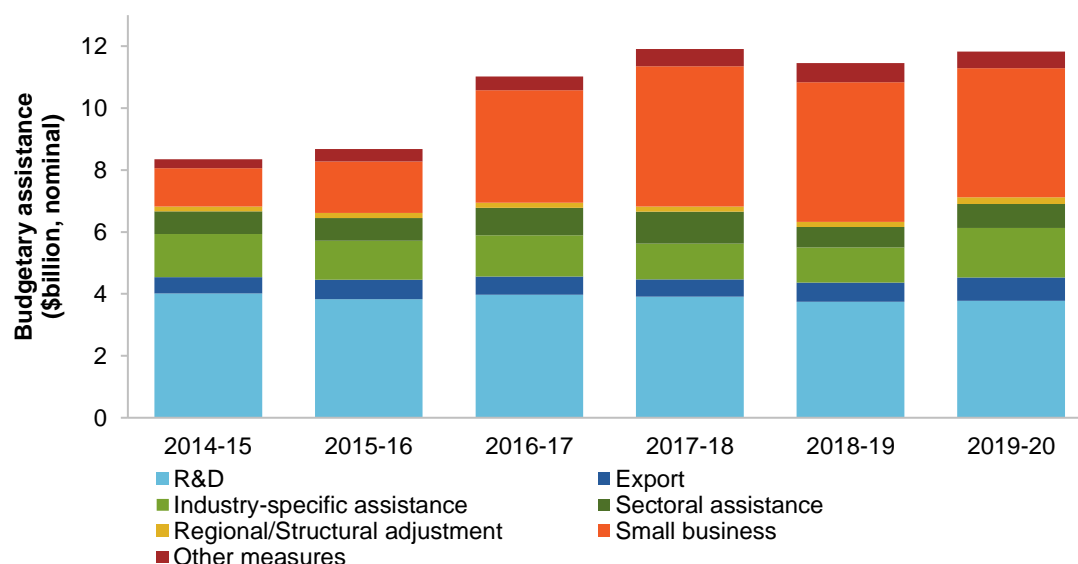
- A *refundable* tax offset of 43.5 per cent of eligible R&D expenditure for eligible businesses with turnover of less than \$20 million per annum. The value of assistance a business can claim through the refundable offset is not limited by its tax liabilities, and a business can claim the offset (as a cash refund) even if they are in a tax loss position. This means that the refundable offset is akin to a subsidy for R&D, and therefore is treated as a budgetary outlay in the Commission's assistance estimates.
 - In 2019-20, assistance to businesses through the refundable tax offset was estimated to be about \$1.8 billion. The largest share of this assistance (about \$0.9 billion) went to businesses in the property, professional and administrative support industry — mainly to businesses that provided scientific research services and computer system design services.
- A *non-refundable* tax offset of 38.5 per cent of eligible R&D expenditure for eligible businesses that do not qualify for the refundable offset. The non-refundable offset cannot exceed a business's tax liability (although unused offsets may be able to be carried forward to future years), and therefore, is treated as a tax concession in the Commission's assistance estimates.
 - In 2019-20, assistance to businesses through the non-refundable tax offset was estimated to be about \$0.6 billion. The largest proportion of this assistance went to manufacturing (37 per cent) and mining (29 per cent) businesses.

R&D assistance was also provided through measures other than the R&D Tax Incentive. For example, \$145 million of assistance was provided through the Cooperative Research Centres program, and \$616 million of assistance was provided through the Commonwealth Scientific and Industrial Research Organisation (CSIRO). This figure does not include funding for the CSIRO's public research functions, such as environmental R&D and general research aimed at expanding knowledge in various fields.

Sources: ATO (2017); Commission estimates; DISER (2020c).

Figure 1.13 Small business assistance is the largest type of budgetary assistance

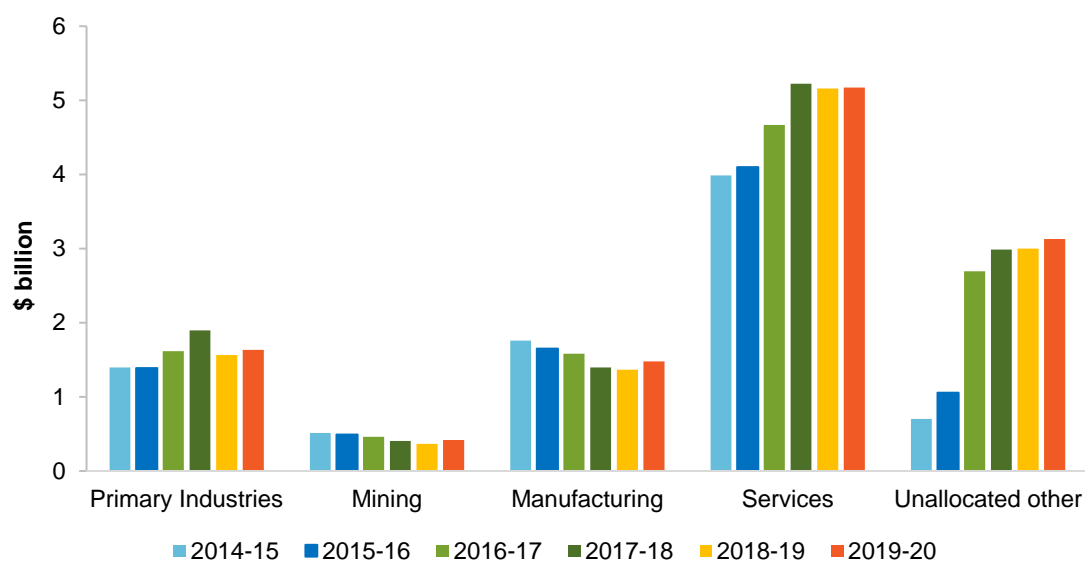
Value of budgetary assistance by type of measure, 2014-15 to 2019-20



Source: Commission estimates.

Figure 1.14 Budgetary assistance to the primary industries and services sectors has grown in recent years

Budgetary assistance (budgetary outlays and tax concessions), by sector, 2014-15 to 2019-20



Source: Commission estimates.

2 Industry assistance developments

Key points

- During the past year, there has been unprecedented assistance provided to businesses, largely in response to the COVID-19 pandemic, with the Australian Government estimating the total value of support in response to the pandemic at over \$500 billion. Most business support has been economy-wide, including wage subsidies and business tax incentives.
- But numerous measures have also been introduced to address industry-specific impacts of the pandemic.
 - The most substantial industry-specific assistance (in excess of \$2.7 billion) has been to the aviation industry.
 - Substantial assistance has also been provided to the education, tourism, arts and construction industries.
- The Australian Government has introduced measures to promote particular industries that it has identified as important for economic recovery from the pandemic. Measures include the Modern Manufacturing Strategy and the ‘gas-fired recovery’ initiative.
- State and Territory governments have also provided significant assistance to businesses in response to the pandemic. Measures include fee and tax waivers and deferrals, grant programs, and tourism and hospitality voucher schemes.
- New industry assistance has also been provided over the past year unrelated to the COVID-19 pandemic. Notable examples include disaster recovery assistance, particularly in response to bushfires, and assistance for the waste and recycling industries.
- Providing widely-available assistance in response to the pandemic has undoubtedly prevented job losses and the closure of many otherwise viable businesses. The unique feature of the pandemic compared with most recessions is that the shocks were concentrated in particular industries, suggesting that *well-targeted* industry assistance is a desirable adjunct to general stimulus measures. But there are some risks.
 - Emergency assistance measures, while appropriate in the short-term, may work against efficiency *if retained too long*.
 - Industry assistance may be overgenerous, providing windfall gains to recipients and poor value for taxpayers, and potentially come at the expense of more beneficial initiatives.
 - Even where emergency assistance has merit, there are design risks, including fraud, inequity and burdensome application processes. Consequently, program design and oversight arrangements are important.

During the past year, there has been an unprecedented level of assistance to industry, primarily to mitigate the economic impact of the COVID-19 pandemic. Much of this assistance has been economy-wide — and therefore would not be classified as industry assistance under the usual definition applied in the *Trade and Assistance Review* — but there has also been substantial assistance provided to particular industries and sectors.

This chapter focuses on developments in industry assistance provided by the Australian Government, though it also covers some initiatives of State and Territory governments. Specifically, the chapter:

- catalogues the industry assistance measures that have been introduced in response to the COVID-19 pandemic (section 2.1)
- documents other notable developments in industry assistance over the past year (section 2.2)
- provides observations on the case for various industry assistance measures and some of the risks and concerns that some recent measures pose (section 2.3).

2.1 Assistance related to the COVID-19 pandemic

The Australian Government has committed to substantial spending measures as part of its COVID-19 Economic Recovery Plan (Australian Government 2020e). These measures have been wide ranging and assisted both individuals and businesses. Some of the business support measures have been provided across all industries (or with limited carve-outs) while other measures have been specific to certain industries.

Direct budget support measures in response to the COVID-19 pandemic have generally been allocated as part of two broad packages.

- The first is the COVID-19 Response Package, which includes measures aimed at providing ‘temporary and targeted support in response to the COVID-19 pandemic’ (Australian Government 2020e, p. 1). This package includes some of the most prominent measures of government support, such as JobKeeper, as well as additional measures targeted at specific industries and sectors.
- The second is the JobMaker Plan, which aims to ‘drive stronger economic recovery and drive down the unemployment rate’ (Australian Government 2020e, p. 1). The JobMaker Plan includes measures such as changes to taxes, infrastructure spending and industry development initiatives.

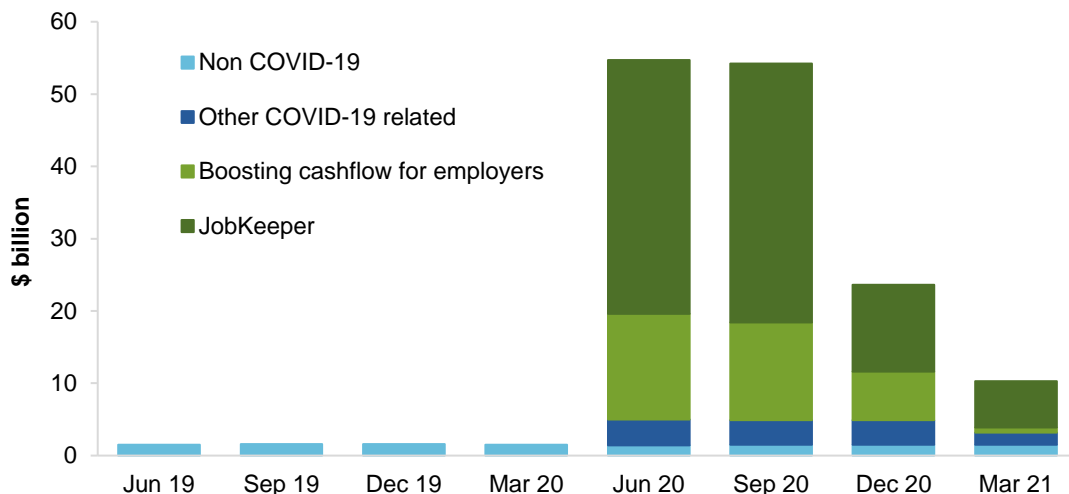
In the 2020-21 Budget, the Australian Government (2020e) estimated the total value of its support in response to the COVID-19 pandemic at \$507 billion (over the period from 2019-20 through to the end of the forward estimates in 2023-24), comprising:

- \$184 billion of direct economic support (and a further \$14 billion of health measures) under the COVID-19 Response Package

- \$74 billion of direct economic support as part of the JobMaker plan
- up to \$235 billion of balance sheet support (such as finance facilities, including up to \$200 billion through the Reserve Bank of Australia's (RBA's) Term Funding Facility, which reduced funding costs for authorised deposit-taking institutions and encouraged them to expand their lending to businesses (RBA 2020b)).

The Australian Bureau of Statistics (ABS) estimated the value of government support for 2020 as the pandemic unfolded. The support was concentrated in the June and September quarters of 2020, with already sizeable reductions in support occurring in the December 2020 and March 2021 quarters, largely reflecting the start of the economic recovery (figure 2.1).

Figure 2.1 Overall government support for business
\$ billion per quarter



Source: ABS (2021d).

The key measures introduced in response to the COVID-19 pandemic (described below) are briefly summarised in table 2.1 (for economy-wide measures) and table 2.2 (for industry-specific measures).

Most business support in response to the pandemic was not industry-specific

By value, most business support introduced to mitigate the effects of COVID-19 has been economy-wide and not targeted at particular industries, although in practice such assistance may be disproportionately used by businesses in industries more adversely affected by the pandemic. These economy-wide measures have included wage subsidies and other employment measures, as well as business tax incentives.

Table 2.1 Key economy-wide assistance in response to COVID-19

<i>Economy-wide measures</i>
<ul style="list-style-type: none"> • JobKeeper wage subsidy, which provided payments of up to \$1500 per fortnight per employee for eligible employers suffering a reduction in turnover • payments to employing businesses under the Boosting Cash Flow for Employers measure • JobMaker Hiring Credit, which provides weekly payments of up to \$200 for each eligible new employee hired • Supporting Apprentices and Trainees wage subsidy and Boosting Apprenticeship Commencements wage subsidy, which both provide subsidies of up to 50 per cent for eligible apprentices and trainees • expansion of accelerated depreciation arrangements through changes to: the Instant Asset Write-off; the Backing Business Investment initiative; and the Temporary Full Expensing measure • Temporary Loss Carry-Back arrangements to allow eligible companies to offset losses against previous income tax liabilities • increases to the Research and Development Tax Incentive • Supporting the Flow of Credit measures, which included government guarantees of credit, changes to lending obligations and measures to reduce funding costs • regulatory changes to insolvency and bankruptcy arrangements to provide relief from the threats of insolvency

Wage subsidy and employment measures

In response to the COVID-19 pandemic, the Australian Government provided a range of wage subsidies and employment measures.

The JobKeeper wage subsidy has been the most substantial of the support measures implemented by the Australian Government. It initially provided a flat rate subsidy of \$1500 per fortnight per employee to employers meeting the eligibility criteria (which included a significant reduction in turnover in the wake of the pandemic). There were some differences in the eligibility criteria for different types of employers — for instance, the decline in turnover test percentage was 30 per cent for most employers, but 50 per cent for employers with turnover above \$1 billion and 15 per cent for registered charities. Universities were also subject to different eligibility rules through a longer six month period to calculate reductions in turnover rather than the monthly or quarterly period available to other employers (ATO 2020g). There were also some carve-outs of businesses that were not eligible for the scheme, including major banks and, from 20 July 2020, child care services (ATO 2020c, 2020h).

The initial JobKeeper payment was available from 30 March 2020 to 27 September 2020. The payment was then extended twice — from 28 September 2020 to 3 January 2021, and from 4 January 2021 to 28 March 2021 — although changes were made to both reduce the payment rates and tighten eligibility criteria. Overall, \$89 billion was paid out under the scheme to over 1 million employers, benefitting some 3.8 million employees (Australian Government 2021d).

Temporary cash flow payments — under the Boosting Cash Flow for Employers measure — were provided to eligible small and medium-sized businesses with employees. Eligible entities automatically received total tax-free payments of between \$20 000 and \$100 000 upon lodgement of business activity statements for the March to September 2020 reporting periods, depending on their pay-as-you-go withholding amounts. In total, this measure provided more than \$35 billion in payments to over 800 000 employers (Australian Government 2021d).

In addition, in the 2020-21 Budget, the Australian Government introduced the JobMaker Hiring Credit. The scheme provides employers that hire new additional employees with a payment of \$200 per week for eligible employees aged 16 to 29, or \$100 per week for eligible employees aged 30 to 35, with its total cost estimated at \$4 billion.

For a business to receive the JobMaker Hiring Credit, it must engage new employees within 12 months following 7 October 2020, with the credit available for up to 12 months from the date of employment. Employees also need to work an average of at least 20 hours per week, and need to have been receiving the JobSeeker Payment, Youth Allowance or Parenting Payment for at least one out of the three months before being employed (Australian Government 2020a, p. 162).

A Supporting Apprentices and Trainees wage subsidy was also introduced, which provided a 50 per cent wage subsidy for apprentices (up to a maximum of \$7000 per quarter). Businesses with fewer than 20 employees that had apprentices engaged as at 1 March 2020 were eligible for the subsidy from 1 January 2020 to 30 June 2020. From July 2020, the scheme was expanded to include both small and medium-sized employers (with less than 200 employees), with the estimated cost increasing from \$1.3 billion to \$2.8 billion (Australian Government 2020c, p. 11).

As part of the October 2020-21 Budget, the subsidies were expanded through the Boosting Apprenticeships wage subsidy, which was made available to businesses of any size engaging new apprentices or trainees between 5 October 2020 and 30 September 2021. The measure was initially capped at 100 000 new apprentices, with a total estimated cost of \$1.2 billion (Australian Government 2020a, p. 77). However, in March 2021, it was announced that the program cap had already been reached and that the program would be expanded by removing the cap until the 30 September 2021 end date (Morrison and Cash 2021). In the 2021-22 Budget, the time frame for the expanded uncapped scheme was extended until 31 March 2022, with the cost for the expansion estimated at \$2.7 billion over the forward estimates (Australian Government 2021a, p. 88).

Business tax incentives for investment

In response to the COVID-19 pandemic, the Australian Government implemented a range of business tax incentives. Total private new capital expenditure fell by 7 per cent from the December quarter 2019 to the June quarter 2020, but with considerable variation across industries. For instance, investment fell by 45 per cent in accommodation and food services

and by nearly 60 per cent in arts and recreation services.⁸ In other industries — such as information media and telecommunications — investment increased (ABS 2021h).

A series of overlapping changes were made to the depreciation rules for certain assets, which applied to all industries, but with varying eligibility requirements. This included an increase to the instant asset write-off from 12 March 2020 until 30 June 2021, which increased the threshold amount for each asset that could be written off from \$30 000 to \$150 000, and extended eligibility to businesses with an aggregated turnover of below \$500 million (up from the previous threshold of \$50 million) (ATO 2020d). In March 2020, under the Backing Business Investment initiative, additional accelerated depreciation rules for eligible assets were also introduced for businesses with turnover below \$500 million, and will remain in effect until 30 June 2021 (ATO 2020a). Over the forward estimates to 2023-24, the changes to the instant asset write-off and the new Backing Business Investment initiative were estimated to reduce tax receipts by \$1 billion and \$3.2 billion respectively (Australian Government 2020c, p. 74).

In the 2020-21 Budget, the Australian Government introduced a new temporary full expensing measure. The measure allows for full immediate depreciation of eligible new assets (regardless of their cost) for businesses with aggregated turnover of less than \$5 billion (or meet an alternative income test for corporate entities). The measure also applies to second-hand assets for businesses with turnover of less than \$50 million (ATO 2020f). The temporary full expensing measure was initially made available from 6 October 2020 through to 30 June 2022, and was estimated to have an impact on budget receipts of \$26.7 billion over the forward estimates to 2023-24 (Australian Government 2020a, p. 20). In the 2021-22 Budget, the measure was extended for a further 12 months through to 30 June 2023, with the additional impact on receipts over the forward estimates to 2024-25 estimated to be \$17.9 billion (Australian Government 2021a, p. 29). However, the longer-term budgetary effects of immediate or accelerated depreciation measures are less as tax receipts increase in future years as depreciation expenses have already been claimed (for example, the estimated cost of the one-year extension of the temporary full expensing measure in the 2021-22 Budget over the ‘medium term’ is \$3.4 billion, compared with the \$17.9 billion reduction in receipts over the forward estimates).

Another tax measure announced in the 2020-21 Budget was the temporary loss carry-back, which enables eligible corporate entities with a turnover of less than \$5 billion to carry back losses made in the 2019-20, 2020-21 or 2021-22 income years and offset them against previous income tax liabilities in the 2018-19, 2019-20 and 2020-21 income years. The measure was estimated to reduce budget receipts by \$4.9 billion over the forward estimates to 2023-24 (Australian Government 2020a, p. 21). This measure was also extended in the 2021-22 Budget, allowing eligible entities to offset losses in 2022-23 against previous income years back to 2018-19, with the extension estimated to reduce receipts by \$2.8 billion over the forward estimates to 2024-25 (Australian Government 2021a, p. 30). However, like

⁸ Data are in volume terms and seasonally-adjusted.

the depreciation measures, tax receipts should increase in future years because the losses concerned have been exhausted and are no longer available to offset any future profits.

Increases to the Research and Development Tax Incentive were also announced as part of the 2020-21 Budget, with an estimated cost of \$2 billion over the forward estimates (Australian Government 2020a, pp. 19–20).

Other notable broad economy-wide measures

Other measures introduced by the Australian Government in its initial response to the pandemic in March 2020 included the Supporting the Flow of Credit measures. This package of measures included: a \$40 billion Coronavirus SME Guarantee Scheme (which guarantees 50 per cent of new loans issued to small and medium enterprises by eligible lenders); a temporary exemption from responsible lending obligations for lenders providing credit to existing small business customers; and the RBA's \$200 billion Term Funding Facility. The Australian Office of Financial Management also undertook investments in structured finance markets to reduce funding costs for smaller lenders (The Treasury 2020c). Some banks reported that the pandemic had affected credit availability, partly due to the application of pre-pandemic prudential regulation. While the new measures eased credit availability, the RBA still found that the biggest obstacle to small business credit in 2020 was on the demand side, reflecting uncertainty about the economic outlook and a desire from businesses to strengthen their own balance sheets (Lewis and Liu 2020).

In March 2021, the Australian Government announced a SME Recovery Loan Scheme — building on the previous Coronavirus SME Guarantee Scheme — available to businesses with annual turnover of up to \$250 million that received JobKeeper payments in the March quarter of 2021.⁹ This scheme is available for loans up to \$5 million and includes an 80 per cent government guarantee, a 7.5 per cent interest rate cap, and allows lenders to offer repayment holidays of up to two years (The Treasury 2020c).

While these measures to support small business lending do not favour specific industries, they conceptually resemble other measures that favour allocation of resources to smaller enterprises (such as lower corporate tax rates, which the Commission has included as an industry assistance measure in the *Trade and Assistance Reviews*).

In its initial March 2020 response to the pandemic, the Australian Government also introduced some regulatory changes to insolvency and bankruptcy arrangements to provide relief from the threats of insolvency and bankruptcy for financially distressed businesses. These changes included: increasing the threshold that must be met for creditors to be able to take action; giving debtors additional time to respond to demands; and providing protections for directors from personal liability for trading while insolvent (Frydenberg and Porter 2020). Permanent changes to insolvency laws intended to 'support small business

⁹ The scheme was also open to businesses with turnover of up to \$250 million located in eligible local government areas that were affected by floods in March 2021.

recovery’, including by drawing on features from Chapter 11 of the US Bankruptcy Code, were announced in September 2020, and took effect on 1 January 2021 (Frydenberg and Sukkar 2020).

But some measures targeted support to specific industries ...

Some industries have been hit harder by the COVID-19 pandemic than others. While businesses in these industries may have made disproportionate use of the economy-wide support measures mentioned above, the Australian Government has also implemented a wide range of additional measures that are specific to, or targeted at, these industries.

Some of these measures were provided through the COVID-19 Relief and Recovery Fund, which set aside \$1 billion to be allocated to regions, communities and industry sectors disproportionately affected by the COVID-19 pandemic. Support through the fund has been delivered in various ways, including by providing fee or levy relief, increasing payments through existing grant programs, and establishing new programs (Australian Government 2020b).

Aviation

The aviation industry has been greatly affected by the public health measures that were introduced in response to the COVID-19 pandemic, including the introduction of border restrictions that saw widespread shutdowns in both international and domestic passenger flights. The airline industry experienced a 68 per cent reduction in domestic passenger traffic from calendar year 2019 to 2020 (BITRE 2021a, p. 1), while the comparable reduction for international passenger traffic was 78 per cent (BITRE 2021b, p. 4). The Australian Government has introduced several measures to assist the industry.

An initial package of assistance measures, costing \$715 million, was announced in March 2020 (McCormack 2020). These measures included the ‘refunding and ongoing waiving of a range of Government charges on the industry including aviation fuel excise, air services charges on domestic airline operations and domestic and regional aviation security charges’.

Further funding was subsequently allocated over the course of the year. By the July 2020 Economic and Fiscal Update, the funds allocated to support the aviation industry totalled \$2.3 billion, comprising:

- \$1.9 billion to fund the Australian Airline Financial Relief Package, the Domestic Aviation Network Support program, and the International Freight Assistance Mechanism
- a further \$428 million, allocated through the COVID-19 Relief and Recovery fund, which included funding for the Regional Airline Network Support program (Australian Government 2020c, pp. 102–103).

Table 2.2 Key industry-specific assistance in response to COVID-19

Aviation
<ul style="list-style-type: none"> • Australian Airline Financial Relief package, which included grants and waivers of fees and charges • Regional Airlines Funding Assistance package, which provided grants to smaller regional air service providers • Regional Airline Network Support program, which provided funding to cover shortfalls on operating costs of regional air routes • Domestic Aviation Network Support program, which subsidised flights on the top 50 domestic routes • International Freight Assistance Mechanism, which subsidised key international freight flights • Tourism Aviation Network Support program, which provided fare discounts to selected destinations • Aviation Services Accreditation Support program, which subsidised handling company costs • International Aviation Support program to help Qantas and Virgin Australia maintain international flight capability • Domestic Airports Security Costs Support program to help airports meet their domestic security screening costs
Tourism
<ul style="list-style-type: none"> • Regional Tourism Recovery package to provide funding to regions most affected by the closure of international tourism • additional funding for the Export Market Development Grants scheme • funding for environment-related projects • funding for zoos and aquariums to assist in meeting the fixed costs of caring for animals • assistance payments for travel agents
Education
<ul style="list-style-type: none"> • Higher Education Relief package, which included regulatory fee relief and maintenance of university funding irrespective of changes in domestic student numbers • Job-ready Graduates package, which included grants for universities • additional funding to maintain university research
Arts
<ul style="list-style-type: none"> • assistance for the Indigenous arts industry • funding for the Restart Investment to Sustain and Expand (RISE) fund to help stage events • Show Starter Loans Scheme and the Temporary Interruption Fund to assist with financing new events and productions • expansion of the Location Incentive to attract film and television productions to Australia
Construction
<ul style="list-style-type: none"> • HomeBuilder, which provided grants to owner-occupiers to build new dwellings or undertake substantial renovations
Other
<ul style="list-style-type: none"> • Business Events Grant program to help stage exhibitions, trade shows and other events • levy relief for fisheries and a seafood marketing campaign • support for agricultural show societies and field days that had to cancel events • relocation assistance and other incentives for people to undertake farm work • Busting Congestion for Agricultural Exporters package, which includes streamlining export processes and regulations • Modern Manufacturing Strategy, which includes grants for projects that align with identified National Manufacturing Priorities • Gas-fired recovery initiatives, which aim to increase gas supply and 'empower' consumers

In the October 2020-21 Budget — as part of the COVID-19 Response Package — an additional \$355.9 million was provided to the aviation industry, taking the total funding allocated to support the industry to \$2.7 billion. This support included:

- continuing the International Freight Assistance Mechanism until 30 June 2021
- extending the Domestic Aviation Network Support program until 31 January 2021
- extending the Regional Airline Network Support program until 28 March 2021 (Australian Government 2020a, pp. 126–127).

In December 2020, as part of the 2020-21 Mid-Year Economic and Fiscal Outlook, further support was provided to the aviation industry, including a partial waiver of air services charges until 31 March 2021, and an extension of the Domestic Aviation Network Support program until 28 March 2021. However, citing commercial sensitivities, no expenditure costings were provided for the extension of these programs (Australian Government 2020d, p. 169).

With total allocated funding in excess of \$2.7 billion, support for the aviation industry is substantial, although it is difficult to discern how these funds have been allocated across various initiatives. That said, the key packages of aviation assistance include the:

- *Australian Airline Financial Relief package.* This \$715 million package provided grant payments to eligible operators for expenses including fuel excise, air services charges and aviation security charges. As part of the package, \$66 million was allocated to the Regional Airports Screening Infrastructure program to assist with the additional costs of complying with enhanced security screening requirements. The package was initially scheduled to run from 1 April 2020 to 30 September 2020, but was subsequently extended until 31 December 2020 (DITRDC 2020).
- *Regional Airlines Funding Assistance package.* This \$100 million package was provided through the COVID-19 Relief and Recovery Fund (Australian Government 2020b), and gave grants to smaller regional air service providers to help manage cash flow and maintain services for regional and remote communities. Funding was given on a month-by-month basis to applicants with a successfully demonstrated need (DITRDC 2020).
- *Regional Airline Network Support program.* This program provided grants to airlines to cover shortfalls in operating costs on regional routes to allow airlines to maintain a basic level of connectivity to regional locations for freight, medical services and passengers (DITRDC 2020).
- *The Domestic Aviation Network Support program.* The objective of this program was to support aviation connectivity across capital cities and larger regional centres. The program provided subsidies to four domestic commercial airlines to operate flights along the top 50 domestic routes, determined by passenger volume (DITRDC 2020).
- *The International Freight Assistance Mechanism.* This measure was implemented to help maintain freight flights to and from Australia. It was established in April 2020 with an initial funding allocation of \$110 million (which was allocated as part of the COVID-19

Relief and Recovery Fund), with further funding allocated in July 2020 (\$241.9 million), October 2020 (\$317.1 million) and March 2021 (\$112.8 million) (Austrade 2021b). The Mechanism was introduced in response to major reductions in passenger flights during the pandemic (through which most air freight is usually transported), which resulted in plummeting freight capacity. One estimate suggested that, by April 2020, air freight capacity had declined by about 35 per cent, and that air freight prices increased by between 200 and 400 per cent (Industry Today 2020), while the peak industry body for the Australian vegetable and potato industry claimed that air freight prices were, at times, as much as seven times their pre-pandemic levels (Marshall 2020a).

In March 2021, the Australian Government announced a \$1.2 billion package of measures to support the aviation and tourism industries recover from the ongoing effects of the pandemic (Morrison et al. 2021b). This included an extension of some of the existing programs through to 30 September 2021, including the Domestic Aviation Network Support and Regional Aviation Network Support programs, the 50 per cent waiver of domestic air services charges, and the International Freight Assistance Mechanism. It also included some new measures, including:

- *The Tourism Aviation Network Support program*, which provides 50 per cent fare discounts (off the average fare) for domestic air travel to designated locations.¹⁰ Tickets must be booked between 1 April and 31 July 2021, with travel undertaken by 30 September 2021.
- *The Aviation Services Accreditation Support program*, which assists ground-handling companies with the costs of mandatory training, certification and accreditation to maintain their workforces.
- The \$200 million *International Aviation Support program*, which will provide funding to Qantas and Virgin Australia between April and October 2021 to help maintain a core international aviation capability.
- *The Domestic Airports Security Costs Support program*, which will provide funding for eligible domestic airports receiving regular public transport services to meet their domestic security screening costs.

In addition, the Australian Government also provided funding of \$550 million to Airservices Australia in 2020-21 for air navigation, air traffic control and aviation fire and rescue services, and \$24.8 million in 2021-22 to the Bureau of Meteorology to make up for costs not recovered through levies on domestic and international airlines. In the 2021-22 Budget, it was noted that these additional measures will bring ‘total Government support for the aviation sector during COVID-19 to \$4.5 billion’ (Australian Government 2021a, p. 70).

¹⁰ There were initially 13 locations, but Hobart and Townsville were subsequently added to the list.

Tourism

The Australian tourism sector has been affected by the cessation of inbound international tourism. For example, international holiday travellers were down 53 per cent in the year ending September 2020 (a decline of about 2 million people) (TRA 2021). This does not capture the full extent of the impact of COVID-19 because international border closures for non-residents only occurred in March 2020. In April 2020, there were only 21 600 international arrivals (of which 15 100 were by Australian citizens) into Australia, a decrease of almost 99 per cent compared with April 2019 (ABS 2021g). While domestic tourism may have offset some of this decline (particularly because Australians were unable to holiday overseas), this too has been disrupted and constrained by state and territory border closures and lockdowns.

The \$1 billion COVID-19 Relief and Recovery Fund has been the primary vehicle for assisting the tourism industry.

In September 2020, the Australian Government announced a regional tourism recovery package that included \$50 million in funding for a Regional Tourism Recovery initiative — targeted at regions heavily reliant on international tourism — and \$200 million for an additional round of funding under the existing Building Better Regions Fund (McCormack et al. 2020).

An additional \$50 million was provided under the Export Market Development Grants scheme for eligible applicants to be reimbursed for market promotion and export development activities relating to inbound tourism in the 2019-20 financial year, taking the total funding for the scheme to \$207.7 million in 2019-20 (Australian Government 2020b).

Other tourism-related measures announced as part of the Relief and Recovery Fund included:

- \$94.6 million allocated to exhibiting zoos and aquariums, to assist with ‘the fixed operational costs associated with the caring of their animals’ (Birmingham, McCormack and Ley 2020)
- \$61.7 million allocated to environment-related projects, including \$33.5 million for upgrades to national and world heritage sites, \$20 million for a reef builder shellfish restoration project and \$8.2 million for Great Barrier Reef projects (McCormack, Ley and Birmingham 2020)
- entry fee waivers (worth \$11.2 million) for Commonwealth national parks and a waiver of the Environmental Management Charge (worth \$8.1 million) for the Great Barrier Reef Marine Park (DITRDC 2021).

In December 2020, through the COVID-19 Consumer Travel Support Program, the Australian Government provided \$128 million for one-off assistance payments to travel agents and tour arrangement service providers of between \$1500 and \$100 000, depending on their turnover (Birmingham 2020).

As noted above, in March 2021, a new package of support measures for the aviation and tourism industries was announced (Morrison et al. 2021b). In addition to the new Tourism Aviation Network Support program, support for zoos and aquariums was extended for an additional six months through to September 2021, and a further \$130 million was allocated to extend the COVID-19 Consumer Travel Support Program (Austrade 2021a).

Education

The effects of border closures on international travel — and therefore international student arrivals — has adversely affected the education sector. In 2020, enrolments by international students on a student visa fell by 7 per cent from 2019, compared with average annual growth of 7 per cent over the preceding five years. Commencements also fell 22 per cent compared with 2019 levels (DESE 2021). However, the results in 2020 reflect that many international students had already commenced study before border closures took effect, with projections for 2021 suggesting much deeper impacts (Hurley 2021). As an illustration of the ongoing effects, in February 2021, only 200 international students arrived in Australia compared with 121 320 in February 2020 — a reduction of 99.8 per cent (ABS 2021f).

In April 2020, the Australian Government announced a Higher Education Relief Package to support the sector (Tehan and Cash 2020b). This package included:

- regulatory fee relief for higher education institutions by deferring new cost recovery arrangements for the Tertiary Education Quality and Standards Agency (TEQSA), the Australian Skills Quality Authority (ASQA) and the Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS) for 12 months (until 1 July 2021). Higher education institutions also received exemptions from loan fees for students receiving assistance through the Higher Education Loans Program (FEE-HELP) and VET Student Loans (VSL) for six months
- maintaining \$18 billion in government funding for universities during 2020 irrespective of any fall in domestic student numbers
- an initiative for higher education institutions to provide low-cost short courses.

The initial announcement indicated that these measures would increase the cash flow of Australian education and training businesses by \$100 million. In September 2020, further support was announced by the Australian Government. This support included waiving the Tuition Protection Levy for HELP and VSL (at a cost of \$6.3 million), and extending the loan fee exemption for HELP and VSL until 30 June 2021 (Tehan and Cash 2020a).

In June 2020, the Australian Government announced a Job-ready Graduates Package, which included increasing the number of university places and changing the fees students pay for different courses to incentivise more ‘job-relevant’ choices. The package also included \$900 million for grants allocated through a National Priorities and Linkage Fund, intended to incentivise universities to produce ‘job-ready’ graduates (Tehan and Cash 2020c). In July 2020, the Australian Government also changed the conditions of some visas to provide more

flexibility for international students studying at Australian universities (Tudge and Tehan 2020).

As part of the 2020-21 Budget, an additional \$1 billion in funding was announced to support university research (noting that tuition fees from international students had formerly been a major source of research funding). This funding commenced in January 2021, and is delivered through the existing Research Support Program, which provides block grants to higher education providers to support research costs that are not directly supported through other grant programs (DESE 2020).

In April 2021, ahead of the 2021-22 Budget, the Australian Government announced a \$53.6 million package of new measures targeted at international education providers most affected by COVID-19 border closures, including:

- \$26.1 million for 5000 extra short course places in 2021-22 to attract Australian students
- \$9.4 million for an innovation fund offering grants of up to \$150 000 to providers to expand offshore and online course delivery
- \$17.7 million to extend the relief on fees and charges from CRICOS, TEQSA and ASQA until 31 December 2021
- further FEE-HELP loan fee exemptions until 31 December 2021 (Tudge and Robert 2021).

Arts

During 2020, the Australian Government announced almost \$800 million in assistance to the arts sector in response to the COVID-19 pandemic (Office for the Arts 2021).

This assistance was provided through a number of initiatives, which have been funded through the COVID-19 Relief and Recovery fund, including:

- an additional \$7 million allocated to the existing Indigenous Visual Arts Industry Support program, which provided additional grants of up to \$85 000 for Indigenous Art Centres and up to \$70 000 for Art Fairs that had already received funding under the program
- a further \$10 million contribution to the existing Regional Arts Fund to provide support to organisations, artists and arts workers in regional and remote areas
- \$10 million for the charity ‘Support Act’ to deliver crisis relief services to artists, crew and music workers (Australian Government 2020b).

In June 2020, the Australian Government announced a \$250 million package of additional measures to support the arts sector (Morrison and Fletcher 2020a). This package included:

- \$75 million in grant funding through the Restart Investment to Sustain and Expand (RISE) fund, intended to ‘provide capital to help production and event businesses to put on new festivals, concerts, tours and events as social distancing restrictions ease’

-
- \$90 million in concessional loans through the Show Starter Loans Scheme (delivered as part of the Coronavirus SME Guarantee Scheme) to fund new productions and events. These loans are provided through eligible lenders, but are backed by a 100 per cent Commonwealth guarantee
 - \$50 million for a Temporary Interruption Fund, administered by Screen Australia, to support local film and television producers to secure finance
 - \$35 million in direct financial assistance to support significant Commonwealth-funded arts and cultural organisations.

In July 2020, the Australian Government also announced a \$400 million increase to the existing Location Incentive in order to help attract film and television productions to Australia. The incentive was also extended until 2026-27 (Morrison and Fletcher 2020b).

Additional support for the arts sector was allocated in 2021 in the lead up to the 2021-22 Budget, with the total additional support totalling \$222.9 million in 2020-21 and 2021-22. Measures included:

- an additional \$125.6 million through the RISE fund
- \$50.8 million to extend the Temporary Interruption Fund
- \$20 million to establish a Supporting Cinemas' Retention Endurance and Enhancement of Neighbourhoods program to assist independent cinemas
- \$11.4 million to support tourism in regional areas, including additional funding for the Regional Arts Fund, Festivals Australia program and the Indigenous Visual Arts Industry Support program
- a further \$10 million for the Support Act charity to support workers in the arts sector
- \$5 million for the Playing Australia program to support performing arts touring (Australian Government 2021a, pp. 148–149).

Construction

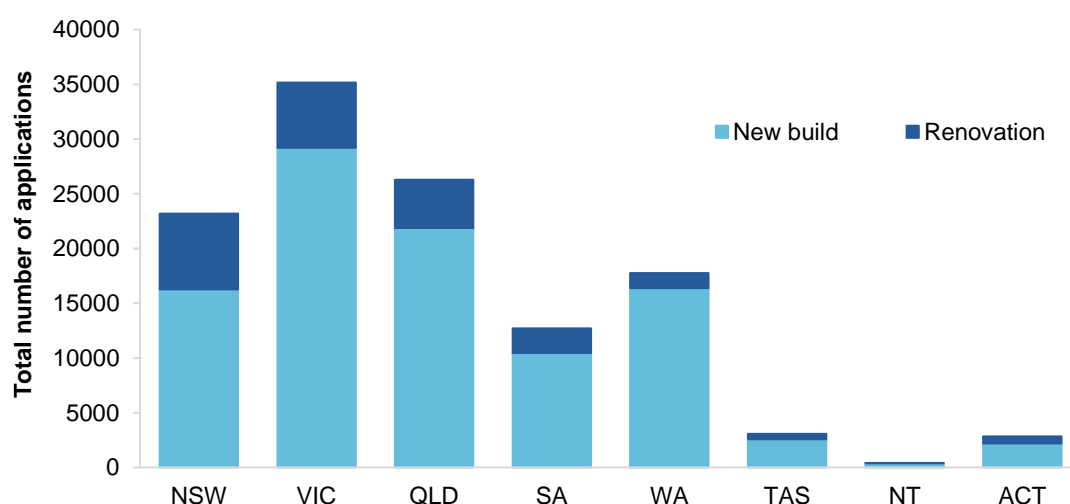
The HomeBuilder scheme was introduced to support residential construction activity and employment in June 2020 (Morrison, Frydenberg and Sukkar 2020a). The scheme provided a time-limited, tax-free grant of \$25 000 to owner-occupiers to build a new dwelling (such as a house or apartment) or to substantially renovate an existing one, subject to eligibility caps on the value of the dwelling and applicant income. At the time of the announcement, the program was expected to provide about 27 000 grants (although there were no caps on the number of recipients) and cost \$680 million.

In November 2020, the scheme was extended from its initial end date of 31 December 2020 to 31 March 2021 (Morrison, Frydenberg and Sukkar 2020b). Changes to the scheme were also announced, including extensions to the timeframes for applications to be submitted and for construction to commence after contracts were signed. For contracts signed in the

additional three month period, the value of the grant was reduced from \$25 000 to \$15 000, and the price cap for the value of new builds was increased from the existing \$750 000 to \$950 000 and \$850 000 for New South Wales and Victoria respectively (but not for other jurisdictions).

As at 20 November 2020, there were 23 877 applications for the grant, comprising 19 180 applications for new builds and 4697 applications for renovations (The Treasury 2020b). By 9 April 2021, total applications had increased to 121 363, comprising 99 253 applications for new builds and 22 110 applications for renovations (The Treasury 2021b). Applications under the scheme were quite varied across jurisdictions — reflecting varying housing market conditions across locations, and, potentially, the effects of the eligibility criteria of the scheme — with relatively higher uptake in jurisdictions such as Queensland, South Australia, Western Australia and Tasmania (figure 2.2).

Figure 2.2 HomeBuilder take up varied across states and territories
Total number of HomeBuilder applications, as at 9 April 2021



^a Preliminary application data — applications may not have been assessed for eligibility and application processes may differ across states and territories.

Source: The Treasury (2021b).

Following the end of the scheme, in April 2021, the Australian Government announced an extension of the timeframe for construction to commence from the date of signing the building contract from 6 months to 18 months for all existing applications. This extension was in response to ‘COVID-19 related supply constraints’ and to ensure applicants do not miss out on the grant due to circumstances outside their control. At the time of this latest announcement, the HomeBuilder program was expected to cost \$2.5 billion (Frydenberg and Sukkar 2021).

As part of the October 2020-21 Budget, the Australian Government also announced an extension to the existing First Home Loan Deposit Scheme, providing an additional 10 000 places during 2020-21 for eligible first home buyers to purchase or build a new dwelling. The scheme allows participants to borrow from a participating lender with as little as a 5 per cent deposit without having to pay lenders mortgage insurance (which is usually required where deposits are less than 20 per cent) with the Australian Government — through the National Housing Finance and Investment Corporation — guaranteeing up to 15 per cent of the property value (NHFIC 2021).

In May 2021, as part of the 2021-22 Budget, the Australian Government extended the First Home Loan Deposit Scheme for new homes, announcing 10 000 guarantees for 2021-22. It also announced a new Family Home Guarantee program aimed at single parents with dependants. Under this scheme, eligible participants will be able to purchase a dwelling with as little as a 2 per cent deposit, with 10 000 guarantees to be made available over four years. It also increased the maximum amount of contributions that can be released under the First Home Super Saver Scheme from \$30 000 to \$50 000 (Frydenberg, Sukkar and Hume 2021).

Other industry assistance measures

Various other industry assistance measures have also been introduced in response to the pandemic. Many of these have been established as part of the COVID-19 Relief and Recovery Fund, which, in addition to those already discussed above, have included:

- \$10.3 million in levy relief for Commonwealth fisheries
- \$4.8 million to provide free financial counselling for small regional businesses, delivered through the existing 12 Rural Financial Counselling Service providers
- \$4 million to Seafood Industry Australia for a national ‘Eat Seafood Australia’ campaign to encourage Australians to eat local seafood
- \$39 million in support to agricultural show societies and field day organisers that had to cancel their events in 2020
- \$10 million in funding to the forestry sector in New South Wales and Victoria to assist with the effects of both the COVID-19 pandemic and bushfires
- \$7.8 million in support for the oil recycling sector, by temporarily increasing the benefit paid to oil recyclers under the Product Stewardship Oil Scheme for ‘category one’ oil from 50 to 62 cents per litre from 1 July 2020 to 31 December 2020
- \$50 million for a Business Events Grants program to support businesses to participate at pre-approved events, exhibitions and trade shows (DITRDC 2021). In March 2021, this program was extended for a further three months through to 30 June 2021, as part of a package of additional aviation and tourism assistance (Morrison et al. 2021a).

Other initiatives have also included:

- a \$328 million ‘Busting Congestion for Agricultural Exporters’ package, which includes funding for streamlining and digitising export processes and regulations (Littleproud 2020)
- \$17.4 million in relocation assistance and \$16.3 million in other incentives for young people to take on farm work through temporary changes to the eligibility criteria of Youth Allowance and ABSTUDY (Littleproud 2020). Further changes were announced in May 2021 to the newly named AgMove program, including reducing the eligibility period to qualify for relocation assistance to two weeks (Robert and Littleproud 2021)
- \$2.1 million in fee waivers for about 9000 Commonwealth-registered marriage celebrants (Porter 2020).

... or expanding or developing new industries

Some measures have not so much focused on sustaining existing activity and employment, as aiding economic recovery through the development and expansion of particular industries. Examples include the Modern Manufacturing Strategy, and measures associated with a ‘gas-fired recovery’.

The Modern Manufacturing Strategy

In September 2019, before the COVID-19 pandemic, the Australian Government announced a new Manufacturing Modernisation Fund (MMF) that included \$50 million of grant funding to small and medium manufacturing businesses to invest in new equipment and technologies. Two types of grants were available: \$20 million in matched grants of between \$50 000 and \$100 000, funded on a one-to-one basis; and \$30 million in grants up to \$1 million, funding up to 25 per cent of eligible project expenditure (Andrews 2019).

As part of the 2020-21 Budget and the JobMaker Plan, the Australian Government announced a \$1.5 billion Modern Manufacturing Strategy. The main element of this Strategy is a \$1.3 billion Modern Manufacturing Initiative, which will support projects within six National Manufacturing Priorities — resources technology and critical minerals processing; food and beverage; medical products; recycling and clean energy; defence; and space — which ‘reflect Australia’s established competitive advantages or emerging areas of priority’ (Morrison and Andrews 2020). The strategy also included \$52.8 million for a second round of grants through the MMF, and \$107.2 million for a Supply Chain Resilience Initiative that (from 1 July 2021) will provide businesses with funding to strengthen their supply chains (DISER 2020a).

On 4 December 2020, round two of the MMF was announced as part of the Modern Manufacturing Strategy, with \$52.8 million available for grants of between \$100 000 and \$1 million (Andrews 2020). The grants fund up to 25 per cent of project expenditure, but are limited to projects that align with the six identified National Manufacturing Priorities.

During February and March 2021, road maps for each of the six priority areas — which were developed in consultation with industry — were released that ‘set out plans for both industry and government to strengthen Australia’s manufacturing capability’ (DISER 2021a).

To date, funding under the Strategy has been allocated to two streams.

- The Translation Stream, which provides grants in each of the six priority areas for businesses to translate research into new or improved products or processes.
- The Integration Stream, which provides grants in each of the six priority areas for businesses to integrate their products or services into ‘domestic and international value chains’.

For both streams, grants are between \$1 million and \$20 million, and cover up to 50 per cent of eligible project expenditure (Australian Government 2021c, 2021b).

A gas-fired recovery

As part of the JobMaker Plan, the Australian Government announced initiatives to increase gas supply, increase and reform gas transport networks and ‘empower’ gas consumers.¹¹ The estimated cost of the initiatives is \$52.9 million over four years from 2020-21, comprising:

- \$28.3 million to establish five Strategic Basin Plans to accelerate gas development
- \$13.7 million for the Commonwealth Scientific and Industrial Research Organisation’s (CSIRO’s) Gas Industry Social and Environmental Research Alliance
- \$10.9 million to implement a sequenced plan to ‘reset the East Coast gas market’, including developing a National Gas Infrastructure Plan, establishing Wallumbilla as the Australian Gas Hub and reforming pipeline regulation (Australian Government 2020a, p. 116).

In the 2021-22 Budget, the Australian government allocated a further \$58.6 million over four years to projects aimed at advancing the gas-fired recovery, of which \$38.7 million was directed towards support for ‘critical gas infrastructure projects’ (Australian Government 2021a, p. 135). Funding of up to \$600 million was also announced to build a new gas power plant in the Hunter Valley, as well as \$24.9 million in funding to help new gas generators become ‘hydrogen-ready’ and \$30 million to support Australian Industrial Power to undertake early works on its proposed Port Kembla power station (Taylor 2021).

¹¹ These initiatives come on top of earlier government actions on the Australian gas market (Canavan, Frydenberg and Taylor 2019). This included examining the options for a prospective national gas reservation scheme, which is currently under consideration following consultation in late 2020 (DISER 2020b).

States and territories also introduced various assistance measures in response to COVID-19

State and Territory governments also introduced various assistance measures for businesses in response to the COVID-19 pandemic, although the magnitude of these measures is typically much smaller than those of the Australian Government. A common approach has been various voucher-type schemes for tourism and hospitality businesses (box 2.1).

Box 2.1 **State and territory voucher schemes for tourism and hospitality**

Most State and Territory governments introduced some form of voucher scheme to encourage people to spend money on tourism, hospitality, or other specified services.

- New South Wales — the Dine & Discover NSW scheme allowed NSW residents to apply for four \$25 vouchers to use at eligible NSW hospitality and entertainment venues (Service NSW 2021a).
- Victoria — the Regional Travel Voucher Scheme provided successful applicants who spent at least \$400 on accommodation, tours and attractions in regional Victoria with reimbursement of \$200 on presentation of receipts (Victorian Government 2021).
- South Australia — the \$4 million Great State voucher scheme provided vouchers to South Australian residents for use on accommodation, which provided discounts at participating accommodation providers of \$100 in the Adelaide central business district or \$50 elsewhere in the state (Marshall 2020c). A second round of the scheme (costed at more than \$2 million) extended eligibility to include interstate visitors (Marshall 2020b).
- Tasmania — the \$7.5 million Make Yourself at Home scheme allowed Tasmanian residents to apply for a \$100 accommodation and a \$50 experience voucher (with slightly different arrangements for couples and families). Voucher recipients needed to pay upfront and then claim back the value of the vouchers using receipts from eligible accommodation or activities (Gutwein 2020).
- Northern Territory — the Territory Tourism Voucher scheme allowed residents to apply for a voucher of up to \$200, paid on a dollar-for-dollar basis, for use on bookings through Northern Territory visitor information centres. For the second and third rounds of the scheme, an additional \$200 reimbursement was available for bookings more than 400 km from the claimant's permanent residence (Northern Territory Government 2021b).
- ACT — a \$500 000 initial trial of the ChooseCBR initiative allowed both ACT residents and visitors to apply for digital discount vouchers (worth up to \$40 per day) that could be redeemed at eligible participating businesses. To be eligible to participate, businesses needed to be in specified industries (including retail, hospitality and tourism), have a physical shopfront in the ACT, turnover under \$10 million per year, and have received JobKeeper payments (Barr and Cheyne 2020).

Other state and territory assistance measures included waiving various fees, payroll tax relief and grant programs. For example:

- the NSW Government implemented 12 month waivers or discounts on various fees including for liquor licences, tattoo parlours, and various trade licences, such as building

and motor vehicle repairs. It also made changes to payroll tax, including increasing the tax-free threshold from \$900 000 to \$1 million in total annual Australian wages paid, and deferring the payment of some payroll tax liabilities (Service NSW 2021b). Grants of up to \$5000 were also announced for small businesses adversely affected by lockdowns imposed on parts of the Northern Beaches in December 2020 (Perrottet and Tudehope 2021)

- the Victorian Government provided a \$534 million Business Support Package in March 2020, a \$3 billion Business Resilience Package in September 2020, a \$143 million Circuit Breaker Action Business Support Package in February 2021, and another \$250 million Circuit Breaker Business Support Package in May 2021, which was extended by a further \$210 million in early June 2021 following an extension of the latest COVID-19 lockdown in Victoria. These packages provided various grants for eligible businesses (some specific to certain industries, such as hospitality), small business initiatives, and waivers and deferrals of payroll tax and other fees and levies (Business Victoria 2021)
- the Queensland Government provided payroll tax relief, as well as rebates and waivers for some fees. It also offered some grant programs, including a Small Business COVID-19 Adaptation Grant and a COVID-19 International Tourism Adaptation Grant, both of which offered grants to eligible businesses of up to \$10 000 (Business Queensland 2021)
- the South Australian Government implemented Small Business Grants of \$10 000 for small businesses and not-for-profit organisations employing staff and receiving JobKeeper. The second round of the scheme included grants of \$3000 to eligible non-employing businesses. Payroll tax relief was also provided by the South Australian Government, including waivers for the period April-December 2020 for eligible employers with annual wages below \$4 million, and the option for eligible employers with annual wages above \$4 million to defer their payroll tax liabilities (Government of South Australia 2021)
- the Western Australian Government focused its assistance on small and medium sized businesses, including waivers of various fees, payroll tax relief and grants for small businesses with payroll of between \$1 million and \$4 million. It has also provided industry-specific assistance for the tourism, arts, mining and construction industries, including a \$444 million housing stimulus package (Government of Western Australia 2020)
- the Tasmanian Government implemented assistance measures including business vehicle registration relief, grants of up to \$10 000 for the arts sector, and a \$60 million concessional Business Growth Loan Scheme (Business Tasmania 2021).
- the Northern Territory Government assisted business recovery primarily through programs aimed at small businesses (with co-contribution requirements). It also implemented a Business Hardship Package, which provided payroll tax relief and concessions on utility bills, rents and rates for eligible businesses that experienced at least

a 30 per cent reduction in turnover due to COVID-19 (Northern Territory Government 2021a)

- the ACT Government waived some fees (such as for taxis and rideshare vehicles), froze a range of other fees and charges, allowed payroll tax and rates on commercial properties to be deferred, and provided rebates on some utility bills (ACT Government 2021).

2.2 Other recent industry assistance

There have been other notable initiatives over the past year that have not been implemented directly in response to the COVID-19 pandemic. These include disaster recovery assistance and support for Australia's waste and recycling industries.

Disaster recovery assistance

Australian governments have provided considerable disaster recovery assistance over the previous year, primarily in response to the 2019-20 bushfires.

The \$2 billion National Bushfire Recovery Fund was the key Australian Government initiative (Australian Government 2020c, p. 15). While much of this assistance was targeted towards individuals, local governments and environmental programs, it also included:

- grants of up to \$75 000 for primary producers and \$50 000 for small businesses affected by fires
- \$76 million for a tourism recovery package.

This assistance was in addition to existing natural disaster assistance arrangements.

State governments also provided assistance to aid bushfire recovery. For example, the New South Wales Government introduced a \$140 million Bushfire Industry Recovery Package aimed at specific industries (including forestry, horticulture, dairy and selected agricultural industries) affected by bushfires (Berejiklian and Barilaro 2020).

The Australian Government also allocated funding for further assistance in response to widespread drought and flooding in north Queensland including:

- \$50 million in 2020-21 to extend the On-farm Emergency Water Infrastructure Rebate Scheme for 2020-21
- \$19.6 million in 2021-22 to extend the drought function of the National Drought and North Queensland Flood Response and Recovery Agency for a further year to continue coordination and community engagement for the Australian Government's response and recovery activities
- \$86 million over four years from 2020-21, through the Future Drought Fund, to establish eight Drought Resilience and Adoption Hubs (Littleproud 2020).

In response to flooding in March 2021, the SME Recovery Loan Scheme was also made available to businesses with turnover of up to \$250 million located in eligible local government areas (Morrison et al. 2021a).

Waste and recycling industries

In March 2020, Australian governments agreed to ban the export of various forms of unprocessed waste, including plastic, paper, glass and tyres, culminating in the passing of the *Recycling and Waste Reduction Act 2020* (Cwlth). The export bans will come into effect in stages, beginning with glass in 2021 and finishing with paper and cardboard in 2024 (DAWE 2021b).

The Australian Government subsequently announced two measures to ‘transform’ the waste and recycling industries.

- A Recycling Modernisation Fund — with funding of \$190 million over four years — to develop new recycling infrastructure, which is expected to lead to ‘over \$600 million of recycling investment’. This will be provided to states and territories through a National Partnership Agreement, and is contingent on co-funding from states and territories as well as industry (DAWE 2021a)
- A National Waste Policy Action Plan — with funding of \$59.6 million — that includes commitments to improve the collection of national waste data (Ley and Evans 2020).

2.3 Some observations on recent industry assistance developments

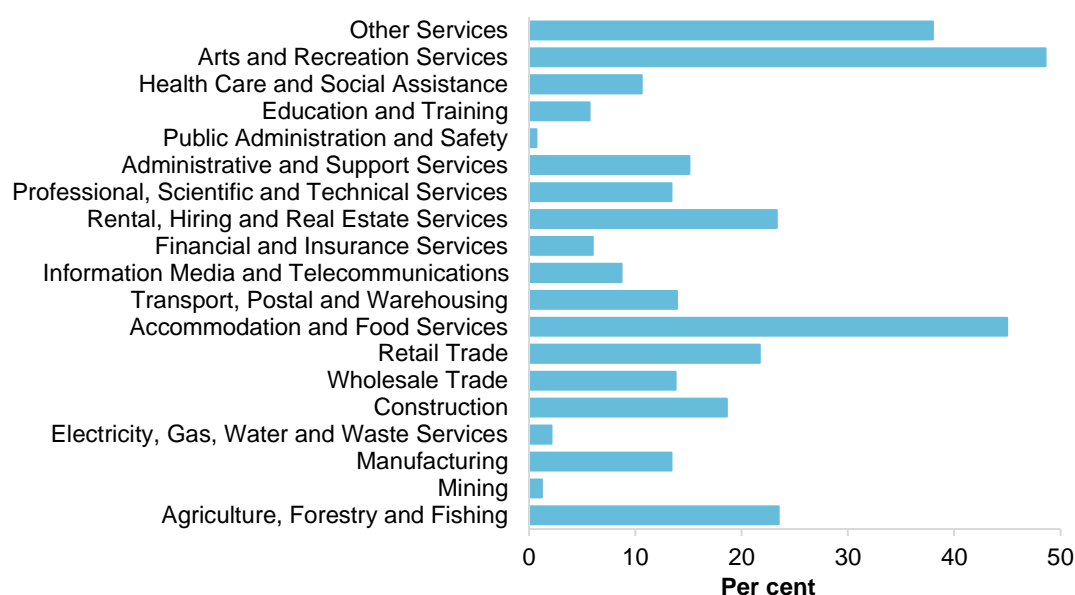
The circumstances of 2020 have precipitated unprecedented government assistance to support business and employment. Much of this assistance has been directed at individuals, lower tiers of government and non-market sector participants, as well as increased spending on government services, such as health.

But substantial amounts of assistance have also been allocated directly to businesses. Much of this has not been industry-specific, but generally available to businesses that meet the applicable eligibility criteria — JobKeeper being the most prominent example. These broadly available assistance measures have been administered primarily through the tax system, which has allowed assistance to be provided either automatically or off the back of existing processes. While the design of such measures has been industry neutral — in that nearly all businesses have had access to these measures — in practice, businesses in some industries have relied on them far more than others because of the differential impacts of the pandemic. This is demonstrated by the marked variations in the relative contribution of JobKeeper payments to the total compensation of employees across industries (figure 2.3).

There have also been some significant measures targeting particular industries, such as measures for the aviation, tourism, education and construction industries (as outlined above).

Figure 2.3 JobKeeper payments went disproportionately to some industries

Share of total compensation (per cent), June quarter, 2020^a



^a The values are the value of JobKeeper as a share of total compensation of employees.

Source: ABS (2020a).

Much of the government assistance has been warranted ...

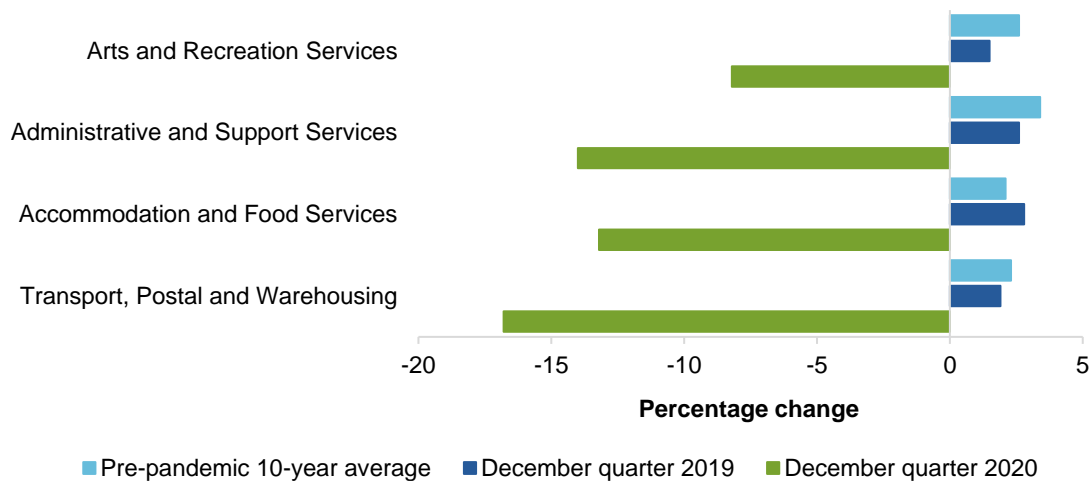
Overall, many of the measures introduced in 2020 have been temporary and emergency-focused responses to the COVID-19 pandemic rather than measures intended to prop up otherwise unviable industries or businesses.

The effects of the pandemic — and the public health measures to contain it — have led to major and unforeseeable disruptions for businesses across many parts of the economy. The provision of widely-available assistance has undoubtedly prevented job losses and the closure of many otherwise viable businesses. As a result, many of these measures have likely promoted efficient resource allocation by avoiding the closure of inherently efficient businesses and by keeping employees and business owners with industry and firm-specific skills tied to their firms. Analysis by the RBA, for example, has found that over the first four months of JobKeeper, one in five recipient employees would likely not have kept their job without the program, and therefore the program reduced total employment losses by at least 700 000 (Bishop and Day 2020, p. 28).

While most industries suffered some impact, a feature of the pandemic has been that its economic effects have been particularly felt in certain industries (such as those with a business model reliant on open borders). There have been no peace-time historical precedents, for example, for the decline in output experienced by businesses that provide international student services, tourism services and air transport (figure 2.4). These sector-specific impacts point to *well-targeted* industry assistance measures being a valuable adjunct to broader measures — such as monetary policy and broad wage subsidies like JobKeeper — to help businesses overcome the immediate impact of the pandemic.

Figure 2.4 An incredible shock for some industries

Percentage change in gross value added for selected industries, seasonally adjusted, chain volume measures



Source: ABS (2021e).

... but there are some risks

However, providing emergency assistance still entails risks. Broad substantive assistance measures can result in substantial payments to recipients that, while a proportionate response in the short-term, may work against efficiency in the longer run if retained for too long.

The longer assistance is provided, the greater its overall cost to taxpayers. But more subtly, the longer assistance is provided, the greater the likelihood that it props up less efficient (or ultimately unviable) firms while providing windfall rents to profitable businesses. As the Treasury noted in its Three-month Review of JobKeeper:

... JobKeeper has a number of features that create adverse incentives which may become more pronounced over time as the economy recovers. It distorts wage relativities between lower and higher paid jobs, it dampens incentives to work, it hampers labour mobility and the reallocation

of workers to more productive roles, and it keeps businesses afloat that would not be viable without ongoing support. (The Treasury 2020d, p. 7)

In a normal economic environment, firm exits and entries are an important mechanism for reallocating resources to higher-valued activities and for enabling the survival of the most efficient businesses. Each year, hundreds of thousands of businesses exit and enter as part of this adjustment process without major disruption to the economy — in 2018-19 (*before* the pandemic) approximately 293 000 businesses exited the Australian economy and 356 000 new businesses entered (ABS 2021c, table 13a). So the art of managing the post-pandemic recovery is to assess when the benefits of maintaining the viability of efficient firms is outweighed by the costs of propping up inefficient businesses that may preclude the entry of other businesses. In industries where the costs of entry and exit are relatively low — for example, due to low fixed costs and limited firm-specific skills — that time would be earlier than in other industries.

In some instances of industry-specific assistance, the case for special treatment is less clear and appears tantamount to traditional industry assistance. These either aim to slow adjustment or are premised on a view that government has a better idea about the desirable allocation of resources than private parties acting on commercial incentives.

There may be instances where markets do not work adequately. For example, private incentives for research and development investment may be adversely affected by the asymmetric tax treatment of risky investments and by the incapacity of an innovator to capture a sufficient share of the spillovers that it bequeaths other businesses. However, traditional industry policy faces several major quandaries. Even if there are deficits in markets, designing interventions that are successful in overcoming them is pragmatically difficult (as has been evident in the evolving arrangements to support research and development). Moreover, the assumption that government has superior information on good commercial prospects is a strong one, and risks distorting the allocation of resources across the economy. This particularly applies to assistance measures intended to promote growth in particular regions or industries. Some of the initiatives under the JobMaker plan in particular appear to fall into this category — for example, the Modern Manufacturing Strategy offers grants only to businesses that undertake projects that match predetermined ‘national manufacturing priorities’.

Government assistance in response to natural disasters — most notably bushfires — has also been significant over the past year. While these events can have dramatic adverse consequences on those affected, the provision of government assistance for disaster recovery can distort business investment decisions (including by encouraging under-insurance, affecting choices about where to build and reducing the imperative for disaster mitigation), as the Commission has previously noted (PC 2014a, 2020b).

Industry-specific assistance to support existing sectors also risks being overgenerous and providing unnecessary windfall gains to recipients, which can make these programs expensive and poor value for taxpayers. Further, where budgets are constrained, these

programs operate at the expense of other initiatives that could provide greater community-wide benefits.

HomeBuilder — a case study on the challenges of sector-specific programs

The Australian Government introduced the Homebuilder program to ‘drive economic activity across the residential construction sector’, with the Government indicating that the program would help to support 140 000 direct jobs in (and another 1 million jobs related to) the residential construction sector. The program was introduced in the wake of concerns that residential construction would be severely affected by the COVID-19 pandemic. For example, the RBA, in its May 2020 *Statement on Monetary Policy*, commented that:

The deterioration in established housing market conditions is expected to prolong the decline in dwelling investment. Dwelling investment is expected to be significantly lower over most of the forecast period than forecast in the previous Statement. The trough in construction activity is now projected to occur in early 2021, half a year later than previously expected. The near-term downgrade to activity incorporates information from liaison citing significantly weaker demand for new dwellings. (RBA 2020a, pp. 90–91)

This anticipated significant decline, however, did not happen. While there was a small dip in dwelling approvals in May and June 2020, by September, monthly approvals were higher than what they were in the year leading up to the pandemic (figure 2.5). For houses, no noticeable decline in approvals took place across 2020, and in the last few months of the year, approvals were well above what they were in 2019.¹²

HomeBuilder has undoubtedly had a stimulatory effect and contributed to the increase in construction approvals. However, even without the program, it is likely that demand for residential construction services would not have been as badly affected by the pandemic as demand for some other services (such as aviation, tourism, recreation and hospitality services), where business models were crippled by public health measures, such as lockdowns and border closures. While job losses, near zero immigration and uncertainty associated with the pandemic would likely have reduced demand for residential building, other factors — such as record low interest rates, measures to increase access to credit,¹³ high household savings rates and reduced expenditure in other areas (such as holidays) — would likely have worked in the opposite direction. An examination of changes in the total number of hours worked by industry indicates that the impact of the pandemic on construction employment (as a whole, not just residential construction) has not been as severe as on other industries (figure 2.6).

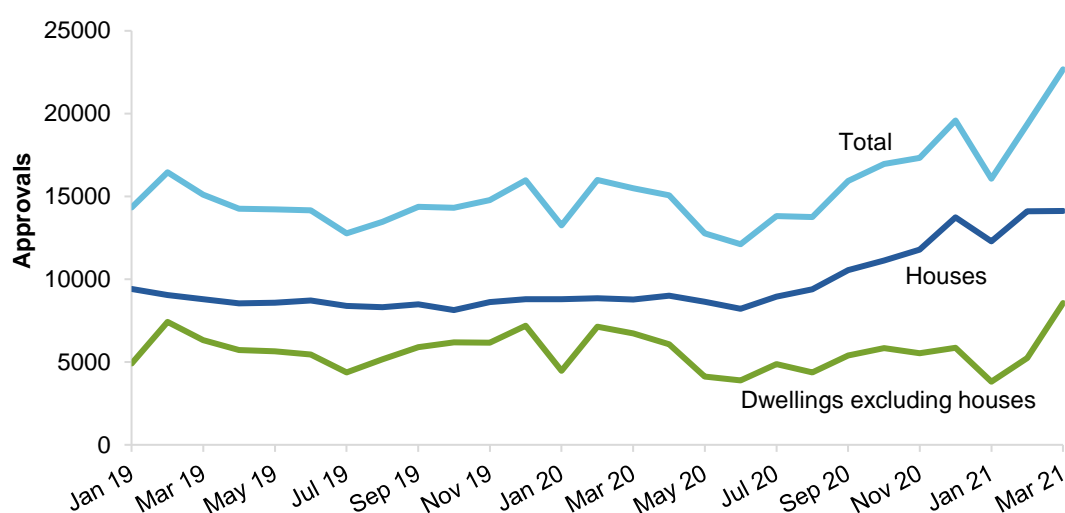
Similarly, quarterly construction data on the number of dwelling units commenced shows that, while dwelling construction during the pandemic was substantially lower than it was

¹² A similar pattern was also evident for approvals of alterations and additions to private residences (ABS 2021b, Datacube table 1).

¹³ Such as through the extension of the First Home Loan Deposit Scheme.

between 2015 and 2018, commencements were broadly on par with the average over the past 20 years (figure 2.7).

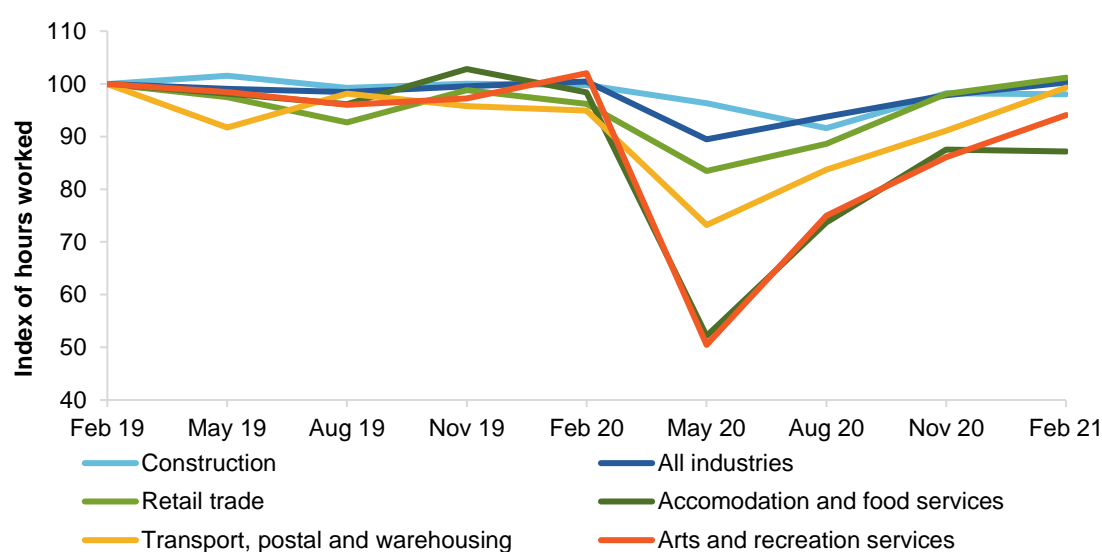
Figure 2.5 Dwelling approvals have remained strong
Number of monthly dwelling unit approvals, private sector, seasonally adjusted



Source: ABS (*Building Approvals, Australia, March 2021*, Cat. No. 8731.0, table 11).

Figure 2.6 Hours worked in construction declined less than other industries

Index of hours worked (February quarter 2019 = 100)^a

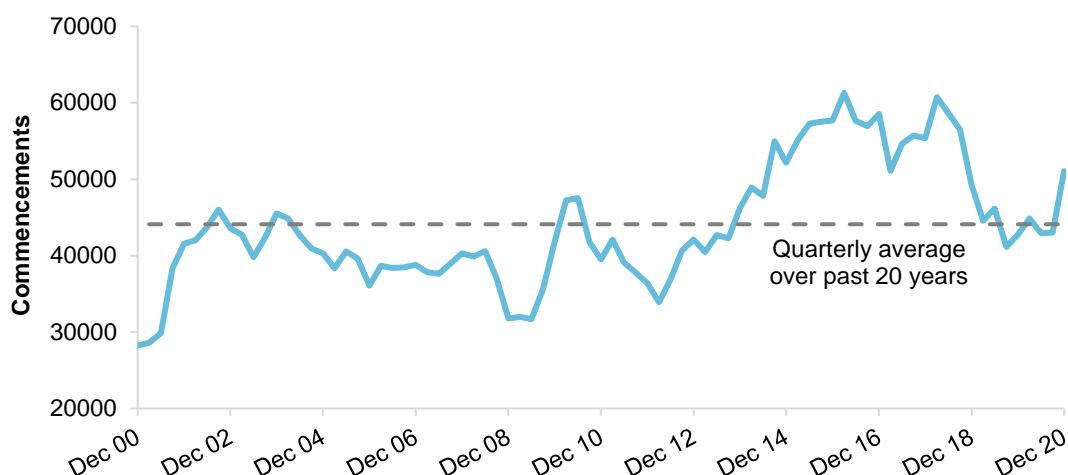


^a Total number of hours actually worked in all jobs, by industry division of main job.

Source: ABS (*Labour Force, Australia, Detailed, February 2021*, Cat. No. 6291.0.55.001, table 11).

Figure 2.7 **Recent changes in construction activity not unprecedented**

Number of dwelling units commenced per quarter, seasonally adjusted



Source: ABS (*Building Activity, Australia, December 2020*, Cat. No. 8752.0, table 33).

The decision to extend HomeBuilder in November 2020 came at a time when dwelling approvals were well above pre-pandemic levels and hours worked in construction were back to pre-pandemic levels, suggesting that the imperative for assistance to avoid a significant decline in construction activity may have passed. Nevertheless, the deadline for applications was extended, and more funding was made available, increasing the program's already significant cost.

The assistance provided through HomeBuilder risks generating some adverse impacts — the magnitude of which may become more apparent in time. Questions and concerns about HomeBuilder include the following.

- *Uncertainty about additionality* — while HomeBuilder undoubtedly had a stimulatory effect on construction activity, the overall size of this effect cannot be discerned, given the array of factors influencing demand for construction. Further, under HomeBuilder, some payments would have gone to people who intended to renovate or build a new home regardless of the subsidy. For others, it may have just brought forward their decision to build or renovate, reducing demand in the future. This may ultimately induce a substantial downturn in activity after the backlog associated with HomeBuilder clears, with a commensurate deferred dislocation in employment that the program was intended to avoid in the first place.¹⁴

¹⁴ Smoothing out the HomeBuilder construction pipeline was one of the reasons given for extending the construction commencement timeframe following the end of the program in April 2021 (Frydenberg and Sukkar 2021).

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- *Potential efficiency effects* — By stimulating increased demand in the short-term, HomeBuilder appeared to place pressure on construction costs.¹⁵ The resultant increase in activity in the residential construction industry — especially given that there has not been a substantial downturn in construction activity post-pandemic — may also be drawing resources from other parts of the economy, including other types of construction. The design of the program may also influence consumers' choices about what type of projects to pursue.¹⁶
 - *Questions about equity* — the HomeBuilder program has resulted in substantial assistance to the construction industry (and eligible consumers), which raises a number of equity concerns. For example, consumers wishing to build who are not eligible for HomeBuilder would be made worse off by the program, to the extent that they face higher prices and increased competition in securing building services.

Finally, while HomeBuilder was introduced to assist the construction industry through the immediate effects of the pandemic, the often long time frames involved in planning, approval and construction mean that the program may have much longer-term effects. For example, HomeBuilder has likely contributed to many builders now having 'full books' for some time. The RBA now expects detached building activity to peak in mid-2021:

Almost all detached home builders in the Bank's liaison program report that their construction pipelines are 'full' well into 2021, with activity expected to peak in the middle of 2021; extensions to deadlines for construction commencement for government grants has helped to extend the order book for builders. (RBA 2021, p. 27)

This means that any distortions generated by the HomeBuilder program have the potential to remain well after the program itself winds down.

Other risks of industry assistance

Even where emergency assistance measures — delivered either through the tax system or other mechanisms such as grants — to assist with recovery from external shocks (whether that is the COVID-19 pandemic, bushfires or other major disruptions) have merit, program design is important. Some of the design risks from, and concerns about, assistance measures reported during the past year include:

- *Fraud and eligibility for assistance.* Assistance can be prone to misappropriation through fraudulent applications, which is a particular risk where there are substantial amounts of money involved and/or where application processes and eligibility criteria are relatively lax. Instances of fraud have been reported in the case of bushfire and COVID-19 funding (for example: ABC 2020; Thomas 2021). The ATO also needed to investigate a

¹⁵ According to CoreLogic (2021), housing construction costs rose by 1 per cent over the three months to December 2020.

¹⁶ For example, if someone wanted to build a new house on vacant land, the house and land would have to be worth less than \$750 000 to qualify, but if they went with a knock-down rebuild, the existing house and land could be worth up to \$1.5 million with \$750 000 then spent on building a replacement house.

significant number of JobKeeper applications before payment to ensure eligibility (ATO2021b). In addition, the design of eligibility criteria means that the JobKeeper program has resulted in substantial payments to businesses that have remained profitable during the pandemic (Powell 2021).¹⁷ These examples illustrate the need for balance between avoiding overly complex program design and burdensome application verification processes (as discussed below), and ensuring the effectiveness and integrity of assistance measures.

- *Inequitable treatment.* There are often equity issues about access to assistance. Eligibility criteria based on geographical boundaries, enterprise type, or even income and asset thresholds can be arbitrary. For instance, the HomeBuilder program has led to transfers to homeowners, who are — on average — a relatively well-off group compared to non-homeowners. Also, concerns were raised about recent bushfire recovery grants, including complaints that funding opportunities for bushfire affected dairy producers were not available to similarly affected neighbouring beef producers (Calver 2020) and that there was significant differences in the allocation of funding across bushfire affected areas on the basis of their location (Raper 2021).
- *Burdensome application processes.* The application process for grants can increase the administration and compliance burdens and reduce the timeliness with which assistance can be delivered, which is often critical for emergency assistance. While there is a requirement for appropriate application processes to mitigate fraud, the processes can undermine the intent of the grants when complex and expensive grant application processes either dissuade applicants or fuel the diversion of resources from recovery purposes and create a professional grant writing industry, as some recent concerns suggest (Jupp 2020; Roe 2020).

¹⁷ Some organisations that received JobKeeper payments have chosen to make voluntary repayments. The ATO (2021a) provided advice on the tax consequences of voluntary repayments and the criteria to ensure voluntary repayments are tax deductible.

3 Trade policy developments

Key points

- Since early 2020, the global economy has experienced severe disruption as a result of the COVID-19 pandemic, with significant impacts on international trade.
 - The value of Australia's goods exports fell by 7.4 per cent in 2020 compared with 2019, although exports climbed above pre-COVID levels in the early months of 2021. The annual value of goods imports fell by about 6 per cent in 2020.
 - The value of Australia's services exports fell by 30 per cent in 2020 compared with 2019, while services imports fell by nearly half. Exports and imports of travel-related services were particularly disrupted by the pandemic.
- During 2020, China imposed trade measures on several Australian goods exports. Some exports, notably commodities such as barley and coal, have found other markets, but possibly at lower prices. For other exports, such as wine, finding new markets has proved more difficult.
 - In December 2020, Australia lodged a dispute with the World Trade Organization (WTO) against China's anti-dumping measures on Australian barley.
- The WTO's highest dispute body remains incapacitated and there are calls for reform to the dispute resolution process.
- During 2020 and the first half of 2021, there was little progress on multilateral trade agreements where Australia is a negotiating party, such as the Trade in Services Agreement and the Environmental Goods Agreement.
- More progress was made with multilateral regional and bilateral agreements, with:
 - the signing of the Regional Comprehensive Economic Partnership in November 2020 by 15 countries, including all ASEAN members, China, Japan, South Korea, Australia and New Zealand. Ratification is expected in 2021
 - Australia and the United Kingdom reaching a 'Free Trade Agreement in Principle' in June 2021
 - the Indonesia–Australia Comprehensive Economic Partnership Agreement and the Pacific Agreement on Closer Economic Relations (PACER) Plus Agreement entering into force.
- Six anti-dumping actions were initiated by Australia in 2020. The total number of anti-dumping measures in force was unchanged, but at 72, remains well above the global median.

This chapter reports on trade policy developments since the *2018-19 Trade and Assistance Review* (published in April 2020). It covers:

- the impact of the COVID-19 pandemic on Australia's trading environment (section 3.1)
- China's imposition of trade barriers on a range of Australian exports (section 3.2)

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- developments in multilateral and plurilateral trade agreements, including the ongoing incapacity of the World Trade Organization (WTO) to rule on trade disputes (section 3.3)
 - developments in bilateral and regional trade agreements, including the signing of the Regional Comprehensive Economic Partnership (RCEP) by 15 countries, including Australia (section 3.4)
 - developments related to anti-dumping, including the operation of Australia's anti-dumping regime and a dispute lodged with the WTO concerning anti-dumping measures placed on Australian barley by China (sections 3.5 and 3.6).

3.1 How the COVID-19 pandemic has affected Australia's trading environment

The global economy experienced severe disruption from early 2020, with significant impacts on international trade. In response to the pandemic, countries implemented a range of public health measures, mostly designed to restrict the movement of people, including border closures, travel restrictions, lockdowns and social distancing requirements.

Many countries also introduced temporary and emergency trade measures to address shortages in health equipment and other essential goods and to make supply chains more resilient. For example, Australia imposed both trade-restricting and trade-facilitating measures in response to shortages of items important to the public health response (such as surgical masks, gloves, medicines and disinfectants).

The measures imposed in response to the pandemic affected both the global demand for, and production of, goods and services and disrupted the supply chains that underpin global trade. The WTO estimated that world merchandise trade declined by 5.3 per cent in 2020, but expected trade to rebound by 8 per cent in 2021 (WTO 2021k).

As an open economy, Australia unsurprisingly was not immune, experiencing an overall decline in trade with especially severe impacts on trade in services. The pandemic also contributed to a renewed focus on potential vulnerabilities in Australia's supply chains.

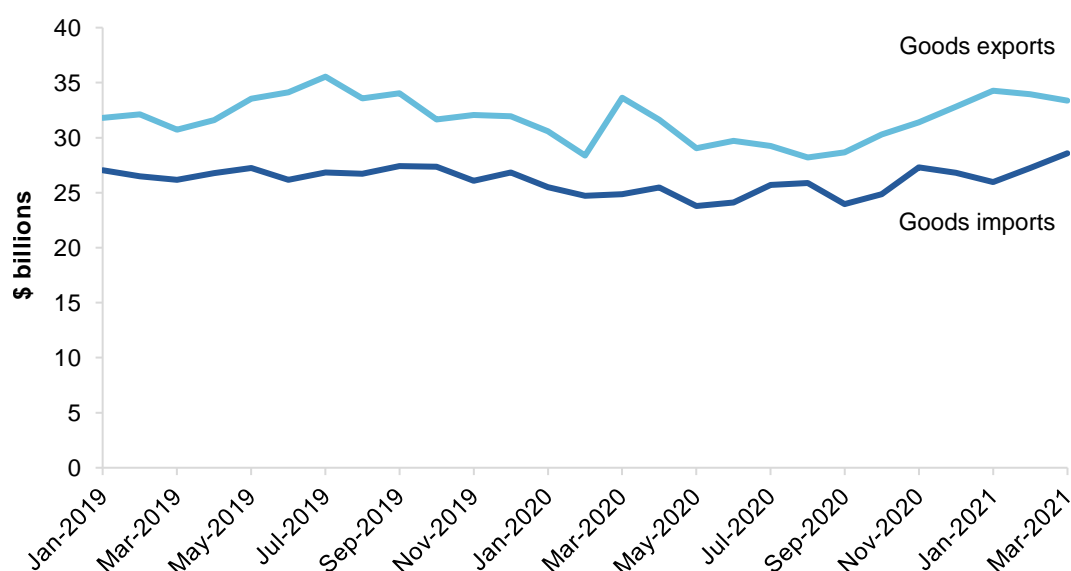
Goods trade declined but is recovering

The COVID-19 pandemic had a dampening effect on Australia's trade in goods (figure 3.1).

The value of Australia's goods exports in 2020 was about 7.4 per cent lower than in 2019. At its lowest point between May and September 2020, the value of goods exported was about 18 per cent below the equivalent months in 2019. There have been some signs of recovery since — between October and December 2020 the value of goods exports increased by over 3 per cent each month and, in March 2021, the value of goods exports was higher than in any of the three months leading up to the pandemic.

Figure 3.1 The decline in goods imports and exports during the pandemic was relatively small ...

Value of Australian imports and exports, seasonally adjusted



Source: ABS (*International Trade in Goods and Services, Australia, March 2021*, Cat. no. 5368, tables 5 and 6).

The decline in the value of exports over 2020 was experienced by most, but not all, sectors. Export sectors that experienced a relatively large decline included coal and other mineral fuels, wool, and transport equipment. In contrast, exports from some sectors increased despite the pandemic. For example, the value of metal ore and mineral exports increased by 14 per cent in 2020 compared with 2019, which is significant given that these products make up about 40 per cent of the value of Australia's total goods exports. This increase was driven partly by higher prices for iron ore.

The value of goods imports fell by 5.7 per cent in 2020 compared with 2019. This decline was mostly driven by a fall in the value of imports of capital and intermediate goods. However, there were also modest increases in the value of imports of some consumption goods, such as household electrical items and textiles, clothing and footwear (ABS 2020b). This can be partly attributed to changes in consumer behaviour triggered by the pandemic — for example, strong demand for laptops to support an increased need for home-based work and schooling.

Trade in services was far more severely affected

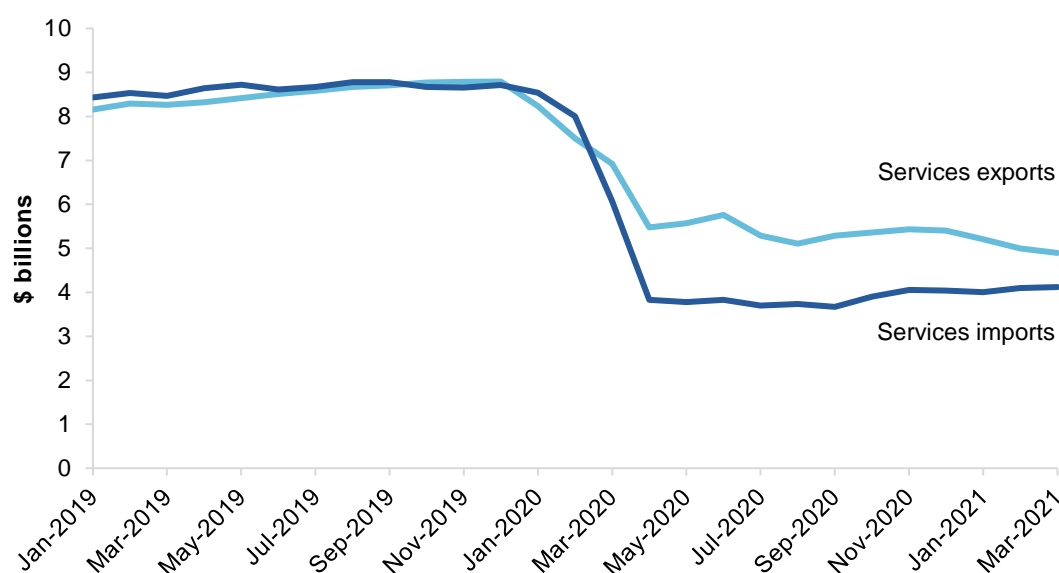
The COVID-19 pandemic has severely disrupted Australia's services trade. The value of Australia's services exports fell by 30 per cent in 2020 compared with 2019. Services exports

declined significantly between January and July 2020 but unlike goods exports, have not yet recovered (figure 3.2).

For services imports, the effects of the COVID-19 pandemic have been even more pronounced. The value of services imported by Australia fell by about 45 per cent in 2020 compared with 2019. The decline in services imports was pronounced between February and April 2020, when border restrictions and other public health measures took effect in Australia.

Figure 3.2 ... while imports and exports of services plummeted

Value of Australian imports and exports, seasonally adjusted



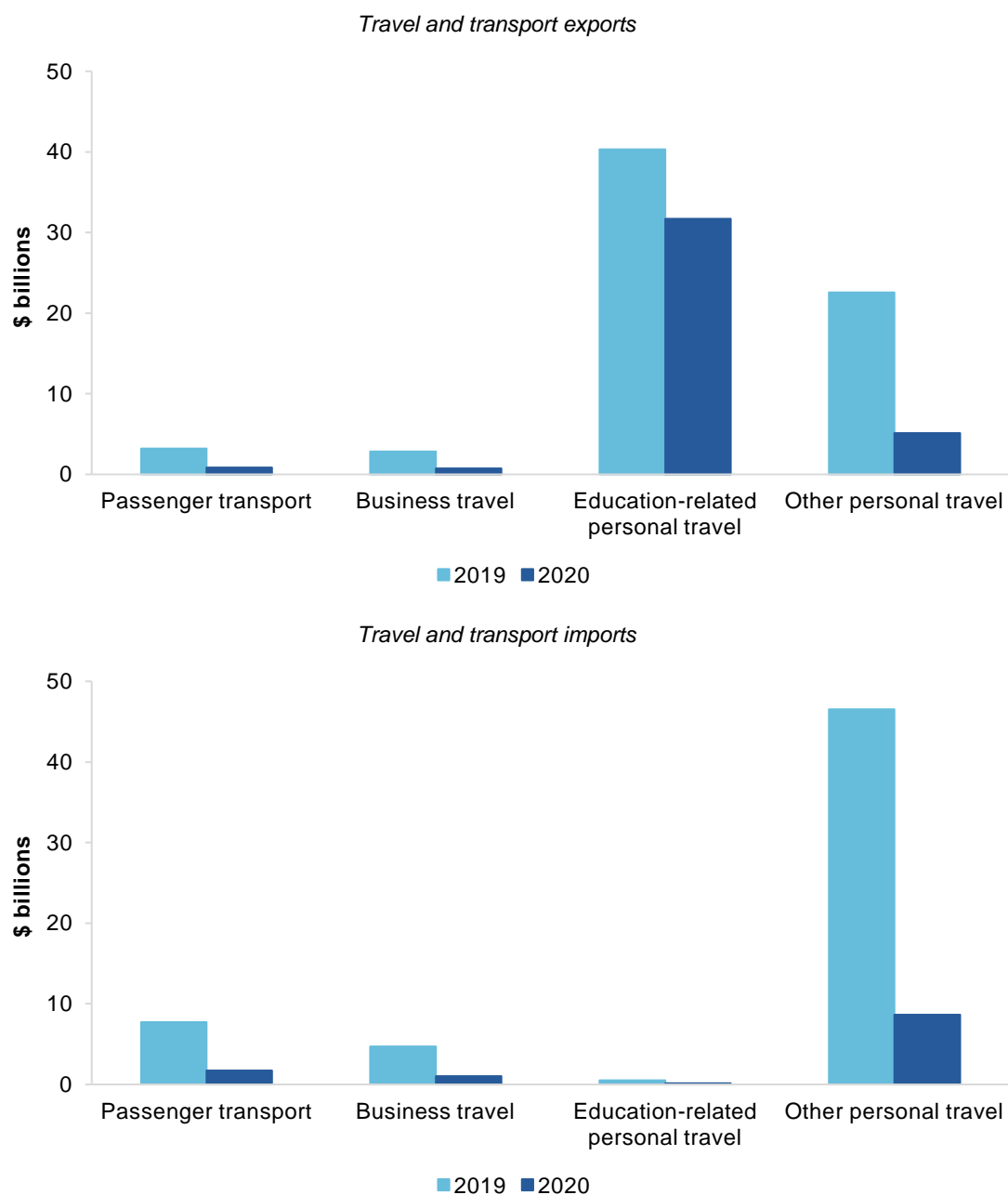
Source: ABS (*International Trade in Goods and Services, Australia, March 2021* Cat. no. 5368, table 10).

The biggest driver of the decline in services trade was declines in travel and transport (figure 3.3). The value of inbound travel services (exports) was 43 per cent lower in 2020 compared with 2019, which included falls of:

- 74 per cent in business travel
- 21 per cent in education-related personal travel
- 77 per cent in personal travel for reasons other than education.

Figure 3.3 Travel and transport exports and imports fell dramatically in 2020

Value of Australian imports and exports, original



Source: ABS (*International Trade in Goods and Services, Australia, March 2021*, Cat. No. 5368.0, tables 11a and 11b).

The value of inbound passenger transport services, which includes agency fees and commissions for air transport, was 73 per cent lower in 2020 compared with 2019.

These falls have had particularly severe impacts on businesses relying on international travel, such as international education providers (primarily universities), travel agents, airlines and tourism operators. These impacts have prompted some of the assistance measures examined in chapter 2 of this report.

The value of outbound travel services (imports) also fell significantly — by 81 per cent in 2020 compared with 2019 — with personal travel experiencing the largest decline.

Australia's supply chains have proved resilient

Disruptions to global supply chains during the pandemic have prompted concerns about the resilience of Australia's supply chains, especially the risk that essential goods and services in Australia may be reliant on imports.

In February 2021, the Australian Government asked the Commission to undertake a study into Australia's resilience to global supply chain disruptions. The Commission's interim report noted that Australia's supply chains proved generally resilient in response to the pandemic. More broadly, by examining import data, the Commission found that vulnerable imports were a small share of the goods used in essential industries, which is suggestive but not conclusive evidence that vulnerable imports may not be critical to the production of essential goods and services (PC 2021). Moreover, most essential industries, as defined for the purposes of the study, were services, with their primary inputs being locally produced services, rather than either locally-sourced or imported goods. This suggests that the supply of essential goods and services may not be highly susceptible to short-term disruptions to the supply of imported goods. The Commission's final report will be published in July 2021, and will include analysis of disruptions to supply chains that can affect Australia's exports.

3.2 China imposed significant trade barriers on some Australian exports

In 2020 and early 2021, China imposed a raft of trade measures on a range of Australian goods exports (table 3.1). The reasons cited to justify these measures vary but include alleged dumping by Australian businesses and concerns about pest contamination in Australian products. In some cases, the reasons for the measures have not been made explicit, although it has been speculated that they are a symptom of a wider deterioration in the diplomatic relationship between China and Australia. For example, the Lowy Institute recently described the measures as 'a fairly overt attempt at economic coercion' (Rajah 2021).

The Chinese Government has also placed pressure on Australia's inbound travel services (exports of education and tourism). It has warned Chinese tourists and students about travelling to and studying in Australia, claiming instances of anti-Chinese personal attacks, asserting that Australian universities provide low-quality education (Hevesi 2021) and highlighting the risks of international travel during the COVID-19 pandemic (Lin and Xu 2021).

Table 3.1 Disruptions to Australian exports to China

<i>Date</i>	<i>Australian export</i>	<i>Nature of measure</i>
May 2020	Barley	Tariffs of 73.6 per cent and 6.9 per cent, citing anti-dumping and anti-subsidy measures respectively. These measures were instituted after an 18-month investigation by China, and are expected to be in place for five years
May 2020	Beef	An import ban on some Australian abattoirs, citing labelling and health certificate requirements
September 2020	Wheat	Increased inspection measures on shipments arriving from Australia
October 2020	Cotton	An order to Chinese cotton mills to stop buying Australian cotton
November 2020	Wine	A tariff of 107–212 per cent, citing anti-dumping measures. In March 2021, China announced that anti-dumping measures would be in place for five years
November 2020	Lobsters	Increased inspection measures, which includes checks for minerals and metals, on shipments arriving from Australia
November 2020	Timber	A ban on timber from some Australian states, claiming pests had been detected
November 2020	Coal	A ban on imports from Australia after claims some coal failed to meet China's environmental standards
February 2021	Coral trout	Australia's largest live fish exporter did not have its licence renewed in China, and therefore lost access to Chinese markets

Sources: Bagshaw (2020); Bagshaw and Gray (2020); Conifer (2020); Dalzell, Snape and De Landgraft (2020); Khadem (2020); McKillop (2021); Mercer and Prendergast (2020); Packham (2020); Reuters (2020); Sullivan (2020, 2021a); Sullivan and Gunders (2020).

In November 2020, there were also unconfirmed reports of directives from Chinese authorities to target other commodities, such as copper and sugar. However, there was no information about the nature of any measures on these products at the time of writing.

In May 2021, the Chinese Government announced that it would temporarily suspend activities agreed under the China–Australia Strategic Economic Dialogue. The Dialogue has been a forum for investment and trade talks between China and Australia since 2014, although it has not met since 2017.

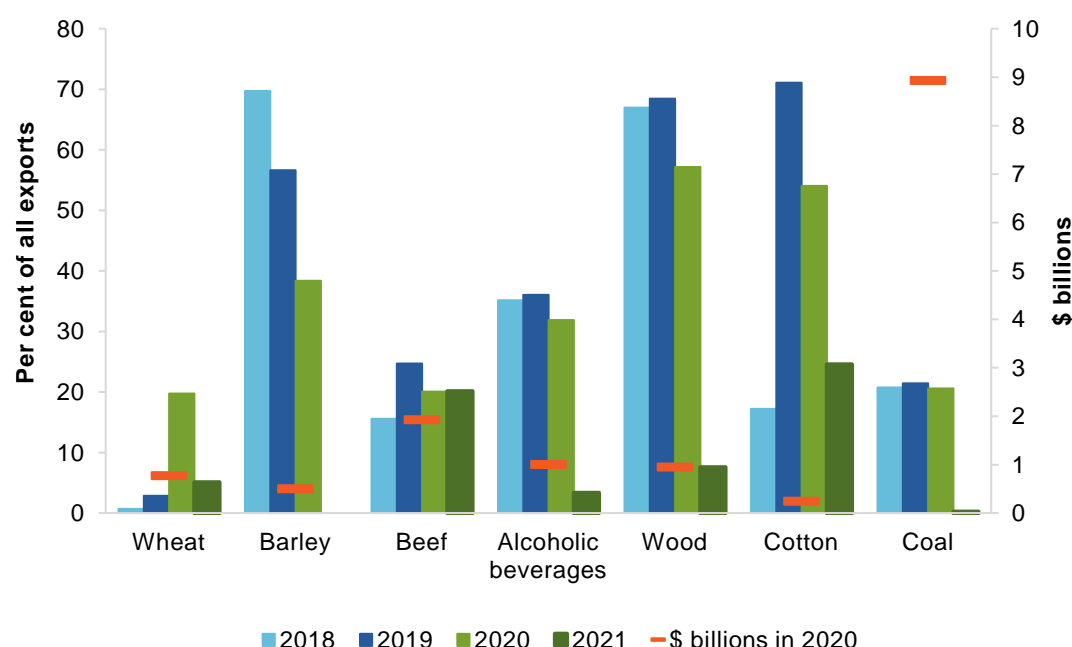
The Australian Government has criticised these trade barriers and their stated justifications (Bagshaw 2021; Hurst 2020). In December 2020, Australia initiated a formal complaint against China's anti-dumping duties on Australian barley in the WTO (discussed below).

The impact of these measures on affected industries will depend on how reliant they are on the Chinese market, how easily they can access alternative markets, and the prices they receive in these markets.

For many of the affected products, China has been an important — if sometimes fluctuating — market (figure 3.4). In recent years, China has been — by far — Australia's largest export market for barley, wood and cotton (from 2018 to 2020 over half of Australia's exports of these products were to China). China has also been Australia's largest export market for alcoholic beverages (with about 30 per cent of exports going to China) and Australia's second and third largest export market for coal and beef respectively (with about 20 per cent of exports of both coal and beef going to China). On the other hand, China has been a relatively small export market for Australian wheat. Data for the first quarter of 2021 show that, for many of these products, the proportion of exports that went to China has fallen dramatically.

Figure 3.4 China is a major export market for many of the affected industries^a

Exports to China, by product



^a Data for 2018 are for July to December. Data for 2021 are for January to March.

Source: Commission estimates, based on DFAT 'Australia's Merchandise Exports and Imports', March 2021.

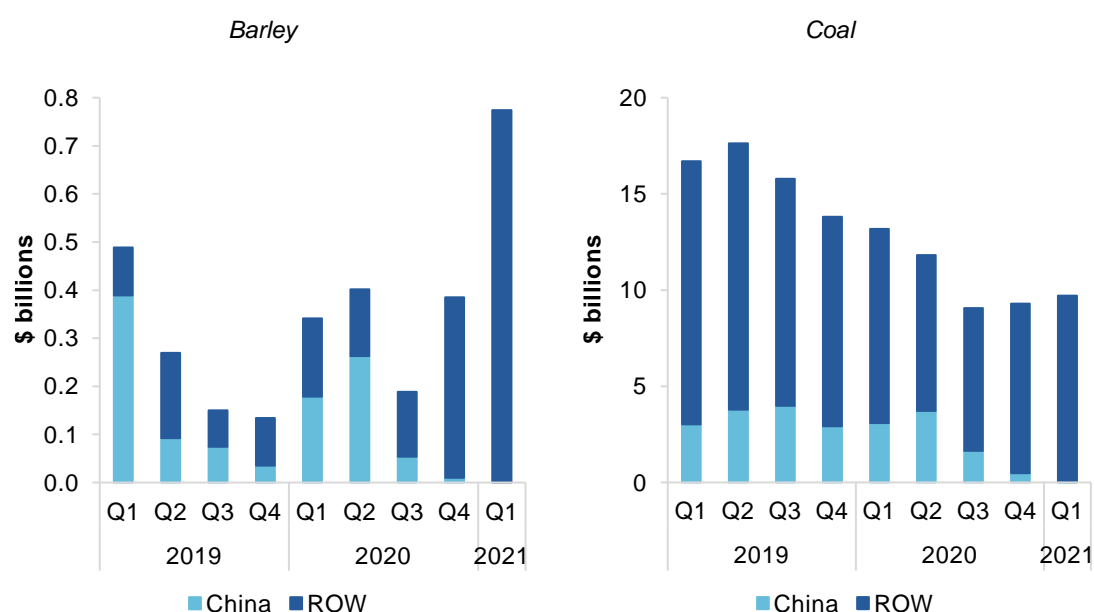
For commodities traded globally, increased demand from China for non-Australian imports will likely create opportunities in other markets for Australian exporters, as other countries divert exports to China. Some products affected by China's trade barriers have already been able to find new markets (albeit sometimes at reduced prices) that may partially offset reduced demand from China. For example:

- exports of barley (for feed) increased to the Middle East (namely Saudi Arabia) and Asia, and a trial is underway selling premium malting barley to Mexico (Heard 2021; Sullivan 2021b)
- Australian coal found new customers in Japan, India, Pakistan and the Middle East (Foreign Affairs, Defence and Trade Legislation Committee 2021, p. 161; Millington 2021).

For these products, this sudden and significant shift away from China can be seen in quarterly export data (figure 3.5). However, finding new markets is likely to prove more challenging for more differentiated, and hence less substitutable, products such as wine.

Figure 3.5 Other markets have been found for barley and coal^a

Value of exports, by destination, by quarter



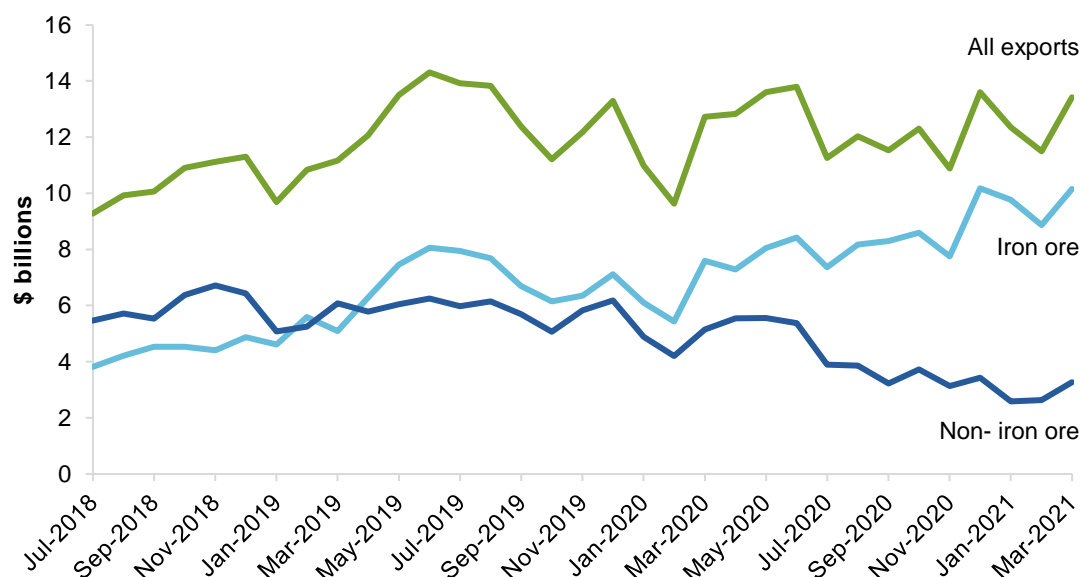
^a ROW = rest of world.

Source: Commission estimates, based on DFAT 'Australia's Merchandise Exports and Imports', March 2021.

One product that has not been subject to any trade measures from China is iron ore. The value of iron ore exports to China grew significantly in 2020 — enough to offset a decline in exports of other goods (figure 3.6). This growth has come off the back of high iron ore prices as the result of disruptions to supply from other countries — predominately Brazil — although prices are forecast to fall (DISER 2021b).

Figure 3.6 Growing iron ore exports offset declines in other goods exports to China

Value of goods exports to China, by month



Source: Commission estimates, based on DFAT 'Australia's Merchandise Exports and Imports', March 2021.

3.3 Developments in multilateral and plurilateral agreements

The rules-based trading system that operates through multilateral and plurilateral agreements at the WTO has been under unprecedented strain in recent years (PC 2020b). Little change has occurred over the previous 12 months to temper this. Of particular note:

- the WTO's highest dispute body, the Appellate Body, remains incapacitated
- negotiations for new multilateral trade agreements continue to be stalled.

However, there is potential for significant changes to the global multilateral trading environment in the near future. A change of administration in the United States — one of the two largest trading economies in the world — could ease these strains and/or reinvigorate efforts to negotiate new multilateral agreements. And in February 2021, the WTO appointed a new Director-General — Dr Ngozi Okonjo-Iweala — who has called on WTO members to 'do things differently' (WTO 2021d).

The WTO's highest dispute body remains incapacitated and calls for reform grow

One of the WTO's primary functions is resolving trade disputes between member countries. The WTO's dispute resolution process involves multiple stages.

- The first stage requires disputing parties to consult with each other to see if they can resolve the dispute among themselves.
- If a resolution is not found after consultation, the WTO's Dispute Settlement Body (DSB), in effect the General Council of the WTO, can appoint an expert panel to consider a case. The panel reports on the case and the report is adopted by the DSB (and becomes binding) unless it decides by consensus not to adopt the report, or a disputing party appeals it.
- If a disputing party appeals an expert panel's report, the appeal is decided by three members of a permanent seven-member Appellate Body. The Appellate Body reports on the dispute and this report is adopted by the DSB (and becomes binding) unless it decides by consensus not to adopt the report (something that has never happened). The Appellate Body is therefore effectively the WTO's highest dispute resolution body (WTO 2021j, 2021c, 2021h).

While consultation on disputes continues and expert panels are still being appointed, the WTO's Appellate Body is defunct. Since December 2019, the Body has not had the required quorum of three members to hear appeals, and all seven member positions are now vacant after the term of the final incumbent member expired in November 2020. If a WTO member elects to appeal the findings of an expert panel, there is no official body to hear the appeal (Schneider-Petsinger 2020, p. 13; WTO 2021b).

The Appellate Body's impotence is the result of the United States blocking appointments of judges to the Body since 2017. The United States has argued that the Body has overreached its mandate, including by:

- reviewing the facts that an expert panel has found in a dispute, rather than just reviewing legal matters
- treating the Body's previous reports as precedent
- reaching decisions that go beyond the text of WTO agreements, thereby adding to US obligations or diminishing US rights (Schneider-Petsinger 2020, pp. 13, 16).

In response to the effective shutdown of the WTO's Appellate Body, 23 WTO members — including the European Union, China and Australia — have established a temporary dispute settlement body called the Multi-Party Interim Appeal Arbitration Arrangement (MPIA) (European Commission 2020b; Schneider-Petsinger 2020, p. 20). The MPIA follows the WTO's arbitration rules and replicates both the substantive and procedural aspects of the Appellate Body (Schneider-Petsinger 2020, p. 20). Nevertheless, the MPIA has been explicitly described as 'a stop gap measure', and will only operate until the Appellate Body becomes functional (European Commission 2020a).

In addition to its criticism of the Appellate Body, the United States has also expressed concerns about — and proposed reforms to — other aspects of the WTO’s operation, including:

- transparency and notification obligations, which require countries to share information on their trade measures through the WTO. The United States has called for reforms to these obligations because of low compliance by many member countries, particularly in relation to notifying subsidy measures
- the ability of countries to self-define as a ‘developing country’, thereby allowing them to access ‘special and differential treatment’ under the WTO rules. This status can include more favourable terms and extra time to fulfil commitments (Schneider-Petsinger 2020, pp. 31–34).

Notably, it is not just the United States calling for the WTO to be reformed. Reform agendas have also been proposed by the European Union and Canada, among others (European Commission 2018; Government of Canada 2018). Dispute resolution system reform is included on these agendas, which also include reforms to the WTO’s monitoring function and trade rules.

The case for reform has been recognised within the WTO itself, with Deputy Director-General Alan Wolff recently commenting that ‘the WTO must not continue as it is’ and that ‘maintaining the status quo ... can only lead to further disaffection.’ He also stated that, if the WTO did not fully engage on emerging matters such as environmental issues and digital commerce, the institution would ‘move deep into the shadows of irrelevance.’ (WTO 2020a). Similarly, the new Director-General of the WTO — Dr Ngozi Okonjo-Iweala — has called on WTO members to ‘do things differently’ and has flagged the need for a ‘roadmap’ to reform the Dispute Settlement System and to ‘sharpen’ the WTO’s approach to special and differential treatment, among other reforms (WTO 2021d). However, reform of the WTO (as with any multilateral institution) is unlikely to be straightforward, given the challenges associated with managing multiple and possibly divergent views on reform objectives, priorities and actions.

There has been little progress on the Trade in Services Agreement ...

The Trade in Services Agreement (TiSA) is a services-only trade agreement being negotiated by 23 WTO members (representing 50 economies) who collectively account for about 70 per cent of global services trade. Australia, the European Union and the United States are leading negotiations (DFAT 2021i). TiSA aspires to build upon the General Agreement on Trade in Services while also incorporating elements from free trade agreements. Negotiations began in 2013 but no negotiation rounds have been held since December 2016 nor are any future rounds scheduled (DFAT 2021i). There is, however, no formal deadline by which negotiations must be concluded. The election of a new administration in the United States may help negotiations to recommence.

... or the Environmental Goods Agreement

The Environmental Goods Agreement (EGA) is being negotiated by 18 WTO members (representing 46 economies). The EGA is intended to eliminate tariffs on a range of important environment-related products, including products that contribute to clean and renewable energy generation, improve resource and energy efficiency, and manage pollution and waste (WTO 2021f). Australia chairs the EGA negotiations (DFAT 2021f).

Formal negotiations for the EGA have been on hold since 2016, and there are no future negotiation rounds scheduled. The Department of Foreign Affairs and Trade (DFAT) has stated that ‘a range of interested Members continue to examine issues and consider options for an eventual return to negotiations’ (DFAT 2021f).

3.4 Developments in bilateral and regional agreements

Over the past year, there have been significant developments on bilateral and regional trade agreements — namely the signing of the RCEP and an ‘Agreement in Principle’ between Australia and the United Kingdom. That said, there has been little to no progress on several other bilateral and regional agreements being negotiated by Australia.

The Regional Comprehensive Economic Partnership has been signed

The RCEP was signed in November 2020 by 15 countries, including all ASEAN members, China, Japan, South Korea, Australia and New Zealand, with ratification expected in 2021. India — which was involved in negotiating the RCEP — has elected not to sign the Agreement, although RCEP members have signalled their openness to India joining in the future (DFAT 2021h).

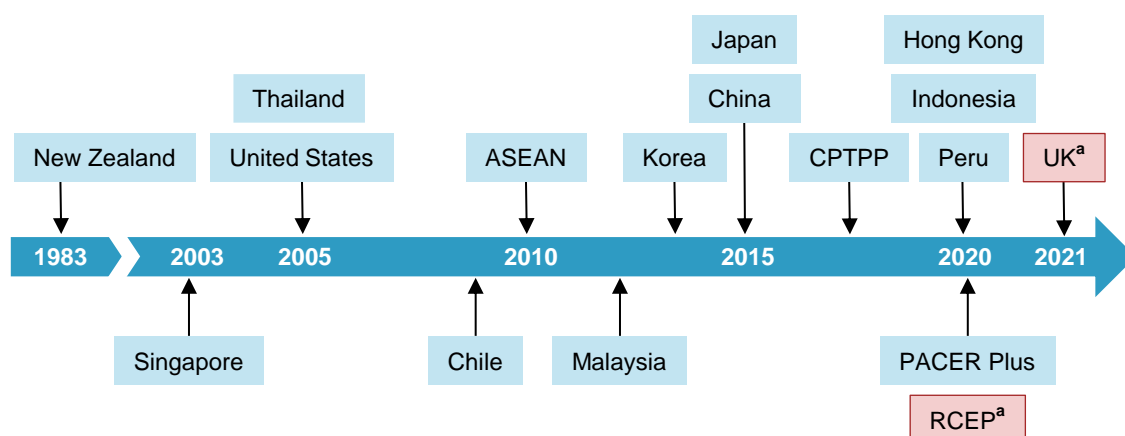
With India’s absence, the RCEP is not expected to open significant new goods markets for Australian importers or exporters, given that Australia already has a free trade agreement with all RCEP signatories. Rather, the Australian Government has indicated it expects the RCEP to yield benefits in other areas, including by simplifying rules of origin, addressing non-tariff barriers, establishing intellectual property and e-commerce rules, and facilitating trade in services (DFAT 2020d).

Agreements being negotiated or in force

Australia has signed 17 bilateral and regional trade preference agreements. Of these agreements, 15 are in force, one (the RCEP) is proceeding through the ratification process, and one (the Australia-UK Agreement) is an ‘Agreement in Principle’ that ‘sets out the terms on which the free trade agreement will be concluded’ (Tehan 2021) (figure 3.7). Two agreements have entered into force since the 2018-19 *Review*.

- The Indonesia-Australia Comprehensive Economic Partnership Agreement came into force on 5 July 2020.
- The Pacific Agreement on Closer Economic Relations (PACER) Plus Agreement (between Australia, New Zealand and nine Pacific Island nations) came into force on 13 December 2020.

Figure 3.7 Australia’s bilateral and regional trade agreements
By year entered into force



^a Not yet in force. The Agreement with the UK is an ‘Agreement in Principle’. CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Source: DFAT (2021e).

A range of agreements continue to be negotiated, although for many progress has been slow.

- Australia and the European Union launched negotiations for a free trade agreement on 18 June 2018. Ten negotiation rounds have been held, with the most recent round undertaken in March 2021 (DFAT 2021b, 2021a).
- Australia and the Pacific Alliance (Chile, Colombia, Mexico and Peru) launched negotiations for a free trade agreement in 2017. Five negotiation rounds have been held, with the most recent round undertaken in 2018 (DFAT 2021g).

-
- Australia and India launched negotiations for an Australia-India Comprehensive Economic Cooperation Agreement in 2011. Nine negotiation rounds have been held, with the most recent round undertaken in 2015 (DFAT 2021c).
 - Australia and the members of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) launched negotiations for a free trade agreement in 2007. Four negotiation rounds have been held, with the most recent round undertaken in 2009 (DFAT 2020a).

3.5 Australia's WTO disputes

As noted above, a key role of the WTO is to settle disputes. Since 1995, 600 disputes have been brought to the WTO and over 350 rulings have been issued (WTO 2021e). Australia has been a complainant in 10 cases and a respondent to 16 complaints (tables 3.2 and 3.3). Australia has two claims before the WTO as a complainant.¹⁸

- In December 2020, Australia lodged a dispute against China regarding anti-dumping duties imposed on Australian barley. In May 2021, the DSB agreed to establish a panel to examine the matter (WTO 2021i).
- In February 2019, Australia lodged a dispute against India regarding alleged subsidies for sugar and sugar cane. In August 2019, an expert panel was constituted to hear the dispute. The panel is expected to report after the second quarter of 2021 (WTO 2020b).

One dispute involving Australia has been resolved in the past year — in May 2021, Australia and Canada notified the WTO that they had reached a mutually agreed solution to a dispute regarding restrictions on the sale of Australian wine in Canada. This dispute was first lodged with the WTO in 2018.

¹⁸ At the time of writing Australia has no outstanding WTO cases as a respondent (that is, where another country initiates a dispute with Australia).

Table 3.2 Australia as the complainant at the WTO

Australia's 10 cases

<i>Year</i>	<i>Country</i>	<i>Issue</i>	<i>Outcome</i>
2020	China	Anti-dumping and Countervailing Duty Measures on Barley from Australia	Panel established but not yet composed
2019	India	Measures Concerning Sugar and Sugarcane	Panel composed
2018	Canada	Measures Governing the Sale of Wine	A mutually agreed solution was reached in 2021
2003	European Communities (EC)	Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs	The EC changed its regulations in March 2006. Australia informed the WTO that it did not consider that the DSB's recommendations had been fully implemented
2002	EC	Export Subsidies on Sugar	In favour of Australia
2000	United States ^a	Continued Dumping and Subsidy Offset Act of 2000	In favour of Australia. In December 2004, Australia reached an understanding with the United States with respect to the dispute
1999	United States	Safeguard Measure on Imports of Fresh, Chilled or Frozen Lamb from Australia	In favour of Australia. Implementation notified in November 2001
1999	Republic of Korea	Measures Affecting Imports of Fresh, Chilled and Frozen Beef	In favour of Australia. Implementation completed by September 2001
1997	India	Quantitative Restrictions on Imports of Agricultural, Textile and Industrial Products	Mutually agreed solution before request for a panel
1996	Hungary ^b	Export Subsidies in respect of Agricultural Products	Mutually agreed solution in 1997 after a panel was established. Hungary was required to seek a waiver of certain WTO obligations

^a Joint complainant with Brazil, China, European Communities, India, Indonesia, Japan, Republic of Korea and Thailand. ^b Joint complainant with Argentina, Canada, New Zealand, Thailand and the United States.

Source: WTO (2021g).

Table 3.3 Australia as the respondent at the WTO

The 16 cases where Australia has been subject to dispute settlement action

<i>Year</i>	<i>Country</i>	<i>Issue</i>	<i>Outcome</i>
2017	Indonesia	Anti-Dumping Measures on A4 Copy Paper	Indonesia was successful in its appeal and the Panel recommended Australia bring its obligations into conformity with WTO rules. Implementation notified in 2020
2012 to 2020	Indonesia, Cuba, Dominican Republic, Honduras, Ukraine ^a	Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging	Panel report in favour of Australia. The Panel reports in the disputes initiated by Cuba and Indonesia were adopted by the DSB on 27 August 2018. The Dominican Republic and Honduras appealed the Panel's decision in September 2018. The Panel decision was upheld in June 2020. The dispute with the Ukraine lapsed in 2015
2007	New Zealand	Measures Affecting the Importation of Apples from New Zealand	Panel report and Appellate Body report in favour of New Zealand. Implementation notified in 2011
2003	European Communities	Quarantine Regime for Imports	Panel established in 2003 but did not proceed. Mutually agreed solution notified in 2007
2002	Philippines	Certain Measures Affecting the Importation of Fresh Pineapple	Philippines did not pursue beyond consultations
2002	Philippines	Certain Measures Affecting the Importation of Fresh Fruit and Vegetables	Panel established in 2003, but not composed. Philippines did not pursue dispute beyond panel request
1998	United States	Subsidies Provided to Producers and Exporters of Automotive Leather	Panel report in favour of the United States. Mutually agreed solution reached in 2000
1998	Switzerland	Anti-Dumping Measures on Imports of Coated Woodfree Paper Sheets	Mutually agreed solution notified in 1998, after Australia terminated the measures in dispute
1997	United States	Subsidies Provided to Producers and Exporters of Automotive Leather	Panel established in 1998, but US request withdrawn to pursue parallel complaint (above)
1996	United States	Textile, Clothing and Footwear Import Credit Scheme	Not pursued beyond the request for consultations
1995	United States	Measures Affecting the Importation of Salmonids	Panel established and then suspended after amendments to the measures in dispute. Mutually agreed solution notified in 2000
1995	Canada	Measures Affecting Importation of Salmon	Panel report and Appellate Body report in favour of Canada. Compliance notified in 2000

^a Separate cases on the same issue brought by each country independently.

Source: WTO (2021g).

3.6 Anti-dumping continues to be a prominent feature of Australian trade policy

‘Dumping’ is an emotionally-charged term that implies that selling products to another country at prices below those in the producing country is unfair (box 3.1). WTO rules permit ‘anti-dumping duties’ where there is evidence of ‘dumped’ products causing (or potentially causing) injury to industry in the importing country.

While potentially less distortionary than other trade measures, at least on an economy-wide level, anti-dumping duties are still a form of protection, which can impose costs on the community. If anti-dumping measures make overseas suppliers reluctant to compete on price out of concern that they may be targeted, these costs can extend beyond the measures imposed (PC 2016a, p. 10).

While Australia has long been an advocate for free and open trade — as the WTO noted in its most recent review of Australia’s trade policy — the WTO also noted that Australia remains an ‘active’ user of anti-dumping measures by global standards (WTO 2020c, p. 8). Data collected by the WTO indicate that Australia has been the sixth most prolific initiator of anti-dumping actions since 1995. Since 1990, the number of anti-dumping measures Australia has *in force* at any given time has generally been well above the global median and has grown rapidly since 2010 (figure 3.8). And while the number of measures in force plateaued between 2019 and 2020, it remains at a historically high level. Australia also continues to apply new measures, although the number of new measures applied has been stable in recent years — in 2020, anti-dumping measures were initiated on six products.

As of 31 December 2020, Australia had anti-dumping measures in force for 72 products from 22 different countries, with the greatest number on products from China (17) and Thailand (8) (WTO 2021g). Most of these measures are applied to steel and aluminium products. Paper products are also subject to several anti-dumping measures. In 2020, Indonesia successfully challenged aspects of Australia’s anti-dumping measures on A4 copy paper, with the WTO DSB ruling that the calculations used by Australia to determine whether dumping occurred were not in line with the appropriate WTO methodology. As a result of this ruling, Australia revoked some of its anti-dumping measures.

Box 3.1 **What is ‘dumping’ and what are anti-dumping measures?**

The term ‘dumping’ is used to describe a situation where a business exports a product to another country at a price lower than it normally charges in its own home market. Broadly speaking, World Trade Organization (WTO) rules allow a government to act against dumping activity where it occurs. To do this, a government must be able to:

- show that dumping is taking place
- calculate the extent of the dumping (that is, how much lower the export price is compared to the exporter’s home market price)
- show that the dumping activity is causing ‘injury’ to domestic industry or is threatening to do so.

Typically, anti-dumping measures involve charging extra import duty on the product being dumped, so to bring its price closer to the price charged in its home market. This is allowed under WTO rules, and in effect means a government can place additional trade barriers on particular products that are imported from particular countries. The application of anti-dumping measures contrasts to the ‘most-favoured-nation’ principle that underpins WTO agreements — that is, that countries cannot discriminate between their trading partners.

While anti-dumping measures are permissible under WTO rules, there is no obligation to use them. The Productivity Commission examined Australia’s anti-dumping system in detail in a 2016 research paper, finding that several features of Australia’s anti-dumping system added to its cost, including that:

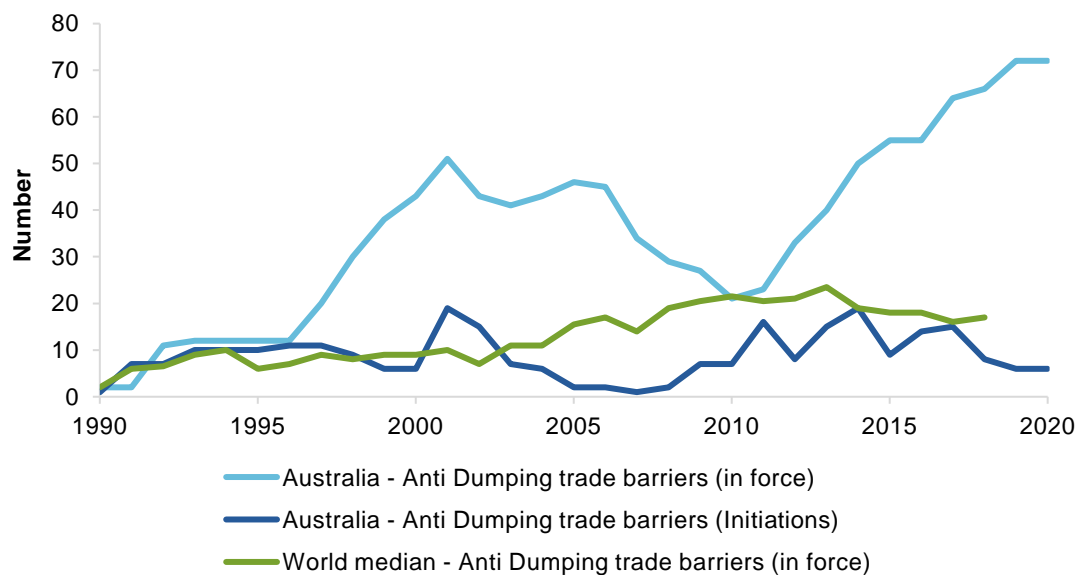
- *there is a risk that community interest is given little weight when decisions to apply measures are made.* Unlike several other countries, Australia does not have a public interest test that must be applied before decisions to impose anti-dumping measures are made, meaning there is a risk that the interests of the wider community are not given due weight before measures are imposed.
- *the rates of protection imposed can be high, relative to other trade measures.* The average anti-dumping duty imposed between 2009 and 2015 was 17 per cent, which is over three times Australia’s maximum scheduled tariff rate of 5 per cent.
- *the threshold that needs to be met to extend measures is relatively low.* Measures are often extended beyond their initial (five-year) term, meaning the protection afforded to domestic industries (and the costs borne by consumers) can persist. The ease with which anti-dumping measures can be extended also risks muting the incentives for domestic producers covered by such measures to improve their competitiveness against imported products.

While the Commission identified a range of modifications that could alleviate some costs, it also found that there was no compelling rationale for Australia’s anti-dumping system. Rather, it found that Australia ostensibly maintained an anti-dumping system simply because it was allowed under WTO rules, and that the arrangements — at least at that time — were making Australia worse off on a national welfare basis. Given this, the Commission considered that ‘serious consideration’ should be given to whether it was in Australia’s interest to maintain an anti-dumping system.

Sources: PC (2016a); WTO (2021a).

Figure 3.8 **Anti-dumping measures in force have risen since 2010**

Anti dumping measures, 1990-2020



Source: World Trade Organisation *Integrated Trade Intelligence Portal*.

4 Foreign investment developments

Key points

- As at 31 December 2020, Australia hosted just under \$4 trillion of foreign investment, which is about \$0.95 trillion more than investment held abroad by Australians.
- In 2020, there was a net outflow of foreign investment from Australia of about \$154 billion, driven by a withdrawal of financial derivatives by overseas investors.
 - Despite this, Australia received net flows of \$29 billion of foreign direct investment (FDI) and \$44 billion of portfolio investment in 2020. But these flows were well below the average annual flows for the preceding ten years. The dampening effect that the COVID-19 pandemic had on investment flows, and changes to Australia's screening arrangements, are possible explanations.
- FDI flows from Australia's major investment partners in 2020 were well below their recent averages, with the exception of Japan. The United States — Australia's largest provider of FDI — withdrew more FDI from Australia in 2020 than it injected.
- While the mining industry continues to host the most FDI in Australia, it recorded a net withdrawal of FDI in 2020, and its share of FDI continues to fall from its historic peak in the mid-2010s.
- Over the past year, there have been significant changes to Australia's foreign investment regulatory framework. These changes include:
 - a new class of investment actions — Notifiable National Security Actions — that must be notified to the Treasurer and subject to a national security test, regardless of value
 - a new 'last resort' power that allows the Treasurer to review a past investment action if satisfied that the action poses a national security risk
 - expanded powers for the Treasurer to enforce Australia's foreign investment rules
 - changes to the fees levied on foreign investors.
- Other notable developments over the past 12 months include:
 - new powers being given to the Minister for Foreign Affairs to prevent new — or cancel existing — arrangements between State, Territory and local Governments, or public universities and foreign governments that are inconsistent with Australia's foreign policy or adversely affect Australia's foreign relations
 - the launch of a review into Australia's Bilateral Investment Treaties.

Foreign investment in Australia is an important source of growth and productivity. It increases the stock of capital above the level possible if only domestic savings were used to fund investment. This increases the stock of capital relative to labour (providing capital deepening) and hence promotes labour productivity. Moreover, foreign investment is often the conduit for diffusing technology and innovative management practices — especially through supply chains (PC 2020a, p. 7). As a former governor of the Reserve Bank noted:

For 200 plus years, we’ve imported other people’s capital and we’ve grown rich by doing that. (Stevens 2016, quoted in Uren 2016)

While foreign investment has overwhelmingly been positive for Australia, it can be contentious and there are some risks. For example, there are concerns about possible economic and national security risks from foreign direct investment and, in some instances (such as residential property), the impact that foreign investment has on demand and prices.

The Australian Government has fashioned a regulatory regime intended to ensure that foreign investments into Australia are not contrary to the national interest. Central to the regulatory regime is the screening of potential investments by the Treasurer (through the Foreign Investment Review Board (FIRB)) with decisions made about whether a proposal should be allowed (with or without conditions) or prohibited. In addition to this screening process, Australia’s regulatory regime has other elements — including compliance and enforcement measures to ensure foreign investment rules and regulations are upheld, and measures to promote transparency, such as the publication of statistics on investment.

A key function of the *Trade and Assistance Review* is to provide an update on foreign investment developments in Australia — a role that reflects the Australian Government’s agreement to implement a recommendation of a previous Productivity Commission report (box 4.1).

Box 4.1 Foreign investment will now be a feature of *Trade and Assistance Reviews*

As part of its 2016 inquiry into the *Regulation of Australian Agriculture*, the Productivity Commission recommended that the Australian Government request that the trends, drivers and effects of foreign investment be analysed and reported on in future *Trade and Assistance Reviews* (PC 2016b, p. 562). The Australian Government supported this recommendation in 2019 (Australian Government 2019, pp. 19–20).

This year’s *Review* is the first to examine foreign investment. However, in June 2020, the Commission produced a research paper on *Foreign Investment in Australia* (PC 2020a). That paper examined the trends and drivers of foreign investment, the then policy settings, and the benefits and costs that foreign investment brings to Australia. The paper also examined some opportunities to amend Australia’s foreign investment framework that would further contribute to ‘getting the balance right’ between harnessing the benefits of foreign investment while also managing its risks to Australia’s economy and security.

Accordingly, this chapter provides:

- a snapshot of foreign investment in and by Australia, with a focus on inward foreign direct investment (FDI) (section 4.1)
- an overview of significant developments in Australia's foreign investment policy settings over the past year (section 4.2).

4.1 A snapshot of foreign investment in and by Australia

Australia's stocks of foreign investment

Australia continues to be a net importer of capital. The stock of foreign investment in Australia totalled about \$3.99 trillion as at 31 December 2020, while the stock of investment held by Australians abroad totalled about \$3.04 trillion (table 4.1). This means that Australia's overall net international investment position was \$0.95 trillion — or in other words, Australia hosted about \$0.95 trillion (the equivalent of about 48 per cent of GDP) more in foreign investment than Australians held abroad. This is slightly larger than at 31 December 2019, when Australia's net International Investment Position was \$0.93 trillion (about 47 per cent of GDP), notwithstanding a net outflow of foreign investment over 2019-20. Changes to exchange rates and prices of investments also affect the value of the stock. At 31 December 2020, Australia hosted more of both FDI and portfolio investment — the two major types of foreign investment — than it held abroad (box 4.2).

Table 4.1 **Australia's foreign investment stocks (levels)**

As of 31 December 2020, \$ billion

	<i>Foreign investment in Australia (A)</i>	<i>Australian investment abroad (B)</i>	<i>Net investment (A-B)</i>
Direct Investment	1 027	814	212
Equity investment	811	798	13
Other investment	215	16	199
Portfolio investment	2 045	1 332	713
Equity investment	676	906	-230
Debt investment	1 369	426	943
Financial derivatives	396	404	-7
Other investment	523	433	90
Reserve Assets	na	60	-60
Total	3 991	3 044	947

Sources: ABS (*International Investment Position, Australia: Supplementary Statistics, 2020*, Cat. no. 5352.0, tables 2 and 5) and Commission estimates.

Box 4.2 **Forms of foreign investment**

Foreign investment takes several forms.

Foreign Direct Investment (FDI) is investment in an enterprise or asset where the foreign investor has control or a significant degree of influence over its management. Generally, investment is considered to be direct when an investor has 10 per cent or more of the voting power in an organisation. Debt between related parties is also considered to be FDI.

In part because of this element of direct control, FDI is normally the type of foreign investment that is of most interest to policymakers. For example, FDI provides an investor with more scope to influence the operations of a business (and gives them greater access to information) than other forms of investment. But FDI also typically yields the greatest benefits — it has a long-term focus, with the most direct effects on capital formation and with the greatest scope for the transfer of technology, innovative management practices and other valuable knowledge.

Portfolio investment is investment in an enterprise or asset where the investor does not have a controlling interest. For example, this might include a foreign investor purchasing shares or bonds issued by an Australian company, but not in a sufficiently large quantity to gain a controlling interest over the company. Compared with FDI, portfolio investment tends to be more liquid and transient.

While FDI and portfolio investment constitute the main forms of foreign investment, there are other investment types. For example, foreign investment may occur through **financial derivatives**, which are instruments linked to other financial instruments, indicators or commodities. Investment in derivatives is often undertaken to manage (or hedge) risks, but can also be done for profit. The Australian Bureau of Statistics also measures investment involving **reserve assets** (that is, assets controlled by the Reserve Bank of Australia), and **other investment** (which is a residual category for foreign investment that does not fit into the aforementioned categories).

Sources: ABS (2021a); PC (2020a, pp. 25–26).

Most foreign investment is debt or equity investment. Australia remains a net debtor to the world. As of 31 December 2020, Australia's net foreign debt liabilities totalled about \$1.17 trillion.¹⁹ In absolute terms, this represents a small increase (about \$6 billion) since 2019 and a slight increase relative to GDP (Australia's net debt was 59 per cent of GDP in 2020, compared to 58 per cent in 2019).

In contrast, Australia is a net holder of equity. At 31 December 2020, Australia held about \$218 billion (or about 11 per cent of GDP) more equity abroad than foreigners held in Australia. This is slightly lower than in 2019 (when Australia's net equity position was \$225 billion) but much higher than in 2018 (when it was just over \$100 billion or about 5 per cent of GDP).

¹⁹ Data on Australia's net debt and net equity positions is from ABS (*Balance of Payments and International Investment Position, Australia*, December 2020, Cat. no. 5302.0, table 2).

Australia's flows of foreign investment

There was a net outflow of about \$154.4 billion of foreign investment from Australia in 2020, driven by a withdrawal of financial derivatives (which are primarily used to manage investment risk caused by factors such as exchange rate, interest rate or commodity price movements) (table 4.2).

However, notwithstanding this overall outflow, Australia received net flows of \$29 billion of FDI and \$44 billion of portfolio investment in 2020.²⁰ But these flows were considerably lower than the average annual flows received in previous years (figure 4.1). In particular, the flow of FDI into Australia in 2020 was about half of the ten-year average. This is likely due to the significant dampening impact that the COVID-19 pandemic had on global investment flows — both the United Nations Conference on Trade and Development (UNCTAD 2021, p. 1) and the Organisation for Economic Co-operation and Development (OECD 2021, p. 1) have estimated that global FDI flows fell by about 40 per cent in 2020, with developed economies particularly affected. Changes to Australia's foreign investment screening arrangements — which included temporarily lowering screening thresholds for foreign investment to \$0 and extending screening timeframes during the pandemic — may also have had some effect.

Table 4.2 **Australia's foreign investment flows, 2020**

Net foreign investment flows (transactions), \$ billion

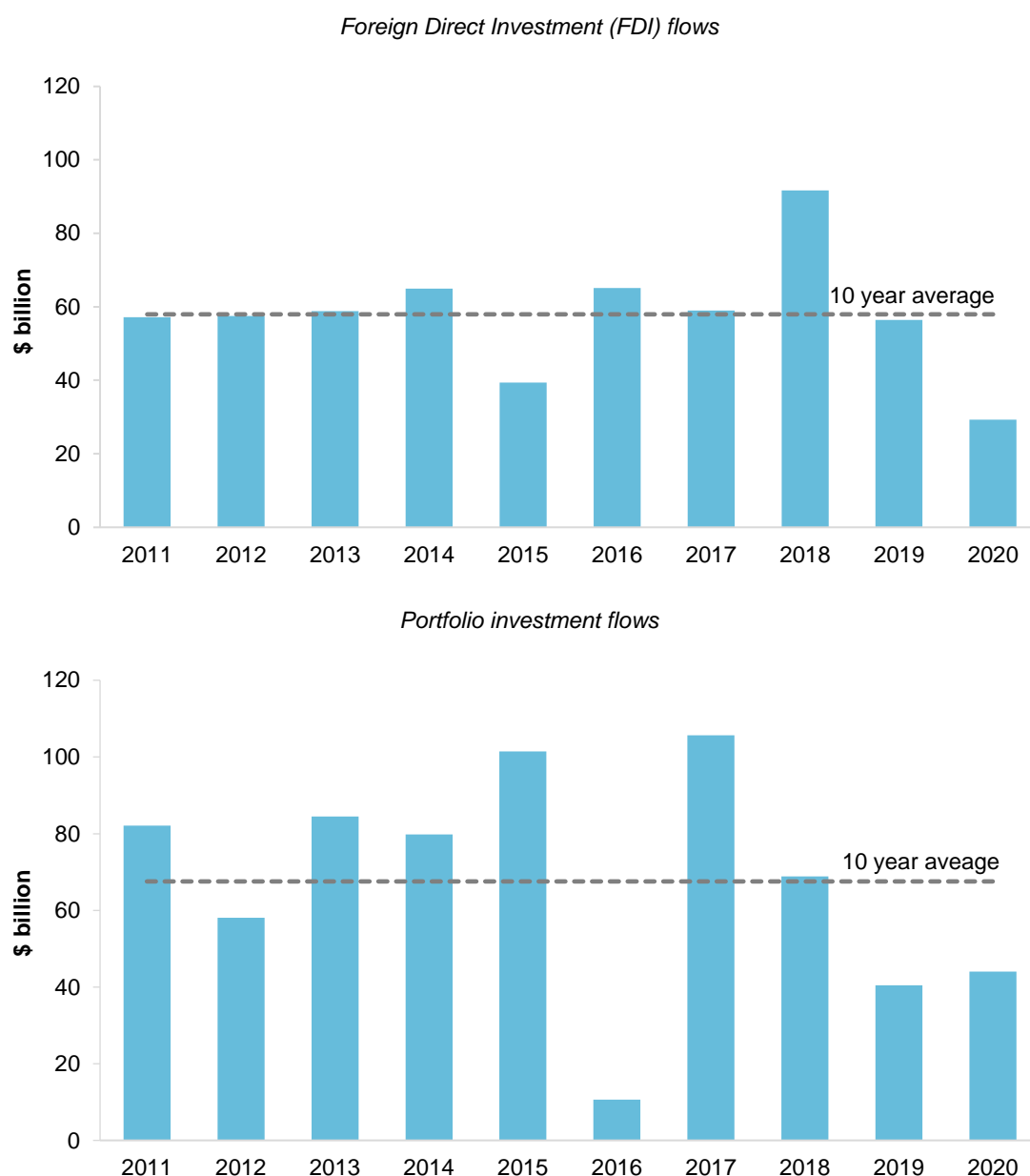
	<i>Foreign investment in Australia</i>	<i>Australian investment abroad</i>
Direct Investment	29.3	13.3
Equity investment	39.9	16.8
Other investment	-10.6	-3.5
Portfolio investment	44.0	75.1
Equity investment	16.0	55.8
Debt investment	28.1	19.4
Financial derivatives	-209.4	-188.6
Other investment	-18.3	12.9
Reserve assets	n/a	-24.6
Total	-154.4	-111.9

Source: ABS (*International Investment Position, Australia: Supplementary Statistics, 2020*, Cat. no. 5352.0, tables 1 and 4).

²⁰ Net flows of foreign investment represent the amount of new investment, less the amount of any divestment, that occurred over a period (usually a year). For example, Australia received a net flow of \$29 billion of FDI in 2020, which represents the amount of new FDI overseas investors injected in Australia in 2020, less any FDI that overseas investors withdrew from Australia in 2020.

Figure 4.1 Both FDI and portfolio investment flows into Australia were well below average in 2020

Net flows (transactions) of foreign investment into Australia, 2020 (\$ billion)



Source: ABS (*International Investment Position, Australia: Supplementary Statistics, 2020*, Cat. no. 5352.0, table 1).

Of the figures presented in table 4.2, the \$29 billion flow of FDI into Australia is likely to attract the most attention by both policymakers and the public. As noted in the Commission's 2020 research paper, there is community interest — and at times concern — about foreign control of Australian assets or businesses (PC 2020a, p. 27). The 2020 research paper explored these concerns in light of the benefits and risks that FDI brings to the Australian

economy. If anything, interest in FDI in Australia is likely to have heightened since 2020. In particular, there have been concerns that — due to the economic impacts of the COVID-19 pandemic — foreign investors might have increased opportunity to purchase distressed Australian assets and businesses at reduced prices (Wright 2020).

Given this community interest, the rest of this section examines FDI in Australia in more detail.

FDI in Australia in 2020: Where did it come from?

The biggest net flow of FDI into Australia in 2020 — by some margin — came from Japan (with flows of over \$20 billion). The United Kingdom was the next largest contributor with flows of nearly \$7 billion (down from unusually large flows of \$28 billion in 2019) followed by Singapore, Ireland, Germany and Canada (figure 4.2).

Figure 4.2 Japan provided the biggest FDI flows into Australia in 2020
Net flows (transactions) of FDI into Australia, by country, 2020 (\$ billion)



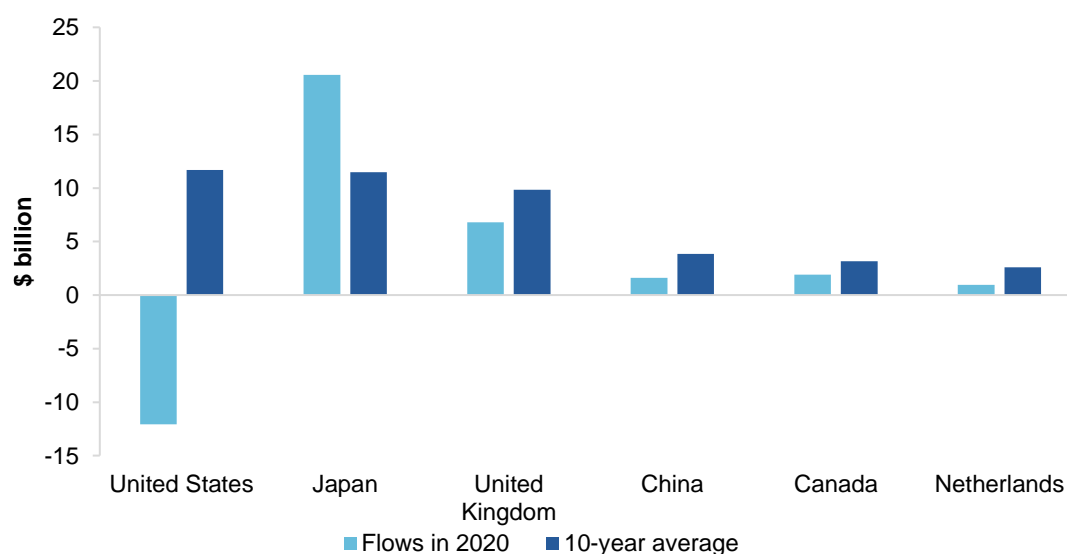
Source: ABS (*International Investment Position, Australia: Supplementary Statistics, 2020*, Cat. no. 5352.0, table 1).

With the exception of Japan, FDI flows from Australia's major investment partners in 2020 were well below their recent averages (figure 4.3). Net flows from the United States were negative — meaning that US investors withdrew more FDI from Australia across 2020 than they injected or reinvested. This follows relatively lean flows from the United States of just over \$1 billion in 2019, also well below the longer-term average. While there is an array of factors that influence foreign investment flows — and volatility in annual flows is not unusual — it has been speculated that changes to the US company tax system are likely to

have dampened American investment globally in recent years (Reuters 2018; UNCTAD 2018; Uren 2020, p. 9).

Figure 4.3 US investors withdrew more FDI than they injected across 2020

Net flows (transactions) of FDI into Australia in 2020 compared with average annual flows between 2011–2020, selected countries (\$ billion)



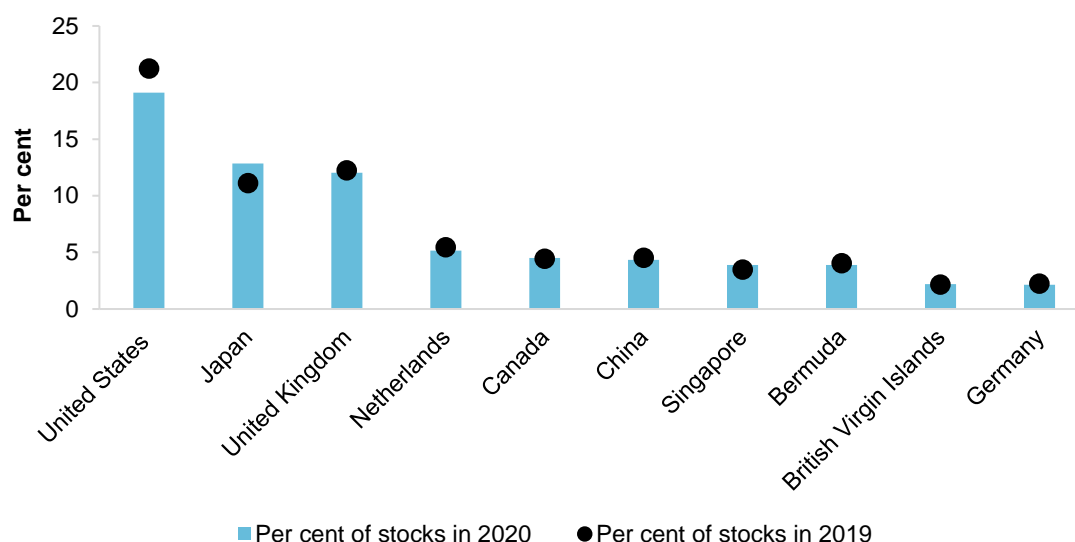
Source: ABS (*International Investment Position, Australia: Supplementary Statistics, 2020*, Cat. no. 5352.0, table 1).

Despite this, the United States remains the largest single source of Australia's FDI stocks — a reflection of its past investment in Australian assets. At 31 December 2020, the stock of FDI in Australia from the United States totalled about \$196 billion, or just over 19 per cent of all FDI (figure 4.4). This represents a small decline from 2019, when over 21 per cent of FDI stocks in Australia were from the United States, and continues a steady reduction in the share of Australia's FDI from the United States since 2015 (when almost a quarter of Australia's FDI was from the United States). Japan and the United Kingdom are the next largest sources of Australia's FDI.

However, interpreting data on the sources of Australia's FDI is complicated by the measurement framework. The Australian Bureau of Statistics (ABS) collects data by the location of the 'immediate owner' (such as a shell company in the Cayman Islands) rather than the 'ultimate beneficial owner', which can conceal the real identity of the parties with an economic interest in the investment. The ABS has previously indicated that it will soon collect investment data identified by ultimate beneficial owner (to be published alongside data collected on an immediate owner basis) (PC 2020a, p. 33).

Figure 4.4 The US, Japan and the UK hold the most FDI in Australia

Per cent of FDI stocks (levels) in Australia by source country, as of 31 December 2020



Source: ABS (*International Investment Position, Australia: Supplementary Statistics, 2020*, Cat. no. 5352.0, table 2).

Some data on investment where the ultimate beneficial owner is from China is collected by the Australian National University (ANU) and (jointly) by KPMG and the University of Sydney (table 4.3). For some years, these estimates suggest that investment flows from China into Australia could be several times higher than the ABS estimates (PC 2020a, p. 108).

Table 4.3 Estimates of flows of FDI from China into Australia

\$ billion

	2014	2015	2016	2017	2018	2019	2020
ABS	9.9	2.9	1.7	0.9	4.3	4.3	1.6
ANU	5.7	11.1	16.5	9.7	5.3	2.6	1.0
KPMG/UniSyd	9.5	13.8	15.4	13.0	8.2	3.4	na

Sources: ABS (*International Investment Position, Australia: Supplementary Statistics, 2020*, Cat. no. 5352.0, table 1); ANU (2021); KPMG and University of Sydney (2015, p. 3, 2016, p. 10, 2017, p. 8, 2018, p. 8, 2019, p. 10, 2020, p. 7).

However, both the ABS estimates — compiled on the basis of the immediate owner of the investment — and the ANU estimates — compiled on the basis of ultimate beneficial owner — point to relatively little Chinese investment in 2020 compared with recent years. The ANU has indicated that this fall may be the result of the impacts of the COVID-19 pandemic and greater scrutiny of investment proposals by the Australian Government (ANU 2021).

Several significant investment proposals from China were reportedly withdrawn over the past year after being subject to adverse findings through the foreign investment screening process, which would also have an effect on the estimated flows from China (box 4.3). However, as the Commission stated in its recent research paper on foreign investment, the transparency of decision making is low, and in instances where adverse findings through the screening process have precipitated a proposal being withdrawn, there is often no public communication at all (PC 2020a, p. 21). This means that it is difficult to contextualise these withdrawals amongst other foreign investment decisions. It is, for example, not clear whether there have been other investment proposals over the past year — including where the investors are from countries other than China — that have been withdrawn after adverse findings through the screening process.

Box 4.3 Some withdrawn investments from China in the past year

It has been reported that three investments from China have been withdrawn in the past year after adverse findings through Australia's screening process.

- In August 2020, China Mengniu Dairy Co — a partially state-owned Chinese dairy company — withdrew a \$600 million proposal to acquire Lion Dairy and Drinks after reportedly being told that their investment would be contrary to the national interest.
- In January 2021, the state-owned China State Construction Engineering Corporation withdrew a \$300 million bid to acquire Probuild — an Australian-based, South African-owned construction company — after reportedly being told that the proposal would be blocked on national security grounds.
- A state-owned Chinese power generator's involvement in building a \$300 million gas power plant near Wollongong in New South Wales was also reportedly rejected through the foreign investment screening process.

Sources: Dziedzic (2021); Kehoe (2020, 2021).

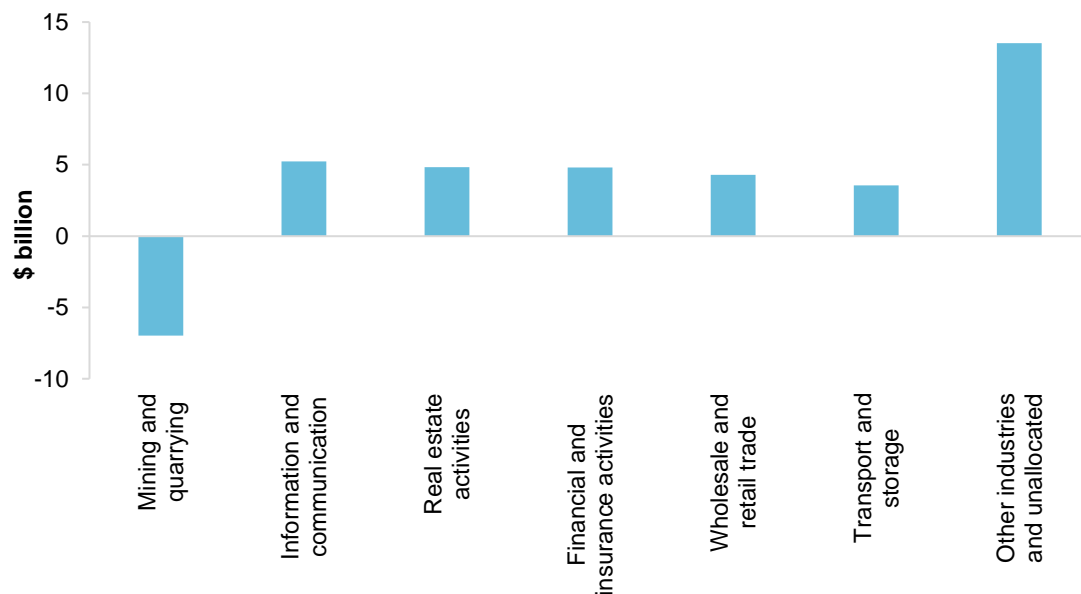
FDI in Australia in 2020: Which industries did it go to?

The information and communication, real estate, and financial and insurance industries each received FDI flows of about \$5 billion in 2020 (figure 4.5). The mining and quarrying industry — which has historically been a major recipient of FDI flows — recorded a net withdrawal of FDI of nearly \$7 billion. Despite this, the mining and quarrying industry continues to host the most FDI in Australia, although its share continues to fall. As of 31 December 2020, the mining and quarrying industry hosted about 35 per cent of FDI stocks, compared with 36 per cent in 2019, and over 40 per cent in 2016. The real estate, and

financial and insurance industries each hosted about 11 per cent of FDI stocks (figure 4.6) and, while the ABS did not publish separate data for the manufacturing industry in 2020 (meaning it is included in the ‘other industries’ category in figures 4.5 and 4.6), it likely hosts a similar share — in 2019, about 12 per cent of FDI stocks were held in the manufacturing industry.

Figure 4.5 There was a withdrawal of FDI from the mining industry in 2020

Net flows (transactions) of FDI into Australia, by industry, 2020 (\$ billion)^a

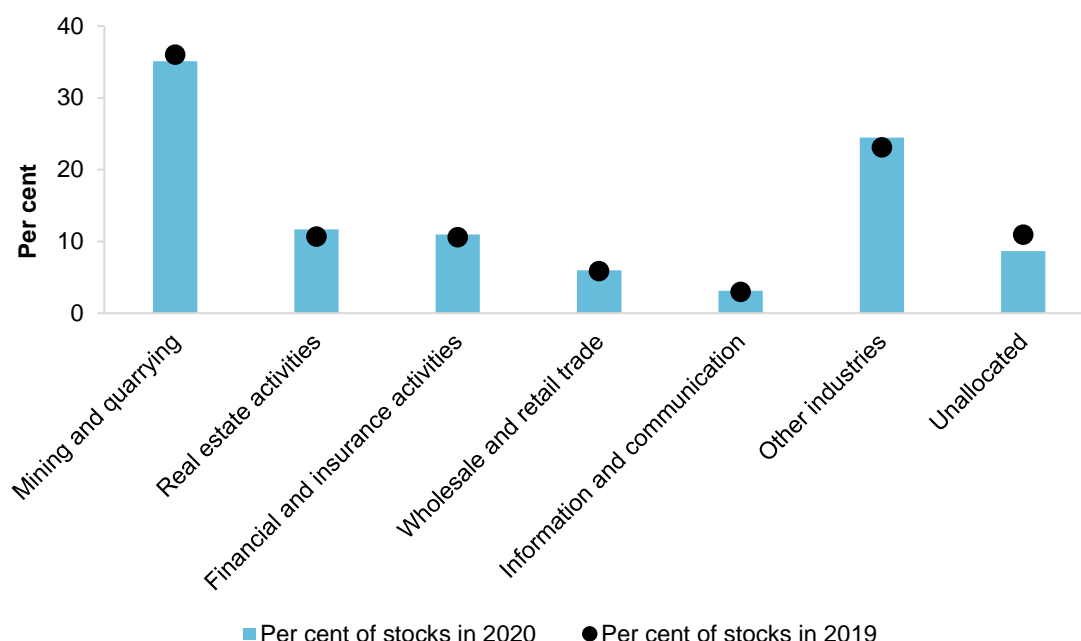


^a ‘Other industries and unallocated’ includes the manufacturing industry, for which the ABS did not publish a separate estimate of FDI flows in 2020.

Source: ABS (*International Investment Position, Australia: Supplementary Statistics, 2020*, Cat. no. 5352.0, table 14).

Figure 4.6 Mining hosts the most FDI, but its share continues to fall

Per cent of FDI stocks (levels) in Australia by industry, as of 31 December 2020^a



^a 'Other industries' includes the manufacturing industry, for which the ABS did not publish a separate estimate of FDI stocks in 2020.

Source: ABS (*International Investment Position, Australia: Supplementary Statistics, 2020*, Cat. no. 5352.0, table 15).

4.2 Developments in foreign investment policy settings

The *Foreign Investment Reform (Protecting Australia's National Security) Act* has taken effect

Significant changes to Australia's foreign investment framework have taken place over the past year with the *Foreign Investment Reform (Protecting Australia's National Security) Act 2020* (Cwlth) (the Foreign Investment Reform Act) coming into effect. The Foreign Investment Reform Act amends the primary piece of legislation governing foreign investment in Australia — the *Foreign Acquisitions and Takeovers Act 1975* (Cwlth) (FATA) (Rae, Low and Wong 2020).

Two of the changes implemented through the Foreign Investment Reform Act are particularly noteworthy.

- The Act puts in place significant new measures to manage national security risks that may arise from foreign investment.
- The Act modifies and expands the Treasurer's powers to ensure compliance with, and enforcement of, Australia's foreign investment rules.

The Act puts in place significant new measures to manage national security risks ...

Many of the changes implemented through the Foreign Investment Reform Act are intended to enhance the capacity of Australia's foreign investment framework to respond to perceived national security risks. Specifically, the Act establishes:

- **a new category of investment actions, called 'Notifiable National Security Actions',** which must be notified to the Treasurer for review regardless of the value of the investment. A Notifiable National Security Action includes (among other things) an investment action that involves a foreign person:
 - starting a 'national security business'
 - acquiring a direct interest in a national security business
 - acquiring a direct interest in an entity that carries on a national security business
 - acquiring an interest in Australian land that, at the time of acquisition, is national security land (box 4.4) (AGS 2020; FIRB 2020a, p. 5).

Notifiable National Security Actions are subject to a 'national security test.' Under the test, the Treasurer can prohibit an investment if satisfied that the investment would be contrary to national security, or approve an investment subject to conditions to ensure that it is not contrary to national security. There is no definition of Australia's national security (or what is contrary to it) in the FATA, but the Treasury has indicated that, as part of assessing investments under the national security test, the Government will consider 'the extent to which the investment will affect Australia's ability to protect its strategic and security interests' (The Treasury 2021a, p. 12).

To avoid overlap, the new national security test is not applied to actions that are subject to the existing national interest test, reflecting the fact that the Treasurer considers national security implications when considering the national interest (FIRB 2020a, p. 4)

- **a new 'call-in' power, residing with the Treasurer.** The call-in power provides the Treasurer with the capability to review a foreign investment action that has not been notified, if the Treasurer considers that the action may pose national security concerns. This can occur up to ten years after the action has been undertaken. Once 'called in', an action is reviewed against the national security test, and the Treasurer may issue a 'no objection notification' (that is, allow the action with or without conditions), prohibit the action, or require divestment. An action cannot be called in if the Treasurer has

previously been notified of the action, or if the action has been issued a no objection notification or exemption. This means that an investor can extinguish the Treasurer's ability to exercise the call-in power by voluntarily notifying an action (FIRB 2020a, p. 8)

Box 4.4 **What is national security land and a national security business?**

National security land includes land that is:

- 'defence premises' within the meaning of the *Defence Act 1903* (Cwlth)
- land in which an agency in the national intelligence community has an interest, if the existence of the interest is publicly known or could be known upon making reasonable inquiries.

A **national security business** includes — but is not limited to — a business that:

- is a responsible entity, within the meaning of the *Security of Critical Infrastructure Act 2018* (Cwlth) (SOCI Act), for an asset
- is an entity that is a direct interest holder in relation to a critical infrastructure asset (within the meaning of the SOCI Act)
- is a carrier or nominated carriage service provider to which the *Telecommunications Act 1997* (Cwlth) applies
- develops, manufactures or supplies critical goods or critical technology that are (or are intended to be) for military or intelligence use
- stores or has access to information that has a security classification.

At present, a 'critical infrastructure asset', as set out in the SOCI Act, encompasses critical electricity, port, water and gas assets (as well as any other assets declared by the Minister). However, in December 2020, the Minister for Home Affairs introduced the Security Legislation Amendment (Critical Infrastructure) Bill 2020 to the Parliament. This Bill proposes a substantial widening of the definition of what is a 'critical infrastructure asset' to include — among other things — critical:

- telecommunications
- broadcasting
- data storage or processing
- banking
- liquid fuels
- education
- food and grocery
- aviation
- defence industry assets.

Any changes to the definition of a 'critical infrastructure asset' may have implications for what is deemed to be a national security business and therefore, what is a 'Notifiable National Security Action' for the purposes of the FATA.

The Bill is being reviewed by the Parliamentary Joint Committee on Intelligence and Security.

Sources: FIRB (2020a, pp. 5, 7); Parliamentary Joint Committee on Intelligence and Security (2020).

-
- **a new ‘last resort’ power, also residing with the Treasurer.** The last resort power provides the Treasurer with the capability to review foreign investment actions (notified after 1 January 2021) for which a no objection notification, an exemption certificate, deemed approval, or a notice imposing conditions has been given (FIRB 2020a, p. 9). This means that, in effect, the last resort power allows the Treasurer to review previously approved foreign investment actions. To exercise the last resort power, the Treasurer must be satisfied that a foreign investment action poses a national security risk. In that situation, the power can only be used in particular circumstances, including when (and subject to other conditions being met):
 - a false or misleading statement was made by an applicant and the Treasurer is reasonably satisfied that this misstatement directly relates to the national security risk
 - the business, structure or organisation of a person has materially changed since an action was approved and the Treasurer is reasonably satisfied that the national security risk that has emerged from this change could not have been reasonably foreseen at the time the action was approved (or that the likelihood of the risk arising was remote)
 - the market in which an action has been undertaken has materially changed since approval, and the Treasurer is reasonably satisfied that the change altered the nature of the national security risk posed by the action at the time it was approved (Rae, Low and Wong 2020).

The last resort power can only be exercised if existing regulatory systems cannot adequately address a national security risk, and before exercising the power, the Treasurer must take reasonable steps to negotiate with an investor to eliminate or reduce the risk (Rae, Low and Wong 2020). Subject to all the conditions for the last resort power being met, the Treasurer may impose new (or vary existing) conditions on an action, make orders prohibiting an action, or require an action to be partially or wholly undone (which may include requiring divestment) (FIRB 2020a, p. 9)

- **a Register of Foreign Ownership of Australian Assets** that will record most foreign interests in Australian land, water entitlements and rights, and business acquisitions that require foreign investment approval, including those reviewed under the new national security test (AGS 2020). The Government has indicated that the register will ‘increase the Government’s visibility of foreign ownership in Australia’ and ‘provide the Government with a broad data set to aid future policy consideration and assist with efficient case processing’.²¹ The Register will be administered by the Australian Taxation Office, and will aggregate and expand on the existing registers of foreign ownership of land and water (ATO 2020e). The register will not be public, but a report must be tabled annually in the Parliament that presents de-identified statistical information from the Register.²²

²¹ Foreign Investment Reform (Protecting Australia’s National Security) Bill 2020 and Foreign Acquisitions and Takeovers Fees Imposition Amendment Bill 2020 Explanatory Memorandum, p. 133.

²² Foreign Investment Reform (Protecting Australia’s National Security) Bill 2020 and Foreign Acquisitions and Takeovers Fees Imposition Amendment Bill 2020 Explanatory Memorandum, p. 148.

... and strengthens the Treasurer's compliance and enforcement powers

Under the Foreign Investment Reform Act, the Treasurer and the Treasury Department have been given significant new powers to investigate and respond to instances of non-compliance with Australia's foreign investment rules.

The Treasurer now has stronger monitoring and investigative powers that are 'in line with those of other business regulators'.²³ This includes new powers that allow authorised officers (of the Treasury) to enter premises — either by consent, or through a warrant — to determine whether foreign investment laws are being complied with, to verify information, and to gather material relating to offences and civil penalty provisions (FIRB 2020b).

The Treasurer has also received a range of powers to address non-compliance, including to:

- enter into an enforceable undertaking with an investor
- give directions to individuals to comply with foreign investment legislation and/or certain approval conditions, where failure to comply with such directions constitutes an offence
- revoke approval for an action where relevant information provided by an applicant prior to approval was false or misleading (Rae, Low and Wong 2020).

These new powers supplement the Treasurer's existing monitoring and enforcement powers, which include the power to order the disposal of an asset, to prohibit an action, and to compel information from investors (FIRB 2020b).

The maximum penalties for not complying with Australia's foreign investment rules have also substantially increased. For example, the maximum criminal penalty for failing to give notice of a notifiable action or notifiable national security action, for taking an action prior to approval, or for contravening an approval condition, has increased from:

- three years imprisonment and/or 750 penalty units (about \$167 000), to ten years imprisonment and/or 15 000 penalty units (about \$3.3 million) for an individual
- 3750 penalty units (about \$833 000), to 150 000 penalty units (about \$33.3 million) for a corporation (Rae, Low and Wong 2020).²⁴

Additionally, infringement notices can now be issued for breaches of the FATA across all types of foreign investment. Previously, notices could only be issued for breaches relating to residential real estate investments.²⁵

²³ Foreign Investment Reform (Protecting Australia's National Security) Bill 2020 and Foreign Acquisitions and Takeovers Fees Imposition Amendment Bill 2020 Explanatory Memorandum, p. 68.

²⁴ These calculations are based on the value of a penalty unit of \$222, as notified by the Attorney-General in May 2020.

²⁵ Foreign Investment Reform (Protecting Australia's National Security) Bill 2020 and Foreign Acquisitions and Takeovers Fees Imposition Amendment Bill 2020 Explanatory Memorandum, pp. 67, 73.

Screening thresholds have been reinstated for most types of foreign investment

On 1 January 2021 — in concert with the abovementioned changes coming into effect — the Australian Government reinstated monetary screening thresholds for ‘significant’ and ‘notifiable’ foreign investment actions to their pre-COVID levels (subject to indexation) (Smith 2020). In March 2020, during the early stages of the COVID-19 pandemic, these thresholds were temporarily set to \$0, meaning that all proposed foreign investment into Australia (covered by the FATA) required approval, regardless of the investment’s value or the nature of the foreign investor (FIRB 2020c).

The reinstatement of monetary thresholds for significant and notifiable actions means that some foreign investments may not require assessment if valued below the relevant threshold. Certain types of investment, such as investments that are Notifiable National Security Actions (a new notification category discussed above), must be assessed irrespective of their value.

The fees levied on foreign investments have changed

From 1 January 2021, significant changes to foreign investment fees have been implemented. These new arrangements are intended to be ‘fairer and simpler’ and ‘reduce the administrative burden of determining the fee that is payable’.²⁶ Fees have decreased for some foreign investment actions and increased for others — particularly actions centred around higher-value investments and acquisitions (Apostolova and Sinn 2020; Mitchell et al. 2020; Senate Economics Legislation Committee 2020, p. 73).

The Commission has previously identified that the fees paid by foreign investors far outstrip the cost of delivering Australia’s foreign investment regulatory regime, meaning that fees paid by investors are, in effect, a tax on foreign investment, rather than a genuine fee for service (PC 2020a, pp. 21–22). In 2016, as part of its inquiry into the *Regulation of Australian Agriculture*, the Commission recommended that the Australian Government set application fees for foreign investment proposals at the level that recovers the cost of administration (PC 2016b, p. 566). The Commission reaffirmed this view in its 2020 research paper on *Foreign Investment in Australia* (PC 2020a, p. 22).

In 2018-19 — the most recent year for which data are available — fees paid by foreign investors exceeded \$90 million, while the operational costs of the FIRB and its secretariats in the Treasury and the Australian Taxation Office totalled about \$15 million (The Treasury 2020a, pp. 10, 42) .

Notwithstanding that there will be some additional costs associated with implementing changes to Australia’s foreign investment framework, there is little to suggest that the new

²⁶ Foreign Investment Reform (Protecting Australia’s National Security) Bill 2020 and Foreign Acquisitions and Takeovers Fees Imposition Amendment Bill 2020 Explanatory Memorandum, p. 123.

fee structure represents a significant shift towards cost recovery. As part of the Senate Economics Legislation Committee’s inquiry into the proposed changes to Australia’s foreign investment framework, some participants — including the Business Council of Australia (BCA 2020, p. 10) and the Property Council of Australia (PCA 2020, p. 16) — presented concerns that costs would continue to be over-recovered under the new fee structure. In their subsequent report, the Committee indicated that cost recovery was not the basis of the fee system.

In the Explanatory Memorandum [of the Bill], the government states ‘all fees imposed are a tax’. As such, fees are not levied on a cost recovery basis and neither are they intended to be so levied. This does not appear to be well understood. (Senate Economics Legislation Committee 2020, p. 73)

Future *Trade and Assistance Reviews* should be able to examine the extent that cost over-recovery continues to occur by examining updated data on the revenue raised through the new fee system and the costs of administering Australia’s foreign investment framework (including costs that arise from implementing and administering the changes to the framework outlined above).

The Australian Government has new powers to terminate foreign arrangements

On 10 December 2020, the *Australia’s Foreign Relations (State and Territory Arrangements) Act 2020* (Cwlth) (the Foreign Relations Act) took effect (DFAT 2020c). Broadly speaking, the Foreign Relations Act empowers the Minister for Foreign Affairs to prevent new — or cancel existing — arrangements between State, Territory and local Governments or Australian (public) universities, and foreign governments, if they are found to be inconsistent with Australia’s foreign policy or adversely affect Australia’s foreign relations (Payne 2020).

The definition of an ‘arrangement’, as set out in the Foreign Relations Act, is broad, and includes ‘any written arrangement, agreement, contract, understanding or undertaking’ whether or not it is legally binding.²⁷ The nature of the Minister’s powers depends on whether an arrangement is ‘core’ or ‘non-core’.

- For so-called ‘core arrangements’ — which include arrangements between State and Territory governments and foreign national governments — the Minister must be notified of, and approve, an arrangement being negotiated or entered into.
- For so-called ‘non-core arrangements’ — which include, but are not limited to, arrangements between local governments or universities and foreign governments, or arrangements between State and Territory governments and provinces of foreign countries — the Minister must be notified of a proposed arrangement. The Minister is

²⁷ s. 9(1).

then able to make a declaration that prohibits negotiations from occurring or prohibits an arrangement being entered into (DFAT 2021d, pp. 1–2).

How these new powers will interact with Australia’s foreign investment framework is, at the moment, somewhat unclear. However, the Government has acknowledged that there may be some overlap between the two schemes. In the explanatory memorandum accompanying a Bill to amend the FATA to enable information from the foreign investment framework to be shared for the purposes of administering the Foreign Relations Act, the Government noted that:

... there may be an intersection or overlap between arrangements which are subject to the regulatory frameworks in the Foreign Relations Bill and the FATA. Effective and efficient information sharing between the Commonwealth entities responsible for administering these schemes will support a coordinated approach to managing arrangements between the entities regulated by these schemes, including States and Territories and foreign governments.²⁸

The Department of Foreign Affairs and Trade (DFAT) has indicated that it ‘will work with other responsible Commonwealth Government departments to ensure that any replication between the Foreign Arrangements Scheme and other schemes is minimised’ (DFAT 2020b, p. 2).

Other developments

The inquiry into Foreign Investment Proposals by the Senate Economics References Committee continues ...

In December 2019, the Senate referred an inquiry into foreign investment proposals to the Senate Economics References Committee. The inquiry was initially due to report in September 2020. However this deadline has been extended twice, first to December 2020, and later to 30 June 2021.

The Committee’s terms of reference requests ‘the review of foreign investment proposals against the national interest test’, traversing areas as broad as market competition, money laundering, the role of the FIRB, the imposition of conditions on foreign investors, and protection from manipulation intended to benefit foreign investment (Senate References Committee nd). The inquiry is accepting public submissions.

... and a review of Australia’s Bilateral Investment Treaties is also underway

In July 2020, the Australian Government commenced a four-year review of Australia’s Bilateral Investment Treaties (BITs) (DFAT nd). BITs are agreements between Australia and other countries that contain rules to promote and protect foreign investment. Australia

²⁸ Australia’s Foreign Relations (State and Territory Arrangements) (Consequential Amendments) Bill 2020 Explanatory Memorandum, p. 2.

has 15 BITs in place. Most of these were entered into in the 1990s or early 2000s, and are with countries that do not have a free trade agreement (which typically contain investment rules) with Australia (DFAT nd).

Given their age, DFAT has noted that Australia's BITs 'contain relatively broadly drafted provisions and do not contain the explicit safeguards generally included in more modern treaties, such as Australia's modern Free Trade Agreements (FTA) investment chapters' (DFAT 2020e, p. 1). As such, DFAT has indicated that the review of BITs is an opportunity to introduce modern safeguards and to influence how key obligations are interpreted (DFAT 2020e, p. 2). As a result of the review, DFAT has indicated that Australia could — among other things — seek to renegotiate or amend a particular BIT, terminate a BIT, or continue a BIT in its current form.

Three BITs were terminated in 2020.

- In January 2020, the Australian Government and the Government of the Hong Kong Special Administrative Region of the People's Republic of China terminated a BIT after a new Investment Agreement between the Governments — which was negotiated in 2019 — took effect.
- In February 2020, the Australian and Peruvian Governments terminated a BIT between the two countries upon the Peru–Australia Free Trade Agreement entering into force.
- In August 2020, the Australian and Indonesian Governments terminated a BIT between the two countries, with investor protections instead available through the Indonesia–Australia Free Trade Agreement (the Indonesia–Australia Comprehensive Economic Partnership Agreement) (DFAT nd).

A How the assistance estimates are calculated

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

- import tariffs, which raise the price of imported products (mainly manufactured goods) allowing competing domestic producers to charge higher prices. The tariff assistance estimate is the equivalent budget outlay to the industry that would be expected to have the same effect on Australian producers' prices and volumes of production. The measure is not the amount of duty collected
- Australian Government budgetary outlays, comprising subsidies (predominantly grants and concessional loans) and tax concessions that advantage recipient businesses and industries over those not receiving them.²⁹

The assistance estimates cover a broad range of measures that afford substantive support to industry and can be readily quantified on a consistent annual basis. However, they do not capture all Australian Government support for industry (box A.1). For example, the assistance provided through regulation or arising from government purchasing preferences is not included in the estimates. In large part, this is because the extent of these forms of assistance is difficult to estimate. The estimates also do not include assistance conferred by other government jurisdictions. The estimates in this *Review*, therefore, do not cover the full extent of assistance to industry and the gap between estimated assistance and actual assistance is potentially large.

Estimates of 'effective rates of assistance' (ERAs) in this *Review* are also limited. ERAs are measured as the value of combined assistance to a particular industry as a share of that industry's unassisted net output (industry value added). But ERAs are only published for the manufacturing, primary production (mostly agriculture) and mining sectors, not the services sector, despite services constituting over 80 per cent of the Australian economy. Among other things, this reflects technical matters associated with the treatment of services in transportable goods sectors, which means that ERAs for services may involve double-counting of service industry value added in estimating economy wide ERAs.

²⁹ The assistance estimates reported in this year's *Review* cover the period 2014-15 to 2019-20. Further information on the assistance estimation methodology, program coverage and industry allocation is provided in the Methodological Annex to this *Review*.

Box A.1 What is not included in the Commission's assistance estimates

The Commission's assistance estimates cover only those measures that selectively benefit particular firms, industries or activities, and that can be quantified given practical constraints in measurement and data availability. Some significant government measures that selectively confer industry assistance are not included in assistance estimates because they cannot be appropriately quantified. Furthermore, while certain businesses benefit significantly from some government measures, the benefit is not classified as (preferential) industry assistance, generally because the purpose of the measure is to promote a broader public objective.

Examples of industry assistance not included in the core estimates

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

Some of these arrangements have been examined in detail in the Commission's inquiries, research reports, and previous *Reviews*.

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

- Superannuation concessions
- The private health insurance rebate
- Government funding of non-government community service providers
- Indigenous business support
- Employment incentives to business
- Remote housing concessions in mining regions
- Expenditure on improved transport infrastructure. For example, an upgraded road in a concentrated beef producing area would be expected to lower logistics costs for beef producers, but the road is not for the sole use of beef producers.

Although not classified as assistance, evaluations of these measures should include analysis of the differential effects on businesses within and across industries.

A.1 Tariff assistance estimates

The Commission's estimates of tariff assistance are divided into three categories — output assistance, input penalties and net tariff assistance.

- Tariffs on imported goods increase the price at which those goods are sold on the Australian market and, thus, allow competing domestic producers to charge higher prices. These effects are captured by the Commission's estimates of output assistance.
- Tariffs also increase the price of local and imported goods that are used as inputs and therefore 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 penalties.
- Net tariff assistance represents the total net assistance provided through tariffs to industry, and is calculated as output assistance less input penalties (box A.2).

Box A.2 Tariff assistance concepts applied to the food, beverage and tobacco products industry

To illustrate the concepts of output assistance, input penalties and net tariff assistance, this box outlines the Commission's estimates for the food, beverage and tobacco products industry in 2019-20. The \$617 million output assistance for the industry is largely derived from 5 per cent tariffs on imports of chocolate products, selected wines, and bread and pastry products. The \$280 million input penalty imposed on the food, beverages and tobacco products industry is mostly the result of 5 per cent tariffs on imports of chocolate and sugar confectionary products, which local producers use as inputs. Net tariff assistance for the industry (the difference between the industry's output assistance and input penalty) was \$337 million in 2019-20.

Industry size	Value of output \$115 billion		Value of input \$62 billion		
Categories of tariff assistance	Output tariff assistance	–	Input tariff penalty	=	Net tariff assistance
Food, beverages and tobacco products	\$617 million	–	\$280 million	=	\$337 million

Source: Commission estimates.

A.2 Budgetary assistance estimates

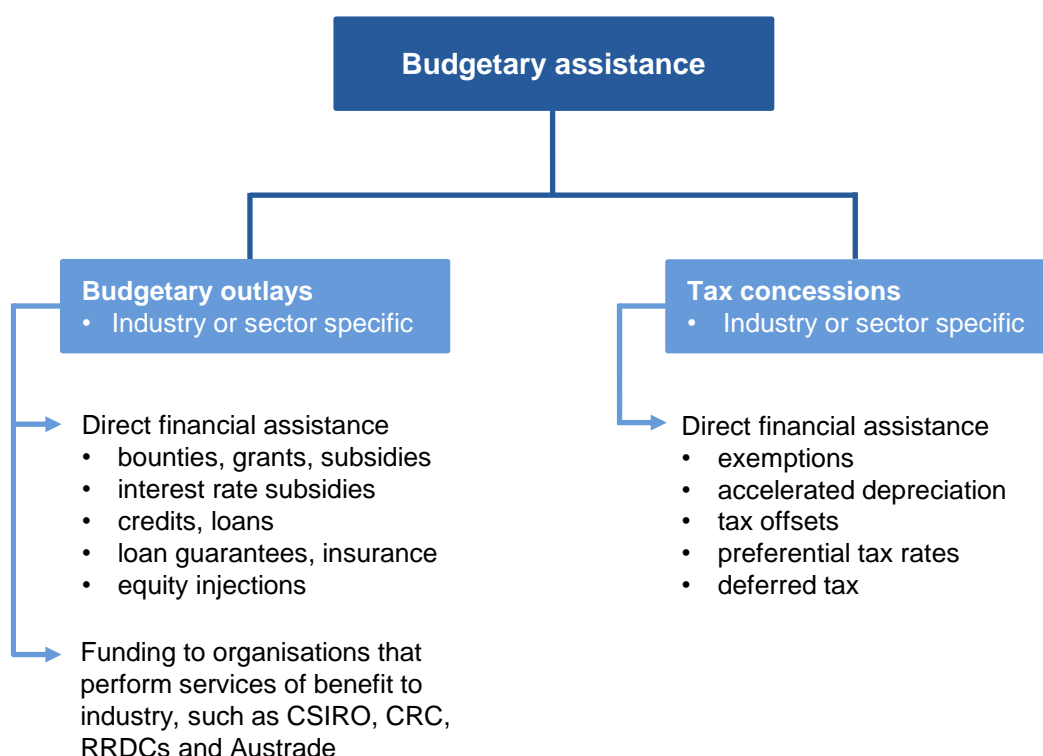
The budgetary assistance estimates are derived primarily from actual expenditures shown in departmental and agency annual reports, and the Tax Benchmarks and Variations Statement (formerly known as the Tax Expenditures Statement) compiled by the Treasury Department.

Industry and sectoral disaggregation is primarily based on supplementary information provided by relevant departments or agencies.

The Commission estimates budgetary assistance by applying the concept of ‘initial benefiting industry’. Assistance is allocated to the industry hosting the firm that initially benefits from a program or measure. Where a number of firms in different industries initially benefit from a particular program or measure, the Commission seeks to apportion the assistance between those industries. Further details are included in the Methodological Annex that accompanies this *Review*.

Estimates are presented for 34 industry groupings, while four ‘unallocated’ categories are used for programs where it has not been possible to confidently identify the initial benefiting industry from available information.

Figure A.1 **Forms of budgetary assistance**



To facilitate more detailed assessments of changes in the composition and nature of assistance, the Commission also categorises its estimates of Australian Government budgetary assistance into:

- R&D measures, including funding for research undertaken by the Commonwealth Scientific and Industrial Research Organisation (CSIRO), Cooperative Research Centres and rural R&D corporations, as well as R&D taxation concessions³⁰
- export measures, including through Export Market Development Grants, import duty drawback, TRADEX and Austrade
- investment measures, including development allowances
- industry-specific measures, including the Automotive Transformation Scheme, film industry offsets and the Offshore Banking Unit tax concession
- sector-wide measures, such as drought relief assistance and tax concessions under the Farm Management Deposits Scheme, in the case of the primary production sector
- small business programs, such as small business capital gains tax concessions, the Small Business Simplified Depreciation Rules and concessional company taxation for small business
- regional assistance, including the Tasmanian Freight Equalisation Scheme and various structural adjustment programs with a regional focus
- a residual ‘other’ category, which includes the TCF Corporate Wear Program and the Entrepreneurs’ Infrastructure Programme.

³⁰ The Commission’s assistance estimates do not include the full government appropriation for the CSIRO. Funding for certain public research actions such as environmental R&D, some renewable energy R&D and general research towards expanding knowledge in various fields is excluded from the assistance estimates.

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