IV. TRADE POLICIES BY SECTOR

(1) OVERVIEW[1]

1. Australia has maintained its relatively open trade regime since its last Review. At the same time, despite certain policy changes, it has continued to provide general and industry-specific support in different forms to the same sectors. A number of activities, including cargo liner shipping, and essential infrastructure facilities (some of which are natural monopolies), such as electricity networks, rail tracks, natural gas pipelines, water, communications, port terminals, airports, and post, continue to benefit from special regimes or exemptions that restrict competition. The fact that some sectors continued to be protected or otherwise assisted more than others constitutes a potential impediment to efficient re-allocation of resources in the economy as a whole.[2] As a result, no major improvement in multi-factor productivity, and thus international competitiveness was achieved during the period under review.

2. Despite its relatively small contribution to GDP (2.3%), Australia's market- and export-oriented agriculture remains of fundamental importance. Sectoral policy developments have focused largely on drought relief, water and land management, biodiversity, and climate change. The average level of applied MFN tariff protection for the sector (excluding forestry) remained stable and negligible, at 1.4 %, compared with 4.2% for manufacturing. Some sensitive items (e.g. cheese, certain vegetables, certain oils and fats) continue to receive tariff protection and tariff-rate quotas affect certain types of cheese. The strict quarantine and inspection regime, based on rigorous science-based import-risk assessment (but not cost-benefit analysis) and proportionate to Australia's appropriate level of protection (ALOP), remains in place. Exports and/or production of certain commodities (e.g. certain dairy, grain, horticulture, livestock, and wines/grapes) continue to be subject to levies earmarked mainly for R&D. Single-desk arrangements continue to affect rice exports; similar statutory arrangements for grains, wheat, and sugar were dismantled during the review period, although entities operating them remain in place. A new bilateral agreement on wine trade was signed with the EU. Despite a wide range of assistance programmes, the sector's overall level of support, as measured by different indicators, has remained low, equivalent to 0.1% of GDP, and the majority of this assistance was delivered in the form of non-trade distorting (Green Box) budgetary outlays rather than tax incentives; both product-specific and non-product specific AMS were within Australia's *de minimis* WTO commitments. Since 2009, no industry-specific support has been in place for the dairy sector. Budgetary assistance to commerial fisheries has dropped gradually and become increasingly focused on R&D; a policy has been put in place to address the profitability and sustainability of Australian fisheries as well as illegal fishing.

3. Mining, which operates in a competitive market environment with no apparent industry-specific restrictions on foreign investment and little government support compared with other sectors, remains critical to Australia's economic performance despite the pronounced decline in its multi-factor productivity.[3] Mining accounts for much of the improvement in Australia's terms of trade.

[1] This Chapter refers to several indicators used by the Productivity Commission (Chapter II) for assessing support provided to different economic activities. For details on the definition, methodology, and scope of these indicators see Productivity Commission (2010b).

[2] The authorities indicated that assistance could target market and information failures and therefore enhance resource allocation.

[3] The authorities indicated that growth in investment in mining reduces measured MFP for the sector as there are long lags before production from new investments comes on stream.

4. Despite reforms aimed at creating a nationwide energy market and strengthening price signals *vis-à-vis* consumers, Australia's electricity generation, transmission, and distribution remain subject to geographical segmentation; generation capacity is largely government-owned or controlled and ceilings on retail electricity rates remain in place. A National Strategy on Energy Efficiency is being implemented and renewable power generation has been the focus of government policy and assistance to the sector. Some state governments provided subsidies at the retail level to reduce the price of unleaded petrol and diesel; domestic producers of ethanol and biodiesel used in transport also receive a government subsidy.

5. Manufacturing policy has been focused largely on enhanced opportunities for innovation as a means of, *inter alia,* improving productivity and thus international competitiveness in order to reap benefits from rapid economic expansion in overseas markets. The average applied MFN tariff rate on industrial products has declined slightly as a result of unilateral tariff cuts in certain textiles, clothing, and footwear goods, and motor vehicles and parts/components. Budgetary assistance for manufacturing as a share to GDP is estimated to have remained steady at 0.1%, albeit an increase in value terms; the textiles, clothing, footwear and leather industries, as well as motor vehicles and parts activities continued to benefit from particularly high effective rates of protection, i.e. more than double the manufacturing sector's average and the highest of all goods industries. Some programmes for the automotive sector have been complemented with elements reflecting a persistent interventionist approach to the sector's adjustment; in particular, certain features of the New Car Plan's Automotive Transformation Scheme could raise some WTO-related concerns.

6. Services continued to be the largest and fastest growing sector of the economy. Budgetary assistance to the sector, mainly through tax expenditures, rose considerably and was equivalent to 0.28% of GDP in 2008/09, compared with 0.1% in other sectors. Australia's GATS and bilateral RTA commitments remain unchanged; its RTAs generally provide for greater commitments on trade in services than those under the GATS. Financial services reforms (e.g. prudential rules, Basel II) have been pursued in several areas and policies to mitigate the impact of the global financial crisis allowed Australia's banks to cope well with the financial turmoil. Action is being undertaken to remove impediments to Australia's position as a financial services centre in the Asia Pacific region. In telecommunications, the formerly government-owned Telstra has been able to retain considerable market power, an issue of concern in several areas including broadband services; efforts to address these issues are under way. Support to domestic advertisement and film producers has been maintained through local-content requirements in television broadcasting as well as film production funding. Since 2008, efforts have been made towards the development of a long-term coordinated approach to national infrastructure planning and investment, and to identify priority infrastructure projects aimed at coping with a variety of shortcomings in freight handling and co-ordination of responsibilities between the federal government the states and territories, and the private sector in this area. A new comprehensive policy framework has been established for the development of the aviation industry at all levels. A new strategy and additional support have been provided to promote innovation, infrastructure development, and growth in the tourism sector.

(2) AGRICULTURE, LIVESTOCK, FORESTRY, AND FISHERIES

(i) Features

7. Australia's agriculture sector is one of the most market-oriented among OECD countries.[4] Despite their relatively small contribution to GDP, and the impact of severe drought and exchange rate appreciation in recent years (section (2)(ii)), agricultural production and trade remain of

[4] OECD (2010a).

fundamental importance to Australia, a competitive net agricultural exporter.[5] The sector has important linkages with other activities. Between 2006/07 and 2009/10, it accounted for a relatively stable 2.3%-2.4% of GDP (including fisheries) (Table I.2) and provided work to around 3.3% of the employed population.[6] The major agricultural commodities (ranked by gross value) remain: cattle and calves, wheat, milk, and sheep and lambs.[7] Australia exports around 60% (in volume) or 67% (in gross value) of its total agricultural production.[8] The sector's share in total exports continued its decline in 2009 to 15.3% (down from 16.1% in 2007), as a result of the increase in the share of the resources sector and of the appreciation of the national currency.[9] The major agricultural exports in gross value terms remain wheat, meat, wine, dairy products, wool, and raw sugar.[10]

8. Almost 93% of Australia's food supply is produced domestically; food imports consisting largely of processed food items (e.g. processed fruit, vegetables, oil and fat, starchy roots, fish and seafood) contribute to 7.5% of the total value of domestic retail food sales.[11] Increased agricultural output has been almost entirely a result of productivity improvements. Nevertheless, average annual multi-factor productivity (MFP) growth in agriculture, forestry and fishing fell from 3.4% (1998/99-2003/04) to minus 1.4% (2003/04-2007/08)[12]; this was largely the direct outcome of severe drought as output contracted faster than employment. While some recovery is expected as drought conditions ease, the necessity of water policy changes and the potential consequences of climate change, may slow the recovery in agricultural productivity growth and this may have flow-on effects throughout the economy.[13] Higher productivity growth will be required to maintain the sector's international competitiveness and farm viability.

(ii) Main developments

9. Agricultural producers in Australia, which is predominantly export-oriented, rely mainly on world market signals to make production decisions.[14] The sector's relatively high productivity and thus international competitiveness, as well as environmental performance remain key priorities for current policies. A range of instruments is implemented to address issues related to water, land management, biodiversity, and adaptation to climate change.

10. A major policy development during the review period was the implementation in July 2008 of the Caring for our Country initiative, a set of programmes for funding improvements in the environmental management of natural resources.[15] The package supports communities, farmers, and other land managers to protect the environment and produce food and fibre in a sustainable manner.

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[5] The competitiveness of agriculture livestock and fisheries exports has been affected by the recent appreciation of the national currency (Australian Department of Foreign Affairs and Trade online information. Viewed at: http://www.dfat.gov.au/trade/negotiations/trade_in_agriculture.html [3 August 2010]).

[6] As of November 2008, 317,730 people were directly employed on farms – 90,000 down on pre-drought levels; agriculture supports the jobs of 1.6 million people, in farming and related industries such as processing, packaging, transport, food retailing, accommodation, cafes and restaurants (National Farmers' Federation, 2009).

[7] Australian Bureau of Statistics online information. Viewed at: http://www.abs.gov.au/ausstats/abs@.nsf/mf/7501.0 [3 August 2010].

[8] National Farmers' Federation (2009).

[9] UNSD Comtrade Database.

[10] DFAT STARS database, based on ABS Cat No 5368.0, August 2010 data.

[11] National Farmers' Federation (2009).

[12] Drought induced a fall of some 18% in the sector's value added in 2006-07, with MFP growth dropping to -19.4% that year (Productivity Commission, 2009c; and Productivity Commission, 2008a).

[13] Nossal and Gooday (2009).

[14] OECD (2010a).

[15] OECD (2010a).

Caring for our Country replaced or incorporated programmes under the National Heritage Trust, National Landcare Program, Environmental Stewardship Program, and the Working on Country programs, which ended in June 2008.

11. Drought policy has shifted from natural disaster management to a recognition that drought is a normal feature of Australia's climatic variability.[16] During the review period, Australia has embarked on a comprehensive national review of drought policy. In response to this review, the authorities are conducting a $A 23 million pilot of drought reform measures in parts of Western Australia; these measures are designed to move from a crisis management approach to risk management. These pilot reform measures will be reviewed in 2011.

12. During the period under review, regulatory changes were made to wheat export marketing arrangements, fisheries legislation, agricultural and veterinary chemicals, and the domestic implementation of the Australia – European Community (EC) Wine Agreement (see below). Major institutional changes were made to the Australian Fisheries Management Authority, the Australian Pesticides and Veterinary Medicines Authority and the Wheat Export Authority (now known as Wheat Exports Australia). The Department of Agriculture, Fisheries, and Forestry (DAFF) is responsible for the development and implementation of sectoral policies and programmes.

13. Australia's bilateral and plurilateral agriculture agreements cover a range of agricultural trade issues including: exchange of scientific information, protocols for live animal trade, agricultural cooperation, dialogue on trade policy, mutual recognition, trade facilitation, and specific bilateral trade issues.

14. In 2008/09, Australia provided 94,912 tonnes (158,592 wheat equivalent tonnes) of food aid valued at $A 102 million to least developed countries and net food-importing developing countries (up from 132,687 tonnes, 216,726 wheat equivalent tonnes in 2007/08); at the same time, $A 98.5 million was provided for programmes helping these countries to develop their food security ($A 253.4 million in 2007/08).[17] All Australian food aid is provided on fully grant terms.

(a) Border measures

15. During the review period, Australia's average level of applied tariff protection for the sector (excluding forestry) remained stable and negligible at 1.4 % (Table III.1). While most products are duty free, some sensitive items, such as cheese (which is subject to a specific duty), and certain vegetables (mushrooms), nuts, fruit, oils and fats (subject to a 5% rate), continue to receive some tariff protection. Australia has maintained tariff-rate quotas for certain types of cheese in line with its WTO market access commitments and preferential arrangements (section (iii)(c), Chapter III). Imports of all agricultural (and food) products remain subject to a strict quarantine and safety regime; domestically produced and imported food products must meet the requirements of the Food Standards Code of the FSANZ.

16. Exports and/or production of certain dairy, grain, horticulture, livestock, and wines/grapes commodities remain subject to levies.[18] Rice is the sole item subject to single-desk arrangements exempt from competition policy provisions. As of 2008, the marketing of bulk wheat exports was effectively deregulated (section (2)(iii)(b)). On 24 October 2009, the Government of Western

[16] This and other programmes discussed below (section on domestic support) were notified through WTO document G/AG/N/AUS/77, 13 July 2010 (Productivity Commission, 2009).

[17] WTO document G/AG/N/AUS/75, 8 December 2009.

[18] See DAFF online information. Viewed at: http://www.daff.gov.au/agriculture-food/levies/other_levies.

Australia deregulated the export of barley, canola, and lupins.[19] The Queensland Sugar Limited (QSL) authorization to negotiate commercial export contractual arrangements with milling companies and cooperatives expired on 30 September 2009 (section (2)(iii)(a)). In 2009, Australia notified that it provided no export subsidies for dairy products for the period 2001/02-2007/08, or for pears from 2004 to 2007.[20] A new agreement on wine trade, including new rules for the protection and use of geographical indications, wine making technique and labelling requirements entered into force between the EU and Australia in September 2010, replacing their 1994 agreement.[21]

(b) Domestic support measures

17. Agriculture is estimated to have received 22% of total budgetary assistance (i.e. outlays plus tax concessions) made available to all sectors of the economy in 2008/09; this assistance represents 0.1% of GDP (Table IV.1).[22] Domestic support for agriculture remains the second lowest amongst OECD countries; in 2009 Australia's producer support estimate (PSE) was estimated at just 3% of gross farm receipts or just over one seventh of the OECD average, thus making Australian farmers among the most efficient and therefore most self-sufficient in the world.[23] According to OECD estimates, between 2007 and 2009 Australia's total support (TSE) to agriculture dropped from 0.3% to 0.1% of GDP, the lowest among all OECD countries.[24] In 2008/09, grain, sheep, and beef cattle farming, as well as horticulture and fruit growing were among the activities benefiting from the highest effective rates of (combined) assistance in the primary production (Table AIV.1).[25] Domestic producer and consumer prices have remained roughly aligned with world prices; Australia's OECD Nominal Protection Coefficient (NPC) has been 1.00 since 2001.[26]

18. The sector has continued to receive assistance from a wide range of programmes, mainly in the form of budgetary outlays (Table IV.1), particularly drought-related support, although this type of support declined in 2008/09. Budget financed programmes are used mainly for structural adjustment, rural research (with matching contributions from industry) and for natural resources and environmental management.[27] Expenditure on research and development is co-financed by funds

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[19] Prior to 23 October 2009, Grain Pool Pty Ltd held the main export licence to export bulk barley, lupins, and canola from the State of Western Australia.

[20] Australia has export subsidy commitments for butter and butter oil, cheese, skim milk powder and other milk products (financial year basis) and pears (calendar year basis) (WTO document G/AG/N/AUS/72, 24 March 2009).

[21] The agreement, *inter alia,* provides for EU recognition of an additional 16 Australian winemaking techniques, simpler arrangements for the approval of future winemaking techniques, simplified labelling requirements for Australian wine sold in the EU, and revised rules for the protection for Australia's and the EU's 112 registered geographical indicators. Australian producers will not use more than 2,500 European names such as 'champagne', 'port', 'sherry', 'chablis', 'burgundy', and 'tokay'. The authorities provided $A 500,000 to help affected fortified Australian wine producers to rebrand their products (MAFF online information. Viewed at: http://www.maff.gov.au/media/media_releases/2008/december/european_deal_improves_trade_access_for_australian_wines [3 August 2010], and http://www.daff.gov.au/agriculture-food/hort-wine/wine-policy [10 November 2010]; and OECD, 2009a).

[22] Productivity Commission (2010c).

[23] The PSE decreased from 4% in 2008, mainly due to reduced budgetary payments (OECD, 2010a; and National Farmers' Federation, 2009).

[24] OECD (2010a).

[25] Assistance for grain, sheep, and beef cattle farming was delivered almost entirely through non-industry-specific measures, and in particular to those set for exceptional circumstances (interest rate subsidy, relief payments) (Productivity Commission, 2010b).

[26] The NPC is the ratio between the average price paid/received at farm gate and the border price at farm gate (OECD, 2009a).

[27] OECD (2009a).

collected through industry levies, supplemented by funding from the Commonwealth budget. Estimated support for general services increased from 38.8% of TSE in 2007 to 46.8% in 2009[28]; most of the general services support was for R&D, directed mainly towards the Commonwealth Scientific and Industrial Research Organisation (CSIRO).[29] Off-road diesel fuel, used in agricultural production, qualifies for rebates on excise taxes, as part of a scheme of rebates for diesel fuel used in a number of industry sectors, including primary production activities.[30] In 2008/09, spending in the form of an exceptional circumstances interest rate subsidy accounted for 27.4% of total budgetary assistance, or twice the amount of total support in the form of tax expenditures.[31]

Table IV.1
Budgetary assistance to primary industry, 2005-09
(% and $A million)

	2005/06	2006/07	2007/08	2008/09
Share in total budgetary assistance (%)				
Dairy cattle farming	9.5	11.3	13.3	7.4
Grain, sheep and beef cattle farming	41.5	42.8	46.3	55.3
Horticulture and fruit growing	9.3	7.0	5.9	10.7
Other crop growing	16.2	10.7	8.2	4.1
Other livestock farming	2.1	1.8	1.7	1.8
Fisheries	5.8	16.2	8.9	5.8
Forestry and logging	5.3	2.2	1.4	-4.2
Other primary production[a]	1.8	1.4	1.4	1.4
Unallocated primary production[b]	8.5	6.7	12.9	17.7
Total outlays ($A million)	1,097.5	1,554.9	1,878.1	1,440.0
Total tax expenditures ($A million)	299.1	201.8	292.2	228.8
Total budgetary assistance ($A million)	1,396.6	1,756.6	2,170.2	1,668.8
Share of total budgetary assistance to GDP (%)	0.14	0.16	0.18	0.13

a Other primary production includes "services to agriculture" (including hunting & trapping) and "poultry farming".
b Unallocated includes general programmes where details of beneficiaries are unknown.

Source: Productivity Commission (2010), *Trade & Assistance Review 2008-2009*, 22 June, Canberra. Viewed at: http://www.pc.gov.au/__data/assets/pdf_file/0007/98998/tar0809.pdf [23 August 2010].

19. In addition to the Caring for our Country package (see above)[32], during the review period Australia has implemented a new exit grant package for the Murray-Darling Basin, which has been affected by drought and climate change.[33] As from 2008/09, a four-year $A 130 million Australia's Farming Future (AFF) initiative has been implemented, comprising national programmes to help primary industries adapt and adjust to the impact of a changing global climate and manage greenhouse

[28] OECD (2010a).
[29] In February 2010, a $A 70 million CSIRO Sustainable Agriculture Flagship Initiative was launched to raise productivity and reduce carbon emissions intensity across Australia's agricultural and forestry sectors (Productivity Commission, 2010c).
[30] OECD (2009a).
[31] Productivity Commission (2010c).
[32] Caring for our Country is an integrated package promoting: a business approach to investment; clearly articulated outcomes and priorities; and improved accountability. An initial investment of $A 2.25 billion for the first five years (1 July 2008-30 June 2013), is to be focused on six national priority areas: (i) the national reserve system, (ii) biodiversity and natural icons, (iii) coastal environments and critical aquatic habitats, (iv) sustainable farm practices, (v) natural resource management in remote and northern Australia, and (vi) community skills, knowledge and engagement (OECD, 2009a).
[33] Programmes to assist farmers to manage the impact of climate change, including re-establishment support to those who choose to leave farming, should also improve the long-term financial health of the sector (OECD, 2009a).

pollution. The initiative includes a $A 46.2 million Climate Change Research Program (June 2009), and programmes on soil carbon ($A 22 million), nitrous oxide ($A 10.8 million), and reducing livestock emissions ($A 28.7 million).[34] An emissions "cap-and-trade" Carbon Pollution Reduction Scheme (CPRS), which is no longer under consideration, would have raised tax expenditures in the sector progressively, due to the exemption of agriculture and deforestation from CPRS coverage; this exemption is due to practical considerations in accounting for the sector's diffuse emission sources.[35] As from 2007, the authorities have been investing $A 12.9 billion in a ten-year Water for the Future initiative to secure the long-term water supply to both rural and urban areas; several programmes under this initiative relate to the use of irrigation water in agriculture, including water use efficiency on farms, purchase of water entitlements from farmers to preserve the environment, and grants to exit from irrigation-based rural production.

20. In 2008/09, current total AMS dropped to zero; trade-distorting domestic support product-specific AMS-related expenditure has been used mainly for milk and to a much lesser extent for sugar, wheat, and cattle; both product- and non-product specific AMS were within Australia's *de minimis* commitments.[36] Green-box type support accounted for about 93.4% of total support notified to the WTO.

(iii) Selected subsectors

(a) Sugar

21. Sugar remains a leading farm export commodity. Australia is a low-cost sugar producer and the world's third largest exporter of raw sugar; it exports around 80% of its total production. Sugar producers are directly dependent on developments in the raw sugar world market; therefore, international competitiveness is of outmost importance.[37] The sugar industry remains a major feature of many towns, particularly in Queensland, which produces around 95% of total raw sugar. Following the 2006 deregulation and the expiry of the QSL exemption from the TPA on 20 September 2009, sugar trade is no longer subject to statutory arrangements (section (2)(ii)(a)).[38] Despite a zero import duty on cane sugar, tariff protection for other sweeteners, such as maple sugar, fructose, and syrups thereof, are relatively high, at rates of 4% or 5%. The cane-growing industry has benefited from specific and non-specific industry support (sections (2)(ii)(a) and (b)). The five-year Sugar Industry Reform Program (SIRP) was completed in 2009 with total expenditure of $A 334.7 million. The SIRP has resulted in: a reduction in long-term costs through improved production practices, transport, and technology; improved efficiency and production through improvements to infrastructure; and strengthened industry networks and more effective long-term mill business planning. The levy on domestic sugar sales, including imported sugar, to partly fund the SIRP, was abolished in November 2006 to offset rising input costs for sugar refiners.[39] Between 2004/05 and 2008/09, estimated budgetary assistance for the SIRP fell from $A 129.4 million to $A 4.5 million; a similar type of assistance for R&D through to the Sugar Research and Development

[34] For more information on the Australia's Farming Future programme see DAFF online information. Viewed at: http://www.daff.gov.au/climatechange/australias-farming-future; and OECD (2009a) and (2010a).

[35] The Treasury (2010e).

[36] WTO documents G/AG/N/AUS/73, 13 July 2009, and G/AG/N/AUS/76, 13 July 2010.

[37] Since 2006, Australia has remained involved in a quadripartite sugar-monitoring mechanism involving Australia, Thailand, Brazil, and the EU, following the panel recommendations of the WTO Dispute Settlement Body implementation with respect to the EU sugar subsidies case. WTO online information. Viewed at: http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds265_e.htm. In February 2010, they expressed concern about the decision by the EU to expand its out-of-quota sugar exports by 500,000 tonnes.

[38] WTO document G/STR/N/13/AUS, 13 September 2010.

[39] OECD (2007).

Corporation increased from an estimated $A 3.8 million to $A 6.1 million.[40] According to OECD estimates, between 2007 and 2009 the producer Single Commodity Transfers (SCT) for sugar dropped from $A 5 million to zero.[41]

(b) Wheat

22. Australia is a small producer of wheat (i.e. average 3% of world production); it exports 70% of its crop and contributes 12% to the world wheat trade.[42] Wheat is the most significant crop grown in terms of area sown, volume of grain produced, and value. Production remains highly concentrated. Half of wheat growers account for less than 10% of production, and 10% of growers account for almost half of the industry's production. Border protection and domestic support have been virtually nil during the review period; between 2006/07 and 2008/09, the sole industry-specific support measures were the "unallocated" Tasmanian wheat freight subsidy[43], amounting to $A 1.8 million for the entire period, as well as a $A 2 million Wheat Export Authority Supplementation in 2007/08.[44] In 2008, the authorities deregulated the marketing of bulk wheat exports by removing the long-standing single-desk regime (i.e. the sole exporter rights) operated by AWB (International) Limited (section (2)(ii)(a)). Wheat Exports Australia (WEA), a government agency within DAFF, was established under the Wheat Export Marketing Act 2008 to administer the Wheat Export Accreditation Scheme 2008 for bulk wheat exporters. As from July 2008, traders seeking to export bulk wheat require accreditation from WEA, which assesses the "fit and proper" standing of the applicant. Bulk handling companies that also operate port terminals are required to pass an additional access test, which guarantees fair and transparent port access to rival exporters; by 30 June 2010, 28 exporters were accredited.[45] Foreign companies may apply for accreditation provided it is through an Australian subsidiary and hence subject to Australian law.[46] The scheme, aided by an assistance package of $A 9.4 million, has facilitated a smooth transition from a highly regulated market to deregulation as the exporting of bulk wheat has opened up to competition.[47] Deregulation has spurred productivity and innovation in Australia's bulk wheat export industry. Competition has already resulted in greater demand for Australian wheat, development of new products and services, extension of existing international markets, and the opening up of new overseas markets for Australian wheat.[48]

(c) Dairy

23. Australia's position in the world dairy market remains unchanged since its last TPR; it accounts for around 2% of world milk production, and ranks fourth (behind New Zealand, the EU, and the United States) in world dairy trade, with an 11% share.[49] The volume of dairy exports varies depending on raw milk production; in recent years, production has been stable or declining and about

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[40] Productivity Commission (2010c).

[41] The SCT is the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm-gate level, arising from policies linked to the production of a single commodity such that the producer must produce the designated commodity in order to receive the payment (OECD, 2010a).

[42] Productivity Commission (2010d).

[43] The term "unallocated" refers to programmes where details of beneficiaries cannot be readily identified.

[44] Productivity Commission (2010c).

[45] Wheat Exports Australia (2009).

[46] APEC (2009).

[47] Productivity Commission (2010d).

[48] Wheat Exports Australia (2009).

[49] Dairy Australia online information. Viewed at: http://www.dairyaustralia.com.au/Our-Dairy-Industry/Industry-Statistics/Export-Summary.aspx.

55% of raw milk production has been consumed domestically with the remaining 45% exported.[50] During and following the termination of the nine-year Dairy Industry Adjustment Package (DIAP) (2000-09),[51] multi-factor productivity rose as a result of a reduction in dairy farm numbers, investment in R&D, and an increase in milk yields per cow. Moreover, the domestic retail and wholesale markets have become more concentrated, changing the price dynamics between farmers, processors, and retailers.[52] Tariff protection remains at zero for dairy items, except for a 4% tariff on dairy spreads, and a specific duty rate coupled with a TRQ for five cheese and curd items (Chapter III). Since 2009, no industry-specific support has been in place for the dairy sector. In response to concerns over reductions in farm gate prices in the more concentrated production pattern, and Tasmanian dairy farmers' alleged suffering from abuses of market power, the Senate Economics Reference Committee launched an inquiry into competition and pricing in the Australian dairy industry; its May 2010 report addressed perceived deficiencies in national competition policy, the role of the ACCC, and the provisions of the TPA. In November 2010, the authorities were considering the Committee's recommendations.

(iv) Forestry

24. Timber harvesting occurs mainly in about 26% of Australia's 149.4 million hectares of forest area, and less than 1% of native production forest is harvested each year.[53] Australia's 2020 Vision aims to treble the 1996 area under forest plantation by 2020 through the development of appropriate structures, and by providing better information to maintain foreign and local investor confidence in the plantation sector.[54] Private ownership of plantations increased from about 30% in 1990 to more than 64% in 2008.[55] Australia has traditionally had a deficit in the trade of forest and wood products, mostly on paper products and sawn wood, which prompted the authorities to consider how the sector's international competitiveness could be improved. In May 2008, a three-year $A 20 million Preparing Australia's Forestry Industry for the Future package was launched. As part of the package, Australia committed $A 9 million to a Forest Industries Development Fund, a grant programme encouraging increased investment in activities designed to add value to forest resources. These include new uses for wood, new wood processing initiatives, and increased employment in the sector.[56] Grants under the Fund represent a maximum of 30% of total project costs and generally no more than $A 500,000. Furthermore, as part of the forestry industry package, a $A 5 million Forest Industries Climate Change Research Fund was established in August 2009 offering grants of up to $A 500,000 to support innovative forestry research projects focusing on climate change adaptation and mitigation, along with the development of sustainable bio-energy initiatives. On 6 November 2009, the National Climate Change and Commercial Forestry Action Plan 2009-12 identified knowledge gaps and proposed actions to assist forest industries to respond to climate change.[57] Legislation was before the Parliament in November 2010 making it an offence to import any products of illegally harvested timber, as well as a code of conduct requiring suppliers who first place timber into the Australian market to carry out proper tests to ensure wood entering the country is legal. These measures will be supported by the use of a trade description to give consumers confidence that they are purchasing legal wood.

[50] Dairy Australia (2010).
[51] For details about the DIAP see WTO document WT/TPR/S/178/Rev.1, 1 May 2007.
[52] The Senate (2010).
[53] Bureau of Rural Sciences (2010) and (2007).
[54] Plantations 2020 (2002).
[55] DAFF online information. Viewed at: http://www.daff.gov.au/forestry.
[56] DAFF online information. Viewed at: http://www.daff.gov.au/forestry.
[57] Department of Agriculture, Fisheries and Forestry (2009).

25. A licence is required for exports of 2 tonnes or more of woodchips intended for further processing following export, and for sandalwood (from Queensland and Western Australia).[58] Material from plantations covered by an approved code of practice (except from Queensland and Northern Territory) or from the ten areas covered by regional forest agreements (RFAs)[59] are exempt from export licence requirements; exports of hard wood woodchips from native forest areas outside RFA regions are prohibited.

26. Between 2006/07 and 2008/09, the effective rate of (combined) assistance (Table AIV.1) to forestry and logging passed from 5.1% to -2.4%[60]; this negative rate reflects the reversal in the estimate for the accelerated write-offs on forestry-managed investments from positive assistance in 2007/08 (the acceleration stage) to increased taxation (the pay-back stage). This is due to the harvesting of products from the forestry managed investment schemes, which results in tax being paid on these products.

(v) Fisheries

27. Fisheries and aquaculture[61] remain Australia's fifth largest rural industry, consisting primarily of low-volume high-value species for export. This is despite the negative effects of a number of important variables, like rising fuel prices, the appreciation of the Australian dollar, and increased competition in the domestic market from low-value imports.[62] Australia has been a net exporter of fisheries products in value terms but a net importer in volume terms as it exports mostly high-value products. The recent appreciation of the Australian dollar increased the cost of landed Australian exports of fisheries products, and has closed the gap between imports and exports in value terms; since 2007/08, Australia has been a net importer of fisheries products in value terms.

28. All components of the Securing our Fishing Future (SOFF) package, including business exit assistance, business advice assistance, assistance for skippers and crew, onshore business assistance, fishing community assistance and the Australian Fishery Management Authority (AFMA) Levy Subsidy, were completed by 30 June 2010.[63] The SOFF package delivered 144 projects, which allowed the industry to better adjust, adapt, redevelop, restructure, improve processes, introduce new product lines, and generally move forward following the buyback of fishing concessions. Adjustment assistance has been used only in special circumstances on a case-by-case basis (e.g. 100% buy-back of Torres Strait finfish entitlements) to facilitate the introduction of new fisheries management arrangements. From 2007/08 to 2009/10, $A 48.549 million was appropriated to the SOFF programme for the 144 approved projects and the buyback of fishing concessions. As a result of these developments, between 2006/07 and 2008/09 budgetary assistance to commerial fisheries gradually dropped and became increasingly focused on R&D (Table IV.1).[64] In November 2007, the authorities

[58] DAFF online information. Viewed at: http://www.daff.gov.au/forestry.

[59] For details on the RFAs see WTO document WT/TPR/S/178/Rev.1, 1 May 2007.

[60] Productivity Commission (2010c).

[61] Aquaculture now accounts for approximately one third of the gross value of Australia's fisheries production; this is largely due to the ongoing adoption of innovative and sustainable farming practices as well as increased marketing in overseas markets. According to OECD, its continuing growth is likely to provide the major impetus for medium to long-term growth in the value of Australia's seafood production (OECD, 2010e).

[62] OECD (2010e).

[63] From 2006/07 to 2008/09, the authorities provided a total of $A 15 million to subsidize the AFMA's fisheries management fees for those remaining in the industry; a further $A 6 million was granted for science, compliance, and data collection to improve the management of Commonwealth fisheries (DAFF online information. Viewed at: http://www.daff.gov.au/fisheries/domestic/fishingfuture; and WTO document WT/TPR/S/178/Rev.1, 1 May 2007).

[64] Productivity Commission (2010c).

committed $A 17 million over four years in an expanded research programme to support the expansion of the research conducted by DAFF.[65]

29. To address the issue of profitability and sustainability, Australia has taken steps to change the operating environment of Commonwealth fisheries. In 2007, it adopted a Harvest Strategy Policy aimed at stopping overfishing, allowing overfished stocks to recover, and promoting the longer term profitability of the fishing industry.[66] In 2009, 12 stocks were overfished and 10 were classified as subject to overfishing.[67] AFMA implemented additional management measures intended to halt overfishing and bring about recovery of overfished stocks; the number of stocks assessed as not subject to overfishing increased from 12 in 2004 to 73 in 2009. In line with the National Fisheries Compliance Strategy 2005-2010[68], enforcement was strengthened through, *inter alia,* the Fisheries Legislation Amendment, passed on 24 June 2008, which reinforced the powers of border protection officers to apprehend ships involved in illegal fishing. It also extended new offences for Australian citizens if involved in and/or supporting illegal fishing in Australian jurisdictional waters in areas governed by an international agreement, and on the high seas. Vessel monitoring systems, which provide real-time position reporting of boats, became mandatory on all Commonwealth licensed fishing vessels in 2007. The Government has continued its fight against illegal, unreported, and unregulated (IUU) fishing in various global and regional initiatives, including the development of the FAO-supported United Nations Port State Measures Agreement to Prevent, Deter and Eliminate IUU Fishing, the Regional Plan of Action to Promote Responsible Fishing Practices Including Combating IUU Fishing in the South East Asia Region, and international guidelines for the management of deep sea fisheries on the high seas.[69] Despite significant enforcement patrolling, illegal foreign fishing vessels remain a threat to sustainable fisheries management in Australian waters. The overall reduction in apprehensions of illegal vessels is a result of surveillance, apprehensions, vessel forfeiture, prosecutions, and detention as well as the public information campaign in eastern Indonesia about the severe consequences of illegal fishing and the importance of sustainable fisheries management practices.[70]

(3) MINING AND ENERGY

(i) Mining

30. Australia remains one of the top five producers and exporters of most of the world's key minerals.[71] In 2009/10, mining accounted for 8.4% of GDP and 1.6% of total employment (Table I.2), and 57.2% (51.7% in 2007) of total merchandise exports (Table AI.2). It follows that labour productivity is roughly five times the level in the rest of the economy, presumably due in large part to its high capital intensity. However, the sector's average MFP growth rate dropped to minus

[65] OECD (2010e).

[66] Department of Agriculture, Fisheries and Forestry (2007); and OECD (2010e).

[67] Wilson et al (2010).

[68] Fisheries management costs increased significantly from $A 29 million in 2002/03 to $A 43.5 million in 2006/07, largely due to major efforts to control foreign fisheries compliance (OECD, 2010e).

[69] Australia and Indonesia developed, the Regional Plan of Action to Promote Responsible Fishing Practices including Combating Illegal, Unreported and Unregulated (IUU) Fishing (RPOA), agreed by ten other South-East Asian countries in 2007. Australia has taken a strong stand in WTO discussions concerning the contribution of fisheries subsidies to overcapacity and overfishing, and trade distortions (OECD, 2010e).

[70] During 2008/09, 27 interceptions occurred compared with 156 in 2007/08, although sightings "above" the Provisional Fisheries Surveillance and Enforcement Line and just north of the Australian Exclusive Economic Zone remain high (Australian Customs and Border Protection Service, 2009).

[71] For example, Australia is the world's leading producer of bauxite, alumina, rutile, and tantalum as well as the largest exporter of alumina, metallurgical coal, iron ore, and lead (Minerals Council of Australia, 2010).

4.8% (2003/04-2007/08), the lowest of all sectors of the economy.[72] According to the Productivity Commission, this drop was the consequence of the combined effects of depletion of *in-situ* mineral resource deposits (particularly in relation to coal mining and oil and gas extraction) and the export prices boom, which led to lags between capital expenditures and corresponding increases in mining output.[73] In recent years, the strong price increase in mining products has made it profitable to extract minerals that are more difficult and costly to produce.[74] The sector is critical to Australia's economic performance, and over the next five years it is forecast to realise the full benefit of recent high levels of investment.[75] A 30% Mineral Resources Rent Tax for iron ore and coal as well as an extension of the Petroleum Resource Rent Tax of 40% will be in place by July 2012[76]; mining-related taxes contributed about 18% of the revenue from corporate income tax during 2008-09.[77] Mineral and petroleum resources are owned either by the Commonwealth, or state, or territory governments.[78]

31. The mining sector continues to operate in a competitive market environment with no industry-specific restrictions on foreign investment, although, as for all sectors, prior approval or notification is required for investment above certain thresholds (Chapter II). Mining receives relatively little budgetary assistance, equivalent to 5% (2008/09) of the total available to all sectors of the economy; nevertheless, from 2006/07 to 2008/09 it rose by 36.4% to $A 420.1 million.[79] Between 2006/07 and 2008/09, the estimated effective rate of (combined) assistance from tariff and budgetary assistance for mining remained negligible (0.1%) (Table AIV.1, Chapter III). Budgetary assistance is almost evenly allocated between budget outlays and taxation concessions; virtually all industry-specific budgetary assistance was delivered through the National Low Emissions Coal Initiative, with minimal amounts channelled through the Renewable Energy Development Initiative. R&D-related tax concessions represented 68.9% of total budgetary assistance to mining in 2008/09.

[72] Higher prices make it economic to mine resources with lower mineral yields. High prices have also stimulated investment in existing and greenfield sites. Mining was marked by declining resource quality and large capital investment that has not yet translated into output (Productivity Commission, 2009c, Table 2.2, and 2008a).

[73] MFP is a function of labour and capital costs. According to the authorities, due to higher labour rates compared with some of their key competitors, Australian mines gain a competitive advantage through high capital intensity. With both MFP inputs being high, it is likely that Australia will appear high in comparison to some of its competitors. The authorities indicated that this is due to the stage of the investment cycle and capital lag rather than the result of government intervention.

[74] The main driver for improved terms of trade is increased demand for raw materials in key export destinations such as China, which has driven up prices in key commodities, e.g. iron ore. Australia has a competitive advantage due to the quality of its natural resources, and its proximity to those markets. However, in recent months, whilst the terms of trade for established mining commodities and commodities that are harder to mine (e.g. rare earths) have improved due to higher prices, the appreciating Australian dollar has cancelled out some of the gains from price increase (OECD, 2008).

[75] Department of Resources, Energy and Tourism online information. Viewed at: http://www.ret.gov.au/resources/mining/Pages/Mining.aspx.

[76] Output-based royalties are levied for most mining projects, either in the form of specific royalties (flat rate per unit of production) or on an *ad valorem* basis (levied as a percentage of the value of production). The Commonwealth's Petroleum Resource Rent Tax, a profit-based royalty applied to petroleum produced in offshore areas, is the main exception (OECD, 2008).

[77] Businessweek online information "Rudd Makes Australian Mining Tax Mainstay of Election Platform", 2 May 2010. Viewed at: http://www.businessweek.com/news/2010-05-02/rudd-makes-australian-mining-tax-mainstay-of-election-platform.html [16 August2010].

[78] See WTO document WT/TPR/S/178/Rev.1, 1 May 2007.

[79] Productivity Commission (2010c).

(ii) Energy

32. Australia is richly endowed with natural energy resources (uranium, coal, natural gas); it produces about 2.4% of world energy and is a major supplier to world markets.[80] Coal plays a much larger role in Australia's primary fuel mix than in many other OECD countries and world energy markets, reflecting its large, low-cost resources located near demand centres and close to the eastern seaboard.[81] Factors expected to affect Australia's energy market include the expanded Renewable Energy Target (section (a) below), the rate of economic and population growth, energy prices evolution, and costs and developments in alternative energy technologies. Domestic use of nuclear power is not envisaged in the near future. As a result of, *inter alia*, large increases in capital and labour inputs coupled with significantly reduced output growth, the average MFP growth rate for electricity, gas, and water supply activities dropped to -4.2% (2003/04-2007/08), the second lowest after that of mining[82]; separate data on MFP for electricity and gas are not available.

(a) Electricity

33. The majority of Australia's electricity is produced from coal, which accounted for 76.3% of total electricity generation in 2007/08, followed by gas (15.9%) and hydro-power (4.5%); as a result, carbon dioxide emissions per unit of output are high by international standards.[83] Despite progress with reforms aimed at creating a nationwide energy market and strengthening price signals *vis-à-vis* consumers, Australia's electricity generation, transmission, and distribution remain subject to geographical segmentation in two major blocks, the six southern and eastern Australia jurisdictions[84]; and Western Australia and the Northern Territory. Of the 52 major firms in the Australian electricity market 11 are entirely foreign-owned, and a further 8 are either joint ventures with foreign-owned companies or partly foreign-owned, with foreign ownership ranging from 37% to 91%.[85]

Southern and eastern Australia

34. During the review period, the Australian Energy Regulator (AER) of all electricity networks and covered gas pipelines in southern and eastern Australia completed its first determinations for the electricity distribution sector, and its first access arrangement reviews in gas distribution (section (b) below).[86] A new body, the Australian Energy Market Operator (AEMO), began operations on 1 July 2009 as the single electricity and gas market operator in southern and eastern Australia only.[87]

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[80] Geoscience Australia and ABARE (2010).

[81] In 2007/08, the Australian primary energy consumption mix consisted of black and brown coal (40%), petroleum products (34%), natural gas (22%), and renewables (5%) (Department of Resources, Energy and Tourism, 2010).

[82] Higher prices make it economical to mine resources with lower mineral yields. High prices have also stimulated investment in existing and greenfield sites. Mining was marked by declining resource quality and large capital investment that has not yet translated into output (Productivity Commission, 2009c and 2008a).

[83] Department of Resources, Energy and Tourism (2010); and OECD (2008).

[84] These jurisdictions are: Queensland, New South Wales, the Australian Capital Territory (ACT), Victoria, South Australia, and Tasmania.

[85] Energy Supply Association of Australia (2010), pp. 74-6.

[86] The AER's first access review for gas distribution set the prices and other access terms and conditions for covered networks in NSW (Country Energy) and the ACT (ActewAGL). The final determinations can be accessed online (www.aer.gov.au). The AER has also begun its next schedule of gas distribution access reviews for Queensland and South Australia.

[87] The AEMO replaced the National Electricity Market Management Company Limited (NEMMCO).

It is also coordinating high level national transmission planning and will report on investment opportunities in electricity and natural gas.[88]

35. The National Electricity Market (NEM) is a wholesale market through which generators and retailers trade electricity in the six jurisdictions of eastern and southern Australia; these jurisdictions are physically linked by an interconnected transmission network. The electricity produced by major generators in the NEM is sold into a gross pool market through a central dispatch process managed by the AEMO. Across the NEM, around two thirds of generation capacity is government owned or controlled. At present, the NEM has around 270 registered generators, 6 state-based transmission networks (linked by crossborder interconnectors)[89], and 13 major distribution networks that collectively supply electricity to end-use customers. The NEM is the largest interconnected power system in the world.

Western Australia and the Northern Territory

36. Western Australia and the Northern Territory have their own electricity generators. In Western Australia 39% of generating capacity is state-owned.[90] In the small Northern Territory market the industry is dominated by the state-owned corporation Power and Water.[91] Their electricity markets are not interconnected with the NEM. Western Australia has operated a wholesale electricity market since 2006, but there is no wholesale market competition in the Northern Territory.[92] Western Australia's electricity market retains a relatively concentrated ownership structure, with state-owned utilities being prominent across the supply chain, especially in the South Western Interconnected System[93]; therefore, full retail competition does not exist in the jurisdiction. The Economic Regulation Authority (ERA), which is the AER equivalent for the region, considers that the absence of a clear timetable for full retail contestability may deter new entries in retail and generation.[94] The Office of Energy commenced a review in 2008 of the costs and benefits of introducing full retail contestability. The Western Australian authorities expected that new entries and the phasing out of vesting contracts, which impose on the generations companies an obligation to produce a specific quantity of electricity at a specified price, would reduce the market share of state-owned corporations over time.

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[88] Australian Energy Regulator (2009).

[89] Electricity transmission networks are capital intensive and incur declining marginal costs as output increases. This gives rise to a natural monopoly industry structure; networks are regulated to manage the risk of monopoly pricing (Australian Energy Regulator, 2009).

[90] Figures supplied by the Office of Energy (Western Australia).

[91] Australian Energy Regulator (2009).

[92] Given the scale of the Northern Territory market, a wholesale electricity spot market was not considered feasible. The Territory uses a "bilateral contracting" system whereby generators are responsible for dispatching the power their customers require. The industry is dominated by a government-owned corporation, Power and Water, which owns the transmission and distribution networks. Power and Water is also the monopoly retail provider and generator. In addition, it is responsible for power system control. Six independent power producers in the resource and processing sector generate their own requirements and also generate electricity under contract with Power and Water (Australian Energy Regulator, 2009).

[93] In the South West Interconnected System (SWIS), Western Australia's principal electricity system, the state-owned Western Power owns the bulk of transmission and distribution systems. Another state-owned utility, Verve Energy, owns about two thirds of generation capacity. The balance is privately owned and mainly dedicated to resource projects. In contrast to the NEM, which is a gross pool where the sale of all wholesale electricity occurs in a spot market and participants may also enter formal hedge contracts to manage spot market risk, energy in the SWIS is traded mainly through bilateral contracts outside the pool (Australian Energy Regulator, 2009).

[94] The ERA has described the current arrangements in generation and retail as leading to a "quasi bilateral monopoly market structure" (Australian Energy Regulator, 2009).

Other issues

37. Since 2006/07, industry-specific budgetary assistance to the entire electricity, gas, and water supply, which in 2008/09 accounted for 51.9% of total assistance to the sector, has increased and has been delivered mainly through programmes such as the Remote Renewable Power Generation Programme.[95] In 2007, the authorities decided to expand the previous Mandatory Renewable Energy Target (MRET) to ensure that the equivalent of 20% of Australia's projected electricity supply comes from renewable sources by 2020.[96] From 1 January 2010, a national Renewable Energy Target (RET) scheme has been in place bringing both the MRETs and existing state-based targets into a single national scheme.[97] Legislation passed in June 2010 and in force from 1 January 2011 is to enhance the RET scheme by separating it into two parts: the Large-scale Renewable Energy Target (LRET) and the Small-scale Renewable Energy Scheme; this scheme will cease in 2030. As from October 2009, the Australian Centre for Renewable Energy (ACRE) has managed funding of more than $A 560 million drawn from previous programmes plus $A150 million for new measures.[98] ACRE will also develop and implement a funding strategy, including a venture capital mechanism.

38. Australia's electricity prices remain low compared with most other OECD countries, reflecting, *inter alia*, its abundant and low-cost coal supplies.[99] Since the beginning of 2008, the difference/spread in the growth rate of household (higher) and business prices has been more significant. Price regulation is maintained in all Australian states and territories other than Victoria, and tariffs are set by individual state and territory regulators according to varying methodologies. Therefore, the tariffs applying to a customer class in one jurisdiction are not comparable to those in another. Ceilings on retail electricity rates remain in place. In 2007, the COAG decided to authorize the lifting the ceilings applied to low-volume consumers in states where there is effective competition in the retail market; in response, the State of Victoria phased out price regulation for small energy customers as from 1 January 2009. Electricity prices have risen faster in New South Wales, where there has been a public monopoly, than in other states in eastern and south-eastern Australia since the creation of the NEM.[100]

39. In July 2009, the Council of Australian Governments (COAG) agreed to a National Strategy on Energy Efficiency aimed at developing a nationally consistent approach to energy efficiency policy, reducing red tape, and helping businesses and households invest in modern cost-cutting technologies.[101] The strategy involves: phasing out inefficient electric hot water systems (as from 2010); legislation for appliance energy ratings and labels; mandating all new homes to achieve energy rating standards from 2011 (from 2010 for commercial buildings) onwards; and accelerating the phasing out of inefficient lighting, including a ban on incandescent light bulbs since November 2009.

[95] Productivity Commission (2010c).

[96] OECD (2008).

[97] Renewable energy target schemes have been in place since 2001 and create a market for additional renewable energy deployment using a mechanism of tradeable renewable energy certificates, which should limit the distortions and increased costs of emission inherent to promoting the use of renewable energy (Office of Best Practice Regulation, 2009).

[98] Productivity Commission (2010c).

[99] For example, in 2008, average Australian electricity prices were below those in most European countries (Department of Resources, Energy and Tourism, 2010).

[100] The authorities indicated that the first phase of the energy reform in NSW included the privatization of electricity assets and was completed in December 2010 (OECD, 2008).

[101] Productivity Commission (2010c).

40. According to a 2008 OECD survey, implementation of a competitive domestic energy market needs to be accelerated, with companies still under government control privatized and the ceiling on electricity retail prices removed.[102] Stronger efforts should be devoted to obtain full retail contestability by, *inter alia,* abolishing existing retail price regulation, improving grid interconnection, intensifying competition in electricity generation, and resolving outstanding regulatory inconsistencies arising from the co-existence of state and national regulators in the electricity and gas sectors. The National Electricity Law and the National Electricity Rules have been amended to transfer economic regulation of electricity distribution to a national framework. In November 2010, they were to be further amended to transfer non-price national retail, and non-economic distribution regulation from the states and territories into a new National Energy Customer Framework. Participating jurisdictions committed to implementing the Framework by 1 July 2012.

(b) Gas

41. During the period under review, changes were made to the rule-making powers of the Australian Energy Market Commission (AEMC) on three occasions.[103] In addition to AER's role as the regulator for pipelines outside Western Australia since 2008[104], new Gas Law and Gas Rules for the gas transmission sector commenced on 1 July 2008 in all jurisdictions except Western Australia, which implemented the pipeline access provisions of these regulations in 1 January 2010 . As of January 2009, 91% of Australia's demonstrated conventional gas resource was located off the north-west coast; the eastern gas market is the largest consumer of natural gas, accounting for 57% of Australian gas consumption, followed by the Western Australia and Northern Territory markets.[105] Wholesale gas is mostly sold under confidential, long-term contracts of up to 20 years, argued as being essential to the financing of new projects; the trend in recent years has been towards shorter term supply, but most contracts still run for at least 5 years.

(c) Petrol

42. According to the ACCC, movements in the price of petrol in Australia are overwhelmingly determined by international market prices. Although the industry is concentrated at the refining and wholesale levels, the level of concentration need not give rise to concerns about the state of competition. Nevertheless, the operation of the buy–sell arrangements and the low potential for large-scale independent imports have a bearing on the functioning of competition.[106] Price competition remains active at the retail level although some cases were brought to the ACCC. The pre-tax component of Australian gasoline prices remains among the lowest in the OECD and the

[102] OECD (2008).

[103] On 1 July 2008, they were expanded to include economic regulation of gas transmission and distribution services, access to natural gas pipeline services, and other elements of broader natural gas markets. On 1 July 2009, the AEMC powers were expanded to gas retail functions in certain jurisdictions. On 1 January 2010, when Western Australia became a participating jurisdiction in the National Gas Law, the role of the AEMC was expanded to include elements of the natural gas market in Western Australia, such as the economic regulation of natural gas pipeline services.

[104] The ERA remains the regulator of covered pipelines in Western Australia (Australian Energy Regulator, 2009).

[105] The Eastern gas market comprises Queensland, New South Wales, Australian Capital Territory, Victoria, South Australia, and Tasmania (Geoscience Australia and ABARE, 2010).

[106] The refiner-marketers accounted for about 93% of the petrol imported into Australia in 2007/08; this high share is because the refiner-marketers control most terminals capable of receiving imports. Imports account for around 18% of unleaded petrol sold in Australia, with most sourced from Singapore (ACCC, 2008).

tax-inclusive gasoline price is the fifth lowest, following Mexico, the United States, Canada, and New Zealand.[107]

43. Although most state government fuel subsidies to consumers were abolished (New South Wales, Queensland, Victoria, Northern Territory, Tasmania), some state governments continue to provide subsidies at the retail level to reduce the price of unleaded petrol and diesel paid by consumers (Queensland, New South Wales, South Australia, Northern Territory).[108] The petroleum subsidy scheme in South Australia, which provides subsidies of up to 3.3 cents per litre for diesel and unleaded petrol purchased in "regional areas", was to be abolished as of 1 January 2011.[109] Since September 2002, grants have been available to producers of fuel ethanol used in transport, under the Commonwealth Government's Ethanol Production Grant Program; the government subsidy is equal to the fuel excise of 38.14 cents per litre; this means that E10 petrol is effectively excise free for the ethanol component (which is 10%).[110] As from 1 July 2011, excise will be phased in for all alternative fuels, including gaseous fuels, on an energy-content basis, with a further 50% discount. The Fuel Tax Credit Scheme, which applies to diesel fuel and fuel oil, was extended from 1 July 2008 to include petrol for a number of end users, including agriculture, fishing, forestry, mining, marine transport, rail transport, nursing and medical emergency vehicles. Since 1 July 2008, eligibility for Fuel Tax Credits was also expanded to include diesel and petrol used for other activities, machinery, plant and equipment in a range of industries including construction, manufacturing, wholesale/retail, property management and landscaping.

(4) MANUFACTURING

44. Manufacturing accounted for 9.3% of GDP and employment (10.3% and 9.9%, respectively in 2006/07) (Table I.2), and for 14.9% of total merchandise exports (about 6.1% of which machinery and transport equipment), down from 18.8% in 2006/07.[111] Average annual MFP growth fell to -0.8% over 2003/04-2007/08 (from 1.8% in 1998/99-2003/04).[112] The authorities indicated that lower growth in output (in terms of gross value added), combined with increased growth in both labour and capital have contributed to the overall decline in MFP growth in the sector; however, the underlying factors that have driven the decline remain unclear.

45. During the period under review, Australia's policy objective has been largely focused on business innovation and growth as a means of improving MFP and thereby strengthening international competitiveness and reaping benefits from rapid economic growth in overseas markets. A $A 3.1 billion package, Powering ideas: An Innovation Agenda for the 21st Century, introduced in May 2009, provides an ambitious and comprehensive policy framework for the development of Australia's innovation system over ten years; "future industries" such as nanotechnology,

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107 Department of Resources, Energy and Tourism (2010).

108 ACCC (2009c).

109 For details about this measure see South Australia State Budget Papers 2010/11. Viewed at: http://www.treasury.sa.gov.au/dtf/budget/publications_and_downloads/current_budget.jsp [10 November 2010].

110 ACCC (2009c).

111 Reportedly, the main cause of the decline in manufacturing employment is the shift of consumption towards services, which means that there is less demand for manufactured goods relative to services. At the same time it is claimed that the high level of productivity growth in manufacturing relative to services means that manufacturers can meet demand with fewer workers (Centre for International Economics, 2009; and UNSD Comtrade database).

112 The authorities indicated that these figures have been updated since the Productivity Commission's report was published; revised figures were due by early December 2010. According to the ABS Experimental Estimates of Industry Multifactor Productivity (ABS cat no 5260.0.55.002), MFP in manufacturing declined on average 0.9% per year in the 2003/04-2007/08 productivity cycle and increased at an average rate of 1.7% per year in 1998/99-2003/04 (Productivity Commission, 2009c, Table 2.2).

biotechnology, and information technology, received a substantial share of a $A 1.1 billion Super Science initiative in the 2009/10 Budget.[113] Nevertheless, changes to the assistance provided to certain activities, e.g. to the automotive industry, do not appear to have fully taken on board the new realities (sections (i) and (ii) below).[114]

46. Manufacturing activities continue to receive the largest part of assistance from a wide range of policy instruments aimed at funding innovation and venture capital as well as supporting specific industries; in 2008/09, the sector accounted for 91.7% of the estimated net combined assistance made available to all sectors of the economy.[115] In 2008/09, manufacturing received 78.7% of its estimated net combined assistance ($A 8.3 billion) mainly through import tariffs protecting motor vehicles and parts activities, metal product manufacturing, and food, beverages and tobacco activities, thus raising costs to consumers and to industries that use manufactured and other inputs subject to tariffs.[116] The sector's estimated effective rate of (combined) assistance has been around 4.6% since 2004/05 (Table AIV.1); the textiles, clothing, footwear and leather, and motor vehicles and parts activities continued to benefit from particularly high effective rates, i.e. more than double the manufacturing sector's average in 2008/09 and the highest of all goods industries of the economy.[117]

47. Australia's average applied MFN tariff on industrial products has declined slightly since its last Review (Table III.1) as a result of unilateral tariff cuts in certain textiles, clothing, and footwear goods, and motor vehicles and parts components; further unilateral tariff cuts are expected in 2015. According to Productivity Commission estimates, most tariff assistance on outputs remains directed towards the manufacturing sector, and in particular food, beverages and tobacco ($A 1.6 billion), metal product manufacturing ($A 1.9 billion), and motor vehicles and parts ($A 1.5 billion) activities.[118]

48. Budgetary assistance for manufacturing is estimated to have risen slightly to about $A 1.8 billion; however, its share to GDP remained relatively stable at around 0.1% (Table IV.2). This assistance was mostly delivered in form of tax concessions (58.9%) and to a lesser extent by means of outlays.[119] Despite a drop, the motor vehicles and parts industries have remained the main recipient of budgetary assistance (Table IV.2). In 2008/09, support targeted at small businesses accounted for about 21% of budgetary assistance, and was dominated by capital gains tax concessions.[120] Arrangements that may have assistance implications but are not part of these estimates include the effects of government purchasing preferences and local-content arrangements affecting, *inter alia*, manufacturing activities. As for sectors discussed elsewhere in this report, the extent of domestic support provided by state or territory governments cannot be fully appraised.

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[113] Department of Innovation, Industry, Science and Research (2009a).

[114] OECD (2010d).

[115] Productivity Commission (2010b), Table 2.5.

[116] The net combined assistance is defined as the net tariff assistance plus budgetary outlays and tax concessions.

[117] The effective rate of combined assistance is measured as the dollar value of assistance as a proportion of (unassisted) value added. The calculations of combined assistance comprise budgetary, tariff, and regulatory assistance (Productivity Commission, 2010b, Table 2.6).

[118] Productivity Commission (2010c), Table 2.2.

[119] Productivity Commission (2010c), Table 2.3.

[120] Productivity Commission (2010c).

Table IV.2
Budgetary assistance to manufacturing, 2005-09
(% and $A million)

	2005/06	2006/07	2007/08	2008/09
Share in total budgetary assistance (%)				
Food, beverages, and tobacco	7.5	6.6	6.4	7.0
Textiles, clothing, and footwear	9.7	7.9	7.5	7.3
Wood & paper products	2.7	2.6	4.1	4.7
Printing, publishing, and media	0.7	0.6	1.2	0.7
Petroleum, coal, and chemicals	7.9	9.2	10.7	10.9
Non-metallic mineral products	1.1	1.2	1.4	1.3
Metal product manufacturing	10.0	12.0	10.9	9.4
Motor vehicles and parts	35.2	37.0	33.6	32.5
Other transport equipment	2.2	1.6	1.8	2.2
Other machinery and equipment	10.4	10.3	10.5	11.1
Other manufacturing	2.8	2.2	2.8	1.6
Unallocated manufacturing[a]	9.8	8.9	9.0	11.2
Total outlays ($A million)	800.5	721.0	759.5	723.8
Total tax expenditures ($A million)	848.3	956.6	1,023.4	1,041.7
Total budgetary assistance ($A million)	1,648.9	1,677.5	1,782.9	1,765.6
Share of total budgetary assistance to GDP (%)	0.16	0.15	0.15	0.14

a Unallocated includes general programmes where details of beneficiaries are unknown.

Source: Productivity Commission (2010), *Trade & Assistance Review 2008-2009*, 22 June, Canberra. Viewed at: http://www.pc.gov.au/__data/assets/pdf_file/0007/98998/tar0809.pdf [23 August 2010].

(i) Automotive

49. Despite its progressively declining contribution to total merchandise exports value[121], and its relatively high degree of concentration[122], the automotive industry, the major recipient of government assistance across sectors remains a relatively important part of the Australian economy.[123] In 2007/08, the industry's output was $A 6.2 billion or 5.8% of manufacturing output; the automotive industry represents 4.8% of manufacturing employment. While the sector has enjoyed strong growth in export volume terms since 2006 (except in 2009), its share of the domestic market continued to fall steadily from 19% in 2007 to 15.7% in 2009 (147,680 units) despite wide-ranging industry-specific support at Commonwealth and state level; this development was in line with a 34.8% production cut for the same period.

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[121] In value terms, the share of the automotive sector contracted from 2.7% to 1.3% of total exports between 2007 and 2009 (UNSD Comtrade database).

[122] The industry, consisting of 3 car manufacturers (Ford, Holden, Toyota) and approximately 190 component, tooling, design and engineering firms, is largely based in Victoria and South Australia, with a small share of activity in New South Wales. It now employs over 50,000 people directly, compared with 81,000 in 2005 (Department of Innovation, Industry, Science and Research online information, "Outlook for the Automotive Manufacturing Industry Fact Sheet". Viewed at: http://www.innovation.gov.au/Section/About DIISR/FactSheets/Pages/OutlookfortheAutomotiveManufacturingIndustryFactSheet.aspx [12 August 2010]).

[123] Department of Innovation, Industry, Science and Research online information, "Outlook for the Automotive Manufacturing Industry Fact Sheet". Viewed at: http://www.innovation.gov.au/Section/About DIISR/FactSheets/Pages/OutlookfortheAutomotiveManufacturingIndustryFactSheet.aspx [12 August 2010]; and Department of Innovation, Industry, Science and Research (2009b).

50. The authorities consider Australia as one of the most open and competitive automotive markets in the world. During the review period, the market was further liberalized as a result of unilateral tariff cuts. By 2010, Australia claimed to apply the third-lowest applied MFN tariffs for new vehicles amongst the world's major automotive-producing economies.[124] Nevertheless, the average applied MFN tariff for the industry remains significantly higher than the average rate for the manufacturing sector; used vehicles remain subject to a high compound tariff rate (whose AVE is as much as 302.4%).[125] The luxury tax (LCT) on cars over a certain price is seen to effectively discriminate against foreign-made vehicles of this type, which usually have higher prices than domestically produced luxury vehicles and are estimated to provide 97% of the revenue from this tax.[126] The authorities are not of this view as the LCT applies to both domestic and foreign cars. Government procurement of motor vehicles remains exempt from the Mandatory Procurement Procedures of the Commonwealth Procurement Guidelines.

51. In addition to benefits arising from the general stimulus tax measures provided to businesses since 2009[127], several industry-specific programmes are ongoing. New programmes remain focused on innovation and development of more environmentally friendly products, while older programmes have been complemented with additional elements reflecting a persistent interventionist approach to the sector's adjustment.[128] Since November 2008, the $A 5.8 billion New Car Plan for a Greener Future has assisted the industry to prepare for a low-carbon future and to further orientate to global markets and supply chains. The Plan consists of: $A 3.4 billion to the industry Automotive Transformation Scheme (ATS) from 2011 to 2020/21[129]; an expanded $A 900 million Green Car Innovation Fund of over ten years; $A 79.6 million worth of changes to the Automotive Competitiveness and Investment Scheme (ACIS) ensuring a smooth transition to the ATS[130]; an

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124 Automotive Review Secretariat (2008).

125 According to the authorities, the rarely applied non-*ad valorem* component of the duty on imported used cars is not an industry protection measure, but was introduced to reinforce Australia's vehicle emission and safety standards by limiting the full volume importation of vehicles near the end of their useful life and the consequent environmental impact of their disposal. They also consider that Australia's balanced approach to used-vehicle imports is less restrictive than economies that prohibit imports of used cars.

126 OECD (2010d).

127 According to the Federal Chamber of Automotive Industries, the business tax break had led to a tangible increase in business vehicle purchases throughout 2009; overall, business car sales for 2009 were down just 1.2% on 2008 figures, compared with a 7.4% decrease in total sales (Department of Innovation, Industry, Science and Research online information, "Outlook for the Automotive Manufacturing Industry Fact Sheet". Viewed at: http://www.innovation.gov.au/Section/AboutDIISR/FactSheets/Pages/OutlookfortheAutomotiveManufacturingIndustryFactSheet.aspx [12 August 2010].

128 OECD (2010d).

129 ATS assistance is paid, subject to conditions, for eligible investment in plant and equipment and research and development, and for eligible production for motor vehicle producers. The authorities indicated that there are no local content or export performance requirements for participants. Assistance will be paid in cash rather than as duty credits to offset customs duties as under ACIS. For more information on the ATS regulatory framework, implementation, and differences with the ACIS, see Department of Innovation, Industry, Science and Research online information. Viewed at: http://www.innovation.gov.au/Industry/Automotive/Pages/ATSRegulationsandOrderPublicComment.aspx; and Automotive Transformation Scheme Act 2009, No 93 2009, 29 September. Viewed at: http://www.comlaw.gov.au/ComLaw/Legislation/Act1.nsf/0/DF7E217AEED4A428CA257648007447D3/$file/93-2009.doc [15 August 2010].

130 Expenditure by participants until 31 December 2010 may be eligible under ACIS; as of 1 January 2011, it may be claimed under the ATS. ACIS Stage 2 (2006-10) funding includes a capped component of $A 2 billion credits available to all participants, and an uncapped component of approximately $A 800 million credits available only to motor vehicle producers. The value of assistance under the ACIS takes into consideration the applicable production and investment rates (assistance for production at 10% of production value of passenger motor vehicles for domestic use and 25% for exports, plant and equipment at 25% of claims and R&D at 45% of claims), a three-year rolling average, which aims to smooth ACIS benefits

$A 116.3 million Automotive Industry Structural Adjustment Programme promoting adjustment through mergers and consolidation in the components sector, and facilitating labour market adjustment; a $A 20 million Automotive Supply Chain Programme since 2009/10 to help suppliers improve their capabilities and their integration in complex national and global supply chains; $A 6.3 million of support for an enhanced Automotive Market Access Programme from 2009/10; and a Liquefied Petrol Gas (LPG) Vehicle Scheme Enhancement. The production support provided by the ATS has already raised WTO-consistency concerns domestically[131]; the authorities indicated that all programmes under the scheme A New Car Plan for a Greener Future are WTO-compliant. In November 2008, a $A 10.5 million expansion of the LPG vehicle scheme doubled payments to purchasers of new private use vehicles that are factory fitted with LPG technology. Financial support not related to A New Car Plan for a Greener Future has been provided to, *inter alia*, assist local communities in adjusting to announced plant closures[132] or stabilize the automotive market (e.g. the OzCar scheme).[133]

52. According to the OECD, the unilateral tariff reductions on passenger motor vehicles are linked with the continued support available through the New Car Plan for a Greener Future; this support, which effectively provides subsidies to the automotive industry, risks hindering structural adjustment and the necessary reallocation of resources in response to relative price changes.[134] The authorities disagree with OECD's observations. As a result of the November 2008 additional assistance provided to the automotive and car-finance sectors, until June 2009 Australia's total assistance package for the automotive sector ranked as the second largest programme in per capita terms among OECD countries (after Sweden); the authorities pointed out that since then other countries have introduced automotive assistance measures.[135] The Productivity Commission considers that further reductions in assistance to the automotive industry would generate net benefits for the entire economy through improved usage of resources; the associated contraction in automotive activity would be more than offset in the long run by gains to other industries.[136]

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over the vehicle model cycle, and modulation which operates to ensure that the two billion credit funding cap over each five-year stage of the scheme is not breached. Stage 3 of the ACIS is set for 2011-15 (Department of Innovation, Industry, Science and Research, 2009a).

[131] Reportedly, concerns about the WTO consistency of the ATS under the Agreement on Subsidies and Countervailing Measures arise from, *inter alia*, the fact that Australia aims to become one of a small group of countries capable of designing and building environmentally cleaner cars, pursuing export markets for its assisted automotive producers, and providing production incentives to output directed to export. In the 1990s, encouraged by the Export Facilitation Scheme, exports displayed their strongest growth until the scheme was replaced by the more WTO acceptable ACIS. The WTO consistency of the Export Facilitation Scheme was examined by a WTO Panel in the Howe Leather case in 1999 (Priestley, 2009).

[132] For example, in 2008/09, 21 grants totalling almost $A 22.9 million were granted, under the South Australia Innovation and Investment Fund and the Geelong Investment and Innovation Fund, to Mitsubishi Motors Australia Limited (Tonsley Park, Adelaide) and Ford Australia (Victoria) to support job-creating and innovation-related investment proposals by these firms, which had decided to close their manufacturing operations (Department of Innovation, Industry, Science and Research, 2009a).

[133] With the support of the Commonwealth Government and the leading Australian banks, since December 2008 the OzCar scheme has helped to provide critical wholesale floorplan financing to viable car dealers that were financed by GE Money Motor Solutions and GMAC, prior to their withdrawal from the market (Department of Innovation, Industry, Science and Research online information, "Outlook for the Automotive Manufacturing Industry Fact Sheet". Viewed at: http://www.innovation.gov.au/Section/AboutDIISR/FactSheets/Pages/OutlookfortheAutomotiveManufacturingIndustryFactSheet.aspx [12 August 2010]).

[134] OECD (2008).

[135] Productivity Commission (2009a).

[136] Productivity Commission (2008c).

(ii) Textiles, clothing, and footwear (TCF)

53. During the review period, the share of textiles and clothing in total merchandise export value remained stable at 0.3%.[137] Its shares in GDP and employment were 0.41% and 0.42%, respectively. In 2009, the industry's value added was around 4.6% of total manufacturing value added, and import value was almost six times more than that of exports; the continued decline in the TCF workforce reflects, *inter alia*, the government policy objective of moving labour-intensive production offshore.[138]

54. Compared to other industries, TCF activities continued to benefit from considerable government support as reflected by several assistance indicators discussed in this report. Unilateral tariff cuts undertaken in 2010 and those planned for 2015 will further reduce border protection to TCF producers; nevertheless, these rates remain significantly higher than the average applied MFN tariff for the sector. The industry remains characterized by a high degree of tariff escalation (Chapter III(2)).

55. During the review period, the TCF Post-2005 Assistance Package, including the TCF Post-2005 Strategic Investment Programme Scheme 2005, and the TCF Structural Adjustment Programme, provided various types of assistance to promote high-value-added production and product diversification as well as to improve international competitiveness. In response to the 2008 review of the Australian TCF Industries, a $A 401 million TCF Innovation Package was launched to improve the effectiveness of assistance to the sector's industries by reducing complexity and uncertainty and placing greater emphasis on innovation.[139] The package, which runs from 2009/10 to 2015/16, includes a five-year $A 30 million TCF Strategic Capability Programme (as from 2010/11) and a $A 112.5 million Clothing and Household Textile Building Innovative Capability Programme[140], and the establishment of a TCF Industries Innovation Council and a National TCF Innovation Network. As of June 2010, other ongoing programmes, some of which were notified to the WTO, included: the Textile, Clothing and Footwear Corporate Wear Scheme (tax concessions, since 1993), the TCF Expanded Overseas Assembly Provisions Scheme (tax concessions, 1999-2010), TCF Product Diversification Scheme (duty credits, 2006/07-2010/11), the TCF Post-2005 Strategic Investment Programme Scheme (grants, 2005-11); and the TCF Small Business Programme (grants, 2006-16). As from May 2009, a TCF Industries Innovation Council has brought together business, unions, researchers, and government to consult on innovation and provide strategic advice.

56. According to the OECD, the range of benefits provided to the TCF, a very small economic sector, appears disproportionately expensive and economically distortive.[141] Similarly to its automotive industry conclusions, a Productivity Commission’s modelling study suggests that there would be net gains to the overall economy from implementing a programme of reductions in assistance to the TCF sector; the bulk of the benefits would flow from the unilateral tariff reductions while the sector would decline further and the effects would be minor relative to other factors affecting the sector's viability.[142]

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[137] UNSD Comtrade database.

[138] OECD (2010d).

[139] Commonwealth of Australia (2008); and Department of Innovation, Industry, Science and Research (2009a).

[140] The Clothing and Household Textile Building Innovative Capability Programme will commence in 2010/11 and replace the TCF Post-2005 Scheme and the TCF Product Diversification Scheme.

[141] OECD (2010d).

[142] Productivity Commission (2008c).

(iii) Pharmaceuticals

57. A significant part of the supply of pharmaceuticals remains sourced overseas, while both multinational and domestic manufacturers participate in the export of pharmaceuticals.[143] The pharmaceuticals sector employs 40,000 people.[144] The value of pharmaceuticals exports has grown steadily since 2007, to around $A 4.1 billion in 2009/10, making the pharmaceuticals industry one of Australia's major manufacturing exporters.[145] The biomedical research community has developed links with multinational companies and to a lesser extent with Australian companies, while most of the R&D done by companies in Australia is clinical trials. Australia aims to improve the long-term sustainability and international competitiveness of its pharmaceuticals industry, stimulate investment, and develop Australia as a regional centre for R&D, manufacturing, and export. Recommendations by a 2008 Pharmaceuticals Industry Strategy Group report were focused on attracting investment, increased clinical trials, and specialized manufacturing activity.[146] Following these recommendations, legislation including the possible introduction of an R&D Tax Credit was before the Parliament in October 2010.[147] No industry-specific support seems to be in place at Commonwealth level, but the generous general R&D incentives are of major assistance; the Pharmaceuticals Partnerships Programme was terminated in June 2009.

58. Australia has maintained its long-standing Pharmaceutical Benefits Scheme (PBS), under which most prescription pharmaceuticals are subsidized in order to be sold at an affordable price. If a medicine is unsuccessful in obtaining a listing on the PBS, it may still be sold at a higher price on the private market although this is often not a commercial proposition in Australia.[148] As of 1 June 2010, the PBS covered 756 drug substances (generic drugs), available in 1,886 forms and strengths (items) and marketed as 3,675 different drug products (brands). The amount of the subsidy varies depending on the price of the drug. Government expenditure on the PBS doubled from $A 4.3 billion in 2000/01 to $A 8.4 billion in 2009/10; 105 separate firms (2009/10) were listed as suppliers to the PBS while only 10 accounted for almost 66.4% of the value of total sales made to the PBS; 14.4% of total sales were attributed to Pfizer.[149]

(5) SERVICES

(i) Features

59. Services continue to be the largest and fastest growing sector of the Australian economy. The share of services (including construction, energy, electricity, and water supply) in GDP remains stable at about 80% (Table I.2); the sector's share in total employment rose slightly from 85.4% in 2006/07 to 86% in 2009/10. Finance and insurance, wholesale and retail trade, and ownership of dwellings have been by far the leading activities in GDP terms; other important activities were construction,

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[143] Sweeny (2007).

[144] ABS Cat No. 8104.0, 2006-07; ABS Unpublished data; IBISWorld *Pharmaceuticals Product Manufacturing in Australia 2010*; IBISWorld *Pharmaceutical Wholesaling in Australia, 2010*; and DIISR *Biotech Business Indicators 2008*.

[145] ABS Cat No. 5368.0, Table 12a, Standard International Trade Classification, 2005-2010 *International Trade in Goods and Services.*

[146] Department of Innovation, Industry, Science and Research (2009a); and Pharmaceuticals Industry Strategy Group (2008).

[147] Department of Innovation, Industry, Science and Research (2009a); and Pharmaceuticals Industry Strategy Group (2008).

[148] Sweeny (2007).

[149] Department of Innovation, Industry, Science and Research online information, "Australian Pharmaceuticals Industry Fact Sheet". Viewed at: http://www.innovation.gov.au/Section/AboutDIISR/FactSheets/Pages/AustralianPharmaceuticalsIndustryFactSheet.aspx [12 August 2010].

professional, scientific and technical services, health care and social assistance, and transport, storage and communications services. During the review period, virtually all services industries with measurable MFP[150] attained positive productivity growth rates through innovative use of new technology, while the rates in all goods' sectors were negative. More specifically, the communications and the finance and insurance sectors' average MFP growth rates (2003/04-2007/08) rose to 3% and 2.2%, respectively.[151] Future productivity growth in the sector is likely to be boosted by a focus on improved technical progress rather than on capital deepening.[152]

60. While not always producing a direct export, the performance of the services sectors remains a key component of the country's overall export competitiveness.[153] Australia is the world's 22nd largest exporter and importer of services (2009).[154] Trade in services remains an important component of Australia's foreign trade; in 2009/10, exports of commercial services represented about 21% of total exports of goods and services (Table I.3). Since 2007/08, services trade has recorded continuous deficits as a result of strong growth in travel expenses and a significant fall in transport earnings. Between 2006/07 and 2009/10, exports (credits, receipts) of non-factor services, consisting mainly of education-related travel, professional services, and transport, rose by 14.8% to $A 52.8 billion, equivalent to some 26% of merchandise exports. In 2009/10, imports (debits, payments), consisting largely of travel and transportation, were about $A 53.5 billion. In 2008/09, the United States, the United Kingdom, and Singapore were Australia's largest individual two-way services trading partners.[155]

(ii) Domestic support

61. In 2008-09, the services sector was estimated to have received around 45% of estimated budgetary assistance available to all sectors of the economy, up from around 27% in 2007/08, and equivalent to 0.28% of GDP; between 2006/07 and 2008/09, total budgetary assistance to the services industry increased by 43.9%, to almost $A 3.5 billion, delivered mainly through tax expenditures (Table IV.3). These increases were due mainly to the introduction of various small business tax concessions, a large proportion of which primarily benefit the services sector. In 2008/09, industry-specific assistance accounted for 13.2% of total budgetary assistance to the services industry. Property and business services, and finance and insurance were the second and third largest recipient industries of budgetary assistance ($A 744 million and $A 613 million, respectively) available to all sectors of the economy[156]; assistance to these activities was delivered mainly through small business capital gains tax concession measures, the offshore banking unit tax concession programme, and R&D tax concessions. Arrangements that may have assistance implications, but are not part of these estimates include: the effects of local-content arrangements as they affect, *inter alia*, broadcasting (section (vi)(b), and Chapter III); regulatory restrictions on competition (e.g. pharmacy, air services, importation of books, media, broadcasting); and government programmes affecting mainly the provision of health, education, and community services.[157]

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[150] There is a difficulty in measuring productivity growth accurately in many services industries where outputs are not necessarily expressed in increasing volumes but may be seen in improved quality (Parliament of the Commonwealth of Australia, 2010).

[151] Productivity Commission (2009c).

[152] Parliament of the Commonwealth of Australia (2010).

[153] Department of Innovation, Industry, Science and Research (2009c).

[154] WTO trade profiles online. Viewed at: http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=AU.

[155] For more detailed statistics on Australia's trade in services see Department of Foreign Affairs and Trade (2010b).

[156] Productivity Commission (2010c).

[157] Productivity Commission (2010c).

Table IV.3
Budgetary assistance to the services industry, 2005-09
(% and $A million)

	2005/06	2006/07	2007/08	2008/09
Share in total budgetary assistance (%)				
Electricity, gas, and water supply	5.2	3.4	2.7	2.7
Construction	3.8	5.4	5.1	6.2
Wholesale trade	5.7	5.3	5.4	6.4
Retail trade	5.1	9.9	9.9	11.3
Accommodations, cafés, and restaurants	5.1	3.7	3.9	4.8
Transport and storage	5.4	4.3	3.7	4.0
Communication	7.1	7.0	5.2	4.5
Finance and insurance	13.2	15.0	16.8	17.7
Property and business	19.5	19.1	18.5	21.5
Government administrations and defence	0.8	0.9	0.6	0.9
Education	1.2	1.0	0.8	0.9
Health and community	7.4	8.2	6.4	6.5
Culture and recreation	9.8	8.0	14.5	5.6
Personal and other services	1.9	2.1	2.2	2.5
Unallocated services[a]	8.7	6.8	4.3	4.6
Total outlays ($A million)	938.1	1,084.0	1,390.7	1,181.2
Total tax expenditures ($A million)	1,020.7	1,324.9	2,008.4	2,285.7
Total budgetary assistance ($A million)	1,958.8	2,408.9	3,399.1	3,466.9
Share of total budgetary assistance to GDP (%)	0.20	0.22	0.29	0.28

a Unallocated includes general programmes where details of beneficiaries are unknown.

Source: Productivity Commission (2010), *Trade & Assistance Review 2008-2009*, Tables A.2 and A.7, 22 June, Canberra. Viewed at: http://www.pc.gov.au/__data/assets/pdf_file/0007/98998/tar0809.pdf [26 August 2010].

(iii) Commitments under the General Agreement on Trade in Services

62. Australia's commitments under the GATS remain unchanged.[158] Its comprehensive Schedule of Specific Commitments, covers most services sectors, with the exception of audiovisual, postal-courier, and rail transport services. Apart from a revised services offer submitted in May 2005, no new offer has been tabled within the context of the current GATS negotiations. During the review period, Australia participated in two sets of negotiations with the EU under GATS Article XXI, relating to EU schedule modifications; those relating to 13 new EU Member States were concluded while those concerning the accession of two more countries (Bulgaria and Romania) were initiated in 2007 but have yet to be concluded.[159] Australia also made submissions to the review meetings of the GATS Annex on Air Transport.[160]

[158] More information on Australia's GATS commitments and latest submitted offers may be found, *inter alia*, in WTO documents GATS/SC/6, 15 April 1994; GATS/EL/6, 15 April 1994; GATS/SC/6/Suppl.4, 26 February 1998; WT/TPR/S/104, 26 August 2002; TN/S/O/AUS/Rev.1, 31 May 2005; and WT/TPR/S/178/Rev.1, 1 May 2007.

[159] Following the completion of the first set of these negotiations, Australian exporters of telecommunications, engineering, and legal services were expected to have new and more secure access to the EU's enlarged market (Department of Foreign Affairs and Trade online information. Viewed at: http://www.dfat.gov.au/trade/negotiations/services/access_services_eu.html, and http://www.dfat.gov.au/trade/negotiations/services/wto_article_XXI_update.html); and WTO document S/L/370, 22 February 2010).

[160] WTO document S/C/28, 19 November 2007.

(iv) Regional and bilateral agreements on services

63. Australia's regional trade agreements (RTAs) with ASEAN (and New Zealand), and FTAs with Chile, New Zealand, Singapore, Thailand, and the United States include provisions on services (Chapter II(6)(ii)).[161] Some FTAs use negative-list approach to scheduling services commitments (e.g. the FTA with the United States), while others use positive-list modalities (e.g. FTA with Thailand).[162] While the levels of commitments undertaken by Australia vary from one FTA to the other, they often tend to go significantly beyond GATS commitments.[163] These bilateral FTAs commitments are not applied on an MFN basis. Australia undertook, especially in its agreement with the United States, commitments that go beyond not only its GATS commitments, but also its revised services offer, for example in relation to review of foreign investments, and in such sectors as business, audiovisual, financial, tourism, and transport services. Despite the budgetary assistance provided to the sector, Australia's bilateral FTAs exclude subsidies from their application, consistent with the absence of specific disciplines on services subsidies in the GATS.[164] Australia maintains services-related mutual recognition arrangements (MRAs), including one with the U.S. Securities and Exchange Commission (SEC) on U.S. and Australian securities regulation; an MRA was concluded in September 2008 between relevant Australian and U.S. (Texan) professional bodies on engineering services.

(v) Financial services

64. The contribution of finance and insurance services to GDP dropped slightly from 11% in 2006/07 to 10.6% in 2009/10 (Table I.2) while shares of other sectors, e.g. mining, increased. The sector employs 3.6% of the labour force, which is indicative of labour productivity roughly three times the level in the rest of the economy. Australia's financial services sector is based on three main institutional groups: authorized deposit-taking institutions (ADIs), which include banks, building societies, and credit unions; non-ADI financial intermediaries, including money market corporations, finance companies, and securitization vehicles; and funds managers and insurers, including life and general insurance companies, and superannuation and approved deposit funds (ADFs) (Table IV.4). The banking sector remains Australia's largest holder of prudentially regulated financial assets with an increasing share in total financial assets (Table IV.4); in June 2010, it accounted for more than half of the total assets of the financial system.[165] The importance of superannuation funds, public unit trusts, general insurance offices, and securitization vehicles has fallen during the review period.

65. The effects of the recent financial crisis have been less severe on Australia's financial sector than in most other countries. Australia's major banks have retained their credit ratings[166]; no private-sector bank has failed for decades.[167] According to the Productivity Commission, the relative resilience of Australia's financial sector is due, *inter alia*, to the country's coordinated and centralized

[161] More information on Australia's commitments under these regional agreements are available, *inter alia*, in WTO documents TN/S/O/AUS/Rev.1, 31 May 2005, and WT/TPR/S/178/Rev.1, 1 May 2007.

[162] Agreements that adopt a negative list approach (including ANZCERTA, SAFTA, and AUSFTA) cover a more extensive range of services than agreements that adopt a positive list approach (such as TAFTA). For more details on the way trade in services is dealt with in each of Australia's preferential trade agreements see Productivity Commission (2010a).

[163] OECD (2010d).

[164] WTO document S/WPGR/W/46/Add.1, 11 May 2009.

[165] Australian Prudential Regulation Authority (APRA) regulated institutions account for approximately 80% of financial system assets (Reserve Bank of Australia, 2010a).

[166] Four of the world's nine AA-rated banks, as rated by Standard & Poor's, are Australian (Productivity Commission, 2009a).

[167] The community has a presumption that failure to pay bank creditors would not be permitted by the authorities (IMF, 2010c).

framework for the regulation of most financial enterprises, policy settings insulating Australia from the trends that emerged in other financial markets (including the "four pillars" policy)[168], and the Government's prompt response to the crisis, including with guarantees of deposits and wholesale funding for ADIs, along with other support for the financial sector (section (a) below).[169]

Table IV.4
Structure of the financial system assets, June 2006 to June 2010
(% and $A trillion)

	Main supervisor/ regulator	June 2006	June 2007	June 2008	June 2009	June 2010
Total ($A trillion)		**3.3**	**4.1**	**4.4**	**4.5**	**4.6**
				(% of total)		
Banking sector						
Reserve Bank (RBA)		3.3	3.3	2.4	2.5	1.9
Other banks	APRA	47.8	46.3	52.6	57.5	57.3
Other authorized deposit-taking institutions (ADIs)						
Permanent building societies	APRA	0.5	0.5	0.5	0.5	0.5
Credit unions	APRA	1.1	1.0	1.0	1.0	1.1
Registered Financial Corporations (RFCs)						
Money market corporations	ASIC	2.4	2.6	2.8	2.1	1.4
Finance companies	ASIC	2.9	2.9	2.9	2.7	2.2
Life offices and superannuation funds						
Life insurance offices	APRA	5.6	5.1	4.1	3.6	3.9
Superannuation funds	APRA	17.4	19.4	17.6	16.5	19.1
Other managed fund						
Public unit trusts	ASIC	7.5	7.4	6.2	5.5	5.6
Cash management trusts	ASIC	1.2	1.2	1.1	1.0	0.8
Common funds	State authorities	0.3	0.3	0.3	0.1	0.1
Friendly societies	APRA	0.1	0.1	0.1	0.1	0.1
Other financial institutions						
General insurance offices	APRA	3.3	3.4	3.0	2.8	2.8
Securitization vehicles	ASIC	6.5	6.7	5.4	4.3	3.2

Source: Reserve Bank of Australia online information. Viewed at: http://www.rba.gov.au/statistics/tables/xls/b01hist.xls [16 December 2010].

66. The financial system remains supervised by three institutions: the Reserve Bank of Australia (RBA), Australia's central bank; the Australian Prudential Regulation Authority (APRA) (deposit-taking institutions, general and life insurance companies, and superannuation funds (i.e. pension funds))[170]; and the Australian Securities and Investments Commission (ASIC) (overall market conduct, consumer protection, and competition in financial services). The Financial Sector Legislation Amendment (Prudential Refinements and Other Measures) 2010, in force since

168 Australia's "four pillars" policy prevents mergers between the four major banks; these banks are among the world's top 12 banks, as a result of recent collapses of large banking corporations elsewhere.
169 Productivity Commission (2009a).
170 APRA is funded largely by the industries it supervises.

29 June 2010, provided the APRA with greater investigative and monitoring powers in its dealings with the regulated financial services sector, as well as to direct ADIs and insurers to recapitalize.[171]

(a) Banking

67. The Australian market remains dominated by four major nation-wide full service banks (accounting for about 77% of total banking assets). At present there are 56 authorized banking groups, 44 of which are foreign-owned (9 subsidiary banks incorporated locally, 35 branch operations). Foreign banks, which accounted for 14% of domestic banking assets in August 2010, have a more significant presence in merchant banking rather than in retail banking. There are no government-owned banks.[172] Nearly half of Australian bank funding comes from wholesale borrowings in domestic and offshore capital markets.[173] In addition, banks source over 40% of funds from deposits by households, businesses, and government and other organizations; the share from deposits has risen about 5 percentage points since mid 2007.

68. Foreign banks operating both branches and subsidiaries may conduct banking business through locally incorporated subsidiaries or through branches; in either case, authorization is required from the APRA. Foreign banks may raise funds in Australia by issuing debt securities offered or traded in parcels of not less than $A 500,000. Although authorized branches of foreign banks are not required to maintain endowed capital in Australia, they are not permitted to accept initial deposits of less than $A 250,000 from Australian residents and non-corporate institutions.[174] This requirement is aimed at protecting retail depositors.

69. Under relevant legislation, foreign investment in financial-sector companies (including banks, general insurers, and life insurers) remains subject to a 15% shareholding limit, although the Treasurer may approve a higher percentage on "national interest" grounds.[175] Any proposed foreign takeover or acquisition of an Australian bank is considered on a case-by-case basis, and must be approved by the APRA. In 2008/09, 60 proposals were approved in the finance and insurance sector, with proposed investment of $A 10.9 billion; 39 proposals were approved in 2007/08 with investment of $A 9.2 billion. Under the AUSFTA (Chapter II(6)(ii)), acquisition of interests by U.S. investors in financial sector companies are exempt from notification requirements.

70. The structure and performance of the Australian finance sector is shaped by a variety of government policy measures, including recent global financial-crisis-related measures, sector-specific taxation concessions, superannuation taxation concessions, and GST treatment of financial supplies.[176] The Productivity Commission considers that although taxation concessions are intended to encourage additional activity in the sector, including relocation to Australia, they may reduce tax revenue from offshore banking activity, which would occur if "normal" corporate tax rates were to apply, and encourage the diversion of Australian labour and capital away from other activities (including other

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[171] Gadens Lawyers Sydney online information. Viewed at: http://www.nsw.gadens.com.au/clientaccess/newsletters/Updates%202010/update_insurance_012910.htm#update.

[172] In Australia, Commonwealth-owned entities that may conduct financial operations are guaranteed by the Commonwealth Government. Although the Commonwealth Government sold its shareholdings in the Commonwealth Bank of Australia (CBA) in 1996, one of the four major banks, a transitional Commonwealth guarantee has been provided for all the liabilities of the CBA. The length of the guarantee depends on the characteristic of the liability (WTO document TN/S/O/AUS/Rev.1, 31 May 2005).

[173] Productivity Commission (2010c).

[174] WTO document TN/S/O/AUS/Rev.1, 31 May 2005.

[175] Legislation in this area includes the Banking Act 1959, the Financial Sector (Shareholdings) Act 1998 (FSSA), and other provisions, including prudential requirements.

[176] For more details about government support to the finance sector see Productivity Commission (2010b).

financial services).[177] Such policies are also believed to risk diverting business effort into seeking support, and add to compliance and administrative costs.

71. Australia's banks have coped well with the global financial turmoil so far, largely because of robust supervision and regulation, though they are exposed to significant risks from sizable short-term wholesale funding.[178] The key policy measures implemented to mitigate the impact of the global financial crisis were the Guarantee Scheme for Large Deposits and Wholesale Funding (the Guarantee Scheme, closed to new liabilities in March 2010), the Financial Claims Scheme (FCS) and the Australian Office of Financial Management's (AOFM) $A 16 billion investment in residential mortgage-backed securities (RMBS). Furthermore, in 2008 an exclusion from the TPA was enacted, allowing for distressed banking assets to be disposed of quickly, without merger-control review by the ACCC, where the stability of the financial system or the interests of depositors could be jeopardized by delay. This amendment has enabled the APRA to intervene quickly in light of the ongoing consolidation in the industry through mergers and acquisitions.[179]

72. The authorities are about to formulate and implement a number of measures intended to promote Australia's financial services sector and remove remaining obstacles to Australia becoming a financial services centre for the Asia Pacific, including: cutting the withholding tax on certain foreign distributions from managed investment trusts from 30% to a final rate of 7.5% by 2012; changing the attribution rules and providing deemed capital account treatment to eligible managed investment trusts; repealing and replacing the Foreign Investment Fund provisions with a narrowly defined anti-avoidance rule, and modernizing the Controlled Foreign Company rules; transferring the supervision of financial markets from the Australian Securities Exchange (ASX) to ASIC; the introduction of an Investment Manager Regime; the establishment of an online regulatory gateway; the development of an Asia Region Funds Passport; and the phase down from 10% to 5% of the interest withholding tax (IWT) incurred by local subsidiaries and branches of financial institutions when they pay interest on borrowings from their overseas parents.[180]

73. Australian banking requirements include compliance with international prudential standards; the banking system remains well-capitalized.[181] According to the IMF, APRA followed a rigorous process and adopted a more conservative approach in implementing the Basel II framework in 2008; the four major banks, adopted the advanced approaches for assessing credit, market, and operational risk.[182] Since 2007, several prudential standards have been revised, primarily as part of the implementation of the Basel II framework in 2008: in December 2009, APRA undertook consultation on further revisions to the Basel II framework in Australia; and in 2010, APRA incorporated the Financial Stability Board principles on compensation into its prudential standards on governance. Other revisions related to governance and audit matters. During the review period, banks have had relatively low leverage and high capital adequacy ratios, with Tier 1 capital ratios rising from 7.2% in

[177] The Treasury (2010b); and Productivity Commission (2010b).

[178] IMF (2009a).

[179] The authorities indicated that this TPA exclusion applies to compulsory transfers of business under the Financial Sector (Business Transfer and Group Restructure) Act, and no such transfers have occurred since 2008. Instead mergers have taken place under the voluntary transfer of business powers under this Act, and have been subject to ACCC review (IMF, 2010c; and OECD, 2010c).

[180] Productivity Commission (2010c).

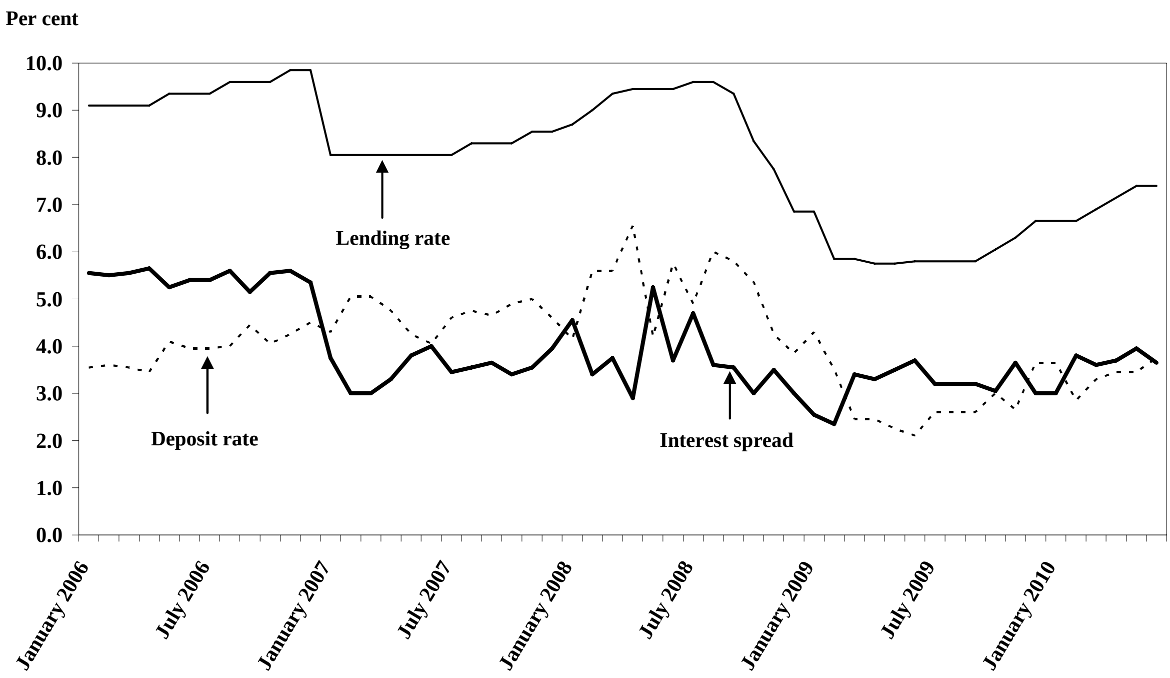
[181] IMF (2010c).

[182] A 20% loss given default (LGD) floor was adopted for residential mortgages that comprise over half of the large banks' loans, which is higher than the Basel II 10% floor. Higher risk weights were required for certain residential mortgages under the standardized approach. Moreover, reduced risk weights, which are permissible in the Basel II framework's standardized approach, have not been introduced for retail lending. Banks' capital requirements under the advanced approaches continue to be subject to the 90% floor of the Basel I capital requirement, instead of the 80% floor applicable in the second year (IMF, 2009a).

December 2007 to 9.54% in September 2010.[183] Between 2003 and 2008, Australia's rate of non-performing bank loans to total bank loans was 0.3%, the lowest of all 23 countries reviewed by the IMF.[184] Nevertheless, according to the IMF, non-performing loans could rise further (albeit from a low base) for as long as unemployment increases and growth remains weak.[185] Banks have increased provisioning against such losses, and raised equity from private capital markets in early 2009. However, in late 2009, banks wound back some of their provisions as markets stabilized.

74. Between 2006 and 2010 (June), Australia's major banks' interest rate spread (difference between interest rate received and interest rate paid) oscillated around 3.3 percentage points (Chart IV.1) reflective of risk based pricing and competitive dynamics. Spreads contracted during an intensification of competition during the credit boom. However, they increased during the global financial crisis, when Australian house prices remained robust and most credit losses resulted from business lending.

Chart IV.1
Interest rate spread, January 2006 - June 2010



Source: IMF, *International Financial Statistics*.

(b) Insurance

75. Australia's insurance market is the world's 12th largest, with premiums for 2007 exceeding US$60 billion, an increase of almost 75% in ten years; insurance premium income has grown, on average, by around 5.7% per annum since 1997 in U.S. dollar terms.[186] As of June 2010, there were 132 private and 14 public general insurers, with total assets worth $A 143 billion; within this group

[183] Takáts and Tumbarello (2009); and IMF (2009a).
[184] IMF (2009b), Statistical Appendix, Table 24.
[185] IMF (2009a).
[186] Austrade (2009).

there were 14 reinsurers. Public general insurers accounted for around 22% of the sector's gross premium revenue; these insurers, which are not subject to the Insurance Act nor regulated by APRA, remain regulated by state-level legislation. The 66 foreign-owned general insurance firms hold around 22% of total insurance sector assets. There were 32 private life insurers with assets worth $A 233 billion at end-December 2009; 15 foreign-owned life insurers accounted for 11.6% of total life insurance assets.[187] Australia has no public life insurers.

76. Both the life and general insurance sectors remain relatively concentrated. In June 2009, the top four general insurers held 70% of premium business and 63% of the industry's assets. In December 2009, the top five life insurers held approximately 79% of the industry's assets. As at December 2007, bank-owned groups accounted for 37% of liabilities and 39% of total premiums.[188]

77. With respect to general insurance, there are no restrictions on the number, size or mix of operations of foreign-owned subsidiaries or foreign insurers operating in the Australian market. Foreign-owned subsidiaries and foreign insurers are subject to similar legislative and prudential requirements to Australian-owned and incorporated insurers. The prime responsibility for oversight of the Australian operations of a foreign insurer rests with its local management and head office. While a foreign insurer's home regulators will play a role in supervising the insurer, to protect the interests of Australian policyholders, the local operations of a foreign insurer are subject to APRA prudential supervision. Since 1995, Australia has not permitted foreign life insurers to operate local branches. As a result foreign life insurers seeking to establish a commercial presence in Australia must establish an Australian subsidiary, which must then apply to APRA for registration. In 2004, under the AUSFTA, Australia agreed to allow U.S. life insurers to apply for registration to operate through branches but so far there has been no such case.

78. All insurers must be authorized either by APRA or, in the case of private health insurers, an industry-specific regulator.[189] In addition, state-based licensing is required for insurers offering certain classes of compulsory insurance, such as workers' compensation and third-party motor insurance. Prudential regulation governs many areas, including the solvency and risk-management practices of insurance companies. As from 1 July 2010, new prudential standards have aligned general insurance prudential reporting with statutory reporting by providing a simplified reporting process by general insurers to APRA; a clearer view of insurer performance; and enhanced quality of discussions between APRA and individual insurers concerning their performance.[190]

(vi) Communications

(a) Telecommunications

79. Telecoms remains among the essential infrastructure sectors subject to special competition rules; the ACCC is the regulator that applies these sector-specific competition rules while the Australian Communications and Media Authority (ACMA), has responsibilities for numbering,

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[187] APRA's online list of registered life insurance companies as of 17 June 2010. Viewed at: http://www.apra.gov.au/Life/Registered-Life-Insurers.cfm?RenderForPrint=1 [2 December 2010]. Non-resident life insurers must be subsidiaries of foreign companies. Australia's GATS commitments also specify that sub-national guarantees may be provided by some state and territory insurance offices (WTO documents TN/S/O/AUS/Rev.1, 31 May 2005 and TN/S/O/AUS/Rev.1, 31 May 2005; and Life Insurance Act 1995, Section 16ZE).

[188] Austrade (2009).

[189] Austrade (2009).

[190] For details of these changes see APRA online information. Viewed at: http://www.apra.gov.au/Policy/Proposed-changes-to-general-insurance-prudential-reporting-June-2010.cfm.

industry codes and standards, frequency management and licensing, and some consumer topics, such as controlling internet spam and universal service obligations (USO).

80. Telstra, which was formerly owned by the Government, has been able to retain considerable market power, despite the adoption of measures such as the unbundling of the unconditioned local loop services (ULLS)[191], and the imposition of accounting and operational separation of its functions.[192] According to the OECD, it remains one of the most vertically integrated providers in the world, with dominant positions in the fixed-line, mobile, broadband, and pay-TV segments. Much of the ACCC's enforcement has been about access to Telstra's wires by other providers of digital subscriber line (DSL) data service. Moreover, cable TV is a less competitive alternative to DSL in Australia, because Telstra has a controlling share (50%) in the largest cable TV provider (Foxtel). Australia's Future Fund, which provides for superannuation and pensions for Australia's civil servants, reduced its share of Telstra from 17% to 10.9% in August 2009, and to 10% in October 2010; foreign equity limits in Telstra are still capped at 35% and up to 5% individually. Concerns remain about Telstra's potential to take advantage of its monopoly power in wires, and its aggressive use of litigation to delay regulatory outcomes[193]; this prompted the Australian Government to introduce legislation in 2009 to reform the telecommunication regulatory regime (see below). During the review period, the ACCC investigated whether Telstra has prevented competitors or other users from installing equipment and interconnecting with the local loop and line sharing services (LSS) at certain exchanges; as from 11 July 2008, Telstra has been required to report monthly on queued exchanges and decisions on capped exchanges. In March 2009, the ACCC instituted proceedings against Telstra for inappropriately restricting the ability of other telecommunications providers to access a number of Telstra's exchanges for the purpose of accessing the unbundled local loop and line sharing[194]; as a result in July 2010 Telstra was subject to a pecuniary penalty of $A 18.5 million.

81. Information media and telecommunications services still account for 3.4% of GDP (Table I.2). Despite persistent competition-related concerns, Australian consumers seem to derive significant benefit from an increasing choice in communication services.[195] As of June 2009, there were 391 fixed-line telephone service providers, 3 mobile network operators operating one GSM and one 3G carrier network each, 638 Internet service providers, 287 wireless service providers and

[191] Local loop unbundling (LLU or LLUB) is the regulatory process of allowing multiple telecommunications operators to use connections from the telephone exchange's central office to the customer's premises. The physical wire connection between customer and company is known as a local loop, and it is owned by the incumbent local exchange carrier or an independent telephone company. To increase competition, other providers are granted unbundled access. In some countries local loop unbundling has played a major role in the development of broadband markets. The authorities indicated that there is no technical impediment to unbundling at all locations. While all local exchanges in Australia are subject to a requirement to unbundle local loops on request, access seekers have only taken advantage of their right to access the ULLS in over 10% of Telstra's local exchanges, which are generally exchanges in metropolitan areas serving large numbers of premises, whereas the other 90% of exchanges include many small exchanges in rural, regional, and remote areas where it is commercially unfeasible to utilize the ULLS. Local loop pricing principles were updated in November 2007, and indicative prices were set in June 2008 and last updated in December 2009 (OECD, 2009b; and http://en.wikipedia.org/wiki/Local-loop_unbundling).

[192] OECD (2010c).

[193] United States Trade Representative (2010).

[194] For more details about recent ACCC cases involving Telstra see ACCC (2009).

[195] Overall, the increase in consumer surplus (the measure of the benefits people gain from the consumption of goods and services) attributable to the telecommunications industry in Australia was approximately $A 957 million in 2008/09. Number portability allows consumers to change carriage service providers without changing their telephone number, thus allowing for the development of more competitive service offerings. For more data and details about developments in the communications industry see Australian Communications and Media Authority (2009).

47 satellite broadband providers. As from May 2009, when the ACCC decided not to oppose the merger of the Vodafone and Huthinson "3" mobile networks in a joint venture called Vodafone Huthinson Australia Ltd (VHA), the mobile telephony market shares of the three current mobile network operators in terms of number of subscribers were approximately: 41% Telstra, 33% Optus, and 26% VHA. The number of fixed-line standard telephone services in Australia declined as a result of continuing substitution of these services with other technologies such as 3G or Voice over Internet Protocol (VoIP); 4% of SMEs did not have a fixed-line telephone service in 2008/09, and 20% of them were using VoIP in April 2009, up from 17% in 2008. During 2008/09, mobile network coverage increased, with GSM providing coverage to 96.22% of the population and 3G networks covering 99.06% of the population. The Internet is increasingly seen as a critical business communications channel to improve operational effectiveness, productivity, and market reach. The value of goods and services sold online rose from $A 57 billion in 2006/07 to $A 81 billion in 2007/08, while 56% of businesses were estimated to derive up to 10% of their total goods and services income from sales via the Internet.

82. All telecommunications carriers are required to make a proportionate contribution based on their eligible revenue towards the cost of providing the universal service obligation (USO), which benefits from a subsidy; in 2008/09, $A 145 million was budgeted for this subsidy. The number of public payphones (part of the USO) was reduced from 45,114 in 2007/08 to 39,328 in 2008/09, 52.6% of these are operated by Telstra.[196] On 20 June 2010, the Australian Government announced that it is developing a new institutional, regulatory, and funding framework for the delivery of the USO and other public-interest services to support the development of the National Broadband Network. The details of these arrangements and decisions about further regulatory changes to apply in the longer term will be announced following public consultation. As from July 2002, a Satellite Phone Subsidy Scheme has been in place for people living or working outside of the terrestrial mobile phone coverage to purchase satellite mobile phones; in March 2009, the subsidy increased from 60% to 85% of the handset cost, including the replacement of handsets purchased more than three years previously.[197] The scheme provides up to $A 1,000 for eligible applicants who live in areas without terrestrial mobile coverage or up to $A 700 for eligible applicants who live in areas that have coverage, but spend more than 180 days across a two-year period in non-coverage mobile areas. In 2009/10, 97% of satellite phones subsidized under the scheme were supplied by two firms (Motorola, Thuyara). From 2007 to 2009, over $A 4 million were appropriated for the scheme under the Connect Australia set of programmes. From 2010 to 2013, funds are being appropriated as part of the Government's response to the Regional Telecommunications Review, which also includes an Indigenous Communications Program; in 2009/10 subsidy payments attained $A 1.2 million.

83. In 2009, the authorities launched a wide-scale review of the regulatory regime, examining ways of promoting greater competition across the industry, including measures to better address problems arising from Telstra's vertical integration of wholesale and retail services, and the horizontal integration of telephone and cable networks and telecommunications and media assets.[198] In

[196] As part of its license conditions, Telstra is required to maintain a local presence in regional, rural, and remote Australia; as of June 2009, a new three-year local presence was approved. USO subsidies are paid to Telstra each year in arrears to compensate it for loss-making services provided under its USO obligations. The amount of the subsidy is determined for each financial year by the Minister based on advice from the ACMA. The payphone component of the $A 145 million subsidy is a relatively small 9.6% (Australian Communications and Media Authority, 2009).

[197] Australian Communications and Media Authority (2009).

[198] Reportedly, failure to do so could result in Telstra being forced to divest its cable network and its half-share in pay television broadcaster Foxtel or face being denied the wireless spectrum it needs to evolve its mobile business and roll out fourth generation mobile technology. Telstra has opposed the draft legislation that would implement structural separation within its telecommunications network. For more information about

September 2009, the Australian Government introduced legislation in the Parliament to reform the telecommunications regulatory regime, which it reintroduced in October 2010 and passed on 29 November 2010. The legislation contains measures to encourage and facilitate the structural separation of Telstra's fixed line telecommunications network; imposes strong functional separation on Telstra in the event that it does not structurally separate; empowers the Minister to require Telstra to divest its cable network and its 50% interest in Foxtel in certain circumstances; streamlines the operation of the telecommunications access regime to provide quicker outcomes and reduce opportunities for regulatory gaming; enables the ACCC to set regulated access prices up front for all regulated telecommunications services to improve regulatory certainty and enable quicker access; streamlines enforcement of the prohibitions against anti-competitive conduct; and strengthens protections for consumers of telecommunications services.

84. As the broadband sector is dominated by Telstra[199], in April 2009, the Australian Government announced the establishment of a company to build a national broadband network (NBN), to operate on a non-discriminatory wholesale-only basis. The authorities intend to introduce legislation ensuring full government ownership of the NBN during the network roll-out process and that once the NBN is built and fully operational, any privatization would be subject to the approval of the Parliament.[200] The company will invest up to $A 43 billion over eight years to build a state-of-the-art fibre-to-the-premises telecommunications network, which will serve 93% of Australian residential and business premises; fast broadband services will be delivered to the remaining 7% of premises to be delivered through wireless and satellite technologies; the NBN network will effectively supersede Telstra's copper network. The ACCC is to have strict regulatory oversight of NBN Co's wholesale-only access, non-discrimination and transparency obligations, as well as private ownership and control restrictions, under regulations to be made in the context of the privatization of NBN Co.[201]

85. Given the processes leading to and following the establishment of NBN Co, the Australian Government has not undertaken a formal cost-benefit analysis of the NBN, even though such analysis should arguably be the prime guide of public infrastructure decisions.[202] Nevertheless, the Government did commission independent advisers to conduct a detailed implementation study, which included detailed modelling of the revenues and costs that could be expected from the project given the Government's objectives.[203] On 24 November 2010, the Government released a summary of the

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Telstra's market share in all communications areas and position taken on this and other issues see http://en.wikipedia.org/wiki/Telstra; United States Trade Representative (2010); OECD (2010c); and Productivity Commission (2010b).

[199] Telstra's domination of all platforms (except satellite, which is mainly used in remote areas) made it difficult to establish effective competition between the various types of infrastructure. In 2008, Telstra had more than two-thirds of the market and played a major role on all platforms for access to these services. As owner of most of Australia's fixed-line local access network, Telstra had a dominant position in the supply of wholesale level fixed-line broadband services, including the unbundled local loop. Telstra controlled over 80% of the copper lines used to supply digital subscriber line (DSL) broadband. The authorities indicated that the access regime requires Telstra to allow competing providers to access those lines (via the ULLS and LSS) on regulated terms, and that, by virtue of such regulatory measures competing, ISPs have a market share of retail DSL broadband significantly higher than 20%. In 2008-09, Telstra had a market share of 44% in retail fixed-line broadband (DSL and cable), and 46% in retail mobile broadband (ACCC, 2010b; and OECD, 2008).

[200] OECD (2010c).

[201] The ACCC's role in regulating the NBN could also extend to oversight of governance, ownership, and control restrictions, to ensure that the current incentives for vertically integrated operators to favour their own operations do not arise in the new NBN environment (ACCC, 2009a).

[202] The Treasury (2010f). A similar view was expressed by the Governor of the Reserve Bank of Australia, in response to a question posed by a member of the Standing Committee on Economics of the House of Representatives on 26 November 2010.

[203] McKinsey of Company and KPMG (2010).

business plan and committed to releasing NBN Co's business plan, with the exception of commercial-in-confidence material. The Government considers that the NBN is a transformative investment in Australia's infrastructure for the future; and that its benefits, which will extend over decades across the economy and society and into new areas of innovation, are such that they cannot be practically or usefully quantified. However, on the basis of existing studies into the benefits of high speed broadband[204], the Government considers the benefits will far exceed the quantified and published costs.

(b) Broadcasting, advertisement, and film production

86. Despite the legislative goal of media viewpoint diversity, the number of providers remains small and unchanged.[205] There are three significant free over-the-air television broadcasters licensed to operate in any licence area, and the pay-TV market is concentrated, as Foxtel, which captures the majority of metropolitan area subscribers, is owned 50% by Telstra. Australia's free-to-air commercial television networks remain subject to at least 55% Australian content between 6:00 a.m. and midnight on their main channels (with sub-quotas for first-release Australian drama, documentary, and children's programme), and 80% of Australian advertising.[206] All the commercial and national television broadcasters that are required to transmit the high definition television quota complied with this requirement. Licence fee rebates equivalent to 33% of licence fees payable in 2010 and 50% in 2011 were introduced to assist commercial broadcasters to continue to broadcast high levels of Australian content production; these rebates are temporary and not cumulative.[207] Australian commercial radio broadcasters are required to ensure that up to 25% of all music broadcast between 6:00 a.m. and midnight is performed by Australians.

87. In August 2009, the Productivity Commission found that Australia's television anti-siphoning scheme imposed regulatory burdens because of the protracted commercial negotiations required for the events included on the anti-siphoning list, and recommended that the anti-siphoning list be substantially reduced.[208]

88. The Australian film-production industry continues to receive government support in several ways. During the review period, industry-specific measures involved direct funding and grants to Australian Government film agencies, public broadcasters, and not-for-profit organizations, as well as indirect support via tax concessions and rebates. Up to 30 June 2008, approximately $A 112 million was provided in direct funding to three key film agencies each year: the Australian Film Commission (excluding the National Film and Sound Archive); the Film Finance Corporation Australia; and Film Australia Ltd. On 1 July 2008, these agencies merged into Screen Australia, which received $A 102.9 million in 2008/09, $A 93.6 million in 2009/10, and $A 89.4 million in 2010/11. The

[204] UN/ITU Broadband Commission for Digital Development (2010).

[205] OECD (2010c).

[206] In the AUSFTA, Australia has reserved the right to intervene in the future on interactive media platforms to ensure Australian content is available on newer media or means of transmission. The commitments on audiovisual services do not apply on an MFN basis (United States Trade Representative, 2010; Australian Communications and Media Authority, 2009; and OECD, 2009b).

[207] These rebates take account of the level of licence fees in other countries as well as cost implications for commercial broadcasters of new technologies and commercial pressures, including the switch to digital television (Productivity Commission, 2010c).

[208] The anti-siphoning scheme prevents subscription television broadcasters from buying the rights to televise events on the anti-siphoning list before free-to-air television broadcasters have purchased the rights. It also prohibits free-to-air broadcasters from showing a listed event on their digital television multi-channels unless the event is simultaneously shown, or has been shown, on their main channels. While the scheme is not limited to sporting events, to date non-sporting events have not been listed under the scheme (Productivity Commission, 2010c).

majority of this funding has been used for investment and loans for feature films, TV drama, and documentaries; in 2009/10, Screen Australia was to provide $A 86.8 million in direct support to the industry. Under the 2007 Australian Screen Production Incentive (ASPI), additional financial incentives for the production of film, television, and other audiovisual projects in Australia are in place through three offsets: the Producer Offset, the Location Offset, and the Post, Digital and Visual Effects (PDV) Offset. The Producer Offset is a refundable tax offset (rebate) for producers of eligible Australian audiovisual projects and is paid through the Australian company tax system at 40% of qualifying Australian production expenditure (QAPE) incurred on a feature film and 20% of QAPE incurred on other types of eligible programmes. The Location Offset offers a 15% offset on the QAPE of a large-budget non-Australian film, and the PDV Offset offers a 15% offset on the QAPE that relates to PDV production. Tax rebates made under the ASPI (Producer, Location and PDV Offsets) peaked in 2007/08, at a total of $A 69 million.

(vii) Transport

89. Transport accounted for 5.2% of Australia's economy in 2009/10 (Table I.2, section (i)). High-performance freight infrastructure is crucial, given the size of the country, the geographic dispersion of the population and production centres, and their remoteness from other markets.[209] The export-driven rapid rise in the demand for freight has put strains on infrastructure; there is a growing problem of road congestion and bottlenecks persists in certain bulk ports. Freight handling is hampered by a variety of shortcomings affecting sea freight in particular.[210] Certain ports suffer from inadequate loading facilities, dock shortage, excessively shallow canals, and lack of adequate connections to rail and highway systems. Left unaddressed, these constraints could undermine the pursuit of national goals.[211]

90. Due to constitutional limitations, coordination of transport infrastructure development remains a challenge as responsibilities are shared between the Commonwealth Government (for the interstate rail network, under the supervision of the Commonwealth Government-owned Australian Rail Track Corporation), the states and territories (for roads, intrastate railway systems and most ports) and the private sector (for certain railway networks, certain ports, and a number of toll roads).[212] In 2008, the Commonwealth Government established Infrastructure Australia, which developed a list of priority infrastructure projects. A Building Australia Fund, a part of the Nation-Building Funds package, was set up in 2008/09; allocations from the Fund were to be guided by Infrastructure Australia's national audit and infrastructure priority list. Clear assessment plans have been developed and the prioritization methodology has been published. Infrastructure Australia's detailed assessments are also supported by a series of external and independent experts, along with rigorous cost-benefit ratio analyses; the cost-benefit ratios of the initial nine priority projects identified in May 2009 were all found to be significantly above 1:1. The Commonwealth Government signed National Partnership Agreements with the states and territories in 2009 to administer the majority of its land transport funding over the period 2008/09 to 2013/14. The Australian Government's Nation Building Program (formerly known as Auslink) is investing some $A 37 billion over the six-year period to 2013/14. Funding for land transport infrastructure was 0.4% of GDP in 2008/09, 0.5% in 2009/10, and 0.3% in 2010/11. A National Ports Strategy, including a National Freight Policy, was prepared by Infrastructure Australia and the National Transport Commission, and released in January 2011[213]; an implementation plan was requested for

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[209] OECD (2008).
[210] OECD (2008); and Infrastructure Australia and the National Transport Commission (2010).
[211] Infrastructure Australia and the National Transport Commission (2010).
[212] OECD (2008).
[213] Infrastructure Australia and the National Transport Commission (2010).

August 2011. A discussion paper on a National Freight Strategy was released in February 2011 and was open for comment until April 2011.

91. A number of micro-economic reforms have also been embarked upon through the COAG Infrastructure Working Group, to improve coordination and best practice in the way the country plans, finances, builds, and uses infrastructure. For instance, the National Pre-Qualification Scheme, in operation as of January 2011, is aimed at reducing barriers to competition in the construction industry by ensuring mutual recognition of prequalification status across jurisdictional boundaries. This reform will increase competition in the construction industry, leading to reduced construction costs and is also expected to reduce administrative costs for states and territories.

(a) Maritime services

92. During the review period, the Australian merchant trading fleet has decreased in size, from 96 to 77 licensed and Australian flagged vessels.[214] Around 87% of Australia's total port throughput (volume) comprised exports; in 2009/10, despite the impact of the global financial crisis, the total port throughput increased to over 900 million tonnes of goods, compared with around 875 million tonnes in 2008/09.[215] In 2008/09, the bulks (mainly iron, and coal) accounted for 90%, containerized general cargo for 6.5%, and other non-containerized general cargo for 3.5% of total cargo volume. In terms of trade direction, 59% of the loaded containers were imports, and 41% exports. There are over 60 ports in Australia, but more than 95% of volume is handled in 20 ports.

93. Liner shipping conferences are regulated by a separate section of the Competition and Consumer Act (CCA) 2010 (Chapter III), which permits shipping lines to collectively discuss freight rates, capacity levels, and liner scheduling.[216] Despite a 2005 review by the Productivity Commission recommending repeal of this exemption from CCA (former TPA) provisions, the authorities decided to retain and amend the exemption to clarify its objectives; remove discussion agreements from its scope; protect individual confidential service contracts between carriers and shippers; and introduce a range of penalties for breaches of its procedural provisions. These amendments were put on hold pending shipping policy reforms. Plans were announced in August 2010 for introducing measures to strengthen Australia's shipping industry wih respect to its international competitors as well as other modes of transport domestically.[217] In December 2010 consultations commenced on a reform package including changes to the licence and permit system (cabotage), a new tonnage tax, the implementation of existing coastal shipping principles consistent with the Navigation Act, the introduction of mandatory training requirements, and the establishment of an Australian International Shipping Register and a Maritime Workforce Development Forum. These measures would be at a cost to revenue of $A 41.5 million and a departmental cost for implementation of $A 8 million.

94. Australia's cabotage regime remains unchanged. Coastal operations are carried out through a system of licences and permits available to both Australian and international operators. During the review period, foreign vessels carried approximately 29% of Australia's domestic cargo under the permit system.[218] Financial assistance is provided to alleviate the costs of shipping freight between Tasmania and the mainland under the Tasmanian Freight Equalisation Scheme (TFES); some 1,430 claimants benefited from the scheme in 2007/08, 1,621 in 2008/09, and 1,666 in 2009/10.

[214] Bureau of Infrastructure, Transport and Regional Economics (2010).
[215] Infrastructure Australia and the National Transport Commission (2010).
[216] OECD (2010c).
[217] ALP online information, "Stronger shipping for a stronger economy", 13 August 2010. Viewed at: http://www.alp.org.au/federal-government/news/stronger-shipping-for-a-stronger-economy/ [6 December 2010].
[218] Bureau of Infrastructure, Transport and Regional Economics (various years).

(b) Aviation services

95. Over 23 million people travelled by air in Australia in 2008/09; almost half were tourists visiting from overseas.[219] A total of 53 airlines operated international passenger flights in July 2010; the top three, Qantas, Singapore Airlines, and Air New Zealand, accounted for 36.9% of total passengers to and from Australia. The majority of scheduled air freight is carried on passenger aircraft. Around 22.9% of freight traffic was accounted for by Australian designated airlines in 2009/10.

96. The Air Navigation Act 1920 and Air Navigation Regulations 1947 (ANR) were amended in 2008 and 2009 to simplify the International Airline Licenses (IAL) regulatory structure and improve the oversight of the IAL system. These reforms introduced a simple audit scheme and allowed for IALs to be updated, suspended, and cancelled as necessary; as a result, over 70 international airlines were re-licensed.

97. A 2009 National Aviation Policy White Paper combined various strands of aviation policy into a single document to provide planning, regulatory, and investment certainty for the aviation industry.[220] This document provides, *inter alia*, a policy framework for the development of the aviation industry at all levels (international, domestic, regional, and general aviation), including through skills and productivity improvements. Under the White Paper, Australia envisages, *inter alia,* to: move to a new generation of "open skies" agreements[221]; provide opportunities for regional areas to attract international services; seek fully open arrangements for dedicated cargo services to support Australia's air freight export industries; and retain the basic restriction of 49% on foreign investment in Australia's international airlines, but remove the additional restrictions on foreign ownership of the national carrier Qantas (i.e. 25% for foreign individual shareholdings and 35% for total foreign airlines shareholdings) by amending the Qantas Sale Act 1992.[222] Significant capacity increases have been negotiated with China and Indonesia, and in November 2010 discussions were under way for a proposed comprehensive air transport agreement with the EU.

98. Although Australia does not permit cabotage in aviation services[223], where demonstrable benefits can be gained through the granting of cabotage rights, and provided safety and other concerns are satisfied, the authorities may consider trading cabotage rights strategically, e.g. to help achieve a comprehensive open skies agreement with a major trading partner (e.g. the EU) or to gain reciprocal cabotage rights in a significant market (e.g. the United States). Furthermore, the authorities may consider unilateral cabotage in some exceptional circumstances (i.e. emergency situations); several authorizations of this type were granted during the review period. The authorities consider that the expansion of seventh freedom rights[224] for passenger and cargo services should also be used in a strategic manner and only agreed on a case-by-case "national interest" basis. Australia has negotiated a number of air services agreements with other countries since 2007 and some of these countries have

[219] Department of Infrastructure, Transport, Regional Development and Local Government (2009).

[220] Department of Infrastructure, Transport, Regional Development and Local Government (2009).

[221] These agreements would go further than the traditional exchange of traffic rights to include open capacity, beyond and intermediate rights, safety, security, environment, competition, and investment provisions (Department of Infrastructure, Transport, Regional Development and Local Government, 2009).

[222] By applying the same investment regime to all airlines, the authorities expect to increase Qantas's ability to compete for capital and to have more flexible equity arrangements (Department of Infrastructure, Transport, Regional Development and Local Government, 2009).

[223] Cabotage is the transport of goods or passengers between two points in the same country by a vessel or an aircraft registered in another country (Department of Infrastructure, Transport, Regional Development and Local Government, 2009).

[224] The seventh freedom right is the right to carry passengers or cargo between two foreign countries without any continuing service to one's own country.

access to seventh freedom cargo rights (Bangladesh, Croatia, Czech Republic, Kenya, Pakistan, Sri Lanka, Turkey, United Arab Emirates, and the United States).

99. Australia maintains a fully deregulated interstate domestic aviation market allowing up to 100% foreign ownership of domestic airlines, subject to meeting Foreign Investment Review Board requirements.[225] Assistance for regional and remote air services and airports is being improved and better targeted at those routes that are unable to sustain commercial operations.[226] The Australian Government has consolidated the Remote Air Services Subsidy (RASS) Scheme, Remote Aerodrome Inspection (RAI) Program, the Remote Aerodrome Safety Program (RASP) and the Remote Aviation Infrastructure Fund (RAIF) into a single programme, the Regional Aviation Access Program (RAAP). The funding allocation under RAAP over the four years beginning 2010/11 totals $A 61.7 million. Support for remote air services and aerodromes is expected to be better coordinated and to provide greater flexibility in allocating funding based on the greatest need. Assistance for regional and remote aviation has been provided through a four-year $A 14 million Payment Scheme for Airservices Australia Enroute Charges since 2010.

100. The ACCC remains in charge of monitoring the prices, costs, and profits regarding aeronautical and related services at Australia's five major airports (Chapter III). Major shareholders of these airports are investment and fund management companies. Most of Australia's 310 licensed airports are owned and operated by local government organizations. The third inquiry by the Productivity Commission since the privatization of Australia's major federal airports into airport economic regulation is currently under way with a draft report due out in August 2011.

(c) Land transport

101. Rail and road transport are complementary rather than substitutable, and have accounted for similar, and steadily growing, shares of the domestic freight market; only a small proportion of land freight (10%-15%) is subject to competition between road and rail. Thus, it would be difficult to raise the proportion of railway freight at the expense of road freight.[227] In the December 2008 Australia Building Fund (see above), the Government provided the Australian Rail Track Corporation (ARTC) with around $A 1.2 billion in additional equity to allow it to deliver on its massive work programme across the National Rail Network. An additional $A 1 billion equity injection into ARTC was announced in the 2010/11 Budget to fund seven new rail productivity enhancing projects on its interstate network; in addition to significant positive environmental impacts, these projects are designed to reduce transit times, provide trains with more overtaking opportunities, ensure fewer delays due to heat-related speed restrictions, and allow increased axle loads for heavier trains. Railroads remain exempt from CCA provisions; the ACCC's role in this sector includes assessing codes and undertakings about rail infrastructure access, arbitrating disputes between operators and infrastructure providers, and analysing mergers and acquisitions.[228]

102. Regulatory reform in the transport sector is one of the key areas identified to increase future transport productivity and efficiency. The regulation of heavy vehicles is carried out by

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[225] As a result of increased competition from the entry of low cost airlines, such as the majority foreign-owned Virgin Blue, Jetstar, and the 100% Singapore-owned Tiger Airways in 2008/09, Australia's domestic and regional airlines carried 49.6 million passengers, up from only 16.8 million in 1988/89; this represents average annual growth of 5.5%. In addition, the two largest independent regional airlines (Regional Express, Skywest) are currently majority foreign-owned (Department of Infrastructure, Transport, Regional Development and Local Government, 2009).

[226] Department of Infrastructure, Transport, Regional Development and Local Government (2009).

[227] OECD (2008).

[228] OECD (2010c).

nine governments, and there are seven rail regulators across Australia; despite past work to harmonize regulation across Australia, different approaches between states and territories are a considerable burden for freight and passenger-transport operators who operate across state borders. In July 2009, the COAG agreed to implement national regulators for rail safety and heavy vehicles (and for maritime safety), and work is under way to implement national laws and the new regulators by 2013. The COAG has also initiated a review of pricing options for heavy vehicles to ensure the more efficient, productive, safe, and sustainable use of freight infrastructure. A future pricing regime, which may be adopted by 2014, is aimed at recouping the cost of wear and tear to roads more directly, from heavy vehicle freight movements, in order to ensure maintained access and availability of roadways for freight movement, in an open, transparent, and economically efficient manner.

(viii) Tourism

103. Tourism is Australia's largest services export and a significant and vital industry. In 2008/09, it contributed over $A 33 billion to GDP, and directly employed around half a million people.[229] Domestic tourism accounts for around 75% of the industry.

104. In addition to increasing general support measures in the form of tax expenditures, industry-specific support has been provided to the tourism sector.[230] A TQUAL Grants Program, of up to $A 8.5 million in new funding, replaced the Australian Tourism Development Program in April 2009.[231] Under the new programme innovative tourism projects are eligible for grants of $A 5,000 to $A 100,000, national or sectoral tourism initiatives are eligible for grants of $A 25,000 to $A 500,000, and integrated tourism development projects are eligible for grants of $A 100,000 to $A 500,000. At end-December 2009, 70 projects had been approved for funding, totalling $A 8.3 million; an additional $A 40 million of funding is intended for TQUAL Grants from 1 July 2011. Tourism Australia, the government agency responsible for the international and domestic marketing of Australia as a destination for leisure and business travel, receives an annual appropriation from the Government of about $A 130 million; its latest priority was to promote domestic business travel and stimulate travel from overseas locations within ten hours of flying time, including China, Japan, Malaysia, Singapore, New Zealand, and the Middle East. As from December 2009, a National Long-Term Tourism Strategy has aimed to promote innovation, infrastructure development, and growth in the industry, as well as to improve industry capacity to meet demand and expectations created through marketing campaigns; the authorities committed $A 2.2 million for 41 measures to fund the implementation of the Strategy over the following 18 months. Under the Strategy, the Tourism Quality Council of Australia (TQCA) has been established to administer the National Tourism Accreditation Framework (NTAF), an umbrella framework for, *inter alia,* building consumer purchasing preference. On 11 May 2010, the Australian Government announced funding of $A 5.5 million over four years to support the implementation and operation of the NTAF.

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[229] Department of Resources, Energy and Tourism (2009).
[230] Productivity Commission (2010c).
[231] Productivity Commission (2010c).

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