

WORLD TRADE ORGANIZATION

RESTRICTED

G/SCM/Q2/AUS/10

23 April 1997

(97-1753)

Committee on Subsidies and Countervailing Measures

Original: English

SUBSIDIES

Replies to Questions posed by KOREA¹, CANADA², THAILAND³, JAPAN⁴,
the EUROPEAN COMMUNITY⁵, NORWAY⁶, ARGENTINA⁷, and the UNITED STATES⁸
Regarding the New and Full Notification of AUSTRALIA⁹

The following communication, dated 15 April 1997, has been received from the Permanent Mission of Australia.

QUESTION FROM KOREA

Dairy products

The notification states that the ESP was classified as an "export subsidy" subject to reduction commitments under the WTO Agricultural Agreement, but it was terminated on 30 June 1995 and has been replaced by a clearly identifiable domestic market support scheme.

Could you explain the objective, the beneficiaries and the condition of the replaced scheme and the reason why this was not notified?

Answer

The new scheme was not notified to the Committee on Subsidies and Countervailing Measures, since it does not provide subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures. It does deliver domestic support as defined under the Agreement on Agriculture and so is notified to the Committee on Agriculture.

The objective of the new scheme is to replace the support provided to dairy farmers under the terminated scheme. The beneficiaries under the scheme are dairy farmers.

¹G/SCM/Q2/AUS/1, ²G/SCM/Q2/AUS/2, ³G/SCM/Q2/AUS/3, ⁴G/SCM/Q2/AUS/4 & Rev.1, ⁵G/SCM/Q2/AUS/5 & G/SCM/Q2/AUS/9, ⁶G/SCM/Q2/AUS/6, ⁷G/SCM/Q2/AUS/7, ⁸G/SCM/Q2/AUS/8, ⁹G/SCM/N/3/AUS.

QUESTION FROM CANADA

We note that this notification does not include any sub-federal subsidies. Does Australia intend to notify sub-federal subsidy programmes that meet the criteria under Article 25 of the Subsidies Agreement and Article XVI of the GATT 1994?

Answer

Australia will provide what information it can to questions on specific sub-national subsidy programmes. More generally the Australian Government is in the process of consulting with State authorities on additional information about what sub-national programmes might be notifiable to the Committee.

QUESTIONS FROM THAILAND

Question 1

Please give details of Australia Trade Commission (AUSTRADE) and its schemes to assist and promote export.

Answer 1

The Australian Trade Commission (Austrade) is the Australian Government's international trade and inbound-investment development agency. Its prime functions are to help Australian companies establish and market their products and services on world markets; to assist firms to invest in productive operations overseas and to attract direct, foreign investment to Australia.

Austrade was established by the Australian Trade Commission Act of 1985 and was designed to build on the 50 years of experience already gained by the former Australian Trade Commissioner Service. Austrade plays a key role in the Australian Government's strategy to internationalize the Australian economy. The Australian Trade Commission Act describes Austrade's functions as:

- representing the trading and commercial interests of Australia in foreign countries;
- assisting, directly or indirectly, Australian organisations in trade negotiations;
- promoting, coordinating or participating in projects designed to promote Australian export trade;
- obtaining and making available information about current and future opportunities for Australian exporters, including opportunities for involvement in overseas development projects;
- supporting and facilitating investment in foreign countries and foreign investment in Australia where that investment is likely to enhance Australian export trade;
- carrying out or assisting with overseas development projects in circumstances where that action will benefit Australian enterprises;
- administering the Export Market Development Grants (EMDG) Act of 1974 (as amended); and

- facilitating access to Commonwealth and State Departments and instrumentalities where such access is likely to enhance opportunities for Australian export trade.

In partnership with the Department of Industry, Science and Tourism, Austrade works to attract direct, foreign investment to Australia through the Investment Promotion and Facilitation Programme. The programme's objective is to promote Australia as a destination for foreign, non-portfolio investments.

Austrade has 99 offices and representatives in 67 countries and an extensive domestic network which together work with Australian companies to:

- establish whether or not they are ready to export;
- help them understand and apply the tools of successful exporting;
- identify prospective overseas markets and carry out research into these markets, including the identification and capture of business opportunities;
- introduce them to the right contacts in overseas markets, including importers, distributors or agents; and
- assist companies to present competitive tender bids, negotiate commercial agreements such as licensing agreements or joint ventures and mount displays at trade exhibitions.

Additional information on programmes referred to above have been given in response to questions from the EC and the United States.

Question 2

Does Australia maintain any export incentive scheme during the notification period on the following sectors:

- *motor vehicles*
- *textiles, clothing and footwear i.e. incentives for international competitiveness programmes*

If yes, please give details according to the notification format.

Answer 2

Export Facilitation Scheme Arrangements for the Automotive Sector

This programme does not provide subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures.

The Australian automotive market is a very open market. Half the new passenger motor vehicles sold in Australia are imported. Almost all commercial vehicles sold are imported.

The Export Facilitation Scheme (EFS) is an industry restructuring and rationalisation measure designed to encourage greater efficiency and competitiveness in the Australian automotive industry.

The scheme is in place as a temporary measure to facilitate restructuring in the automotive sector which has been strongly affected by falling tariffs. The scheme is part of the programmed

reduction in tariff. The scheme is trade liberalising as it forces restructuring by allowing for imports to enter at below the bound and applied tariff rates. It is scheduled to expire in 2000.

EFS increases the level of imports into Australia and thereby maintains an ongoing pressure on local suppliers of motor vehicles and components to increase quality and competitiveness.

The objective of the EFS is to assist the industry rationalisation process by: encouraging rationalisation of the industry by encouraging firms to concentrate on manufacturing and exporting components and vehicles for which they have a comparative advantage and supplementing their range by importing those goods for which there is no comparative advantage and therefore contributing to improved economies of scale and industry efficiency:

- increasing the range and quality of vehicles available to consumers by expanding opportunities to supplement a reduced range of local models with completely built up imports; and
- assisting the local industry become more integrated with the world automotive industry.

Textiles, Clothing & Footwear Import Credit Scheme

This programme does not provide subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures.

The Scheme is part of the major restructuring mechanism of the sector accelerating the effect of tariff reductions, thereby increasing exposure to international competition. This is reflected in an increase in the net deficit of trade in textiles, clothing and footwear goods of over A\$660 million or 21% since the Scheme was introduced in 1991/92. The Scheme is being progressively phased down and will terminate in June 2000.

The scheme is equally available to both Australian owned and overseas owned companies and individuals and, by encouraging two way trade facilitation, assists both importers and exporters. The scheme does not link imports to exports (i.e. even if a company does not export, it can still import without any restriction). It should be noted that Australian textiles, clothing and footwear market is one of the most open market in the world (in that Australia does not have any quantitative restrictions).

Question 3

Does Australia maintain any export enhancement scheme at sub-federal level? If yes, please give details according to the notification format.

Answer 3

Australia will provide what information it can to questions on specific sub-national subsidy programmes. More generally we are in the process of consulting with State authorities on additional information about what sub-national programmes might be notifiable to the Committee.

Question 4

Please give details of R&D assistance at both federal and sub-federal levels. Does the Australian Government set any criteria to ensure that the assistance is qualified for non-actionable treatment under Article 8 of the Subsidies Agreement.

Answer 4

The Tax Concessions for R & D scheme does not provide specific subsidies.

The scheme's premium rate of deduction was reduced to 125% from 20 August 1996. The incentive allows claimants to deduct up to 125% of eligible expenditure incurred on R&D activities when lodging their corporate tax return. The scheme is available to all manufacturing and service companies. In order to claim the full 125% rate, the claimant must have spent at least A\$20,000 a year in R&D activities unless the work is contracted out to an approved Registered Research Agency, such as the CSIRO, or a Cooperative Research Centre.

Could Thailand indicate which R&D programmes it would like further details on. Some additional information was provided in the answer to Japan's question 6. No programme has been designed with Article 8.2(a) of the Agreement on Subsidies and Countervailing Measures specifically in mind.

QUESTIONS FROM JAPAN

Question 1

III. Citric acid

- (1) *Was this programme already terminated as mentioned in the notification?*
- (2) *Are there any similar programmes in place on this product?*

Answer 1

- (1) Yes.
- (2) No.

Additional information was provided in our answer to EC question I(c).

Question 2

IV. Computers

- (1) *Was this programme already terminated as mentioned in the notification?*
- (2) *Are there any similar programmes in place on this product?*

Answer 2

- (1) No. G/SCM/N/16/AUS (i.e. the annual update for 1996) notified that a decision had been taken to extend the bounty until 31 December 2000. Subsequently the Government announced in August 1996 that it would be terminated from 1 July 1997. Further detail was provided in our response to EC question I(d).
- (2) No.

Question 3

VI. Machine tools and robots

Paragraph 1(b) of the notification states that the Act provides for payment of bounties on locally manufactured items. In this connection, could Australia clarify whether the Act constitutes the subsidies contingent upon the use of domestic over imported goods?

Answer 3

The bounty is not contingent upon the use of domestic over imported goods. The reference to "locally manufactured" simply means that the bounty is payable on production in Australia. Paragraph 1(d) of the notification noted that the bounty is paid as a percentage of the value-added component undertaken by a company.

In 1996 the Australian Government commissioned an Industry Commission report into the tariff and bounty arrangements pertaining to the machine tools and robotics industries. The report recommended the machine tools and robots bounty scheme lapse on 30 June 1997. The Australian Government has accepted the recommendation and consequently stated its intention in the 1996/97 budget to introduce legislation into the Australian Parliament that would repeal the Bounty (Machine Tools and Robots) Act 1985, which had a sunset of 30 June 1997, and hence lapse the scheme before that date. The legislation to abolish the bounty is currently before Parliament. New applications are not being accepted.

Question 4

VII. Printed fabrics

- (1) *Was this programme already terminated as mentioned in the notification?*
- (2) *Are there any similar programmes in place on this product?*

Answer 4

- (1) Yes, this bounty was terminated on 30 June 1995.
- (2) No.

Question 5

IX. Textile yarns

Paragraph 1(b) of the notification states that the bounty was payable upon production of certain yarns, spun from certain textile fibres and used to produce, in Australia, yarns, other textiles or products made wholly or partially therefrom. In this connection, could Australia explain whether this bounty constitutes a subsidy contingent upon the use of domestic over imported goods?

Answer 5

The bounty did not discriminate between domestic and imported inputs used to produce bountiable goods. Please note that this programme terminated on 30 June 1995.

Question 6

Others

Could Australia explain the outlines of the following programmes and the reason why they have not been notified?

- (1) Passenger Motor Vehicle Export Facilitation Scheme (PMV EFS)
- (2) Textiles, Clothing and Footwear Import Credit Scheme (TCF ICS)
- (3) Textiles, Clothing and Footwear: Bounties
- (4) Textiles, Clothing and Footwear: Further Wool Processing
- (5) 150 per cent Tax Concession for Research and Development

Additionally, please explain to which industries and under what criteria or conditions this programme is applied?

- (6) Cooperative Research Centres Programme (CRC)

Additionally, please explain to which industries and under what criteria or conditions this programme is applied?

- (7) National Space Programme (NSP)

Additionally, could Australia explain the form of assistance for enterprises under this programme?

- (8) Industrial Research and Development: Queensland

Additionally, could Australia explain the form of assistance for enterprises under this programme?

Answer 6

- (1) This programme does not provide subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures.

The Australian automotive market is a very open market. Half the new passenger motor vehicles sold in Australia are imported. Almost all commercial vehicles sold are imported.

The Export Facilitation Scheme (EFS) is an industry restructuring and rationalisation measure designed to encourage greater efficiency and competitiveness in the Australian automotive industry.

The scheme is in place as a temporary measure to facilitate restructuring in the automotive sector which has been strongly affected by falling tariffs. The scheme is part of the programmed reduction in tariff. The scheme is trade liberalising as it forces restructuring by allowing for imports to enter at below the bound and applied tariff rates. It is scheduled to expire in 2000.

EFS increases the level of imports into Australia and thereby maintains an ongoing pressure on local suppliers of motor vehicles and components to increase quality and competitiveness.

The objective of the EFS is to assist the industry rationalisation process by: encouraging rationalisation of the industry by encouraging firms to concentrate on manufacturing and exporting components and vehicles for which they have a comparative advantage and supplementing their range by importing those goods for which there is no comparative advantage and therefore contributing to improved economies of scale and industry efficiency:

- increasing the range and quality of vehicles available to consumers by expanding opportunities to supplement a reduced range of local models with completely built up imports; and
- assisting the local industry become more integrated with the world automotive industry.

(2) This programme does not provide subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures.

The Scheme is part of the major restructuring mechanism of the sector accelerating the effect of tariff reductions, thereby increasing exposure to international competition. This is reflected in an increase in the net deficit of trade in textiles, clothing and footwear goods of over A\$660 million or 21% since the Scheme was introduced in 1991/92. The Scheme is being progressively phased down and will terminate in June 2000.

The scheme is equally available to both Australian owned and overseas owned companies and individuals and, by encouraging two way trade facilitation, assists both importers and exporters. The scheme does not link imports to exports (i.e. even if a company does not export, it can still import without any restriction). It should be noted that Australian textiles, clothing and footwear market is one of the most open market in the world (in that Australia does not have any quantitative restrictions).

(3) These bounties were notified. See answers to questions 4 and 5 above. They were terminated on 30 June 1995.

(4) The Further Wool Processing Programme commenced on 22 June 1992 and was introduced to encourage a substantial increase in the proportion of Australia's wool clip processed to the tops stage in Australia. The Further Wool Processing Programme closed on 22 June 1993.

(5) This scheme does not provide specific subsidies.

The scheme's premium rate of deduction was reduced to 125% from 20 August 1996. The incentive allows claimants to deduct up to 125% of eligible expenditure incurred on R&D activities when lodging their corporate tax return. The scheme is available to all manufacturing and service companies. In order to claim the full 125% rate, the claimant must have spent at least A\$20,000 a year in R&D activities unless the work is contracted out to an approved Registered Research Agency, such as the CSIRO, or a Cooperative Research Centre.

(6) This programme does not provide specific subsidies. The Cooperative Research Centres Programme funds basic or strategic research in any area of science and technology. The programme provides funding, on at least matching basis, to approved centres which bring together researchers from universities, public and private research institutions and research users from the public or private sector.

(7) The element of the National Space Programme that provides assistance to enterprises is the Space Industry Development Centres (SIDC) programme.

SIDCs are centres of research expertise within universities, working in partnership with industry to develop space products and services.

The SIDC scheme, which was established in 1990, receives A\$1.6m a year. Each Centre is eligible for a maximum of A\$500,000 per year for funding a programme of R&D projects and Centre development activities. All projects funded under the SIDC scheme must have the active support of an industry collaborator, who is required to match the Government's contribution on a dollar for dollar basis.

Projects are proposed by the Centres or by their industry partners, and brought together as the basis of each Centre's annual work programme. Funding of the work programme grants is approved annually by the Space Policy Unit of the Department of Industry, Science and Tourism. The Department currently supports SIDCs at the Queensland University of Technology and Griffith University.

The programme was not notified because Australia views it as research funding to Universities.

(8) The Australian Government is in the process of consulting with the Queensland State authorities about the programme and the extent to which it might be notifiable to the Committee. We will advise Japan of the outcome.

QUESTIONS FROM THE EUROPEAN COMMUNITY

Question

Australia submitted on 7 August 1995 its notification of subsidy programmes to the WTO pursuant to Article XVI:1 GATT 1994 and Article 25 of the WTO Subsidies Agreement.

In this respect, the Community would like to obtain clarification on a number of issues on the notified schemes as described below.

Moreover, the Community has obtained information on different subsidy schemes which were not notified to the WTO although their notification seems necessary pursuant to Article 25.2 of the Subsidies Agreement.

I. NOTIFIED SUBSIDY PROGRAMMES

Australia notified a number of programmes which are listed below. After examination, the Community has serious concerns on the extent and the practical implications of the notified programmes. The present analysis constitutes the remarks of the Community and a request for clarification. The Community would like to obtain further information for each programme on the specific criteria which have to be met before the subsidy is granted, and in particular if export performance is a criterion.

(a) Bed-Sheeting

- *Australia claims that the bounty was not payable on exported bed sheeting. In this respect, could Australia provide domestic and export statistics in order to evaluate this statement?*
- *Could Australia provide the amount of the bounty?*

Answer I(a)

Note that this bounty was terminated on 30 June 1995. The objective of the question is unclear; however the statistics requested are as follows.

Domestic production in 1994/95 was 3,233,000 square metres. 1,366,846 square metres of this product was exported at a value of A\$22,617,746.

Output data for 1995/96 are not yet available. A\$67,398 in bounties was paid in 1995/96 based on 8 cents per square metre produced.

(b) Books

- *Australia states that the rate of the bounty was for the period 1987-1988 20 per cent to reduce gradually to 4.5 per cent in 1997. However, the total amount of the bounty increased in the period 1994-1995 to \$A25,400,000 compared to \$A22,274,000 for the period 1993-1994. Could Australia provide a clarification for this increase?*

Answer I(b)

The Bounty (Books) Act 1986 came into operation on 1 January 1987 and provides bounty payments for approved books manufactured in Australia. To be eligible for bounty, books must, in general, be at least 49 pages and be produced in a minimum run of 1,000 copies.

The bounty is designed to assist the printing of books in Australia by helping offset tariffs on inputs for book production particularly on paper and inks.

The rate of bounty fell from 13.5% in 1993 to 10.8% from 1 January 1994 to 9.0% from 1 January 1995. Bounty payments are calculated as a percentage of the cost of production.

The volume of books produced by the Australian industry increased significantly over the period in question. This can primarily be attributed to changes made in the Copyright Act in 1991 which increased the demand for Australian printing as publishers moved to have books printed in Australia to guarantee their availability within the 30 day period. Under the revised arrangements, for new titles, the holder of the Australian copyright must make the title available in Australia within 30 days of first publishing the title overseas, in order to retain protection against parallel imports of the title.

The Government has announced its intention to abolish the bounty payable on book production from 30 June 1997 and legislation is currently before Parliament.

The cost of the bounty was \$A21.9m in 1995/96 and is forecast to be A\$10.1m in 1996/97.

(c) Citric Acid

- *The Community examined the bounty and found that the bounty was paid to the sole Australian citric acid producer, Sirius Biotechnology. Since there is only one producer who benefits from the scheme, the Community would like more information regarding the sales structure (including exporting activity) of this company.*

Answer I(c)

The bounty expired on 30 December 1995. The sole recipient, Sirius Biotechnology, closed operations in May 1994. There are no other programmes in this area.

(d) Computers

(i) *Is this programme available for software?*

(ii) *Australia states that the scheme will end in 1995. The Community understands that the programme was extended until 2000 at a reduced rate of 5 per cent. Could Australia confirm this?*

(iii) *The Community has concerns about the interpretation of the trade effects of the bounty for computer equipment. The statement that the bounty aims to give local companies the possibility to buy Australian hardware is contradicted by the findings of the Australian Industry Commission. The 94-95 Annual Report states that part of the computer bounty is paid on production destined for export. Furthermore, the IC Report continues: "Based on the available data, exports received about half of the bounty payments on computers". The amount of subsidy is quite considerable e.g. \$A35.6 m for 1995/1996. In view of the information contained in the IC Annual Report, the Community requests further clarification. The Community would also like information on whether the bounty is contingent upon the use of domestic over imported goods and consequently, its compatibility with Article 3.1(b) of the Subsidies Agreement.*

Answer I(d)

The extension of the programme was notified to the Committee on Subsidies and Countervailing Measures in G/SCM/N/16/AUS. On 1 December 1995, Parliament amended the Bounty (Computers) Act 1984 extending the computer bounty until 31 December 2000. The amendments passed by Parliament also excluded research and development from bounty eligibility for all production completed on or after 1 January 1996 and reduced the bounty rate from 8% to 5% for all production completed on or after 1 January 1997.

The Government has subsequently announced its intention to abolish the computer bounty with effect from 1 July 1997 and legislation is currently before Parliament.

The computer bounty does not discriminate between production for domestic sale or production for export. The figures quoted from the Industry Commission are presumably just a simple arithmetic apportionment of the bounty between the domestic and export markets.

The bounty is not contingent upon the use of domestic over imported goods. Almost all bountiable production uses imported goods as many important components notably memory chips, microprocessors, disc drives, monitors and motherboards are generally not made in Australia. As set out in the notification, the bounty rate is on in-house value added by the manufacturer. Only operating and systems software associated with the eligible hardware may be claimed for bounty. Applications software and software not associated with the eligible hardware are not bountiable.

(e) Machine Tools and Robots

- *Although Australia states that the bounty is designed to encourage local production of metal-working machine tools by improving competitiveness against imports, the export data on the products concerned are not sufficiently desegregated to determine export*

levels. The export intensity ratios of the Bureau of Industry Economics indicate that 16 per cent of the total amount of bounty went to exports. To what extent is export performance taken into account when granting the subsidy?

Answer I(e)

The programme is a bounty, i.e. it is paid on all production with no distinction being made between whether the product is destined for the domestic or export market.

In 1996 the Australian Government commissioned an Industry Commission report into the tariff and bounty arrangements pertaining to the machine tools and robotics industries. The report recommended the machine tools and robots bounty scheme lapse on 30 June 1997. The Australian Government has accepted the recommendation and consequently stated its intention in the 1996/97 budget to introduce legislation into the Australian Parliament that would repeal the Bounty (Machine Tools and Robots) Act 1985, which had a sunset of 30 June 1997, and hence lapse the scheme before that date. The legislation to abolish the bounty is currently before Parliament. New applications are not being accepted.

(f) Shipbuilding

- *Information available to the Community indicates that bounties are payable on 130 per cent of the production cost. The bounties were therefore equal to 12 per cent of the actual production cost. The Annual Report of the Industry Community for 1992/1993 shows that 83 per cent of all shipbuilding bounties were applied for export assistance in 1991/1992, 87 per cent in 1992/1993 and 86 per cent in 1993/1994. On the basis of these figures, the Community concludes that this scheme may constitute a de facto export subsidy. Could Australia elaborate on the criteria for granting the subsidy? Furthermore, the Community would like Australia to comment on (i) the figures of the Industry Commission; and (ii) the compliance of the scheme with Article 3.1 (a) of the Subsidies Agreement.*

Answer I(f)

The Bounty (Ships) Act 1989 came into effect on 1 July 1989 providing for a phase down of bounties to shipbuilders. It replaced the Bounty (Ships) Act 1980 following a review of the shipbuilding bounty scheme by the Industry Commission in 1988. Amendments to the Act in 1993 varied the bounty phasedown schedule and extended the period of operation of the Act by two years to 30 June 1997. The Government has announced its intention to extend the bounty assistance to shipbuilders to 31 December 1997 and legislation to implement this decision is currently before Parliament.

Bounty in 1996/97, as in previous years, is payable on a basis that approximates 100 percent of the actual production costs, including an allowance for overhead costs. The bounty rate has been diminishing as the programme progressed towards termination. The bounty rate is 5% of eligible costs for 1996/97 and this rate will now apply through the extended period of 31 December 1997.

Criteria for payment of the bounty are that:

- the shipbuilder is registered by authority of the Minister for Industry, Science and Tourism;
- the vessel is not for the Australian Government or it's agencies' use, for example, defence vessels;
- the vessel is not for export to New Zealand; and
- the gross construction tonnage of the ship is greater than 150 and less than 20,000.

With reference to Article 3.1(a) of the Agreement on Subsidies and Countervailing Measures, the Australian bounty is available to all vessels produced in Australia that meet the criteria, whether for the domestic or export markets; it is not in any way based on export performance. The figures quoted from the Commission are presumably just a simple arithmetic apportionment of the bounty between the domestic and export markets.

(g) Textile Yarns

- *The figures of the Textiles, Clothing and Footwear Development Authority (Australian Federal body) show that the bounty scheme has led to a strong growth in exports of textiles. In 1988/1989 7 per cent (equal to \$A236 m) of all value-added textiles were exported, compared to a level of 26 per cent in 1994/1995 (equal to \$A461 m). To what extent is export performance taken into account when granting the subsidy?*

Answer I(g)

Export performance was not considered in assessing bounty entitlements.

The bounty was terminated on 30 June 1995.

II. ADDITIONAL PROGRAMMES NOT NOTIFIED TO WTO

Australia has not notified a large number of programmes which appear to be notifiable under Article 25. The Community finds that the schemes described below provide a financial contribution which confers benefits to the local industry. In addition the schemes are clearly specific (as pertaining to a specific sector or contingent upon exports). In addition to the specific questions asked, the Community would like clarification why these programmes were not notified to WTO and requests that, if appropriate, Australia supplies a notification under Article 25, using the standard format.

FEDERAL OR NATIONAL PROGRAMMES

(a) Pharmaceuticals - Factor F Scheme

The factor F scheme allows the Government to give higher prices for pharmaceuticals it buys. Prior to 1992 firms had to meet quantitative targets for R&D and export activity. Due to GATT inconsistency, the criteria changed to a commitment to increase value-added in Australia by 50 per cent in three years and/or achievement of R&D spending actual to 3 per cent of annual turnover.

However where quantitative criteria cannot be met, qualitative criteria are possible such as new investment in production facility. Since the commercial agreements on this issue are confidential, it is not possible to ascertain whether export policy is a qualitative criterion. The programme is clearly specific since the scheme subsidizes the pharmaceutical sector. The Community also considers that this scheme may constitute a prohibited subsidy as prescribed in Article 3(b) of the Subsidies Agreement since the scheme provides an incentive for the use of domestic over imported goods in the form of the conditions of increasing domestic value-added.

The Community requests a notification under Article 25. Could Australia comment on the compatibility of this scheme with the Subsidies Agreement?

Answer II(a)

The Factor (f) Scheme is designed to redress the adverse effects of price suppression for drugs supplied under the Government's Pharmaceutical Benefits Scheme (PBS). Under the Factor (f) Scheme, companies are able to claim notional price increases for PBS products.

The Factor (f) Scheme does not involve the payment of a subsidy. Rather, it provides a mechanism to compensate companies for PBS prices which fall below world and European averages.

(b) Passenger Motor Vehicle Export Facilitation Scheme (PMVEFS)

The PMVEFS aims to increase Australian exports of highly processed, high value added automotive products. The scheme provides for exporter "bonus points" which are tradable against the tariff costs of imports.

Since 1991, the scheme was extended in order to cover automotive machine tools, automotive tooling and design, development and production services. The Australian Industry Commission estimates the duty saving for the Australian industry for the period to be worth \$A763.3 m. In addition the 94/95 Annual Report of the Industry Commission states: "Under the scheme it is profitable for firms to export at a price which does not cover production costs, provided that the loss so sustained is less than the benefit from the duty-free entitlements earned through that export activity". The Community concludes with respect to the criteria that this programme constitutes an export subsidy.

The Community requests a notification under Article 25 and requests Australia to elaborate on this scheme, especially the criteria and export contingency.

Answer II(b)

This programme does not provide subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures.

The Australian automotive market is a very open market. Half the new passenger motor vehicles sold in Australia are imported. Almost all commercial vehicles sold are imported.

The Export Facilitation Scheme (EFS) is an industry restructuring and rationalisation measure designed to encourage greater efficiency and competitiveness in the Australian automotive industry.

The scheme is in place as a temporary measure to facilitate restructuring in the automotive sector which has been strongly affected by falling tariffs. The scheme is part of the programmed reduction in tariff. The scheme is trade liberalising as it forces restructuring by allowing for imports to enter at below the bound and applied tariff rates. It is scheduled to expire in 2000.

EFS increases the level of imports into Australia and thereby maintains an ongoing pressure on local suppliers of motor vehicles and components to increase quality and competitiveness.

The objective of the EFS is to assist the industry rationalisation process by: encouraging rationalisation of the industry by encouraging firms to concentrate on manufacturing and exporting components and vehicles for which they have a comparative advantage and supplementing their range by importing those goods for which there is no comparative advantage and therefore contributing to improved economies of scale and industry efficiency:

- increasing the range and quality of vehicles available to consumers by expanding opportunities to supplement a reduced range of local models with completely built up imports; and
- assisting the local industry become more integrated with the world automotive industry.

(c) Textile Clothing and Footwear Import Credits Scheme (TCFICS)

The TCFICS was specifically designed to restructure the textile sector. Under the scheme, for every \$A100 of value added in TCF exports, a manufacturing company would receive \$A30 credit against the tariff ruling on imports.

The Industry Commission states that this benefit subsidizes exports. In 1994/1995 \$A143 m worth of credits were issued in response to \$A850 m of exports. The scheme provided an average 15.5 per cent rate of export subsidy (1993-1995). Regarding the trade effects, the Industry Commission claims that since the inception of the scheme, exports of textiles have increased significantly.

The Community requests a notification under Article 25. Could Australia elaborate on the criteria for granting the subsidy?

Answer II(c)

This programme does not provide subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures.

The Scheme is part of the major restructuring mechanism of the sector accelerating the effect of tariff reductions, thereby increasing exposure to international competition. This is reflected in an increase in the net deficit of trade in textiles, clothing and footwear goods of over A\$660 million or 21% since the Scheme was introduced in 1991/92. The Scheme is being progressively phased down and will terminate in June 2000.

The scheme is equally available to both Australian owned and overseas owned companies and individuals and, by encouraging two way trade facilitation, assists both importers and exporters. The scheme does not link imports to exports (i.e. even if a company does not export, it can still import without any restriction). It should be noted that Australian textiles, clothing and footwear market is one of the most open market in the world (in that Australia does not have any quantitative restrictions).

(d) Partnerships for Development (PD) and Fixed Terms Agreements (FTA)

The PD and FTA schemes appear to be specifically designed to force foreign IT and telecommunications firms to export if they wish to participate in government programmes. A foreign firm, whose government sales exceeds \$A40 m, signs a partnership agreement by which the firm commits itself to export an amount equal to half its annual imports and an average 70 per cent local value added across all exports.

The fact that PD and FTA have an effect on trade is shown by the export results of the companies involved in the schemes. According to the Department of Industry, the participating firms reported exports of \$A1.4 bn.

The Community requests a notification under Article 25. Could Australia comment on the compatibility of this subsidy with Article 3.1(a) of the Subsidies Agreement?

Answer II(d)

These programmes do not provide subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures. Accordingly notification to the Committee on Subsidies and Countervailing Measures is not warranted.

The Partnerships Programmes encourage commercially oriented, long term, strategic activity in the Information Industry. Companies volunteer activities in the form of a flexible agreement with the Commonwealth (a non legally binding Memorandum of Understanding) implemented by both parties on a "best endeavours" basis.

Companies pursue activities like research and development, Asia Pacific regional headquarters, technical support, centres of excellence, manufacturing, and using Australia as a gateway to Asia and other countries. None of these is mandatory, instead, companies have built on genuine comparative advantages in Australia, through activities which make a commercial return to the company, and are strategic to them.

Partnerships Programmes are an element of the Government's approach to pre-qualification for procurement, however they are not directly linked with specific Government purchases.

The programmes do not distinguish between foreign and local firms, and a number of Australian companies have joined.

Under the Programmes at present, there are no specified government sales thresholds or specified levels of commitment. Some companies which joined the Programme before 1994 may have proposed agreements with formula targets, however these types of targets are not now sought (and are discouraged among pre-1994 Partners). Since 1994, companies have focussed on long-term planning to pursue strategic business opportunities and forecasts of future activity naturally flows from this planning.

The Australian information industries are among the most open and competitive in the world. Australia's IT&T markets are dominated by international companies which generally import the bulk of their products. According to one local association, in 1996 Australia will import A\$10 billion worth of IT&T equipment, while exports will be around A\$2.5 billion in the same year.

While exports and imports will continue to grow, these effects are predominantly a consequence of Australia's ongoing programme of tariff reductions, business deregulation and microeconomic reforms, which will continue to improve the nation's business climate and stimulate international cost-competitiveness.

(e) Export Finance and Insurance Corporation

The EFIC was created by the Federal Government in order to achieve an increase of exports through the Government accepting a higher level and variety of risk. EFIC's gives financial support to transactions insupportable under normal market terms. In 1991-1992, this federal body supported exports worth \$A4.9 bn. In 1993-1994, EFIC provided \$A13.2 m of export aid.

The Community requests a notification under Article 25. Could Australia comment on the compatibility of this subsidy with Article 3.1(a) of the Subsidies Agreement?

Answer II(e)

This programme does not provide subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures.

The Export Finance and Insurance Corporation (EFIC) is Australia's official export credit agency (ECA), an organization similar in operation to bodies operated by many governments around the world. The operations of ECAs are specifically identified in Annex I of the Agreement on Subsidies and Countervailing Measures (Items j and k), which, inter alia, provides that the operations of ECAs must involve premium rates which are adequate to cover long-term operating costs and losses, and that the operations of ECAs are not prohibited so long as they are in conformity with an international understanding on official export credits.

In EFIC's case, the Corporation operates profitably, enabling it to pay a dividend to the Government and also to build reserves. In addition, EFIC, through the Australian Government, is a party to the OECD Arrangement on Guidelines for Officially Supported Export Credits (the Arrangement). The Arrangement establishes minimum lending rates and maximum repayment terms. As such, EFIC's involvement in export financing is not notifiable under the WTO Subsidies Agreement.

(f) Export Market Development Grants Scheme (EMDG)

The EMDG Scheme aims to subsidize the market opening costs of SME's aiming to export goods, services, industrial property rights and know-how. The scheme provides for grants to cover part of the initial marketing expenses. In order to be eligible, a firm must generate less than \$A25 m in exports and have incurred at least \$A30,000 in costs in a claim a year.

The rate of the EMDG expenditure has increased considerably over the years. The total amount of EMDG subsidies rose from \$A134 m in 1991-1992 to \$A236.9 m in 1995-1996. Apparently, the Australian authorities have not released any data regarding the impact of the EMDG scheme on new exports. However, there is no doubt that programme aims specifically to increase export activity and will have a considerable impact of exports to third countries.

The Community requests a notification under Article 25. Could Australia comment on the compatibility of this subsidy with Article 3.1(a) of the Subsidies Agreement?

Answer II(f)

The Export Market Development Grants Scheme (EMDG) does not provide specific subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures.

The policy objective of EMDG is to build an export culture in Australia through reimbursing part of the export promotion expenditure of eligible firms. The intent is to encourage smaller firms to enter export markets and acquire export skills and experience.

EMDG was set up by the Export Market Development Grants Act 1974. Funding is by way of taxable grant. Under the Act, expenditure is currently eligible for partial reimbursement until 30 June 1999.

Any type of firm from any industry may apply for a grant, except for firms that provide certain services.

Funding is not related to export performance but rather exporters are reimbursed 50% of their expenditure on export promotion, less the first A\$15,000.

(g) International Trade Enhancement Scheme (ITES)

The ITE scheme was established in 1992. The programme is designed to provide assistance to Australian firms in the form of concessionary loans. The firm must expect to export at least \$A20 m over a five-year period. In 1993-1994 the scheme was extended to smaller firms who were not able to meet the \$A20 m criterion. The funds are supposed to be refunded through capital repayments or royalties on export sales. The ITES payments rose from \$A20.7 m in 1991-1992 to \$A39.1 m in 1994-1995.

The Community requests a notification under Article 25. Could Australia comment on the compatibility of this subsidy with Article 3.1(a) of the Subsidies Agreement?

Answer II(g)

The purpose of the International Trade Enhancement Scheme (ITES) was to enhance the international business prospects of firms, joint ventures, consortia and industry associations. Concessional loan funding was provided towards market expansion and market entry activities as well as a limited amount of capital equipment investment.

These loans were available to firms from any industry. They were not tied to export performance.

The ITES has been abolished, effective 1 July 1996.

(h) Innovative Agricultural Marketing Programme (IAMP)

The IAM programme subsidizes rural and rural-related export and import replacement projects. The programme was set up in 1986 for an initial period of five years but was extended until 1996. The maximum amount of grants is \$A5 m a year. The expenditure of the programme lies between \$A3.8 m and \$A5.0 a year in the period 1991-1996.

The Community requests a notification under Article 25. Could Australia comment on the compatibility of this subsidy with Article 3.1(a) of the Subsidies Agreement?

Answer II(h)

The Innovative Agricultural Marketing Programme (IAMP) aimed at encouraging and assisting innovative potential exporters of Australian agricultural, forestry and fishery products to develop markets by providing finance.

The IAMP was jointly administered by the Australian Trade Commission and the Commonwealth Department of Primary Industries and Energy.

Funds were provided via advances, repayable in the form of royalties and for capital acquisitions as interest free loans. Funds were not contingent on export performance.

The loans were made to producers, processors, manufacturers and marketers with innovative projects with sound commercial potential.

The IAMP has been abolished effective 1 July 1996.

(i) Export Access Programme

This programme was established to provide indirect subsidy assistance to small and medium sized firms requiring training and practical assistance in order to develop export expertise. The programme is operated by the Australian Chamber of Commerce and Industry, the Metal Trade Industry Association and the Council of Small Business Organizations.

The expenditure of the programme lies between \$A1.0 m and \$A6.1 a year in the period 1991-1996.

The Community requests a notification under Article 25. Could Australia comment on the compatibility of this subsidy with Article 3.1(a) of the Subsidies Agreement?

Answer II(i)

The primary objective of the Export Access Programme is to assist small and medium enterprises to commence exporting on a sustainable basis by educating them in the fundamentals of exporting.

Export Access was launched in 1991 as a pilot programme. It will cease in 1999.

The Australian Trade Commission provides funds to national industry associations to enable them to employ export councillors to provide hands on assistance to companies.

We do not regard this as a subsidy within the scope of the Agreement on Subsidies and Countervailing Measures, and, even if it were, there would be no specificity involved.

REGIONAL OR SUB-FEDERAL PROGRAMMES

The following is a (non-exhaustive list) of state programmes which the Community believes should have been notified and on which the Community requests further clarification. The Community requests Australia to notify the below described programmes and supply the following information: policy objective, budget, subsidy per unit, criteria for eligibility, number and nature of beneficiaries, duration of the subsidy, statistical data permitting an assessment of the trade effects of the subsidy and, if appropriate a comment on the compatibility of the scheme with Article 3 of the Subsidies Agreement (as adopted by the WTO Subsidies Committee on 21 July 1995 (document G/SCM/6 of 9 August 1995).

(a) Victoria

- *Electricity tariff subsidy for aluminium smelters*

Alcoa Australia is in receipt of preferential electricity rates for its Portland and Port Hedland smelters. The commercial benefit is worth \$A200 m and given that the major proportion of output is exported, seems to be a de facto export subsidy.

The Community requests more detailed and specific information concerning these electricity tariff subsidies for aluminium smelters where a majority of the production is exported. Could Australia comment on the compatibility of the scheme with Article 3.1(a) of the Subsidies Agreement?

- *Market Entry Programme*

The Victoria's Market Entry Programme provides subsidies for companies developing an export market strategy. The Government also provides for aid to new exporters. In a pilot phase, 20 firms hiring an export manager received a 50 per cent salary subsidy in year 1 and 20 per cent in year 2. The Community would like a full notification of the aid schemes on state level and to know which criteria have to be met to qualify for the subsidies (for each programme), and up to what level aid can be given by each state.

- *Investment Attraction Programme*

- *Industry, Regional and Trade Support Programme*

Answer (a)

The Australian Government is in the process of consulting with the Victorian State authorities about the facts as to whether there are any subsidies involved and, if so, whether they are notifiable to the Committee on Subsidies and Countervailing Measures. We will advise the EC of the outcome.

As a preliminary comment, we might note that the issue of whether long term contracts negotiated for base load requirements for electricity power stations and all the various commercial aspects involved should be considered to actually deliver a subsidy within the meaning of the Agreement on Subsidies and Countervailing Measures is often a matter of different, irreconcilable views.

Subject to further clarification, we understand that the Market Entry Assistance scheme is designed to provide intelligence about offshore markets for goods and services for individual firms or consortia. This is achieved by the Department of Business and Employment either through its own internal sources of intelligence or through the commissioning of specific reports. If this is correct, then it would hardly be the subject of notification to the Committee. The EC appears to be referring to a different scheme and we will enquire about it from the State authorities and respond in writing.

We will also inquire about the Industry, Regional and Trade Support Programme and the extent to which measures under it might be notifiable to this Committee. We are not familiar with the "Investment Attraction Programme" referred to by the EC. Possibly it is a sub-programme. Again we will inquire about it and reply to the question.

(b) *New South Wales*

- *State Development and Country Industries Assistance Act*

This Act established the Development Corporation of NSW and the Country Industries Assistance Fund which provide a large number of incentives to the NSW industry such as subsidized utilities and "competitive" tax regimes. The NSW Authorities spent about \$A608 million on assistance to non-agricultural industry.

- *Tax rebates for Asia Pacific regional headquarters*

- *Regional Business Development Scheme*

- *Regional Business Infrastructure Programme*

Answer (b)

The Australian Government is in the process of consulting with the NSW State authorities about the facts as to whether there are any subsidies involved and, if so, whether they are notifiable to the Committee on Subsidies and Countervailing measures. We will advise the EC of the outcome.

Again it might be useful to make some preliminary comments, subject to any further information that we receive from State authorities.

There may be some confusion over programmes. Our understanding is that the Industries Assistance Fund only had some A\$14.9m allocated to it in 1995/96. The figure of A\$608 m appears to be an all up figure of budgetary outlays. This includes items such as: infrastructure and land development; expenditure on the arts, on sport and recreation, and on the 2000 Olympic games; gaming and racing; tourism; and so on. Some of it does go on manufacturing industry but the extent to which it would be notifiable is an open question. Much of it is either arguably not specific or involves expenditure by governmental authorities in areas such as promotion and intelligence.

On the face of it, the measures provided in respect of Asia Pacific regional Headquarters would hardly be considered to constitute a notifiable subsidy under this Committee. As we understand it, this is not about the production of goods. However we will seek to clarify the situation for the EC.

(c) Queensland

- *Major Projects Incentive Schemes*
- *Business Development Programme*
- *Industry and Technology Programme*

Answer (c)

The Australian Government is in the process of consulting with the Queensland State authorities about the facts as to whether there are any subsidies involved and, if so, whether they are notifiable to the Committee on Subsidies and Countervailing measures. We will advise the EC of the outcome.

Again it might be useful to make some preliminary comments on two of the above programmes, subject to any further information that we receive from State authorities.

We understand that the Business Development Programme seems to be focused on the provision of business-related information to firms and provides quality assurance training for firms supplying governments. These would not appear to us to be programmes that are notifiable to the Committee.

The Industry and Technology Programme provides assistance to firms to develop the information and technology sector. It may be that little if any of this would be considered to fall within the purview of this Committee. However again we will seek to clarify the situation for the EC.

(d) Western Australia

- *Investment Promotion and Facilitation Programme*

This programme provides subsidies to projects selected by the state government. Examples: \$A3.12 million interest rate subsidy for Erg Ltd. and \$A1.21 convertible loan for Austal Ships

- *Industry Development Programme*
- *Investment Attraction*

Answer (d)

There may be some confusion here about the titles of current programmes. However the Australian Government is in the process of consulting with the Western Australian State authorities about the facts as to whether there are any subsidies involved and, if so, whether they are notifiable to the Committee on Subsidies and Countervailing measures. We will seek to clarify the situation for the EC.

(e) South Australia

- *Economic Development Programme*

This programme targets growth in export earnings at a rate of 15 per cent per annum. This general programme administered by the Economic Development Authority provides flexible assistance packages to a wide range of businesses.

Answer (e)

It is unclear what the EC's question is. There is a South Australian Economic Development Authority and the South Australian Government is reported to have a number of economic development targets including not just growth in export earnings but also targets such as growth in employment. Most governments have such objectives. However it is not clear what measure the EC is seeking information about. However the Australian Government is in the process of checking with the South Australian State authorities about whether there exists a particular programme of the above name and we will seek to clarify the situation for the EC.

(f) Tasmania

- *Industrial Development Programme*

This general assistance programme aims to lift exports of Tasmanian businesses to \$A3.5 billion per annum and attract additional investment.

Answer (f)

Again there would appear to be some confusion over the reported development goals of the Tasmanian Government, which includes factors other than export growth. The implication appears to be of the EC questions that if a government says that it wants to have economic growth, including growth in exports, then any programme automatically becomes suspect as being an export subsidy. If that is a correct reading of the questions, then it would be a complete distortion of the Agreement.

Again we are not aware of any specific programme called the "Industrial Development Programme" in Tasmania but we are in the process of consulting with the Tasmanian State authorities about the facts and will seek to clarify the situation for the EC.

FOLLOW-UP QUESTION FROM THE EUROPEAN COMMUNITY

Question

Under the Passenger Motor Vehicle Export Facilitation Scheme and the Textile Clothing and Footwear Import Credits Scheme, companies appear to obtain credits on the basis of their export volume.

Since the benefits obtained are contingent upon export performance, these subsidies seem to be prohibited under Article 3.1(a). Will Australia phase the schemes out?

Answer

As we advised in response to the European Community's questions II(b) and II(c) in G/SCM/Q2/AUS/5, these programmes do not provide subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures. Information on the programmes was provided in response to EC questions II(b) and II(c) in G/SCM/Q2/AUS/5. The Passenger Motor Vehicle Export Facilitation Scheme is scheduled to expire in 2000 and the Textile Clothing and Footwear Import Credits Scheme is being progressively phased out and will terminate in June 2000.

QUESTION FROM NORWAY

Your notification seems to include only subsidies where the eligibility is explicitly limited to certain sectors. Could you please explain the scope of your notification in relation to the definitions laid down in Article 2.1(b) in the SCM Agreement?

Answer

The question is not clear. However presumably the issue is the potential differences in view about which programmes are specific and which are not. Clearly that is a matter for individual members when making notifications. It is always up to other Members to ask about programmes that they take a different view over or which may have been inadvertently omitted.

QUESTIONS FROM ARGENTINA

Question 1

Australia has notified a list of production subsidy programmes for specific products. Some programmes have already expired, and others - as in the case of books, machine tools and robots, and shipbuilding - are to be extended until June and December 1997:

- 1.1 Could Australia state whether it will comply with the time-limit provided for in Article 28.1 of the Subsidies Agreement for the phasing out of these programmes?*
- 1.2 Does Australia plan to extend the scope of these programmes or renew them when they come to an end (Article 28.2 of the Subsidies Agreement)?*

Answer 1.1

The programmes referred to have not been notified under Article 28.1 of the Agreement on Subsidies and Countervailing Measures. They are fully consistent with the Agreement on Subsidies and Countervailing Measures.

Answer 1.2

Article 28.2 of the Agreement on Subsidies and Countervailing Measures is not relevant for these programmes.

For Argentina's information the following is the current situation with the bounty programmes referred to.

Machine Tools and Robots

In 1996 the Australian Government commissioned an Industry Commission report into the tariff and bounty arrangements pertaining to the machine tools and robotics industries. The report recommended the machine tools and robots bounty scheme lapse on 30 June 1997. The Australian Government has accepted the recommendation and consequently stated its intention in the 1996/97 budget to introduce legislation into the Australian Parliament that would repeal the Bounty (Machine Tools and Robots) Act 1985, which had a sunset of 30 June 1997, and hence lapse the scheme before that date. The legislation to abolish the bounty is currently before Parliament. New applications are not being accepted.

Shipbuilding

The ship production bounty was intended to assist the Australian shipbuilding industry to improve its performance and international competitiveness.

The Bounty (Ships) Act 1989 came into effect on 1 July 1989 providing for a phase down of bounties to shipbuilders. It replaced the Bounty (Ships) Act 1980 following a review of the shipbuilding bounty scheme by the Industry Commission in 1988. Amendments to the Act in 1993 varied the bounty phasedown schedule and extended the period of operation of the Act by two years to 30 June 1997. The Government has announced its intention to extend the bounty assistance to shipbuilders to 31 December 1997 and legislation to implement this decision is currently before Parliament.

Bounty in 1996/97, as in previous years, is payable on a basis that approximates 100 per cent of the actual production costs, including an allowance for overhead costs. The bounty rate has been diminishing as the programme progressed towards termination. The bounty rate is 5% of eligible costs for 1996/97 and this rate will now apply through the extended period of 31 December 1997.

Criteria for payment of the bounty are that:

- the shipbuilder is registered by authority of the Minister for Industry, Science and Tourism;
- the vessel is not for the Australian Government or its agencies' use, for example, defence vessels;
- the vessel is not for export to New Zealand; and
- the gross construction tonnage of the ship is greater than 150 and less than 20,000.

With reference to Article 3.1(a) of the Agreement on Subsidies and Countervailing Measures, the Australian bounty is available to all vessels produced in Australia that meet the criteria, whether for the domestic or export markets; it is not in any way based on export performance.

Books

The Bounty (Books) Act 1986 came into operation on 1 January 1987 and provides bounty payments for approved books manufactured in Australia. To be eligible for bounty, books must, in general, be at least 49 pages and be produced in a minimum run of 1,000 copies.

The bounty is designed to assist the printing of books in Australia by helping offset tariffs on inputs for book production particularly on paper and inks.

The rate of bounty fell from 13.5% in 1993 to 10.8% from 1 January 1994 to 9.0% from 1 January 1995. Bounty payments are calculated as a percentage of the cost of production.

The volume of books produced by the Australian industry increased significantly over the period in question. This can primarily be attributed to changes made in the Copyright Act in 1991 which increased the demand for Australian printing as publishers moved to have books printed in Australia to guarantee their availability within the 30 day period. Under the revised arrangements, for new titles, the holder of the Australian copyright must make the title available in Australia within 30 days of first publishing the title overseas, in order to retain protection against parallel imports of the title.

The Government has announced its intention to abolish the bounty payable on book production from 30 June 1997 and legislation is currently before Parliament.

The cost of the bounty was \$A21.9m in 1995/96 and is forecast to be \$A10.1m in 1996/97.

2. Dairy Products Programme

How is the system after 30 June 1995? Does it affect exports? Could data be supplied so as to be able to know its effects?

Answer 2

The programme does not deliver subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures. It does deliver domestic support as defined under the Agreement on Agriculture and so is notified to the Committee on Agriculture.

QUESTIONS FROM THE UNITED STATES

Please indicate whether the following programmes have been reported as part of another programme. If so, please indicate under which reported programme it falls. For those programmes listed below which were not notified, please provide the information requested in the approved notification format and explain the basis on which Australia determined that the subsidy was not notifiable.

1. Export Market Development Grants Scheme

Answer 1

The Export Market Development Grants Scheme (EMDG) does not provide specific subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures.

The policy objective of EMDG is to build an export culture in Australia through reimbursing part of the export promotion expenditure of eligible firms. The intent is to encourage smaller firms to enter export markets and acquire export skills and experience.

EMDG was set up by the Export Market Development Grants Act 1974. Funding is by way of taxable grant. Under the Act, expenditure is currently eligible for partial reimbursement until 30 June 1999.

Any type of firm from any industry may apply for a grant, except for firms that provide certain services.

Funding is not related to export performance but rather exporters are reimbursed 50% of their expenditure on export promotion, less the first A\$15,000.

2. Customs Bounty Schemes

Answer 2

Information on Australian bounty schemes were included in Australia's 1995 notification and 1996 update (G/SCM/N/3/AUS and G/SCM/N/16/AUS, respectively). They included: bed sheeting; printed fabrics; textile yarns; books; computers; machine tools and robots and shipbuilding.

3. Victorian Payroll Tax Rebates

Answer 3

The Australian Government is in the process of consulting with the Victorian State authorities about any such rebates and we will advise the United States of the outcome.

4. Wages Subsidies

Answer 4

These are not subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures. The intent of the schemes is not to deliver benefits to companies but to deal with problems involving unemployment. The programmes involved would not be specific within the meaning of Article 2 of the Agreement on Subsidies and Countervailing Measures, even if they were considered to deliver some benefit to individual companies.

The Commonwealth Department of Employment, Education, Training and Youth Affairs administers a number of wage subsidy programmes. The main wage subsidy programme is JobStart. The important point about the wage subsidy programmes is that while the programmes are specifically targeted towards assisting disadvantaged job seekers, they are not targeted towards any specific employer or industry group.

JOBSTART

Objective

JobStart (introduced in 1985) aims to assist those people who are demonstrably most disadvantaged in the workplace to gain access to permanent employment. A key indication of this disadvantage is a lengthy period of unsuccessful job search. In addition, the programme aims to encourage employers to take on job seekers they may not normally consider and is designed to assist these job seekers in maintaining and improving their job related skills, motivation and confidence.

Description

JobStart is a mainstream wage subsidy programme that provides access to employment for job seekers who have been unemployed for 6 months or more or face other disadvantages in obtaining work, including job seekers with a disability. Under the programme, most domestically established employers in the private, community and public sectors may receive subsidy payments for set periods of up to 20 weeks as an incentive to employ disadvantaged job seekers. The level of wage subsidy paid ranges from A\$150 per week for 13 weeks to A\$325 per week for 20 weeks (total subsidy: A\$1,950 to A\$6,500) and depends on the job seekers' unemployment duration and their level of disadvantage in the labour market. Subsidies are considered to be business income and as such as subject to the applicable company tax rate.

Employers

While the programme is targeted towards assisting disadvantaged job seekers the programme is not targeted towards any specific group of employers or industry sector. In any one year up to 80,000 employers use the programme.

For the purposes of JobStart the definition of an eligible employer is:

- any employer in the private, public and community sector who offers employment under a normal employer/employee relationship.

Some employers, including those who have recently retrenched existing workers, are under investigation for alleged/suspected breaches of Agreements or have had their access to wage subsidy programmes withdrawn for substantiated abuse of the programme, are excluded from the programme.

Limits to the number of subsidized employees an employer can have at any one time apply.

Jobs

Most jobs offered by employers (including apprenticeships and traineeships offering accredited training) can be approved under JobStart provided they are under a normal employer/employee relationship subject to the applicable industrial arrangement. JobStart wage subsidy can be paid for full time and some part time jobs. Employers are expected to use their best endeavours to provide continuing employment for at least 3 months after the subsidy period ends.

5. Export Facilitation Scheme Arrangements for the Automotive Sector

Answer 5

This programme does not provide subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures.

The Australian automotive market is a very open market. Half the new passenger motor vehicles sold in Australia are imported. Almost all commercial vehicles sold are imported.

The Export Facilitation Scheme (EFS) is an industry restructuring and rationalisation measure designed to encourage greater efficiency and competitiveness in the Australian automotive industry.

The scheme is in place as a temporary measure to facilitate restructuring in the automotive sector which has been strongly affected by falling tariffs. The scheme is part of the programmed

reduction in tariff. The scheme is trade liberalising as it forces restructuring by allowing for imports to enter at below the bound and applied tariff rates. It is scheduled to expire in 2000.

EFS increases the level of imports into Australia and thereby maintains an ongoing pressure on local suppliers of motor vehicles and components to increase quality and competitiveness.

The objective of the EFS is to assist the industry rationalisation process by: encouraging rationalisation of the industry by encouraging firms to concentrate on manufacturing and exporting components and vehicles for which they have a comparative advantage and supplementing their range by importing those goods for which there is no comparative advantage and therefore contributing to improved economies of scale and industry efficiency:

- increasing the range and quality of vehicles available to consumers by expanding opportunities to supplement a reduced range of local models with completely built up imports; and
- assisting the local industry become more integrated with the world automotive industry.

6. *Textiles, Clothing & Footwear Import Credit Scheme*

Answer 6

This programme does not provide subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures.

The Scheme is part of the major restructuring mechanism of the sector accelerating the effect of tariff reductions, thereby increasing exposure to international competition. This is reflected in an increase in the net deficit of trade in textiles, clothing and footwear goods of over A\$660 million or 21% since the Scheme was introduced in 1991/92. The Scheme is being progressively phased down and will terminate in June 2000.

The scheme is equally available to both Australian owned and overseas owned companies and individuals and, by encouraging two way trade facilitation, assists both importers and exporters. The scheme does not link imports to exports (i.e. even if a company does not export, it can still import without any restriction). It should be noted that Australian textiles, clothing and footwear market is one of the most open market in the world (in that Australia does not have any quantitative restrictions).

7. *International Trade Enhancement Scheme*

Answer 7

The purpose of the International Trade Enhancement Scheme (ITES) was to enhance the international business prospects of firms, joint ventures, consortia and industry associations. Concessional loan funding was provided towards market expansion and market entry activities as well as a limited amount of capital equipment investment.

These loans were available to firms from any industry. They were not tied to export performance.

The ITES has been abolished, effective 1 July 1996.

8. Export Access Programme

Answer 8

The primary objective of the Export Access Programme is to assist small and medium enterprises to commence exporting on a sustainable basis by educating them in the fundamentals of exporting.

Export Access was launched in 1991 as a pilot programme. It will cease in 1999.

The Australian Trade Commission provides funds to national industry associations to enable them to employ export councillors to provide hands on assistance to companies.

We do not regard this as a subsidy within the scope of the Agreement on Subsidies and Countervailing Measures, and, even if it were, there would be no specificity involved.

9. 150 per cent Tax Concession for R&D

Answer 9

This scheme does not provide specific subsidies.

The scheme's premium rate of deduction was reduced to 125% from 20 August 1996. The incentive allows claimants to deduct up to 125% of eligible expenditure incurred on R&D activities when lodging their corporate tax return. The scheme is available to all manufacturing and service companies. In order to claim the full 125% rate, the claimant must have spent at least A\$20,000 a year in R&D activities unless the work is contracted out to an approved Registered Research Agency, such as the CSIRO, or a Cooperative Research Centre.