INDUSTRIES ASSISTANCE COMMISSION AMENDMENT BILL 1984

Date Introduced: 5 October 1984
House: House of Representatives
Presented by: Hon. J.J. Brown, M.P., Minister for Sport Recreation and Tourism and Minister Assisting the Minister for Industry and Commerce

Short Digest of Bill

Background

The Commission was established by the Industries Assistance Commission Act of 1973 and commenced operation on 1 January 1974. It replaced the Tariff Board which had been responsible for advising the Government on mostly manufacturing industry assistance since 1921.

The Act was based on a report by Sir John Crawford.[l] The primary reasons identified in his report for establishing the Commission were to:

- assist the government to develop policies for improving the allocation of resources among industries in Australia;
- provide advice on those policies in an independent and disinterested manner; and
- facilitate public scrutiny of these policies.

To guide the Commission in formulating its advice a set of policy guidelines was incorporated into the Act. The aim of these guidelines was to recognise the interests of the community as a whole when advising the Government on assistance measures relating to particular industries.

The primary function of the Commission has been to advise the Government on assistance which should be given to, or withdrawn from, industries in Australia. In performing this function, the Commission has no administrative or executive responsibilities.

The Commission is also required to provide an annual report to the Minister on the operations of the Commission. In its annual report the Commission is required to report on assistance provided to industries, the economic
performance of those industries and the general effect of assistance on the Australian economy.

The Commission's approach to industry assistance has been characterised by a concern that resource allocation is inefficiently distorted by measures that effectively promote some industries at the expense of other sectors of the economy. Accordingly, the Commission has consistently recommended the phased reductions in assistance to those activities enjoying greater than average levels of government assistance. In particular the Commission has tended to concentrate on the effects of protective measures such as tariffs and import restrictions on industries and their cumulative effects on the rest of the economy.

The principle that Australia will be better served by movement to a lower and more uniform industry assistance structure has been endorsed by successive Governments as a proper long-term objective. However, the means by which, and the rate at which, this might be achieved particularly in the manufacturing sector has been the subject of considerable debate.

The emphasis by Governments on adjustment paths has resulted in large part from the difficult macro-economic conditions experienced in Australia during most of the last decade. These have exacerbated the structural pressures facing industry. While the Commission continued to promote the efficacy of its own approach to improving industry structure, others began to query whether it was enough to bring about fundamental structural reform in industrial activities.

The present Government's 1983 election platform included a commitment to the review of the role of the Commission to ensure that its operations would be directed towards the development and extension of industry. Subsequently in August 1983 an independent review by Mr John Uhrig was announced. The review was undertaken with the objective of assisting the Government in determining what ways the operations and procedures of the Commission could be altered and improved so as to ensure that the Commission's work was directed in a positive and practical way towards the development and growth of Australian industry.

The Bill is largely a result of Uhrig's Review of the Industries Assistance Commission which was presented to the Government on 16 December 1983.[2]

Uhrig's major conclusion was that the Commission would be a more effective advisory body if it was more
responsive to the information needs of Government in implementing its industry policy objectives. In turn, the Government should specify more clearly the information required.

In broad terms, the major changes recommended by Uhrig were:

- a wider range of issues relating to industry growth and development should be referred to the Commission;
- encouraging a broader approach to such issues by the Commission through ensuring that references detail the issues of concern to the Government and industry;
- redefining the policy guidelines to reflect more closely the objectives of industry policy;
- removing the existing statutory reporting requirements of the Act and where appropriate incorporating relevant reporting requirements in the reference;
- giving the Commission responsibility for temporary assistance inquiries; and
- improving the efficiency of the Commission's operation.

Some of these changes involve alterations to the legislation, and are encapsulated in this Bill. However, a more effective advisory mechanism cannot be achieved through changes to the Act alone. The legislation provides only the general framework and scope of the Commission's operations - it cannot ensure that effective advice is forthcoming. Much depends on the responsiveness of the Commission to Government policy, the co-operation of industry and its attitude towards the Commission, and the use of the Commission by the Government.

Main Provisions

Clause 6 provides for the appointment of Associate Commissioners on a full or part-time basis to be available for a particular inquiry or inquiries by the Commission.

Clause 11 provides general policy guidelines for the Commission. The proposed guidelines will require the Commission:
(a) to encourage the development and growth of efficient Australian industries that are internationally competitive, export oriented and capable of operating over a long period of time with minimum levels of assistance;

(b) to facilitate adjustment to structural changes in the economy by industries and persons affected by those changes, and to minimise social and economic hardships arising from those changes; and

(c) to recognise the interests of other industries, and of consumers, likely to be affected by measures proposed by the Commission.

Clause 12 provides additional flexibility for government decisions on assistance to industry within a period of 12 months from the receipt of a Commission report on that industry. It enables Government to delay its decision up to 12 months from the receipt of a report, and it enables revision of decisions within 12 months from the receipt of the report.

Clause 13 encapsulates Uhrig's concern that the Commission should be more responsive to the information needs of the Government. It directs that the Commission report on all matters specified by the Minister and that a range of options, and their effects, including the Commission's preferred course of action be put to the Government in a report.

Clause 13 also revokes the Commission's power to initiate inquiries.

Clause 14 provides for the abolition of the Temporary assistance Authority and directs that the Commission be responsible for advising on all temporary assistance matters.

Clause 17 provides the policy guidelines for Commission inquiries into temporary assistance. It directs that temporary assistance be considered if the industry (or group of industries) is subject to a change of circumstances that:

(a) is largely outside the control of the relevant industry;

(b) is peculiar to the relevant industry; and
(c) has caused, or threatens, serious injury to the relevant industry.

Clause 19 sets out the obligations on the Commission with respect to an inquiry into and a report on temporary assistance references.

Clause 23 provides that the Commission should base its draft report on written submissions. It abolishes the pre-draft report public hearing.

Clause 24 allows evidence at public hearings to be submitted in writing.

Remarks

The Uhrig Review's major finding was that while the role of the Commission in exposing the costs of protection to public scrutiny has been laudatory, the Commission could play a more effective role in industry assistance policy formulation by being more responsive of the information requirements of the Government.

Uhrig recommended that the Commission develop a number of options, including a preferred option, to be included in inquiry reports. The Commission will also be obliged to comment on all matters specified by the Minister in the reference.

The Commission may be expected to encounter substantial difficulties in satisfying some of the information requirements. For example, since 1978 the Commission has been obliged to report on the employment consequences of its inquiry recommendations. However, it is no easy matter to determine the employment consequences for any one firm, let alone across an industry, of a change in the assistance measures afforded to it. Not only will firms have an incentive to overestimate their potential injury in order to stress their need for assistance, but there are many other factors that may significantly affect firms' production and employment decisions. Further, even if an estimate of the employment consequences for an industry can be derived, second round effects would have to be analysed to assess the economy wide impact of a particular change in the structure of assistance. This would require an assessment of the extent to which industries who use the products of the affected industry may benefit and the extent to which retrenched employees could be relocated in other, and maybe more efficient, activities.

An underlying problem of such analysis is that the threatened jobs are more immediately identifiable than jobs
that may be created. Similarly, the concentration of benefits and the dispersion of costs has been widely perceived to have adversely affected past Government decisions - particularly when industries lobbying for assistance have been located in marginal electorates.

Technological developments and the scope for restructuring are further areas that might be specified by the Minister for comment by the Commission. On past form, the Commission may view these as aspects of commercial consideration for the firms involved and might consider the Commission to have a comparative disadvantage in addressing such issues. However, the Japanese experience may suggest that, particularly in declining industries, there is scope for advantageous central co-ordination to be undertaken by industry advisory councils. This is essentially a matter of information collation and dissemination.

The streamlining of the public hearing process should enable the Commission devote more of its resources to industry analysis. However, difficulties may arise if the written submissions provide inadequate or insufficient evidence as a basis for the preparation of the draft report.

The abolition of the Temporary Assistance Authority may enable the Commission to adopt a consistent approach, subject to the differing policy guidelines, to all industry inquiries.

For further information, if required, contact:

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References