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AUSTRALIA

PRIME MINISTER

FOR MEDIA 19 JULY 1982

STATEMENT ON TAXATION AND INDUSTRY ASSISTANCE MEASURES

The Government has completed a major review of its industry and related policies. It has done so against the background of deteriorating economic conditions abroad and in Australia; and against the background of the Government's responsibility to provide an overall policy environment conducive to the development of Australian industries, the expansion of employment opportunities and improvement in living standards.

Private investment is fundamental to the achievement of those objectives and to improve the climate for investment the Government has decided that:

- under the general depreciation provisions, plant ordered after today will, subject to certain exclusions, be eligible for accelerated depreciation over either 3 or 5 years;

- mining and petroleum companies will benefit by continuing to have the option to depreciate their plant under the general depreciation provisions or under the mining and petroleum provisions in Divisions 10 and 10AA of the Income Tax Assessment Act;

- allowable capital expenditure by mining companies will be deductible by reference to the lesser of the life of the mine or ten years, on a straight line basis;

- new primary production plant will generally be depreciable over three years;

- where applicable, the investment allowance will continue to be available; and

- new non-residential income producing buildings, the construction of which commence after today, will be eligible for depreciation at a prime cost rate of 2½ per cent.

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The Government had also decided:

- that the Industrial Research and Development Incentives Scheme should continue without any major changes;

- the Export Market Development Scheme should be significantly strengthened;

- the Export Expansion Grants Scheme will be allowed to lapse on 30 June 1982; and

- not to proceed at the present with a program of further reductions in protection.

BACKGROUND TO THE DECISIONS

Last year the Government forwarded three important references to the IAC. In line with normal practice, the Commission's Reports are now being released to the public.

Two of those references - on Export Incentives and Certain Budgetary Assistance - sought advice from the IAC on the effectiveness of present budgetary assistance to industry development, and whether changes, including improvements in depreciation provisions, would lead to more effective use of the community's resources devoted to industry development.

The other major reference sought the IAC's advice on Approaches to General Reductions in Protection. That reference had been foreshadowed when the Government announced its response in 1979 to the Report of the Study Group on Structural Adjustment.

The prospective economic environment has changed markedly since the IAC was asked to report on the three references and no Government could responsibly ignore this reality in reaching its decisions on these reports.

In particular, world economic conditions have deteriorated in a way that no one could reasonably have anticipated. In 1981-82 real GNP in the OECD area increased by only half a per cent and activity weakened during the course of the year. The United States economy is in recession, activity in West Germany and the United Kingdom remains depressed, while the Canadian economy has contracted. In France, real GDP is now falling after rising modestly in the second half of 1981. Even the growth recorded by Japan over the past year was poor by its standards.

This subdued level of activity has been reflected in the first decline in the value of world trade in over twenty years. Real interest rates in the United States and Europe have reached historically high levels. Over thirty million people are currently without jobs in the OECD countries.

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Responsible economic policies have enabled Australia to move against the international tide to some extent. Our growth performance has in recent years been better than in most other countries. However, we are now feeling the effects of

- weaker demand for our exports and plummetting prices for some of our major exports;
- high interest rates (in common with overseas patterns);
- a deterioration in the competitive position of our industries, primarily because wage settlements including claims for shorter hours have been out of line with those in the rest of the world; and
- a severe squeeze on profits (the share of company gross operating surplus in non-farm GDP fell from 15.4 per cent in the September quarter 1981 to 12.3 per cent for the March quarter 1982).

Against this background it is not surprising that in recent months growth in business fixed capital expenditure has come to a halt, construction activity has declined sharply, GDP declined in the six months to March and that employment growth has slowed down markedly.

In the period immediately ahead economic activity will continue to reflect the slump in business profitability, as well as prolonged international recession and increased competitive pressures. Investment in the resource sector will be maintained at relatively high levels for a time as projects previously started or committed are brought to completion. But while world economic conditions remain as they are we cannot expect to see a return to the sort of substantial new investment decisions of a year or two ago. Investment in manufacturing, which has been at unsatisfactory levels for most of the 1970s, is likely to suffer another setback as a result of the continuing squeeze on profits.

Investment is the basis on which Australia's growth, and rising real incomes, ultimately depend and in reviewing its approach to industry policy the Government has paid particular attention to the importance of providing the best and most stable climate for investment.

Government support for industry is based on three key pillars. The first and most fundamental is the general stance of economic policy. The main elements of the Government's economic policy over the period ahead will, of course, be fully revealed in the forthcoming Budget. All I wish to stress here is that, while current economic circumstances must be given due weight, we will not weaken in any way our resolve to maintain economic policies directed to the winding down of inflation and inflationary expectations, and providing a stable environment for business to operate in.

DEPRECIATION PROVISIONS

The second pillar is budgetary assistance. With the aim of improving the overall climate for private investment the Government has decided that, subject to certain specific exclusions, plant ordered after today will be eligible for accelerated depreciation over either 3 or 5 years. Under these arrangements, eligible plant will qualify for a 20 per cent prime cost rate of depreciation or, where under existing law such plant would attract a rate of more than 20 per cent, a $33\frac{1}{3}$ per cent prime cost rate.

New primary production plant that would otherwise qualify for the special 20 per cent deduction basis introduced in 1980 will, under the new system, qualify for deductions on a $33\frac{1}{3}$ per cent basis.

Where applicable, the investment allowance will continue to be available and its future will be reviewed prior to its scheduled termination date. In those cases where the existing depreciation arrangements confer greater benefits than would be the case under the new scheme, a person will be entitled to retain the benefit of the existing arrangements. Benefits from these new arrangements will be available to all sectors of the economy. After today, plant used in manufacturing and elsewhere in the economy will be eligible for either 3 or 5 year write-off according to its present depreciable life, while most new plant used by primary producers will be depreciable over three years. Benefits will also be available to mining and petroleum companies as they have the option to depreciate their plant under the general depreciation provisions or under the mining and petroleum provisions in Divisions 10 and 10AA of the Income Tax Assessment Act.

The Government has also decided to modify the write-off provisions in Divisions 10 and 10AA. The Income Tax Assessment Act presently states that allowable capital expenditure is deductible by reference to the lesser of the life of the mine, or ten years, on a diminishing value basis. The Government has decided to amend the Act so that expenditure will be deductible by reference to the lesser of the life of the mine, or ten years, on a straight line basis.

In addition to those changes the Government has also decided that new non-residential income-producing buildings, the construction of which commence after today, are to be eligible for depreciation at a prime cost rate of $2\frac{1}{2}$ per cent on a similar basis to that presently applying to traveller accommodation buildings. This will provide a greater incentive for firms to ensure that structures remain up to date and will contribute considerably to productivity and improvements in the working environment for employees.

The Treasurer will be announcing further details of the proposed changes and the Ministers for Industry and Commerce and Trade and Resources will be issuing statements on aspects of particular relevance to their portfolio responsibilities.

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An indication of the benefits to business, and costs to revenue, of the measures I have outlined above is provided in the attached table. Although these measures will not have their full effects on revenue for some years, the incentive they will provide to new investment will be immediate and substantial. The benefits to investing firms, and costs to revenue, will build up progressively during the 1980s.

This new depreciation package will significantly enhance the long term climate for investment in Australia and will put Australian businesses on a more competitive basis with their overseas counterparts. It will assist business to adapt more readily to new technological and other changes in the economic environment, and enable them to approach investment decisions with greater flexibility and confidence. The boost to future business cash flows should also help cushion investment from the full effects of the downturn in the international economy and encourage firms to put themselves in a position to take maximum advantage of recovery in world economic conditions, when it comes.

These decisions reflect the Government's belief that higher levels of private investment are the key to higher living standards and increased job opportunities in the future. Those objectives, however, cannot be achieved without the co-operation of business and organised labour. The Government looks to business to respond positively to these new measures. It also looks to labour - by moderating its demands for higher wages and shorter hours - to resist the temptation to seek the fruits of new investment before they are available. Particularly if that co-operation is forthcoming, the Government is confident that these new measures will make an important contribution to the objectives we all seek - more jobs and increasing real incomes.

INDUSTRIAL RESEARCH AND DEVELOPMENT

The IAC found the Australian Industrial Research and Development Incentives Scheme to be making an effective contribution to the achievement of the Government's industry policy objectives. The Commission's conclusion is consistent with the views expressed by previous expert committees, including, most recently, the Committee of Inquiry into Technological Change in Australia. The scheme was comprehensively reviewed by the Government as recently as 1980 and an improved program was introduced for five years from 1 July 1981. Accordingly the Government has decided that the AIRDIS should continue without any major changes.

EXPORT INCENTIVES

When considering the report of the IAC on what changes should be made to the current methods of assisting the development of exports through the EMDG and EEG Acts the Government had particular regard to its desire to foster a healthy export industry sector.

The Government has decided that, given this objective, the EMDG scheme should be significantly strengthened. The main decision on the EMDG is to raise the grant ceiling to $200,000. The present ceiling has remained unaltered since 1974. The EEG scheme will be allowed to lapse on 30 June 1983. The improvements to the EMDG scheme will take effect from the grant year 1982/83 which is the year in which the EEG scheme will operate at half rates.

These decisions will improve the effectiveness of our direct assistance to the export sector; will free some savings for re-direction to improved depreciation provisions which, of course, will assist exporters; are in line with the international position regarding export performance based schemes; and represent a modest step by Australia toward the multilateral winding back of subsidies to international trade proposed under the Government's recent trade initiative.

My colleague the Minister for Trade and Resources will elaborate the decisions taken with regard to the EMDG scheme.

PROTECTION

The third major pillar of Government industry support is protection policy. The Government's broad approach to protection policy is based on its recognition that, together with the provision of industry development assistance, gradual reductions in protection have a part to play in encouraging the development of a stronger, more specialised and competitive manufacturing sector. The Government remains committed to those objectives - the more so in view of the difficult economic times ahead.

After giving the most careful consideration to the options for further reductions identified by the IAC, the Government has come to the view that these objectives would not be best served by proceeding at present with a program of further reductions in protection.

While recognising the role that reductions in protection can play in improving the structure and competitiveness of industry, the Government was also conscious of the significant reductions in protection that a wide range of industries have experienced over the past decade.

This process is continuing, with further reductions already in train as a result of decisions that have been taken on IAC reports in recent years, including those arising from the recent completion of the Tariff Review Program. More than 20 separate product groupings are currently subject to phasing down of tariff, quota or bounty assistance. In addition, the sectoral policies for the textile, clothing and footwear industries and passenger motor vehicle industry - which have been separately determined by the Government after careful and detailed review - contain built-in pressures for structural change, including increased market access for imports. Those established programs of adjustment for these industries will continue.

. In concluding that no further general reductions in protection are practicable at this time, the Government was also conscious that the capacity of the community to accommodate the economic and social consequences of such unilateral reductions is necessarily reduced in periods of subdued economic activity - and at a time when our own exporters are facing increasing restrictions on their access to overseas markets. Non-tariff restrictions on trade in particular have proliferated in the last three years, and as much as 50 per cent of Australia's export trade is now estimated to be affected by such measures.

The Government's concern about the international economic situation, and these increasing impediments to trade, prompted it earlier this year to promote an initiative aimed at acceptance by the world trading community of the need to wind back trade distorting measures of all kinds. The Government made it clear that it did not have in mind unilateral action by Australia, nor did it look to any other country to act on its own. Rather, it promoted the concept of broad international action with a view to providing a stimulus to world trade.

The decisions I have announced today are compatible with that initiative. They involve a winding down of direct assistance to exports, and, as noted earlier, decisions already taken will lead to some further gradual reductions in protection in certain areas.

The Government is firmly committed to the pursuit of its initiative, and will press its views in the GATT Ministerial Meeting in Geneva in November. Our initiative has already gained support in the preparatory meetings now in progress.

It is up to countries meeting at the GATT Ministerial in November to decide whether they wish to act together and take the necessary steps to implement the proposals. In the event that the major industrialised countries do so, Australia has made clear that it will support them.

ESTIMATED EFFECTS (1) ON REVENUE OF

NEW DEPRECIATION PACKAGE

$ million

	1983 -84	1984 -85	1985 -86	1986 -87	1987 -88	1988 -89	Ultimate Annual Cost
5/3 depreciation	- (2)	60	270	640	1020 (*)	1390 (*)	560 (*)
3 year write-off for primary producers	50	90	130	80	30	30	30
10 year straight line write-off under (3) Division 10 and 10AA	- (2)	10	20	30	40	60	70
Depreciation on buildings	15	43	69	92	113	132	315

(*) Actual revenue effects in these years will be subject to the outcome of a review of the investment allowance prior to its current expiry date in 1985-86. Cost of the investment allowance is currently $600 million in a full year.

(1) Estimates apply to newly acquired plant and are in 1981-82 prices assuming constant real expenditure at 1981-82 levels. Estimates assume businesses have sufficient income to enable earliest write-off. To the extent that such income is not available effects would be deferred.

(2) The estimates indicate the full year effects on revenue of each of the measures. Because of the considerable lead times involved for much investment, it is likely that the main impact of the measures would not be borne until 1984-85. However, revenue in 1983-84 would also be affected to some extent and 1982-83 collections from individuals could also be reduced slightly through variation of provisional tax.

(3) Peak annual cost of around $130 million will occur somewhat beyond the period shown in the table.

DECISIONS ON EXPORT INCENTIVES: FINANCIAL IMPLICATIONS

(Estimated)

Termination of EEG on 30 June 1983:

- Savings $100 million in a full year
- Effect felt in Budget from 1984-85 onwards.

Improvements to EMDG Scheme from 1982-83 grant year:

- Additional costs

	$m
- grant ceiling to $200,000	25
- other	11
Total	$36

- Effect felt in Budget from 1983-84 onwards.