



FOREIGN INVESTMENT REVIEW BOARD

Report 1987-88



**FOREIGN INVESTMENT
REVIEW BOARD**

REPORT 1987-88

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The Foreign Investment Review Board was established in April 1976. The members during 1987-88 were Sir Bede Callaghan, CBE, Chairman, Mr Kenneth Stone, Mr Desmond Halsted, and Mr George Pooley.

The main functions of the Board are:

- to examine proposals by foreign interests for investment in Australia and, against the background of the Government's foreign investment policy, to make recommendations to the Government on those proposals;
- to advise the Government on foreign investment matters generally;
- to foster an awareness and understanding, both in Australia and abroad, of the Government's foreign investment policy; and
- to provide guidance, where necessary, to foreign investors so that their proposals may be in conformity with the policy.

The Board is assisted by an Executive which is part of the Treasury and also has available to it advice from other Commonwealth and State Government departments and authorities.

The Board's functions are advisory only. Responsibility for administration of the Government's foreign investment policy and for making decisions on proposals rests with the Treasurer.



Sir Bede Callaghan, CBE, has been Chairman of the Board since 1976. He is a former Managing Director of the Commonwealth Banking Corporation. Sir Bede has also been an Executive Director of the International Monetary Fund and the International Bank for Reconstruction and Development.



Mr Kenneth Stone was appointed to the Board in May 1984. He was Secretary, Victorian Trades Hall Council and Junior Vice-President of the Australian Council of Trade Unions. He is National Director of the Australian Trade Union Training Authority.



Mr Desmond Halsted was appointed to the Board in October 1984. He was Deputy Chairman of Hooker Corporation Ltd, having retired as an executive from the Hooker Group in 1982. He is a director of a number of companies.



Mr Pooley is head of the Finance and Investment Division of the Australian Treasury and Executive Member of the Board.



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November 1988

The Hon Paul Keating, MP
Treasurer
Parliament House
CANBERRA ACT 2600

My dear Treasurer

In accordance with its responsibility to advise the Government on foreign investment matters, the Foreign Investment Review Board has the honour to submit to you its Report for the financial year 1987--88.

The first chapter of the Report outlines the changes to foreign investment policy during 1987--88; the second chapter reviews the activities of the Board and provides an overview of the year's foreign investment proposals; the third chapter discusses the proposals in a little more detail by industry sectors; and the fourth chapter reviews developments in the levels and inflows of foreign investment in Australia, as indicated by data produced by the Australian Bureau of Statistics, and summarises available information on foreign ownership and control in the Australian economy.

Yours sincerely

Bede Callaghan
Chairman

Highlights for 1987-88

- The progressive liberalisation of foreign investment policy continued with the elimination of the Australian equity guidelines in respect of oil and gas activities. On the other hand, the policy was significantly amended in the urban real estate sector — including a marked tightening of requirements for foreign purchases of developed residential real estate.
- The Board considered 3191 proposals for investment in Australia. Of these, 3091 were approved by the Government and 100 were rejected.
- The rejection rate was 3.1 per cent. In the previous year, it was 0.4 per cent. Almost all the rejections in 1987-88 were in respect of acquisitions of developed residential real estate.
- At around \$25 billion, the aggregate level of total expected expenditure associated with proposals approved in 1987-88 was about one-third higher than in the previous year (although, as noted in the report, major qualifications attach to this and other statistics).
- The sector which recorded strongest growth in total expected investment, compared with 1986-87, was real estate. The increase in recorded real estate investment partly reflects the 1987 policy change, which required notification and examination of a much higher proportion of real estate transactions.
- Japan was the most significant investor source country in terms of total expected expenditure (\$5.4 billion). The other major sources were the United Kingdom (\$4.7 billion), New Zealand (\$2.8 billion) and the United States (\$1.7 billion).
- Australian interests were parties to 360 foreign investment proposals and were expected to contribute at least \$6 billion in expenditure (about one quarter of total expected investment).
- The average time taken to process proposals dropped from 26 days in 1986-87 to 20 days in 1987-88, reflecting a streamlining of administrative procedures and a higher proportion of less complex proposals resulting from recent policy changes.
- Some 120 meetings were held by the Board and/or its Executive with foreign and Australian investors.

Contents

	Page	
Chapter 1	Changes to foreign investment policy	1
	— Urban real estate	1
	— Oil and Gas	2
Chapter 2	Administration of foreign investment policy	3
	— Statistical qualifications	3
	— Summary of proposals	4
	— Proposals by country of investor	5
	— Location of expected investment	6
	— Consultation arrangements	7
	— International organisations	7
	— Processing of proposals	8
	— Freedom of information	8
	— Cost of the Board's operations	8
Chapter 3	Foreign investment proposals by industry	10
	— Tourism	10
	— Service industries (excluding tourism)	10
	— Finance & insurance	11
	— Manufacturing	11
	— Minerals	12
	— Resource processing	13
	— Urban real estate	13
	— Rural land	14
Chapter 4	Aggregate foreign investment: Australian Bureau of Statistics data	15
	— Overview of foreign investment inflows	15
	— Non-official direct investment	17
	— Non-official portfolio and other investment	17
	— Australian investment abroad	17
	— Investment levels	17
	— Foreign investment by country	20
	— Australia's level of external debt	20
	— Foreign ownership and control in Australia	20
	— ABS industry studies	20
	— Registered financial corporations	24
ATTACHMENTS		
Attachment A	Foreign investment policy and administration — legislation, policy statements and publications	26
Attachment B	Foreign investment proposals — press releases by the Treasurer, 1987-88	27
Attachment C	<i>Australia's Foreign Investment Policy—A Guide for Investors: Corrigendum — Urban Real Estate Section</i>	28
Attachment D	Summary of foreign investment policy as at June 1988.	31
STATISTICAL APPENDIX		34

Chapter 1: Changes to Foreign Investment Policy

There were two major changes to foreign investment policy in 1987–88, affecting urban real estate and oil and gas activities. These changes are described below. A summary of foreign investment policy as at June 1988 is at Attachment D.

Urban real estate On 29 September 1987, the Treasurer announced that policy requirements in respect of foreign acquisitions of developed residential real estate would be tightened significantly. From that date, approvals for non-resident purchases of established residential real estate are generally given only in the cases of Australian citizens abroad, intending migrants who have received approval from the immigration authorities to take up permanent residence in Australia, and foreign companies purchasing houses for their senior executives resident in Australia (there is a normal limit of two houses per company). This tightening of policy reflected the Government's concern that foreign acquisitions of established residential real estate bring less direct economic benefits than other forms of foreign investment and were contributing to upward pressure on house prices.

At the same time, the Treasurer announced the abolition of the \$600,000 cumulative exemption threshold that had previously applied to foreign purchases of urban real estate. Under this exemption a non-resident was permitted to purchase urban real estate up to a value of \$600,000 (cumulative since 1978) without the need to notify the Board. The abolition of the exemption applies to all urban real estate—not only developed residential properties—and has contributed substantially to a ten-fold increase in the number of urban real estate proposals notified to the Board in 1987–88 compared with the previous year.

Although most urban real estate acquisitions by foreign interests became examinable under foreign investment policy as a result of the 29 September changes (a few exemptions remain—see Attachment C for details), the criteria for approval of proposals was tightened only in respect of established residential properties. Acquisitions of real estate for development (both commercial and residential) continue to be approved unless judged contrary to the national interest and purchases of developed commercial real estate are approved subject to a guideline for 50 per cent Australian equity. Where Australian equity is not available on reasonable terms and conditions, the Government approves 100 per cent foreign purchases of developed commercial real estate.

Reflecting a concern that there may have been an unsatisfactory level of compliance with the previous non-legislative guidelines for urban real estate, the Treasurer also announced that amendments to the Foreign Takeovers Act would be introduced into Parliament to give legislative force to the real estate policy.

Full details of the new requirements for urban real estate were published in October 1987 in a corrigendum to the real estate section of the guidelines booklet, *Australia's Foreign Investment Policy—A Guide for Investors*. The text of the corrigendum is reproduced at Attachment C.

A significant change in the Board's examination procedures was made as a result of the 29 September 1987 policy amendments. The tightened policy for developed residential property has had the effect of diverting some foreign demand for Australian residential property into acquisitions of real estate for residential development including, in particular, purchases 'off the plan'. The Government decided that foreign interests should be permitted to purchase

residential properties under construction or 'off the plan' provided, in the case of unit or condominium developments, that no more than half of the units in any one project were bought by non-residents. To streamline examination procedures, a real estate developer may apply to the Board for a general approval to sell up to 50 per cent of a development under construction or 'off the plan' to foreign interests. Subject to an undertaking by the developer to report all sales to the Board annually so that compliance with the 50 per cent restriction can be monitored, the Government has been prepared to grant such general approvals and thus save the time and expense which would otherwise be associated with individual foreign purchasers having to make separate applications to the Board.

To 30 June 1988, some 107 'off the plan' approvals have been given to developers. Further details are discussed in the urban real estate section of Chapter 3.

Oil and Gas On 20 January 1988, the Treasurer announced that the 50 per cent Australian equity and control guideline applying to new oil and gas projects over \$10 million would be abolished. As a result of this significant liberalisation of policy, all proposals in the oil and gas sector are now approved unless judged contrary to the national interest. This policy change marked a further step in the liberalisation of foreign investment policy that the Government has undertaken in recent years. (Further details of the liberalisations to the policy are contained in Chapter 1 of the Board's 1986-87 Annual Report.)

Chapter 2: Administration of Foreign Investment Policy

The Foreign Investment Review Board's primary function is to assist the Government in administering foreign investment policy. The Board examines proposals by foreign interests to undertake direct investment in Australia and makes recommendations to the Government on whether those proposals are suitable for approval under the Government's policy.

This Chapter outlines the Board's activities during 1987-88 and discusses summary statistics of proposals decided during the year. A summary description of the range of proposals subject to examination under foreign investment policy is provided in Attachment D.

Statistical qualifications Many qualifications need to be borne in mind in interpreting the statistics, which merely record the dollar amounts associated with expected expenditures on proposed acquisitions and new businesses submitted by foreign interests for examination under foreign investment policy, including future known development expenditures. In particular, it should be borne in mind that the figures recorded:

- relate to proposals approved, which may or may not be implemented; and, if implemented, perhaps only over a period of years;
- provide no indication of the source of the funds;
- do not necessarily reflect changes in foreign ownership since in some cases the vendor as well as the purchaser is foreign-owned; and
- exclude foreign portfolio investments, direct foreign investments below the examination thresholds, expansions of existing foreign-owned businesses in Australia, and sales by foreign investors to Australian residents.

Also, policy changes from year to year mean that the statistics are not necessarily comparable over time; in particular, the major changes to foreign investment policy in 1987 mean that the statistics for 1987-88 lack comparability in a number of significant respects with the figures for earlier years.¹

The Board's statistics of examined foreign investment proposals are quite different from the ABS statistics of foreign investment in Australia set out in Chapter 4, which seek to measure the inflow and outflow of capital across the exchanges. By contrast, the Board's statistics of approved proposals are not a guide to foreign capital inflow, inter alia, because the expected investment associated with proposals is often funded from domestic borrowings, or from funds already in Australia.

Having regard to the qualifications mentioned above and elaborated in the Statistical Appendix, the Board urges particular caution about comparisons between the 1987-88 statistics and those of earlier years.

¹ The urban real estate policy change of 29 September 1987 resulted in many real estate acquisitions — which would not have been examined in earlier years — becoming subject to Board scrutiny and thus included in the statistics for 1987-88. Moreover, the 'off the plan' approvals referred to in Chapter 1 also exert an exaggerated upward effect on the real estate component of the total statistics, because it is almost certain that only a few developers will sell a full 50 per cent of their developments to foreign purchasers. Table A.7 provides a disaggregation of the real estate statistics, indicating that \$1.6 billion is attributable to 'off the plan' approvals. By contrast, there was a factor operating in the opposite direction to pull the 1987-88 statistics down in comparison with earlier years. In April 1987, the Government announced that the Foreign Takeovers Act would be amended to exempt from examination proposals in respect of target businesses with total assets of less than \$5 million (less than \$3 million for rural land). Since that date, and in anticipation of the amendments being enacted, such proposals have been approved automatically and are no longer included in the Board's statistics. In 1987-88 there were 424 such proposals.

Summary of proposals

Total expected investment associated with foreign investment proposals approved by the Government in 1987-88 was \$24.8 billion, or about 34 per cent more than the 1986-87 expected level of \$18.5 billion. The number of proposals examined in 1987-88 was 3754, compared with 1412 in the previous year.

Of the \$24.8 billion approved expected investment in 1987-88:

- \$22.0 billion was attributed to acquisitions and associated development expenditures and \$2.9 billion to proposals for new businesses;
- \$17.2 billion represented the consideration payable for acquisitions and \$7.6 billion the expected development expenditures associated either with acquisitions or new business proposals;
- most of the total expected investment was in real estate (\$9.7 billion), tourism (\$2.1 billion), services other than tourism (\$3.0 billion), manufacturing (\$5.2 billion), and mining (\$2.6 billion);
- of the \$9.7 billion expected investment in real estate, \$7.6 billion (78 per cent) involved real estate for development. These figures include \$1.6 billion from annual program² approvals and another \$1.6 billion from 'off the plan' approvals granted to real estate developers, a significant portion of which is unlikely to be used;
- the main locations for expected real estate investment were the Gold Coast (\$2.2 billion) and Sydney (\$4.2 billion). Approximately 60 per cent of expected real estate investment on the Gold Coast was attributed to residential real estate for development, including 'off the plan' approvals. Nearly 60 per cent of expected real estate investment in Sydney was accounted for by commercial real estate for development;
- acquisitions of developed residential properties accounted for only about 3 per cent of expected investment in real estate but comprised nearly 50 per cent of the number of real estate proposals examined;
- the main location for expected investment in tourism was Queensland (1.1 billion) and New South Wales (\$0.6 billion);
- there were 51 proposals involving expected investment of \$100 million or more. They accounted for \$13.0 billion (52 per cent) of total expected expenditures. (By comparison, proposals involving more than \$100 million accounted for 57 per cent of expected expenditures in 1986-87.) Of the \$13.0 billion, \$8.4 billion was the cost of acquisitions and \$4.7 billion was the expected development expenditure;
- there were 106 proposals involving investments of \$50 million or more and they accounted for \$16.5 billion (67 per cent of expected expenditures - by comparison, proposals over \$50 million accounted for 71 per cent in the previous year). Of the \$16.5 billion in 1987-88, \$10.8 billion was the cost of acquisitions and \$5.7 billion was expected development expenditure.

Of the \$24.8 billion expected investment, at least \$6.0 billion was attributable to Australian entities that were participating in ventures with foreign interests (see Table A.4). Taking account of this, and adopting a necessarily arbitrary assumption that little more than half of the \$3.2 billion annual program and 'off-the-plan' approvals are likely to be used, would indicate that a better approximation of total expected foreign investment in 1987-88 would be around \$17 billion. Even the latter figure would, of course, be subject to the statistical qualifications explained

² To avoid the need for established real estate developers to notify individual acquisitions, requests for annual programs of acquisitions by foreign investors may be submitted for Government approval on the condition, *inter alia*, that investors report annually on real estate acquisitions and the development undertaken.

elsewhere in this report.

During the year, the Government took decisions on 3191 foreign investment proposals, compared with 1352 in 1986-87. As outlined above, the very substantial increase in the number of proposals is in large part the result of the real estate policy changes.

Of the proposals approved during 1987-88, 1641 were approved without conditions and 1450 were approved subject to conditions.

The rejection rate for proposals was 3.1 per cent. This compares with 0.4 per cent in 1986-87, 1.5 per cent in 1985-86, 2.6 per cent in 1984-85 and 4.2 per cent in 1983-84. The increase in the number of rejected proposals in 1987-88 reflects the tightening of residential real estate policy during the year. Total expected investment associated with the 100 proposals rejected in 1987-88 was \$54 million. All but one of the rejected proposals involved the acquisition of real estate (the other involved a proposal by News Ltd to acquire AAP Information Services Pty Ltd).

As the figures in Table 2.0 indicate, the proportions of expected investment attributable to different industry sectors, from proposals of \$50 million or more, changed in some respects between 1986-87 and 1987-88.

TABLE 2.0: EXPECTED INVESTMENT OVER \$50 MILLION

Industry sector	Expected investment			
	1986-87		1987-88	
	\$b	per cent	\$b	per cent
Manufacturing	2.7	21	4.1	25
Mining	1.9	15	1.9	12
Finance & Insurance	0.5	4	1.3	8
Services (excluding Tourism)	3.1	24	1.7	10
Tourism	1.2	9	1.5	9
Real Estate	3.7	28	5.7	35
Other	-	-	0.2	1
Total	13.1	100	16.5	100

Note: Figures may not add due to rounding.

The data indicate a relative increase in expected investment in the real estate sector and a decline in the non-tourism services sector. However, these figures are susceptible to the lumpiness associated with a few big proposals (for example, the figure for the services sector in 1986-87 was significantly increased by the takeover of the Herald & Weekly Times).

Proposals by country of investor Information on the number and value of proposals approved by country of investor is given in Table A.4. Values for expected investment levels for 1985-86 to 1987-88 are summarised in Table 2.1.

**TABLE 2.1: SOURCE COUNTRIES OF EXPECTED INVESTMENT
1985-86 - 1987-88**

Country of investor	Expected investment		
	1985-86 \$b	1986-87 \$b	1987-88 \$b
Japan	1.9	3.2	5.4
United Kingdom	1.8	2.1	4.7
New Zealand	0.5	3.5	2.8
United States	1.7	3.6	1.7
Hong Kong	0.4	0.6	0.8
Singapore	0.1	0.2	0.2
Australia	2.2	4.2	6.0
Other	1.2	1.1	3.2
Total	9.8	18.5	24.8

Japan, the United Kingdom, New Zealand and the United States were the main expected investing countries in 1987-88. The UK and the US have traditionally been the major source countries for direct foreign investment in Australia, while substantial direct investment by Japan and New Zealand is a more recent phenomenon.

While Japan was the largest source country for expected investment in 1987-88, it accounted for less than one quarter of the total expected investment for the year. (As a proportion of the total stock of direct foreign investment in Australia it would be a good deal lower since Japanese investment in Australia has been significant for a much shorter time period than investment from the United Kingdom and the United States.)

The main features of expected Japanese investment in Australia were that by far the greater part of it will involve development expenditures - construction of tourist facilities and construction of other real estate - and the creation of long-term jobs for Australians associated with the tourist industry. Around 58 per cent of total expected Japanese investment (\$3.0 billion) involved the real estate industry: of this \$3.0 billion, nearly 80 per cent was attributable to real estate for development. Japanese interests also accounted for some 66 per cent of the total expected investment in the tourism industry, mainly in Queensland.

The United Kingdom accounted for approximately 47 per cent of total expected investment in the manufacturing sector. The two largest proposals were the takeover of the ACI International business by the BTR Nylex group and the Redland purchase of the Monier roofing business, which together accounted for nearly one-third of total UK expected investment.

The main direction of expected New Zealand investment was the real estate sector (more than 50 per cent). New Zealanders accounted for nearly 60 per cent of total expected purchases of developed residential real estate by intending migrants.

Most US investment was directed to the services, manufacturing and mineral sectors. Three large US proposals accounted for nearly 40 per cent of total expected US investment.

**Location of
expected in-
vestment**

The distribution by State and Territory of expected investment is shown at Table A.5 and summarised in Table 2.2.

Variations between years in the State and Territory distributions of proposed investments should be interpreted with caution; they reflect in part the lumpiness of particular projects. The higher figure for Queensland compared to earlier years is partly due to the change in real estate policy, which has had a proportionately greater effect on the figures for that State.

TABLE 2.2: EXPECTED INVESTMENT BY STATE AND TERRITORY

Location	Expected Investment	
	1986-87 \$b	1987-88 \$b
New South Wales	4.7	8.0
Victoria	1.1	1.9
Queensland	2.9	5.2
Western Australia	1.5	1.7
South Australia	0.5	0.7
Tasmania	0.1	0.1
ACT	0.1	0.1
Northern Territory	0.1	0.1
	10.9	17.7
Other (a)	7.5	7.1
Total	18.4	24.8

Note: Figures may not add due to rounding.

(a) Includes off-shore takeovers and proposals where the expenditure is expected to be undertaken in more than one State or Territory.

**Consultation
arrangements**

During the year, the Board consulted various Commonwealth departments, authorities and State Governments having an interest in particular (mainly large) foreign investment proposals. Their advice and comment was helpful in assessing the implications of proposals and the Board acknowledges the assistance received from the relevant Commonwealth and State departments and authorities.

The Board regards its procedures for liaison with the State Governments as important in aiding the administration of foreign investment policy on a co-operative basis.

In keeping with one of its functions, that is to foster an awareness and understanding of the Government's policy and to provide guidance to investors, members of the Board and its Executive participated in a substantial number of meetings with both potential foreign investors and Australian businesses to explain foreign investment policy and its administration and the application of the policy to particular proposals. Over the course of the year, presentations on foreign investment policy were given to foreign and local businesses and groups.

**International
organisations**

Australia subscribes to the 1976 Declaration of the Organisation for Economic Co-operation and Development (OECD) concerning international investment and multinational enterprises. The Declaration comprises two instruments (covering national treatment and investment incentives and disincentives) and a set of voluntary guidelines concerning the conduct of multinational enterprises in member countries. Australia also subscribes to two OECD Codes of Liberalisation, one covering capital movements and the other invisible transactions. The broad thrust of the OECD's work in this area is to seek to liberalise international capital flows.

The Board is the national contact point for matters that arise in respect of the guidelines and its Executive is called upon to provide briefing on foreign investment policy matters relating to the Declaration and the Codes.

Australia maintains a limited reservation under the Capital Movements Code and during the year the Government proposed to the OECD that one of the reservations should be modified, to reflect the change in the treatment of real estate under foreign investment policy.

Processing of proposals

The Board recognises the desirability of examining proposals promptly to enable decisions to be taken by the Government and provided to foreign investors within the shortest practicable time.

The information and other requirements applicable to foreign investors have been designed with a view to keeping to a minimum the cost and time involved for the parties in seeking foreign investment approval. Unfortunately, however, the past year has seen a trend towards some foreign investors submitting proposals to the Board with insufficient information to enable speedy processing. This practice results in delays while additional information is sought.

The average time taken to process all proposals in 1987-88 was 20 days, about 6 days less than in 1986-87. This variation is attributed to changes flowing from the policy liberalisations of recent years, a streamlining of procedures for certain types of proposals, and the high proportion of straightforward proposals resulting from the real estate policy change. The number of proposals examined per staff member during 1987-88 was approximately 140, compared with around 35 per staff member a couple of years ago. The variation over time in the number of proposals examined per staff member is a reflection of the relative mix of simple and difficult cases in different industry sectors and the complexity of policy requirements in those sectors.

Freedom of information

In 1987-88, the Board's Executive processed six applications received under the Freedom of Information Act 1982 (FOI Act) for access to documents concerning foreign investment matters. Wherever practicable, requests for information are answered without applicants needing to have recourse to the provisions of the FOI Act. The Executive takes particular care in responding to these requests to protect commercially sensitive or confidential information.

It is the practice of the Executive to consult with the parties to a proposal about the documents that are the subject of an FOI request to establish whether the parties are prepared to have the documents made available to an applicant. There are a number of provisions available under the FOI Act for denying access to commercially confidential documents provided to the Board (or prepared by the Board or the Executive) in its examination of a proposal.

During 1987-88, two decisions by the Treasury to deny access to documents relating to foreign investment proposals were appealed to the Administrative Appeals Tribunal by the applicant. The hearing of these appeals was pending at 30 June 1988.

No commercially sensitive or confidential documents have been released to applicants as a result of an FOI Act request or a subsequent appeal.

Cost of the Board's operations

Consistent with the proper discharge of its functions, the Board is concerned to ensure that the cost of its operations is minimised. Government expenditure on the Board in 1987-88 was a little under \$60,000. As in previous years, around 80 per cent of the expenditure was for the remuneration of the Board members; the remainder was for local travel, car hire and printing expenses.

Government expenditure on the Executive was about \$690,000 in 1987-88. This expenditure was directed mostly to salaries, with relatively minor expenses being incurred for travelling, printing and computer services. The total cost of foreign investment screening would also include a minor part of the expenditure of other Government authorities and agencies, at both the Commonwealth and State levels, that are consulted on proposals.

The Executive's staff was reduced from a division to a branch of the Treasury during 1987. This was consistent with the substantial relaxations of foreign investment policy guidelines since 1984 which had led to lower staffing requirements. The change to the real estate policy in September 1987, however, generated a huge increase in the number of examinable cases in that area and necessitated the deployment of extra staff. At end June 1988 there were 22 officers in the Foreign Investment Branch of Treasury compared with 15 in early September 1987.

The Board is naturally concerned that there should be sufficient staff in the Branch to ensure that the Board's responsibilities can be carried out in an efficient and timely manner. In this regard, the Board notes that staffing of the Branch is a matter for the Treasury to determine, having regard to pressures on its staff resources.

Chapter 3: Foreign investment proposals by industry

This chapter provides a summary, on an industry basis, of the proposals submitted to the Board for examination in 1987-88 and comments on some of the more significant cases.

Unlike the discussion in recent Board reports, the comments for each sector below make no reference to corporate restructuring proposals and financing arrangements. There were 90 such proposals in 1987-88. In earlier years, corporate restructuring proposals were carefully examined by the Board for tax implications. This, however, is no longer necessary following the Treasurer's announcement in April 1987 that the practice of imposing routine tax conditions under foreign investment policy would be discontinued in the light of new tax legislation to deal with non-arm's length thin capitalisation and corporate restructurings. Such proposals involve no change of ultimate ownership or control and are normally of little significance from a foreign investment policy viewpoint.

The data on expected investment in the industry sectors discussed below have been compiled by reference to the Australian Standard Industrial Classification (see the Statistical Appendix).

Tourism

There were 13 new business proposals and 31 acquisition proposals in tourism and related industries in 1987-88. The total expected investment for these industries was \$2091 million. (In 1986-87 there were 51 proposals involving \$1553 million; in 1985-86 there were 21 proposals involving \$440 million.)

Table A.6 provides a breakdown of expected investment in the tourism industry by location and country of investor for 1986-87 and 1987-88. It indicates that expected investment in Queensland and New South Wales accounted for the greater part of the totals for both years. In 1987-88, the figures were \$1068 million expected tourism investment in Queensland and \$636 million in New South Wales. Japanese interests were the main expected investors in the tourism sector, accounting for two-thirds or more of the totals in each year.

The pattern of proposals in the tourism industry included planned new hotels in Sydney and Queensland (eg the Regent on Campbells Cove development in Sydney by the Japanese EIE group and a proposed development at Southport by the Japanese Nara group and the Australian owned Seaworld). There were also a number of integrated tourist resort proposals involving the construction of golf courses, other sporting facilities, hotels and residential accommodation. Twelve of the proposals in the tourism industry involved \$50 million or more. The expected investment associated with these 12 proposals was around \$1550 million.

Service Industries (excluding Tourism)

During 1987-88 the Board examined 160 proposals for investment in the service industries sector (excluding tourism), comprising 13 new businesses and 147 proposed acquisitions.

The 13 proposals to establish new businesses involved total expected investment of \$812 million.

There was a substantial reduction in the number of acquisition proposals compared with the previous year. This reflects the exclusion of takeover proposals below \$5 million from the statistics for 1987-88, as a result of the 30 April 1987 policy change. In the past the service industries sector has accounted for a high proportion of takeovers below \$5 million. The consideration payable for the 147 examinable acquisition proposals was \$2160 million.

The total expected expenditure associated with service industries other than tourism proposals for 1987-88 was \$2972 million. Nine proposals involved \$50 million or more. Among the larger cases was the proposal by Kumagai Gumi of Japan and the Australian owned Transfield group to build and operate a tunnel under Sydney Harbour and two proposals in the newspaper industry—the acquisition by the News Ltd group of the interest in the Adelaide Advertiser that it did not already own and the takeover of Provincial Newspapers (Qld) Ltd by Haswell Pty Ltd, a majority Australian owned company with some Irish equity. Another service industries proposal of interest was the approval for the Japanese Daimaru and Kumagai Gumi groups to commence retail operations in Australia.

One proposal in the service industries sector was rejected. As part of a package of acquisitions from the Fairfax group, News Ltd sought approval to increase its shareholding in AAP Information Services Pty Ltd, Australia's main independent news bureau and wire service. The Treasurer decided that the proposal would be contrary to the national interest.

Finance and Insurance

The Board examined 96 proposals (89 acquisitions and seven new businesses) in the finance and insurance industries in 1987-88, involving total expected investment of \$1862 million.

The seven new business proposals included stockbroking, merchant banking, insurance broking and general financing businesses. The expected investment associated with the new business proposals was \$61 million. By comparison, new business investment was \$220 million in 1986-87 and \$1792 million in 1985-86, when the figure was boosted by the establishment of new trading banks and a substantial number of merchant banks during the period of the merchant banking moratorium.

Of the 89 acquisition proposals, ten involved increases in foreign ownership of Australian stockbroking firms. Until April 1987, foreign interests were restricted to 50 per cent ownership of a stockbroker but 100 per cent foreign ownership is now permitted.

There were 11 proposals in the finance and insurance sectors involving \$50 million or more. One of the largest proposals received was the takeover of the investment, financial services and insurance group Clayton Robard Ltd by the UK owned Tyndal Pacific Ltd. In February 1988 the Government raised no objections to a proposed acquisition by Coronet Equities (NZ) Ltd of a substantial shareholding in Cumberland Credit Ltd but ownership of the target company eventually ended in other hands. In April, two competing proposals for the takeover of the insurance company CIC Holdings Ltd were approved. In the event, and after legal proceedings, the offer by the UK owned Norwich Winterthur was successful over the offer of the New Zealand based NZI group.

Manufacturing

For the manufacturing sector, expected total expenditures have risen from \$1571 million in 1985-86 to \$3879 million in 1986-87 and to \$5222 million in 1987-88. The expenditure figures in each case represent almost entirely the price paid for acquisitions—planned new development expenditure associated with the acquisitions was relatively small in all three years. The approval of manufacturing acquisitions has been facilitated by the removal two years ago—as part of the progressive liberalisation of foreign investment policy—of the net economic benefits test in respect of manufacturing proposals.

Of the 129 manufacturing proposals recorded in the statistics, five were new businesses (with total expected investment of \$224 million). The new business approvals included a proposal by a Dutch company to manufacture and install a trans-Tasman telecommunications system, a proposal by a Japanese company to participate in a new Australian ceramic manufacturing business and a proposal by Comalco to manufacture automotive wheels in Tasmania in partnership with Japanese interests.

Nearly a quarter of the expected investment in the manufacturing sector in 1987-88 was attributable to Australian controlled entities. In 1987-88 there were a number of entrepreneurial companies active in the manufacturing sector that were predominantly Australian-owned but which, for various reasons, were defined as foreign interests for foreign investment policy purposes. Approvals are given readily to the proposed investments of such companies.

A takeover offer for the Australian owned pharmaceutical manufacturer Fauldings by the UK controlled ICI Australia group was the subject of an interim order under the Foreign Takeovers Act to enable more time for examination. The interim order was subsequently revoked and no objections were raised to the proposal which, however, proved unsuccessful in the market place.

There were 19 manufacturing proposals involving \$50 million or more, by far the largest of which was the takeover of the ACI International business by the UK controlled BTR Nylex group. In a related transaction, approval was also given for the UK Pilkington group to acquire the half interest that it did not already own in the float glass manufacturer, Pilkington-ACI Ltd.

Other proposals involving UK interests included the acquisition by Cadbury Schweppes Australia Ltd of the Australian operations of the Beatrice group (a diversified food manufacturer), the Redland acquisition of the roofing business of Monier, the approval for BOC to acquire the Australian minority interests in CIG and approval for the naturalised company Amatil to take-over C.C. Bottlers. Overall, UK interests were a party to approximately 47 per cent of the expected investment in the manufacturing sector.

Other major manufacturing proposals involved the takeover of the Lilypak packaging business by a Finnish company (Huhtamaki), the acquisition by Fletcher Challenge of New Zealand of a 50 per cent interest in Australian Newsprint Mills Holding Ltd, and the merger of the Holden and Toyota car manufacturing businesses.

Minerals

There were 74 proposals in the minerals sector in 1987-88, comprising 66 acquisitions and eight new businesses. Total expected investment was \$2619 million. Thirteen proposals of \$50 million or more accounted for about three quarters of this expenditure. The largest proposals involved the reverse takeover of New Zealand Forest Products Ltd by Elders Resources Ltd, the approval for the establishment by the naturalised company CRA Ltd and a Chinese partner of the Channar iron ore mine in Western Australia and the approval for the Canadian Placer group to take up a 50 per cent equity in the Big Bell gold mine in Western Australia.

Of the 66 acquisition proposals in the mining sector, 50 per cent involved gold mines or companies directly involved in the gold industry. There were 5 proposals for the acquisition of interests in coal projects, including two by Japanese interests. Takeover proposals in the mining sector (other than oil and gas) require the demonstration of economic benefits to offset any reduction in Australian ownership and control where the target company or mine has total assets of more than \$5 million.

As noted in Chapter 1, the Government decided in January 1988 that new oil and gas projects involving total investment of \$10 million or more should no longer be subject to the 50 per cent Australian equity and control guideline. Such proposals are now approved unless judged contrary to the national interest. During the year, the Saladin project off the Western Australian coast was given approval to proceed to development under the liberalised policy. Saladin is a joint venture involving three foreign-owned and two Australian-owned companies.

Resource Processing

There were eight resource-processing proposals in 1987-88, involving total expected investment of \$133 million. An offshore takeover of the French based Prouvost group - which has a substantial wool processing business in Australia - accounted for a substantial proportion of this expected expenditure. A joint venture between the Australian Wool Corporation and a West German company to establish a new wool processing plant at Geelong in Victoria was the other noteworthy proposal included in the statistics.

Urban Real Estate

The major changes to real estate policy in the past two years were described in the 1986-87 report and in Chapter 1 of this report. In brief, in July 1986, the Government relaxed the policy applying to developed commercial property and to both commercial and residential real estate for development, while in September 1987 the requirements for foreign purchases of developed residential real estate were tightened and the practice of not requiring notification of urban real estate acquisitions by non-residents up to a cumulative \$600,000 threshold was discontinued.

The effect of these policy changes is clearly shown in the statistics of urban real estate proposals reviewed by the Board in 1987-88. The Board examined 2476 proposals for foreign investment in urban real estate in 1987-88, a ten-fold increase on the number examined in 1986-87. The increase was at least in part a reflection of policy factors, particularly abolition of the \$600,000 threshold and the announcement of intended legislation to enforce real estate policy, with attendant penalties for failure to notify examinable transactions.

Total expected investment in urban real estate was \$9713 million. A disaggregation of this total figure according to the type of proposal is provided in Table A.7. Briefly, \$1558 million was accounted for by 22 approvals for annual programs of real estate acquisitions and \$1577 million by 107 'off the plan' approvals. (The total value of annual programs was \$275 million in 1985-86 and \$974 million in 1986-87.) Some of this growth is due to the relaxation of policy for acquisitions of real estate for development and some of it is due to a couple of fairly sizable annual program proposals by entrepreneurially oriented companies that are predominantly Australian owned but technically foreign interests. The Board expects that little more than half of these planned annual program expenditures are likely to be realised.

Similarly, and as noted in Chapter 2, it can be accepted that not all of the 107 developers with 'off the plan' approvals will sell a full 50 per cent of their developments to foreign purchasers and that the \$1577 million figure in Table A.7 for 'off the plan' approvals is certainly an overstatement of likely purchases by non-residents.

Leaving annual programs and 'off the plan' approvals to one side, Table A.7 records that the Board examined 106 proposals by foreign interests to acquire commercial real estate for development (expected investment of \$2983 million) and 751 proposals for foreign interests to acquire residential real estate for development (expected investment of \$1490 million). Some of the latter acquisitions comprise the purchase of land for development as medium and high rise

residential accommodation while others are vacant building blocks for single dwellings. Approval is given readily on condition that construction is commenced within 12 months: such proposals add to the housing stock in Australia and yield direct economic benefits.

Table A.10 indicates that NSW was the location for more than half of the expected investment in commercial real estate for development and over one third of the expected investment in residential real estate for development. Queensland accounted for about 18 per cent of the expected investment in commercial real estate for development and about 61 per cent of expected investment in residential real estate for development. During 1987-88 the Board examined 256 proposals involving developed commercial real estate. The main locations were Sydney, Brisbane and Melbourne and the total value of the approved proposals was \$1636 million.

In terms of the number of proposals examined, the most dramatic effect of the abolition of the \$600,000 exemption threshold in September 1987 occurred in the developed residential real estate sector. There were 1219 proposals in 1987-88 compared with 85 in 1986-87. The expected investment associated with these proposals was \$314 million, or about 3 per cent of total expected investment in urban real estate for the year. Australian citizens living abroad accounted for 370 of the 1219 proposals and \$83 million of the \$314 million expected expenditure, while intending migrants accounted for 601 proposals and \$126 million expenditure.

Australian citizens living abroad are readily given approval to buy real estate unconditionally. For intending migrants, approval to buy developed residential real estate is conditional on their having received approval from the immigration authorities to take up permanent residence in Australia. Moreover, the property must be sold if they have not taken up permanent residence in Australia within 12 months or if their right to permanent residence in Australia lapses.

New Zealand accounted for 390 of the 601 purchases (65 per cent) of developed residential real estate by intending migrants, followed by Hong Kong with 108.

Rural Land

In April 1987, the Treasurer announced that the Government intended to amend the Foreign Takeovers Act to exempt from examination acquisitions of rural properties up to a value of \$3 million. Proposals involving rural properties valued at more than \$3 million are approved unless judged contrary to the national interest.

Pending the proposed amendments to the Foreign Takeovers Act, those rural property proposals below \$3 million that are submitted for examination are being approved automatically and for that reason they are not included in the 1987-88 statistics of expected investments. (In fact, the Board received 74 rural property proposals below \$3 million in 1987-88, of which 8 involved Japanese purchases of beef properties. It is to be expected that some proposals falling below the \$3 million threshold were not submitted for examination by the parties involved, in anticipation of the legislative amendment, and hence the figure of 74 should not be taken as an indicator of the total number of such acquisitions actually occurring.)

There were 14 rural property proposals above \$3 million, involving total expected investment of \$232 million. Two proposals accounted for the greater part of this sum—a takeover of Colly Farms by a UK based group and a proposed takeover of Australian Agricultural Company by a predominantly Australian-owned but foreign-controlled group.

Chapter 4: Aggregate Foreign investment: Australian Bureau of Statistics data

This chapter summarises trends in the aggregate foreign investment in Australia and Australian investment abroad and reports data on estimates of foreign ownership and control in Australia.

As indicated in Chapter 2, ABS foreign investment data are based on different criteria from those used by the Foreign Investment Review Board. The Board's figures are an aggregation of the proposals submitted to the Executive, along with the expected associated expenditures.

Table 4.0 sets out the relationship between foreign investment in Australia and the current account deficit. In any year, aggregate foreign investment in Australia, minus Australian investment abroad, equals the balance on capital account. The balance on capital account should be equal to the current account deficit, but because of statistical discrepancies a balancing item has to be inserted to bring this about.

TABLE 4.0: RECONCILIATION BETWEEN FOREIGN INVESTMENT CAPITAL FLOWS AND AUSTRALIA'S BALANCE OF PAYMENTS 1984-85 - 1987-88

	1984-85	1985-86	1986-87	1987-88
	\$b	\$b	\$b	\$b
Foreign Investment in Australia	14.8	19.2	21.8	18.9
Australian Investment Abroad	3.4	4.9	11.8	10.5
Balance on Capital Account	11.4	14.3	10.0	8.4
Balancing Item	-0.3	0.5	3.2	3.3
Balance in Current Account	-11.1	-14.8	-13.2	-11.7

Sources

ABS 5306.0: Foreign Investment, Australia, June Quarter 1988

ABS 5301.0: Balance of Payments, Australia, August 1988

Overview of foreign investment inflows

Table 4.1 sets out foreign investment flows into Australia from 1983-84 to 1987-88. In 1987-88 foreign investment in Australia totalled \$18.9 billion compared with \$21.8 billion in the previous year, a decline of 13 per cent. Foreign investment attributable to the official sector (mainly general government borrowing) was \$2.6 billion in 1987-88, down sharply from the previous year's figure of \$6.2 billion. This reflected the fall in the General Government sector deficit and less reliance on overseas borrowings to fund the deficit. Foreign investment in the non-official sector was \$16.3 billion in 1987-88, (\$0.7 billion higher than for 1986-87 (see Table 4.2).

TABLE 4.1: FOREIGN INVESTMENT IN AUSTRALIA, 1983-84 - 1987-88

	1983-84 to 1987-88		1983-84		1984-85		1985-86		1986-87		1987-88	
	\$b	per cent	\$b	per cent	\$b	per cent	\$b	per cent	\$b	per cent	\$b	per cent
Official	3.9	22.9	1.3	12.9	4.1	27.7	5.6	29.2	6.2	28.4	2.6	13.8
Non-official												
- Direct	3.2	18.8	1.9	18.8	2.6	17.6	3.3	17.2	4.6	21.1	3.4	18.0
- Portfolio and other	9.8	57.6	6.9	68.3	8.1	54.7	10.2	53.1	11.1	50.9	13.0	68.8
Total Non-official	13.0	76.5	8.8	87.1	10.7	72.3	13.6	70.8	15.6	71.6	16.3	86.2
Total Official and Non-official	17.0	100.0	10.1	100.0	14.8	100.0	19.2	100.0	21.8	100.0	18.9	100.0

Sources
 ABS 5306.0 Foreign Investment, Australia, June Quarter 1988
 ABS 5305.0 Foreign Investment, Australia, 1986-87
 Note: Figures may not add due to rounding.

Non-official direct investment

Under the ABS framework for foreign investment statistics, direct investment represents funds invested in an enterprise by an investor (called a 'direct investor') in another country, which give the investor a 'significant influence', either potential or actually exercised, over the key policies of the enterprise (called a 'direct investment enterprise'). Ownership of 10 per cent or more of the ordinary shares or voting stock of an enterprise is considered to indicate 'significant influence' by an investor.

The ABS classifies 'direct investment' flows into five categories - 'reinvestment of earnings' (the direct foreign investor's share of unremitted profits of branches and other direct investment enterprises), 'corporate equities' (proceeds from the net sale of shares to direct foreign investors), 'net equity in branches' (changes in the net accounts to foreign resident owners of unincorporated enterprises), 'borrowings' (net borrowings by direct investment enterprises from direct foreign investors) and 'other net accounts payable by direct investment enterprises to direct foreign investors'.

Foreign investment in the non-official sector comprised:

- \$3.4 billion as direct investment, a fall of 26 per cent from the previous year; and
- \$13 billion portfolio and other ('non-direct') investment, an increase of 17 per cent over the previous year.

The fall in direct investment reflected:

- an 88 per cent fall in direct investment in corporate equities from \$1.7 billion in 1986-87 to \$0.2 billion in 1987-88; and
- a reduction in 'in house' borrowings from almost \$1.9 billion in 1986-87 to \$1.0 billion in 1987-88.

However, direct investment in net equities in branches increased by \$0.5 billion, and 'other' direct investment increased by \$0.4 billion.

Non-official portfolio and other investment ('non-direct investment')

For the period 1983-84 to 1987-88, the non-official portfolio and other investment category has been the major contributor to foreign investment in Australia (averaging around 76 per cent). This mainly reflects the high levels of foreign portfolio borrowings of the 1980's.

Australian investment abroad

There was a sharp fall in foreign investment in corporate equities in 1987-88, consistent with the stock market crash of October 1987. Private portfolio borrowings increased about 3 per cent from the previous year to \$7.1 billion in 1987-88.

Australian investment abroad increased strongly in 1986-87 and eased off in 1987-88. Of the \$10.5 billion Australian investment abroad in 1987-88, \$3.9 billion was due to the increase in Australia's official reserve assets. Comparable figures for 1986-87 were \$11.8 billion and \$3.4 billion respectively. That is, Australian investment abroad, excluding increases in official reserves, fell from \$8.4 billion in 1986-87 to \$6.6 billion in 1987-88.

Investment levels

Table 4.3 shows that the estimated level or stock of foreign investment in Australia as at 30 June 1987 was \$174 billion, comprising 57.2 billion of corporate equities, \$74.7 billion in borrowings and \$42.1 billion in other forms. This represented an increase of around \$35 billion, or 25 per cent, over the level at 30 June 1986. Of the increase during 1986-87, \$12.5 billion was accounted for by an increase in the stock of direct investment. The remainder was accounted for largely

TABLE 4.2: INFLOW OF NON-OFFICIAL FOREIGN INVESTMENT IN AUSTRALIA, 1983-84 - 1987-88

	1983-84 to 1987-88 annual average		1983-84		1984-85		1985-86		1986-87		1987-88	
	% of		% of		% of		% of		% of		% of	
	\$b	total	\$b	total	\$b	total	\$b	total	\$b	total	\$b	total
Non-official direct investment												
- Reinvestment of earnings	0.9	6.9	0.6	6.8	0.6	5.6	0.9	6.6	1.2	7.7	1.4	8.6
- Corporate equities	1.0	7.7	0.6	6.8	0.3	2.8	2.1	15.4	1.7	10.9	0.2	1.2
- Net equities in branches	-0.1	-0.4	-0.8	-9.1	0.1	0.9	-0.3	-2.2	0.1	0.6	0.6	3.7
- Borrowings												
- Banks ^(a)	0.3	2.3	-0.01	-0.1	0.03	0.2	0.6	4.4	1.2	7.7	-0.3	-1.8
- Other	0.8	6.2	1.0	11.4	1.2	11.2	-0.3	-2.2	0.7	4.5	1.3	8.0
- Other	0.2	1.5	0.6	6.8	0.4	3.7	0.3	2.2	-0.3	-1.9	0.1	0.6
Total	3.2	24.6	1.9	21.6	2.7	25.2	3.3	24.3	4.6	29.5	3.4	20.9
Non-official portfolio and other												
- Corporate equities	1.3	10.0	0.6	6.8	0.5	4.7	-0.1	-0.7	4.0	25.6	1.4	8.6
- Borrowings												
• public sector	2.3	17.7	2.3	26.1	3.1	29.0	1.9	14.0	0.001	0.1	4.3	26.4
• private sector												
- Banks ^(a)	2.7	20.8	0.4	4.5	1.9	17.8	3.8	27.9	3.9	25.0	3.6	22.1
- Other	3.3	25.4	3.1	35.2	2.4	22.4	4.7	34.6	2.9	18.6	3.5	21.5
- Accounts payable/ prepayments received	0.2	1.5	0.6	6.8	0.2	1.9	-0.03	-0.2	0.2	1.3	0.2	1.2
Total	9.8	75.4	6.9	78.4	8.1	75.7	10.2	75.0	11.1	71.2	13.0	79.8
Total Non-official	13.0	100.0	8.8	100.0	10.7	100.0	13.6	100.0	15.6	100.0	16.3	100.0

Sources

ABS 5306.0 Foreign Investment, Australia, June Quarter 1988

ABS 5305.0 Foreign Investment, Australia, 1986-87

ABS 5306.0 Foreign Investment, Australia, March 1988

Notes:

- (a) Change in data source for banks accounts for an increase of \$1860m in the level of bank borrowing at June 30 1986 and thus figures to this date are not strictly comparable with figures subsequent to it. Figures are for private and public sector banks.
- (b) Figures may not add due to rounding.

TABLE 4.3: LEVEL OF FOREIGN INVESTMENT IN AUSTRALIA, BY TYPE OF INVESTMENT (\$A BILLION)

At June 30	Official			Non-official					TOTAL		
	Direct ^(a)			Portfolio and other investment							
	Corporate equities	Borrowings	Other	Corporate equities	Borrowings		Accounts payable/ prepayments	Corporate equities	Borrowings	Other	
					Public Sector	Private Sector					
1983	8.1	19.1	4.0	6.3	8.0	6.5	17.3	1.7	27.1	27.8	16.1
1984	9.2	20.1	5.0	6.8	8.6	8.9	21.0	2.4	28.7	34.8	18.4
1985	15.2	22.3	6.7	7.7	11.2	14.9	41.5	2.8	33.5	63.1	25.7
1986	23.8	23.9	8.1	8.0	12.7	18.6	41.2	2.8	36.6	67.9	34.6
1987	30.2	34.0	9.6	8.8	23.2	18.1	47.0	3.1	57.2	74.7	42.1
1988	31.7	37.5	10.2	9.9	n.a.	22.4	51.1	3.3	n.a.	83.7	44.9

Source: ABS 5305.0 Foreign Investment, Australia, 1986-87

ABS 5306.0 Foreign Investment, Australia, June Quarter 1988

Note:

- (a) The definition of direct investment changed from 1985-86 and therefore entries from that year are not strictly comparable with entries for previous years
- (b) Figures may not add due to rounding.

by increases in portfolio corporate equities (\$10.5 billion) and in general government borrowings (\$6.8 billion). The large increase in the level of foreign corporate equities reflects the sharemarket boom during that period. The table also shows incomplete figures for 30 June 1988.

Foreign Investment by Country

Table 4.4 shows the estimated stock of foreign investment in Australia by source country for the four years ended June 1987. The United States and the United Kingdom (the traditional source countries) each have an estimated stock about twice that for Japan, Singapore, Switzerland and the Federal Republic of Germany had estimated stocks each of between \$5 and \$10 billion.

TABLE 4.4: LEVEL OF FOREIGN INVESTMENT IN AUSTRALIA BY COUNTRY, 1983-84 TO 1986-87 (\$A BILLION)

Country	1983-84	1984-85	1985-86	1986-87
USA	19.9	26.3	31.4	40.5
UK	20.4	25.9	28.8	37.1
Japan	10.8	16.2	20.8	21.3
Singapore	6.6	8.9	8.3	9.3
Germany (FR)	2.6	3.6	5.5	7.1
New Zealand	0.9	1.5	2.1	4.9
Switzerland	3.1	4.1	5.9	4.5
Netherlands	2.0	2.4	3.0	4.0
Canada	1.6	1.8	1.9	3.3
Hong Kong	2.5	3.4	3.0	3.1
Bel-Lux	2.0	2.7	3.2	2.6
Central America and Caribbean	1.7	2.2	1.8	2.2
France	1.3	1.6	1.6	1.9
Other ASEAN	0.6	0.8	0.7	1.0
Sweden	0.2	0.3	0.3	0.4
Italy	0.1	0.2	0.3	0.3
Other	5.5	9.3	20.5	27.5
TOTAL	81.8	111.2	138.6	171.0

Sources: ABS, Foreign Investment: Detailed Country Tables, Dec. 1987
ABS 5305.0 Foreign Investment, Australia, 1986-87

Note: Figures may not add due to rounding.

Australia's level of external debt

At 30 June 1988, the level of Australia's net external debt was estimated at \$88.8 billion, 8 per cent higher than the estimate of a year earlier (Table 4.5). The slowdown in the growth of net debt is primarily a result of an improvement in the current account deficit and the sharp improvement in the exchange rate.

Foreign ownership and control in Australia

Foreign ownership statistics provide a measure of the total beneficial equity interest held by foreign residents in enterprises in Australia while foreign control statistics provide a measure of potential control (through ownership of voting shares) that foreign residents may have over enterprises in Australia.

Australian Bureau of Statistics Industry Studies

In using ABS data to make observations about the level of foreign ownership and control of particular industries, the following factors need to be borne in mind. First, movements in the aggregate level of foreign ownership or control of an industry over time may be caused either by changes in the degree of foreign ownership of particular enterprises in that industry and/or by differences in the relative growth rates of foreign and Australian owned enterprises. Secondly, the basis used to measure ownership or control (for example, value added, employment or turnover) may lead to different results because of differences in the capital

TABLE 4.5: AUSTRALIA'S LEVEL OF EXTERNAL DEBT, 1983-88 (\$A BILLION)

At June 30	Foreign borrowing			Australian lending abroad and reserve assets			Net external debt ^(b)			
	Official ^(a)	Non-official		Official	Non-official		Official	Non-official		
		Public Sector	Private Sector		Total	Total		Total	% GDP	
1983	7.7	6.5	21.4	10.8	1.8	12.5	-3.1	26.1	23.0	13.5
1984	8.9	8.9	25.9	12.4	1.8	14.2	-3.5	33.0	29.4	15.5
1985	14.9	14.9	37.2	13.6	3.0	16.6	1.3	49.1	50.3	23.8
1986	23.4	18.6	49.3	13.2	3.9	17.1	10.2	64.0	74.2	31.4
1987	29.9	18.1	56.6	18.0	4.5	22.5	11.9	70.2	82.1	31.5
1988	31.5	22.4	61.3	20.8	5.4	26.3	10.6	78.2	88.8	30.4

Sources:

ABS 5305.0 Foreign Investment, Australia, 1986-87

ABS 5306.0 Foreign Investment, Australia, June Quarter 1988

Note:

(a) General government and Reserve Bank

(b) Foreign borrowing by Australian residents less the sum of Australian lending abroad and reserve assets

(c) Figures may not add due to rounding

TABLE 4.6: FOREIGN OWNERSHIP BY INDUSTRY SECTOR – SELECTED YEARS, PER CENT

	Foreign ownership		Total foreign ownership	Australian ownership
	'Direct'	'Other identified'		
Mining ^(a)				
1972-73	37.5	12.0	49.5	50.5
1982-83	33.6	16.8	50.4	49.6
1984-85	–	–	44.7	55.3
Minerals processing ^(b)				
1972-73	–	–	39.7 ^(j)	60.3
1981-82	27.6	18.6	46.3	53.7
Manufacturing ^(c)				
1972-73	27.7	3.5	32.2	67.8
1982-83 – Actual ^(d)	28.4	4.5	32.9	67.1
1982-83 – Adjusted	–	–	31.9 ^(j)	
Life insurance ^(e)				
1973	18.8	18.0	36.8	63.2
1983-84	24.5	15.8	40.3	59.7
General insurance ^(f)				
1972-73	–	–	45.4 ^(j)	54.6
1983-84 – Actual ^(d)	32.5	1.6	34.1	65.9
1983-84 – Adjusted	–	–	34.9 ^(j)	
Registered financial corporations ^(g)				
1984 (June)	26.5	9.4	35.9	64.1
1986 (June)			38.1 ^(j)	61.9
Agricultural land ^(h)				
1983-84	–	–	5.9 ^(j)	94.1
Transport ⁽ⁱ⁾				
1983-84	–	–	5.1 ^(j)	94.9
Banking ^(k)				
1986	–	–	21.0 ^(j)	79.0

Source: Various ABS industry studies

Notes:

- (a) Based on value added – ABS: Foreign Ownership and Control of the Mining Industry, Australia, 1982-83 (Cat No 5317.0). A split between 'direct' and 'other identified' is not available for studies undertaken in 1984-85 and subsequently.
- (b) Based on value added – ABS: Foreign Ownership and Control of the Mining Industry and Selected Mineral Processing Industries, Australia, 1981-82 (Cat No 5317.0).
- (c) Based on value added – ABS: Foreign Ownership and Control of the Manufacturing Industry, Australia, 1982-83 (Cat No 5322.0). Statistics for 1982-83 are not directly comparable with those for 1972-73.
- (d) Statistics for the later year are not directly comparable with those for the earlier year. To facilitate comparability, the later year statistics have been adjusted to approximate the same basis as the earlier year. For details on the factors affecting comparability refer to the relevant publications listed above.
- (e) In terms of the value of premiums received for life insurance policies and annuities – ABS: Foreign Ownership and Control of the Life Insurance Industry, Australia, 1983-84 (Cat No 5311.0).
- (f) In terms of the value of premiums received – ABS: Foreign Ownership and Control of the General Insurance Industry, Australia, 1983-84 (Cat No 5309.0). Statistics for 1983-84 are not directly comparable with those for 1972-73.
- (g) Based on value of corporations' assets – ABS: Foreign Ownership and Control of Registered Financial Corporations, Australia, 1984 (Cat No 5334.0).
- (h) Based on number of hectares. By location, the highest level of foreign ownership was in the NT, in which 13.0 million hectares or 18.2 per cent of its agricultural land was estimated to be foreign owned. Corresponding figures for the States were Queensland, 8.4 million hectares (5.3 per cent); WA, 3.6 million hectares (3.1 per cent); SA, 2.7 million hectares (4.3 per cent); NSW, 0.7 million hectares (1.1 per cent); Tasmania, 0.05 million hectares (2.1 per cent); and Victoria, 0.06 million hectares (0.4 per cent) – ABS: Foreign Ownership and Control in Agriculture, Australia, 1983-84 (Cat No 5536.0).
- (i) Based on value added – ABS: Foreign Ownership and Control of the Transport Industry, Australia, 1983-84 (Cat No 5335.0).
- (j) It is not possible to disaggregate total into 'direct' or 'other identified' foreign ownership.
- (k) Based on value of banks' assets – ABS: Foreign Ownership and Control of the Banking Industry, June 1986 (Cat No 5347.0) ABS: Foreign Ownership and Control of the Life Insurance Industry, Australia, 1983-84 (Cat No 5311.0) provides an explanation of 'direct' and 'other identified' categories of foreign ownership.

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Corporations**

intensities, efficiencies or stages of development in the industry. Finally, factors other than share ownership may affect the control of businesses and the extent of participation in the profits of a business; these factors are not covered by the ABS studies.

The ABS studies of foreign ownership and control provide foreign participation statistics on a number of bases including number of establishments; persons employed; wages and salaries; turnover; value added; assets and income; and fixed capital expenditure less disposals. For the Board's purposes, the most useful basis for measuring foreign investors' participation in Australia's economic activity is considered to be value added — defined as turnover plus the increase (or decrease) in the value of stocks, less purchases, transfers in and selected expenses.

The foreign control statistics in the ABS studies seek to measure whether, in the light of the distribution of voting shares, foreign residents are likely to be in a position to determine key policy decisions of enterprises in Australia. There are four categories of control in the studies: foreign control; joint foreign and Australian control; control by naturalised or naturalising companies; and Australian control.

In the past decade or so, there appears to have been no major change in the levels of foreign ownership of Australian industries and resources that have been the subject of ABS studies (see Table 4.6).

In terms of specific sectors, increases in the level of foreign ownership were recorded in minerals processing (from 39.7 per cent in 1972–73 to 46.3 per cent in 1981–82) and life insurance (from 36.8 per cent in 1972–73 to 40.3 per cent in 1983–84). In manufacturing there was virtually no change. Foreign ownership declined in the general insurance sector (from 45.4 per cent in 1972–73 to 34.9 per cent in 1983–84) and also in mining (from 49.5 per cent in 1972–73 to 44.7 per cent in 1984–85).

There were a number of studies undertaken in respect of 1983–84. Two of these studies showed that foreign ownership of agricultural land and the transport industry was less than 6 per cent in each case. A more recent study estimated foreign ownership in the banking industry at 21 per cent. There are no comparable data for earlier years.

A new study was published during 1987–88 in respect of registered financial corporations as at June 1986. The Board notes that changes in levels of foreign ownership and control of this industry resulting from the deregulation of the financial system and liberalisation of foreign investment policy for non-bank financial intermediaries would only just have been beginning to take effect in 1986.

Foreign ownership in the industry accounted for 38.1 per cent of the value of the assets of registered financial corporations within Australia in June 1986. Most foreign ownership was attributable to the USA and UK which accounted for 12.5 per cent, 11.4 per cent of assets, respectively (see Table 4.7).

Foreign controlled corporation groups accounted for 29.1 per cent of the value of the industry's assets, whilst joint foreign and Australian controlled enterprises accounted for 3.7 per cent of assets and Australian-controlled groups accounted for 67.2 per cent of assets. Most foreign control was attributable to the USA (10.7 per cent) and the UK (9.2 per cent).

There was an estimated increase of 2.2 percentage points in the level of foreign ownership over the two year period from June 1984 to June 1986. In terms of category of corporation the changes were also relatively small. Likewise, there was a rise of 2.3 percentage points in the level of foreign control over the two-year period.

3. The study examined financial corporations on the basis of value of the industry's assets and liabilities. The study excluded all Financial Corporations that did not come under the Financial Corporations Act 1974.

TABLE 4.7: FINANCIAL CORPORATIONS (a) — SUMMARY OF OWNERSHIP AND CONTROL BY CATEGORY OF CORPORATION, AT END JUNE 1984 AND 1986

Type of corporation	Ownership				Control										
	1984	1986	1984	1986	1984	1986	1984	1986							
MONEY MKT CORPS.															
Assets	\$b	11.9	20.6	5.9	10.3	17.9	30.9	8.1	17.0	2.1	1.8	7.5	12.1	17.8	30.9
	%	67.0	66.7	33.0	33.3	100.0	100.0	45.7	55.1	12.1	5.7	42.3	39.2	100.0	100.0
Borrowings	\$b	10.6	18.4	5.1	9.5	15.7	27.9	7.4	15.1	1.5	1.6	6.8	11.2	15.7	27.9
	%	67.5	66.0	32.5	34.0	100.0	100.0	47.3	54.3	9.3	5.7	43.4	40.0	100.0	100.0
FINANCE COMPANIES															
Assets	\$b	10.8	13.2	11.9	16.4	22.7	29.6	8.3	7.9	1.0	2.0	13.3	19.7	22.7	29.6
	%	47.4	44.6	52.6	55.4	100.0	100.0	36.6	26.7	4.6	6.7	58.8	66.6	100.0	100.0
Borrowings	\$b	9.0	11.0	10.0	13.7	19.0	24.7	7.0	6.6	0.8	1.6	11.1	16.4	19.0	24.7
	%	47.6	44.7	52.4	55.3	100.0	100.0	37.1	26.7	4.6	6.6	58.4	66.6	100.0	100.0
ALL OTHER CATEGORIES (b)															
Assets	\$b	4.2	6.3	30.3	38.3	34.6	44.6	3.7	5.6	0.3	0.2	30.6	38.8	34.6	44.6
	%	12.2	14.1	87.8	85.9	100.0	100.0	10.6	12.5	0.8	0.3	88.5	87.1	100.0	100.0
Borrowings	\$b	3.1	4.3	27.5	33.4	30.5	37.7	2.6	4.2	0.2	0.1	27.6	33.4	30.5	37.7
	%	10.1	11.4	89.9	88.6	100.0	100.0	8.6	11.1	0.8	0.3	90.5	88.5	100.0	100.0
TOTAL															
Assets	\$b	26.9	40.1	48.1	65.0	75.1	105.1	20.1	30.5	3.5	3.9	51.5	70.7	75.1	105.1
	%	35.9	38.1	64.1	61.9	100.0	100.0	26.8	29.1	4.6	3.7	68.6	67.2	100.0	100.0
Borrowings	\$b	22.7	33.8	42.5	56.5	65.2	90.3	17.1	25.9	2.6	3.4	45.5	61.0	65.2	90.3
	%	34.8	37.4	65.2	62.6	100.0	100.0	26.2	28.7	4.0	3.7	69.8	67.6	100.0	100.0

Source: ABS: Foreign Ownership and Control of Registered Financial Corporations, Australia, June 1986

Notes:

(a) Excludes the category 'Retailers'. At end of June 1986 assets (loans outstanding) reported for the category 'Retailers' were \$63.8M of which foreign ownership accounted for 100%.

(b) Comprises the category 'Building Societies', 'Credit Co-operatives', 'Authorised Money Market Dealers', 'Pastoral Finance Companies', 'General Financiers', 'Intragroup Financiers' and 'Other Financial Corporations'.

(c) Figures may not add due to rounding.

Attachment A

Foreign investment policy and administration – legislation, policy statements and publications

- Legislation**
1. Companies (Foreign Take-overs) Act 1972, No 134 of 1972 – November 1972
 2. Companies (Foreign Take-overs) Act 1973, No 199 of 1973 – December 1973
 3. Foreign Takeovers Act 1975, No 92 of 1975 – August 1975
 4. Foreign Takeovers Amendment Act 1976, No 93 of 1976 – September 1976
 5. Statutory Rules 1975, No 226 – December 1975
 6. Statutory Rules 1976, No 203 – September 1976
 7. Commonwealth Functions (Statutes Review) Act 1981, No 74 of 1981 – June 1981
- Policy Statements**
1. Statement by the Treasurer, the Hon Paul Keating, MP – Review of Foreign Investment Policy – 20 December 1983
 2. Statement by the Treasurer, the Hon Paul Keating, MP – Foreign Investment Policy and Stockbroking – 18 April 1984
 3. Statement by the Treasurer, the Hon Paul Keating, MP – Participation in Banking in Australia and Other Issues of Financial Deregulation – 10 September 1984
 4. Statement by the Treasurer, the Hon Paul Keating, MP – Foreign Investment Policy and Stockbroking – 18 December 1984
 5. Statement by the Treasurer, the Hon Paul Keating, MP – New Banking Authorities – 27 February 1985
 6. Statement by the Acting Treasurer, the Hon Chris Hurford, MP – Review of Foreign Investment Policy – 29 October 1985
 7. Statement by the Acting Treasurer, the Hon Chris Hurford, MP – Economic and Rural Policy Statement – 15 April 1986
 8. Statement by the Treasurer, the Hon Paul Keating, MP – Foreign Investment Policy Relaxations – 28 July 1986
 9. Statement by the Treasurer, the Hon Paul Keating, MP – Further Liberalisation of Foreign Investment Policy – 30 April 1987
 10. Statement by the Treasurer, the Hon Paul Keating, MP – Thin Capitalisation and Corporate Restructures in relation to Foreign Investment Policy – 30 April 1987
 11. Statement by the Treasurer, the Hon Paul Keating, MP – Foreign Investment Policy: Developed Residential Real Estate – 29 September 1987
 12. Statement by the Treasurer, the Hon Paul Keating, MP – Foreign Investment Policy: New Oil and Gas Developments – 20 January, 1988.
- Publications**
- Foreign Investment Review Board Reports: 1977–1987
 - Australia's Foreign Investment Policy – A Guide for Investors, May 1987. Also, see October 1987 Corrigendum to the Guide – Attachment C of this Report. Copies of the Board Reports and the Guide may be obtained from Australian Government Publishing Service bookshops. The Guide is also available at Australia's overseas offices.

Attachment B

Foreign investment proposals – press releases by the Treasurer, 1987–88

- No 73 Statement by the Treasurer, the Hon Paul Keating, MP – Foreign Investment Proposal by ICI Australia Investments Pty Ltd – 26 July 1987
- No 120 Statement by the Treasurer, the Hon Paul Keating, MP – Foreign Investment Proposal: acquisitions of shares by News Ltd in Australian Associated Press Pty Ltd, AAP Information Services Pty Ltd, Australian Newsprint Mills Holdings Ltd and Australian Newsprint Mills Investments Pty Ltd – 29 December 1987
- No 28 Statement by the Treasurer, the Hon Paul Keating, MP – Foreign Investment Proposal: proposed acquisition of shares by Fletcher Challenge Ltd in Australian Newsprint Mills Holdings and ANM Investments Pty Ltd – 10 April 1988
- No 29 Statement by the Treasurer, the Hon Paul Keating, MP – Foreign Investment Proposal: proposed acquisition of shares by News Ltd in Australian Newsprint Mills Holdings Ltd, ANM Investments Pty Ltd and Australian Associated Press Ltd – 10 April 1988.
- No 35 Statement by the Treasurer, the Hon Paul Keating MP – Foreign Investment Proposal: BTR Nylex Ltd to acquire 100 per cent of ACI International Ltd – 26 April 1988
- No 56 Statement by the Treasurer, the Hon Paul Keating MP – Provincial Newspapers (Qld) Ltd – 10 June 1988

Attachment C

Australia's Foreign Investment Policy – A Guide For Investors: Corrigendum – Urban Real Estate Section

On 29 September 1987 the Treasurer announced a tightening of foreign investment policy requirements for developed residential real estate. The announced changes have been incorporated in this corrigendum of the urban real estate section of the May 1987 edition of *Australia's Foreign Investment Policy – A Guide for Investors*. The corrigendum replaces the second half of page 8 and all of pages 9, 10 and 11 of the guidelines booklet.

Urban Real Estate All proposed real estate acquisitions by foreign interests should be individually submitted for examination unless they fall into a class of acquisition which is exempt from examination (see below) or for which an annual program has been approved (see below).

The Government has decided to introduce legislation into the Parliament to amend the Foreign Takeovers Act to require the prior notification by foreign interests of proposals to acquire urban real estate or an interest in urban real estate. The legislation will apply from 29 September 1987 and will provide penalties for failure to comply with its provisions.

Definitions Urban real estate means all Australian real property other than land which is integral to a farming business. An interest in urban real estate includes, inter alia, options over urban freehold; a lease of urban land or improvements thereon having a term of five years or more and conferring upon the lessee proprietary rights of ownership; any financing or other arrangement that provides for the sharing of profits from an investment in Australian real estate; and a company or unit trust (or holding company or trustee company thereof) having an interest, option or lease of Australian urban land where the value attributable to that land is more than one half of the value of the total assets of the company or trust.

For the purposes of foreign investment policy, a foreign interest is:

- a natural person not ordinarily resident in Australia;
- a foreign-controlled corporation, business or trust;
- any corporation business or trust in which there is a substantial foreign interest regardless of whether that corporation, business or trust is foreign-controlled. (A substantial foreign interest is defined as an interest of 15 per cent or more in ownership or voting power by a single foreigner, either alone or together with associates; or an interest of 40 per cent or more in aggregate in the ownership or voting power by several foreigners and their associates. In the case of trusts, ownership includes an entitlement to share in the distribution of profits of the trust.)

Proposals Exempt from Examination The following types of acquisitions of urban real estate are exempt from the need for prior examination under foreign investment policy:-

- (a) acquisitions by foreign-controlled charities or charitable trusts operating in Australia for the primary benefit of Australians;

- (b) acquisitions by life assurance companies, representing investment of their Australian statutory funds (the proceeds of which are for the benefit of Australians);
- (c) acquisitions by general insurance companies operating in Australia where the acquisitions are made from the reserves of the companies and are within the prudential guidelines of the Insurance Commissioner;
- (d) acquisitions by the Australian pension funds of foreign employers, representing the investment of pension funds for the benefit of Australian super-annuants;
- (e) acquisitions of offices and residences by foreign government missions for use as official missions or staff residences, subject to the real estate being sold to Australian or other eligible interests when no longer used for those purposes. (The acquisition of real estate by foreign governments or their agencies for other purposes is subject to examination, regardless of value.);
- (f) acquisitions from real estate developers of residential apartments, units and dwellings under construction or 'off the plan', where the real estate developer has made an application in advance to the Board and provides the foreign purchaser with a copy of a written notification of approval which has been received from the Government for sales to foreign interests subject to certain conditions (a normal condition of such approvals is that no more than one half of the units in any one development, or a stage of a development, are sold to foreign interests and the developer accounts to the Board for all sales on a periodic basis);
- (g) acquisitions of industrial or commercial real estate that are wholly and directly incidental to the conduct of the normal business activities of the foreign interest concerned. This exemption does not apply where the normal business activities of the foreign interest include real estate acquisitions, development and investment or the development and operation of hotels, motels and tourist facilities; and
- (h) acquisition of interests in time share schemes where the entitlement of the foreign interest and any associates is less than four weeks per year.

Foreign investors should seek advice from the Executive of the Board where there is any doubt about the applicability of the foregoing categories to proposed acquisitions.

Proposals Normally Approved While they should be submitted for examination under foreign investment policy, the following categories of proposed real estate acquisitions are normally approved unless they are judged contrary to the national interest:

- (a) acquisitions of real estate for development (including vacant building allotments with a view to construction of residential accommodation thereon within 12 months) and subsequent retention or resale;
- (b) acquisitions of developed non-residential commercial real estate subject to the acquisition being made with 50 per cent Australian equity participation. Where it can be demonstrated that 50 per cent Australian equity participation is not available on reasonable terms and conditions, proposals providing for up to 100 per cent foreign ownership will be approved. The Government normally accepts that Australian equity is not available on reasonable terms and conditions if developed non-residential commercial real estate has been actively marketed for at least three months or is sold by public auction or open tender;
- (c) acquisitions of real estate by Australian citizens resident abroad;

- (d) acquisitions of developed residential real estate by intending migrants who have received approval from the immigration authorities to take up permanent residence in Australia provided that, should they fail to take up permanent residence within a reasonable period (usually twelve months), the property concerned must be sold to Australian or other eligible purchasers. In the case of New Zealand citizens not requiring approval from the immigration authorities to enter Australia, the Board needs to be satisfied that there is a firm expectation of the prospective purchaser taking up permanent residence in Australia within 12 months;
- (e) acquisitions of developed residential real estate by foreign owned companies operating in Australia seeking accommodation for their senior executives resident in Australia provided the accommodation is sold when no longer required for this purpose (in normal cases foreign companies will not be permitted to buy more than two houses under this category);
- (f) acquisitions of home units, condominiums or similar accommodation prior to completion or off the plan, provided that no more than one half of the units in any one development, or stage of a development, are bought by foreign interests; and
- (g) acquisitions of developed residential real estate by foreign nationals temporarily resident in Australia for a period exceeding twelve months, provided the real estate is sold when the purchaser ceases to be a temporary resident.

Proposals Not Normally Approved Acquisitions of real estate that do not come within one of the categories listed above are not normally approved.

Annual Program Arrangements An exception to the requirement that proposed acquisitions be individually notified may be made where the following conditions apply:

- the foreign interest concerned has an established presence as a real estate developer or investor;
- the acquisitions of real estate are not subject to the provisions of the Foreign Takeovers Act 1975 as it is to be amended; and
- the acquisitions comprise part of the developer's stock-in-trade, or form part of a major real estate project or portfolio.

In these circumstances, an annual program of acquisitions may be submitted for Government approval on the condition, inter alia, that the investor provides annual reports on its real estate acquisitions and the development undertaken. Annual program arrangements can encompass both development proposals as well as acquisitions of developed non-residential commercial properties, provided in the latter case that there is at least 50 per cent Australian equity.

Bids at Auction or Tender Foreign interests may bid at auction or by tender for Australian real estate, whether developed or for development. Unless an annual program has been approved, foreign interests should ensure that their bids or tenders are made on condition that approval by the Government under foreign investment policy is granted for the acquisition. Alternatively, prior to auction, foreign interests may seek approval under foreign investment policy to bid unconditionally for a property.

Attachment D

Summary of Australia's Foreign Investment Policy as at June 1988

General The Government's foreign investment policy is framed and administered with a view to encouraging foreign investment in Australia and ensuring that such investment is consistent with the needs of the community. The Government recognises the substantial contribution foreign investment makes to the development of Australia's industries and resources. Capital from other countries supplements domestic savings and provides scope for higher rates of economic activity and employment. Foreign capital also provides access to new technology, management skills and overseas markets.

Examination The following types of proposals by foreign interests to invest in Australia are subject to examination:

- acquisitions of substantial interests in existing Australian businesses, as provided in the Foreign Takeovers Act 1975 (FTA). The Government has announced that the FTA will be amended to exempt proposals in respect of businesses with total assets of less than \$5 million (less than \$3 million for rural properties) from the provisions of the Act;
- proposals for the establishment of new businesses involving total investment of \$10 million or more;
- proposals for investment in civil aviation and the media irrespective of size;
- direct investments by foreign governments or their agencies; and
- proposals to acquire real estate. The Government has announced that the FTA will be amended to bring all acquisitions of urban real estate within its provisions.

Sectoral Guidelines The policy applicable to investment proposals subject to examination is outlined below:

Manufacturing, Services, Resource Processing, Non-Bank Financial Institutions, Insurance, Sharebroking, Tourism (Hotels and Resorts), Rural Properties, Primary Industry (other than non oil and gas Mining)

The Government approves proposals to acquire existing businesses or to establish new businesses over \$10 million, unless the proposal is contrary to the national interest.

Real Estate

Acquisitions of real estate for development are approved unless they are contrary to the national interest. Foreign interests are normally given approval to buy vacant residential land (providing a dwelling is built within 12 months) and to buy home units, townhouses etc 'off the plan' or under construction, providing no more than half of the units in any one development are sold to foreign interests.

Acquisitions of developed non-residential commercial real estate are permitted, subject to the acquisition being made with 50 per cent Australian equity participation. Where Australian equity is not available, 100 per cent acquisitions by foreign interests are approved unless they are contrary to the national interest.

Acquisitions of developed residential real estate are not permitted except in the case of Australian citizens abroad, intending migrants who have received approval from the immigration authorities to take up permanent residence in Australia, and foreign companies buying for their senior executives resident in Australia.

Mining

A proposal for a new (non oil and gas) mining project involving expenditure of \$10 million or more is allowed to proceed if it is not contrary to the national interest and it provides for a minimum 50 per cent Australian equity and joint control. The Australian equity and control guideline is applied flexibly. Proposals for acquisitions of existing mining businesses (other than oil and gas) need to demonstrate net economic benefits.

Banking

The Government does not envisage issuing further banking authorities to foreign interests not already holding a banking authority in Australia. Foreign investment in the banking sector needs to be consistent with the Banks (Shareholdings) Act and banking policy, including prudential requirements.

Civil Aviation

All proposals to establish a business or takeover a business relating to civil aviation are subject to case-by-case assessment.

Radio and Television

Foreign investment in radio and television is governed by the Broadcasting and Television Act 1942. The Act provides that a 'foreign person', as defined in that Act, may not hold or control, directly or indirectly, more than 15 per cent of the issued capital or voting rights in a licensee company, and that two or more 'foreign persons' may not hold or control in aggregate more than 20 per cent of the issued capital or voting rights in a licensee company.

Newspapers

Foreign investment in mass circulation newspapers is restricted. All proposals by foreign interests to establish a newspaper in Australia are subject to case-by-case examination.

Uranium

Foreign interests may explore for uranium and are not required to seek Australian participation in their exploration activities. With respect to development of uranium projects, the Government's policy provides for the continuing operation of the existing Ranger and Nabarlek projects in the Northern Territory and the development of the Olympic Dam copper/uranium/gold deposit in South Australia, but for no other uranium mines to be developed.

Naturalisation

A company may be granted naturalised status if (i) it is at least 51 per cent Australian owned; (ii) its Articles of Association provide for a majority of board members to be Australian citizens; and (iii) general understandings have been reached about the company's autonomy and to ensure that its operations and policies are determined by the Australian board. A naturalising company must be at least 25 per cent Australian owned and have given a public commitment to increase Australian equity to 51 per cent on a generally agreed timetable. It must also meet conditions (ii) and (iii) for naturalised companies.

The only criterion for approval of examinable proposals by naturalised and naturalising companies (other than in the uranium, civil aviation, media and banking sectors) is that proposals be judged not contrary to the national interest, except that in establishing new mining projects over \$10 million in partnership with

other foreign interests the naturalised/naturalising companies should hold at least 50 per cent of the equity in the joint venture. For purposes of calculating Australian ownership levels, a naturalising company is given prior credit for achieving 51 per cent Australian ownership.

Statistical appendix

Foreign investment proposals

- Table A.1 Proposals by number and total expected expenditure, 1985-86 to 1987-88
- Table A.2 Proposals for acquisitions and new businesses, by industry sector, 1987-88
- Table A.3 Proposals over \$50 million for acquisitions and new businesses, by industry sector, 1987-88
- Table A.4 Total expected investment associated with proposals, by country of investor and industry sector, 1987-88
- Table A.5 Proposals by location of expected investment, 1987-88
- Table A.6 Expected investment associated with tourism proposals, by country of investor and location of investment, 1986-87 and 1987-88
- Table A.7 Expected investment in urban real estate, by type and number of proposals, 1987-88
- Table A.8 Expected investment in developed residential real estate, by category of investor, 1987-88
- Table A.9 Purchases of developed residential real estate by intending migrants, by country of investor, 1987-88
- Table A.10 Expected investment in urban real estate, by category of real estate and location of investment, 1987-88
- Table A.11 Acquisitions of rural land involving properties with total assets of more than \$3 million, 1987-88

Limitations of the Data 1. The data in this Appendix have been derived from information contained in submissions to the Government from foreign interests concerning their proposals for investment in Australia. Several major qualifications must be borne in mind in seeking to draw conclusions from these statistics:

- (a) they are a record of the intentions of proponents, as indicated in proposals submitted to the Board, at the time their proposals are decided by the Government. The expenditures recorded are those contemplated at that time. The proposed actions and, more particularly, the expected expenditures of investors may not necessarily be realised. Actual expenditure may be dependent upon, inter alia, the completion of further detailed feasibility studies or upon successful exploration in respect of mineral development;
- (b) the real estate statistics include annual programs approved for real estate developers for unspecified purchases up to an agreed dollar amount and 'off the plan' approvals for developers to sell up to 50 per cent of residential real estate developments to foreign interests. It is almost certain that some of these annual program and 'off the plan' approvals will not be fully utilised;
- (c) proposed expenditures on development are recorded against the year in which they are approved. Actual expenditure may be spread over several years. Moreover the aggregate data can be influenced significantly by relatively few, very large proposed investments. For example, in 1987-88, nearly 70 per cent of the total expected investment resulted from about four per cent of the proposals approved;
- (d) some of the expected investment represents the contributions by Australians to projects in which they are in partnership with foreign interests. The extent to which approved investment proposals will directly result in foreign capital inflows depends not only upon whether the proposals are implemented but also upon the proportion financed from foreign sources. In many cases, this proportion will be quite low. In the case of acquisitions by one foreign interest from another foreign interest of businesses operating in Australia, no flows of capital across the Australian exchanges need occur;
- (e) the data are restricted to investments that come within the ambit of the Foreign Takeovers Act 1975 and the Government's foreign investment policy and, therefore, do not cover several categories of new business proposals involving a total investment of less than \$10 million, expansions of the existing Australian activities of foreign businesses that are often quite substantial, or a significant amount of foreign investment of a portfolio nature that falls outside the Foreign Takeovers Act 1975; and
- (f) for a number of reasons the statistics for 1987-88 are not comparable with those for earlier years. First, policy changes have altered the range of investment proposals which are examinable. For example, following the 30 April 1987 policy changes, takeovers of Australian businesses with total assets of less than \$5 million (less than \$3 million for rural land) are approved automatically in anticipation of amendments announced by the Government to the Foreign Takeovers Act 1975 to exempt them from its provisions. Such proposals were not included in the statistics for the last two months of 1986-87 and for the whole of 1987-88. More significantly, the real estate policy change of 29 September 1987 abolished the threshold that had previously exempted from examination foreign purchases of urban real estate up to a cumulative level of \$600,000. This has resulted in a very large increase in the number of real estate proposals examined since that date. Second, in some earlier years, adjustments were made to the statistics

to reflect, inter alia, changes of intentions advised by investors after proposals had been approved. Very few such adjustments have been made to the 1986-87 and 1987-88 statistics, partly because of resource constraints and partly to minimise arbitrariness.

Considerable caution must, therefore, be exercised in seeking to use the statistics of foreign investment proposals as indicators of the total level of foreign direct investment activity in Australia and for other purposes.

2. With the exception of Table A.1 (which includes rejected proposals), the data in the tables relate only to proposals approved by the Government.

3. All expenditure data are rounded and discrepancies may occur between sums of the component items and totals.

4. Data on expected investment by industry sector have been compiled by reference to the Australian Standard Industrial Classification published by the Australian Bureau of Statistics. An exception has been made for investment proposals involving newspaper printing and publishing. The prospective expenditure associated with these proposals has been allocated to service industries. In some cases, acquisitions by diversified company groups are classified according to the industry of the major activity of the group. Acquisitions of real estate to be used for purposes incidental to the main business activity of the purchaser are classified according to that activity.

5. The symbol '-' indicates an aggregate monetary figure of less than \$500,000.

TABLE A.1: PROPOSALS BY NUMBER AND TOTAL EXPECTED EXPENDITURE, 1985-86 TO 1987-88^(a)

Type of proposal	1985-86		1986-87		1987-88 ^(a)	
	No	\$b	No	\$b	No	\$b
Approved unconditionally	580	2.5	529	7.7	1641	18.4
Approved with conditions	710	7.3	818	10.8	1450	6.4
Total Approved	1290	9.8	1347	18.5	3091	24.8
Rejected	20	0.5	5	0.019	100	0.054
Total decided	1310	10.3	1352	18.5	3191	24.8
Submitted but not examinable	17		6		-	
Approved automatically ^(b)	-		-		424	
Withdrawn	51		54		139	
Total considered	1378		1412		3754	

(a) Policy changes during 1987 varied the range of examinable proposals, as a result of which figures for 1987-88 are not comparable with earlier years (see Chapter 1 for details).

(b) In anticipation of amendments to the Foreign Takeovers Act, proposed acquisitions of businesses with total assets of less than \$5 million (less than \$3 million for rural land) were approved automatically in 1987-88 and expenditure data was not recorded for statistical purposes.

TABLE A.2: PROPOSALS FOR ACQUISITIONS AND NEW BUSINESSES, BY INDUSTRY SECTOR, 1987-88

Industry sector	No of Proposals	Consideration \$ billion	Expected development expenditure \$ billion	Total ^(a) expected investment \$ billion
Agriculture, forestry & fishing ^(b)	14	0.232	0.005	0.237
Mineral exploration & development				
– acquisitions	66	1.994	–	1.994
– new businesses	8	–	0.625	0.625
– total	74	1.994	0.625	2.619
Manufacturing				
– acquisitions	124	4.999	–	4.999
– new businesses	5	–	0.224	0.224
– total	129	4.999	0.224	5.222
Finance & insurance				
– acquisitions	89	1.801	–	1.801
– new businesses	7	–	0.061	0.061
– total	96	1.801	0.061	1.862
Services (excl Tourism)				
– acquisitions	147	2.116	0.044	2.160
– new businesses	13	–	0.812	0.812
– total	160	2.116	0.856	2.972
Tourism ^(c)				
– acquisitions	31	0.677	0.375	1.052
– new businesses	13	–	1.039	1.039
– total	44	0.677	1.414	2.091
Real estate ^(b)	2476	5.294	4.419	9.713
Resource processing ^(b)	8	0.092	0.041	0.133
Total				
– acquisitions	2952	17.205	4.788	21.993
– new businesses	49	–	2.856	2.856
– total	3001	17.205	7.644	24.849
Financing arrangements & corporate restructures	90			

(a) Total expected investment consists of consideration involved with acquisitions, including any new investment proposed to be undertaken following the acquisition or establishment of a new business.

(b) There were no new business proposals in the agriculture, forestry & fishing sector. In the real estate and resource processing sectors, there were 1 and 2 new business proposals respectively (to preserve confidentiality the new business proposals have not been disaggregated from the acquisitions).

(c) See footnote (a) on Table A.6 for definition of Tourism.

TABLE A.3: PROPOSALS OVER \$50 MILLION FOR ACQUISITIONS AND NEW BUSINESSES, BY INDUSTRY SECTOR, 1987-88

	No of Proposals	Consideration \$ billion	Expected development expenditure \$ billion	Total expected investment \$ billion
<i>Manufacturing</i>				
– \$100m & over	12	3.58	0.10	3.68
– \$50m–\$100m	7	0.33	0.10	0.43
– total \$50m & over	19	3.91	0.20	4.11
<i>Mining</i>				
– \$100m & over	5	0.94	0.53	1.46
– \$50m–\$100m	8	0.42	0.05	0.47
total \$50m & over	13	1.36	0.58	1.94
<i>Finance & Insurance^(a)</i>				
– total over \$50m	11	1.31	–	1.31
<i>Services (excl Tourism)</i>				
– \$100m & over	3	0.57	0.66	1.23
– \$50m–\$100m	6	0.40	0.05	0.45
– total \$50m & over	9	0.97	0.71	1.68
<i>Tourism^(b)</i>				
– \$100m & over	6	0.26	0.88	1.14
– \$50–\$100m	6	0.12	0.29	0.41
– total \$50m & over	12	0.38	1.17	1.55
<i>Real Estate</i>				
– \$100m & over	21	2.13	2.48	4.62
– \$50m –\$100m	18	0.54	0.55	1.10
– total \$50m & over	39	2.68	3.04	5.72
<i>Other^(c)</i>				
– total \$50m & over	3	0.22	–	0.22
TOTAL – all sectors				
– \$100m & over	51	8.36	4.65	13.00
– \$50m–\$100m	55	2.47	1.05	3.52
– Total \$50m & over	106	10.82	5.69	16.52

(a) To preserve confidentiality, proposals in the finance and insurance sector have not been disaggregated according to whether they were above or below \$100 million.

(b) See footnote (a) of Table A.6 for definition of Tourism.

(c) 'Other' comprises one proposal in the resource processing sector and two proposals in the agriculture, forestry & fishing sector.

TABLE A.4: TOTAL EXPECTED INVESTMENT (\$ MILLION) ASSOCIATED WITH PROPOSALS, BY COUNTRY OF INVESTOR AND INDUSTRY SECTOR, 1987-88

Industry sector	US	UK	FRG	Switz- erland	Can- ada	NZ	Japan	Singa- pore	Mal- aysia	Korea	Hong Kong	World Other	Sub- total	Aust ^(a)	Total
Agriculture, forestry and fishing	15	124	-	-	-	3	13	3	-	-	-	63	221	16	237
Mineral exploration and development	404	220	-	-	73	53	114	2	49	-	34	251	1200	1419	2619
Manufacturing	512	2437	23	11	31	539	280	-	-	-	54	158	4044	1178	5222
Finance and Insurance Service	155	799	-	1	-	389	11	15	17	-	33	85	1506	357	1862
(excl Tourism)	539	416	23	84	4	167	458	11	11	-	51	80	1843	1129	2972
Tourism ^(c)	3	81	-	-	5	131	1385	40	-	135	-	1	1782	309	2091
Real estate	75	574	33	27	7	1519	3103	161	53	1	675	1889 ^(d)	8116	1597	9713
Resource processing	-	-	16	5	3	5	9	-	-	-	-	58	95	37	133
Total	1702	4651	94	127	124	2806	5374	231	131	136	847	2586	18808	6041	24849
Number of Proposals ^(b)	219	324	39	34	25	899	432	87	63	7	376	479	2984	360	3344

(a) The expenditure identified as originating from Australia represents the contribution by Australian-controlled companies and Australian residents to the total expenditure associated with foreign investment proposals in which they are in partnership with foreign interests but does not generally include the contribution attributable to minority Australian shareholders in companies with majority or controlling foreign shareholders.

(b) These figures indicate the total number of proposals in which investors from the particular country have an interest. Proposals involving investment from more than one country count as one proposal for each of the countries concerned.

(c) See footnote (a) of Table A.6 for definition of Tourism.

(d) This figure includes 'off the plan' approvals to real estate developers - see Chapter 1 for explanation - which have been recorded as 'World Other' because the country of investors is not known in advance.

Note: Figures may not add due to rounding.

TABLE A.5: PROPOSALS BY LOCATION OF EXPECTED INVESTMENT, 1987-88

State or Territory	Number	Consideration \$ million	Expected new investment \$ million	Total expected investment \$ million
New South Wales	821	4379	3577	7956
Victoria	159	1554	299	1853
Queensland	1433	2346	2845	5191
Western Australia	315	1033	677	1710
South Australia	30	698	30	728
Tasmania	7	60	53	113
ACT	13	21	84	105
Northern Territory	9	36	36	72
Other ^(a)	304	7079	42	7121
Total	3091	17205	7644	24849

(a) Includes off-shore takeovers and proposals where the expenditure was expected to be under-taken in more than one State or Territory.

TABLE A.6: EXPECTED INVESTMENT (\$ MILLION) ASSOCIATED WITH TOURISM PROPOSALS,(a) BY COUNTRY OF INVESTOR AND LOCATION OF INVESTMENT, 1986-87 AND 1987-88

Location	EC (inc UK)		Japan		ASEAN		NZ		World Other		Sub-Total		Australia		Total ^(c)	
	86-87	87-88	86-87	87-88	86-87	87-88	86-87	87-88	86-87	87-88	86-87	87-88	86-87	87-88	86-87	87-88
Queensland	-	10	736	946	-	10	28	86	54	-	817	1051	34	17	852	1068
NSW	13	-	329	270	-	10	4	25	27	140	373	445	135	191	508	636
Western Australia	-	-	29	170	12	-	-	-	4	-	44	170	-	-	44	170
Other ^(b)	14	71	60	-	-	20	38	20	38	4	150	114	-	102	150	216
Total	27	81	1153	1385	12	40	69	131	122	144	1383	1782	169	309	1553	2091

(a) Tourism proposals defined by reference to Australian Standard Industrial Classification numbers 9138, 9141, 9143, 9144, 9232, 9233, 9241, 9242

(b) Other comprises expenditure in the other States and the Territories and also expenditure to be undertaken in more than one State or Territory

(c) Includes acquisitions of tourism businesses involving assets of over \$5 million and establishment of new tourism projects involving total investment of \$10 million or more. New tourist projects are not recorded as such in the statistics unless total investment is to exceed \$10 million. For example, a proposal by a foreign investor to buy land valued at \$3 million on which to build a \$9 million motel would be classified as a new \$12 million tourism business. By contrast, a proposal to buy land for \$3 million on which to build a \$5 million hotel would not be examinable under foreign investment policy as a new tourism business (because total investment is less than \$10 million) but would be examinable as an acquisition of commercial real estate for development and recorded as such.

TABLE A.7: EXPECTED INVESTMENT IN URBAN REAL ESTATE BY TYPE AND NUMBER OF PROPOSALS, 1987/88

	No of proposals	Expected investment \$ million
Developed residential	1219	314
Residential for development		
— ordinary approvals	751	1490
— off the plan approvals	107	1577
— annual programs	7	71
— total residential for development	865	3138
Developed commercial	256	1636
Commercial for development		
— ordinary approvals	106	2983
— annual programs	15	1487
— total commercial for development	121	4471
Sub-Total	2461	9558
Acquisitions of real estate related businesses	15	155
Total	2476	9713

Note: Figures may not add due to rounding.

TABLE A.8: EXPECTED INVESTMENT IN DEVELOPED RESIDENTIAL REAL ESTATE, BY CATEGORY OF INVESTOR, 1987-88

Category of investor ^(a)	No of Proposals	Expected investment \$ million
Australian citizens abroad	370	83
Intending migrants	601	126
Company purchases for senior executives	67	36
Foreign nationals temporarily resident in Australia	117	36
Other ^(b)	64	33
Total	1219	314

(a) Under the terms of the real estate policy change of September 1987, foreign purchases of developed residential real estate are normally only permitted in respect of Australian citizens abroad, intending migrants who have received approval from the immigration authorities to take up permanent residence in Australia, and foreign companies buying houses for their senior executives resident in Australia. Foreign nationals temporarily resident in Australia for a period exceeding 12 months are normally permitted to buy developed residential real estate, on condition that the property is sold when the person leaves Australia.

(b) Other comprises proposals approved before the 29 September 1987 policy change, transfers of property within family groups, 'swap' proposals where non-residents with an existing residential property are given approval to buy a different property on condition that the first one is sold, and acquisitions resulting from raffles, art unions etc.

TABLE A.9: PURCHASES OF DEVELOPED RESIDENTIAL REAL ESTATE BY INTENDING MIGRANTS, BY COUNTRY OF INVESTOR, 1987-88

Country of investor	No of Proposals	Expected investment \$ million
New Zealand	390	74
Hong Kong	108	31
Japan	9	5
EC (incl UK)	23	4
ASEAN	18	3
Other	53	9
Total	601	126

TABLE A.10: TOTAL EXPECTED INVESTMENT (\$ MILLION) IN URBAN REAL ESTATE BY CATEGORY OF REAL ESTATE AND LOCATION OF INVESTMENT, 1987-88

Location	Commercial for Development	Developed Commercial	Developed Residential	Residential for Development	Total
Queensland	826	323	122	1902	3174
NSW	2468	1148	153	1159	4928
Victoria	1045	127	16	36	1224
Western Australia	83	13	19	40	156
Other	49	26	2	1	77
Total	4471	1636	314	3138	9558
Number of Proposals	121	256	1219	865	2461

TABLE A. 11: ACQUISITIONS OF RURAL LAND INVOLVING PROPERTIES (a) WITH TOTAL ASSETS OF MORE THAN \$3 MILLION, 1987/88

Location	No of proposals	Consideration \$ million
New South Wales	4 ✓	116 ✓
Victoria	3 ✓	13 ✓
Queensland	3 ✓	13 ✓
Other ^(b)	4 ✓	91 ✓
Total	14 ✓	233 ✓

(a) The total area involved in these 14 proposals was 6.05 million hectares.

(b) Other comprises one Tasmanian property, one Western Australian property and two proposals to acquire companies that owned rural land in more than one State.