

Methodological and data caveats

Appendix A

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This appendix provides an overview of the main methodological and data caveats that apply to Chapter 2. While a useful source of data on proposed foreign direct investment in Australia, the Board urges particular caution in the use of these statistics, including when making comparisons with earlier years.

Methodological and data caveats

- The statistics contained in this chapter do not measure total foreign investment made in any year, nor do they measure changes in net foreign ownership levels in Australia. They reflect investor intentions (not actual purchases) to acquire Australian assets. They can be skewed by very large investment proposals and multiple proposals for the same target.
- There are also substantial differences between these statistics on proposed investments and actual investment flows. The latter are more reliably captured by the Australian Bureau of Statistics, which seeks to reflect more comprehensively investment transactions between residents of Australia and non-residents.
- Data capture, systems and reporting methodologies change over time.
- Data presented for earlier years may also have been revised since last published.
- Proposed investment amounts for earlier years are not adjusted for inflation or currency movements.
- The figures are based on the assumption that investment funds will be sourced from overseas. The extent to which approved investment proposals will actually be funded from outside of Australia and result in foreign capital inflows depends not only upon whether they are implemented, but also upon the proportion that is financed from foreign sources. Some (and in some cases all) of the proposed funds to be invested may be contributed by Australians, for example, where they are in partnership with foreign interests, or where the investment is financed from existing Australian operations.
- The source of proposed investment identified in the Board's statistics does not necessarily reflect the country of control. For example, the source may be attributed to a company's single substantial shareholder, or if a company's shares are widely held, the country of domicile or incorporation may be recorded.

- The data do not necessarily reflect a change in foreign ownership as, in some cases, both the target and the purchaser are foreign persons.
- The proposed investment of an approved proposal is the amount advised by the applicants or the best estimate based on the available information. It represents an estimate of the expected proposed investment in the 12 months from the approval unless the approval is granted for a longer period (if the proposal is in fact implemented).
 - Where an approved acquisition is a part of an offshore acquisition, the proposed investment figure is calculated based on the share attributable to the approved acquisition.
 - Where amounts are in a foreign currency, this is converted to Australian dollars based on the exchange rate at the time of the decision.
 - There are some approved proposals for which proposed investment is treated as nil. Examples of this include corporate reorganisations, financing arrangements and where foreign government investor lenders take security interests, but do not have approval to retain ownership after any enforcement of such security interests.
- The statistics may include some transactions that do not actually proceed. They include:
 - Proposals that are approved in a given year but which are not actually implemented in that year or at all;
 - Approvals for multiple potential acquirers of the same target (including for potential consortium participants that are yet to determine their final maximum percentage interest); and
 - Approvals for shares or units where only a portion of the intended shares or units may be acquired.

- Acquisitions of diversified company groups are classified into a single industry sector according to the major activity of the group, such as in a diversified mining company with interests in various minerals. Acquisitions of real estate to be used for purposes incidental to the main business activity of the purchaser are classified according to that activity.¹¹

Policy scope and changes

The breadth of the data reflects the requirements of the Government's policy at the time. The data do not cover foreign investments below the various monetary and percentage thresholds that apply under the Act. Nor does the data cover follow-on investments to expand the capital stock of existing foreign-owned businesses (both in existing areas and into related areas). See the Board's website (www.firb.gov.au) for the current thresholds.

Furthermore, policy and legislative change can have a considerable impact on the continuity of data. For instance, changes in the Policy that have occurred since the mid-1980s have affected the number of some types of proposals, limiting comparability over time. These changes include:

- the increase in the general asset threshold in 1999 from \$5 million to \$50 million, and, again, in December 2006 from \$50 million to \$100 million;
- the increase in the offshore takeovers threshold in December 2006 from the general asset threshold (then at \$50 million) to \$200 million;
- the introduction of the higher \$800 million threshold (indexed on 1 January each year) for United States investors from 1 January 2005;
- the harmonisation in 2009 of the four lowest thresholds for private business investment to a single threshold of \$219 million (indexed on 1 January each year);
- the abolition in 2009 of the requirement for private investors to notify when establishing a new business valued above \$10 million;

¹¹ Data to end of 2013-14 has been compiled by reference to the *Australian and New Zealand Standard Industrial Classification* (ANZSIC 1993), except: newspaper printing and publishing are allocated to the services industry sector (ANZSIC 1993 classifies these under manufacturing); some manufacturing activities have been grouped together as the resource processing sector (Resource processing included activities that, through processing, value add to natural resources. For example, cotton ginning, flour and sugar milling, smelting and refining of mineral resources, abattoirs and wood chipping); and tourism is recorded as a separate industry sector rather than being included with the other service industries. Data from 2014-15 will be compiled by reference to the *Australian and New Zealand Standard Industrial Classification* (ANZSIC 2006) and the Board will no longer be reporting on resource processing.

- the introduction of indexation in 2012 for the general monetary threshold for commercial developed real estate that is not heritage listed;
- the extension of the higher monetary thresholds available to United States (US) investors to New Zealand (NZ) investors as of 1 March 2013;
- the revised definition of foreign government investor introduced in March 2013;
- the introduction of changes in 2009 and 2010 to the screening arrangements for temporary residents purchasing residential real estate;
- the reclassification in 2009 for screening purposes of accommodation facilities from residential real estate to commercial developed real estate;
- changes in immigration policies that control the number of temporary resident visa holders, which largely determines the level of foreign investment in established (second-hand) residential dwellings;
- the extension of the higher monetary thresholds available to US and NZ investors to Korea (from 12 December 2014), Chile (from 1 January 2015) and Japan (from 15 January 2015); and
- the lowering of the general agricultural land screening threshold from \$252 million to \$15 million (cumulative) from 1 March 2015, for non-FTA partner countries.

Administrative practices

Changes in administrative practice (for example, data collection and recording practices) and foreign investment application requirements have also impacted on year to year data comparability. Examples of this include the following:

- The implementation of a new case management system and a user based web portal for lodging foreign investment applications in November 2013 significantly improved data collection capabilities and processing efficiency for proposals in residential real estate.
 - data capture and reporting procedures for non-residential real estate proposals transitioned to the new case management system from 1 July 2014.
 - the most recent *Australian and New Zealand Standard Industrial Classification* (ANZSIC 2006) was adopted for data recording and reporting purposes as part of the new case management system. Year to year comparability of pre 2014-15 data may be limited.