AUSTRALIA

Foreign Investment Review Board

Report 1988 – 89

Department of the Treasury

Foreign Investment Review Board

Report 1988–89

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The Foreign Investment Review Board was established in April 1976. The members during 1988—89 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.

AUSTRALIA

Foreign Investment Review Board

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December 1989

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 1988-89.

The first chapter of the Report outlines the changes to the foreign investment legislation during 1988-89; 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 1988–89

- There were no changes to foreign investment policy during the year. Major amendments were made to the Foreign Takeovers Act 1975 to give legislative effect to policy changes announced in earlier years.
- More than 5100 proposals for investment in Australia were submitted to the Government—688 of them were withdrawn or approved automatically, 4398 were approved and 77 were rejected.
- The rejection rate was 1.7 per cent. In the previous year, it was 3.1 per cent. Most of the rejections in 1988–89 were in the real estate sector.
- At about $32 billion, the aggregate level of total expected expenditure associated with proposals approved in 1988–89 was about 29 per cent more than in the previous year (major qualifications attach to this and other statistics).
- Large proposals accounted for about two-thirds of the total expected investment—139 proposals each involving expected investment of more than $50 million accounted for more than $21 billion of expected investment.
- The sectors that recorded strongest growth in total expected investment, compared with 1987–88, were tourism and real estate.
- Japan was the most significant investor source country in terms of total expected expenditure ($9.1 billion). The other major sources were the United States ($3.7 billion), the United Kingdom ($3.6 billion), Hong Kong ($2.0 billion) and New Zealand ($2.0 billion).
- Australian interests were parties to 454 foreign investment proposals and were expected to contribute about $5 billion in expenditure (about one-seventh of total expected investment).
- The average time taken to process proposals rose from 20 days in 1987–88 to 22 days in 1988–89, reflecting changes in the relative mix of simple and difficult cases in different industry sectors and the complexity of policy requirements in those sectors. (In 1986–87, the average was 26 days.)
- A number of meetings were held by Board members and/or the Executive with foreign and Australian investors.

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Chapter 1: Changes to Foreign Investment Legislation

During 1988–89, there were no changes to foreign investment policy but major amendments were made to the Foreign Takeovers Act 1975 to give legislative effect to policy changes announced in earlier years.

This chapter outlines the provisions of the Foreign Takeovers Amendment Act 1989, which was passed by Parliament during 1988–89 although it did not come into operation until 1 August 1989. One result of the amending legislation is that the name of the Foreign Takeovers Act has been changed to the Foreign Acquisitions and Takeovers Act 1975 (the Act).

The legislative amendments fall broadly into five categories:

(i) the extension of the scope of the Act to include acquisitions of Australian urban real estate by foreign interests;

(ii) the exemption from the Act of small takeover proposals involving Australian businesses with total assets of less than $5 million (less than $3 million in the case of rural properties);

(iii) the increase from $3 million to $20 million in the threshold amount above which offshore takeovers (that is, takeovers where both the offeror and target are incorporated outside Australia but subsidiaries or assets in Australia are incidentally involved) are subject to the Act;

(iv) the exemption from the Act of proposals to acquire interests in mineral exploration rights (through 'farm-in' or 'farm-out' arrangements or a rearrangement of interests in a joint venture agreement); and

(v) a general strengthening of the Act.

Urban real estate

The most significant legislative changes relate to urban land. Urban land is defined in the Act to mean all land that is not being used wholly and exclusively for a business of primary production. Interests in Australian urban land include certain legal or equitable interests, leases of five years or more, options and profit sharing arrangements in respect of Australian urban land, and interests in companies and trusts that have more than half their assets in the form of Australian urban real estate.

The amending legislation obliges a foreign interest to notify a proposal to acquire an interest in Australian urban land (unless that acquisition is exempt under the regulations—see below). It also empowers the Treasurer to prohibit foreign acquisitions of urban land that are judged contrary to the national interest and to order the disposal of interests in urban land purchased without notification and determined by the Government to be contrary to the national interest.

These amendments give statutory effect to existing foreign investment policy but do not change the policy in any material way. In particular, the legislation does not spell out the criteria used in deciding whether proposals are contrary to the national interest. In keeping with the long-standing foreign investment practice, and to maintain flexibility and avoid excessive legalism, the criteria for examining proposals notified pursuant to the legislation continue to be set down by way of Ministerial statement and published in guideline form. Chapter 1 of last year's Annual Report described the major changes that were made in September 1987 to the foreign investment policy applying to urban real estate. The policy stance described in that chapter continues to apply—albeit that the Government now has legal powers of enforcement.

One long-standing feature of the Government's foreign investment policy has been for certain classes of real estate purchases by foreign interests to be exempt from examination. Now that the urban real estate aspects of foreign investment policy have been given legislative form, those exemptions have been broadly maintained, and in some areas extended, by regulations under the Act.

The types of acquisitions of real estate that have been exempt from examination under foreign investment policy in the past have been purchases by foreign charities, insurance companies and superannuation funds operating in Australia for the primary benefit of Australians; purchases of industrial property (eg factories) where the acquisition is wholly incidental to the conduct of the Australian business of the foreign buyer; annual program arrangements and 'off-the-plan' sales of residential units where these arrangements have been specifically approved in advance by the Treasurer; and purchases of property for use by foreign governments as diplomatic missions or residences.

All of these long-standing exemptions were confirmed by the Foreign Acquisitions and Takeovers Regulations which came into effect with the commencement of the amending legislation.

Certain other types of acquisitions have also been exempted under the Foreign Acquisitions and Takeovers Regulations. Experience has shown that these types of acquisitions rarely raise sensitive policy issues. They involve purchases of residential property by approved migrants and other foreign nationals entitled to permanent residence in Australia; purchases by Australian citizens resident abroad; acquisitions of non-residential commercial property valued at less than $5 million; and foreign portfolio investments in publicly-listed property companies and public property trusts. These latter categories of exemptions did not come into operation until 1 August 1989 and so had no effect on the Board's statistics for 1988–89. In future years, it is expected that they will reduce the number of examinable proposals by 1000 to 1500 per year.

Other Amendments to the Act

The non-real estate provisions of the amending legislation give legislative effect to existing foreign investment policy by introducing thresholds below which proposals by foreigners to buy Australian businesses are exempt from examination; by excluding from examination foreign acquisitions of mineral exploration rights; and by increasing the threshold above which offshore takeovers are subject to notification. Those amendments were foreshadowed by Ministerial statements in 1985 and 1987 and, in anticipation of their passage through Parliament, proposals falling within the relevant categories have received automatic foreign investment approval in the intervening period and have not been included in the Board's statistics of proposals examined in both 1987–88 and 1988–89.

General strengthening

Finally, the series of amendments were designed to strengthen the ambit of the Act. The definition of a foreign person was amended to include the trustees of trust estates in which there is substantial foreign ownership. The Act has also been amended to include a definition of 'ordinarily resident in Australia' viz a foreign national is only deemed to be ordinarily resident in Australia if that person has actually been in Australia for 200 days in the last 12 months and is legally able to remain in Australia indefinitely.

The Act was amended to provide a legal basis for the long-standing practice of allowing foreign investment proposals to proceed by raising no objections subject to certain conditions being met. The Act provides penalties for non-compliance with conditions.

Finally, the Act was strengthened by an amendment which provides for it to be an offence for a person to make false or misleading statements, by the inclusion of anti-avoidance powers which apply where schemes are entered into for the sole purpose of avoiding the provisions of the Act, and by an increase in penalties for offences.

To coincide with the commencement of the new legislation, a new edition of the guidelines booklet 'Australia's Foreign Investment Policy—A Guide for Investors' has been published. It contains a comprehensive statement of the current policy guidelines and the text of the Foreign Acquisitions and Takeovers Act.

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 1988–89 and discusses aggregate 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 C.

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 liberalisations to foreign investment policy since 1984 mean that the statistics for 1988–89 lack comparability in a number of significant respects with the figures for years earlier than 1987–88.

The Board's statistics of examined foreign investment proposals are quite different from the Australian Bureau of Statistics (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 because, inter alia, 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—Limitations of the Data, the Board urges particular caution about comparisons between the 1988–89 statistics and those of earlier years.

Definition of 'Expected Investment'

The term 'expected' is used widely throughout this Report. Expected investment includes many elements in respect of proposals approved on a case by case basis:

(i) the expected cost of acquisitions (shares or assets) or of real estate;
(ii) the expected cost of development following acquisition; and
(iii) in the case of a new business, the expected cost of both establishment and development.

In respect of proposals approved on a group basis, expected investment includes:

(iv) annual programs[1] for acquisitions of real estate for development (cost of acquisitions only) and for acquisitions of developed commercial real estate; and
(v) 'off-the-plan'[2] approvals whereby up to 50 per cent of units etc in residential real estate developments may be sold to foreign interests.

Total expected investment is the aggregation of the cost of each acquisition, the development (if any) associated with each acquisition, development associated with new business proposals and the value of annual programs and 'off-the-plan' approvals, valued at the time each application is approved. Thus it can be said from Table A.2 in the Statistical Appendix that total expected direct investment during 1988–89 was $32 billion. It cannot be concluded, however, that $32 billion of direct foreign investment into Australia actually occurred during 1988–89. That is so, not only for the reasons set out in the paragraphs above about 'Statistical qualifications', but also because the $11.9 billion of development expenditure associated with the $20.1 billion cost of acquisitions is likely to be spread over the years ahead (to the extent that the acquisitions and development occur at all).

Summary of proposals

Total expected investment associated with foreign investment proposals approved by the Government in 1988–89 was $32 billion, or about 29 per cent more than the 1987–88 expected level of $24.8 billion. The number of proposals considered in 1988–89 was 5163, compared with 3754 in the previous year.

Of the $32 billion total expected investment in 1988–89:

- $20.1 billion was attributable to the expected cost of *acquisitions* and $11.9 billion to expected *development* expenditures;
- of the $20.1 billion attributable to *acquisitions*, $8.6 billion was represented by proposed purchases of real estate, $4.1 billion by proposed acquisitions in the manufacturing sector, $1.8 billion by proposed acquisitions in the mining sector, $1.4 billion by proposed acquisitions in the tourism sector, and $2.4 billion by proposed acquisitions in the non-tourism services sector;
- of the $11.9 billion expected *development* expenditures, $4.3 billion was proposed expenditures arising from new

1 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.

2 See Chapter 3 for an explanation of the 'off-the-plan' arrangements.

businesses—of which $2.9 billion (almost 70 per cent) was in tourism, $0.3 billion in mining and $0.4 billion in resource processing. The remaining $7.6 billion was expected development associated with proposed acquisitions, mainly in real estate ($6.1 billion), tourism ($0.7 billion) and resource processing ($0.7 billion). That is, apart from new business proposals, there were relatively little expected development expenditures recorded with respect to acquisitions in agriculture, mining, manufacturing, finance and insurance, and services (excluding tourism). (In part, this may reflect the fact that approvals in these sectors are not dependent on development expenditures—even if foreign investors plan development expenditures in respect of proposals in these sectors, they may not bother to inform the Board of the relevant expenditures as they are not critical to gaining approval.)

Most of the total expected investment was in:

- real estate ($14.8 billion);
- tourism ($5.0 billion);
- manufacturing ($4.4 billion);
- services other than tourism ($2.6 billion); and
- mining ($2.2 billion).

There was relatively less expected investment in agriculture, finance and insurance and resource processing.

Of the $14.8 billion expected investment in real estate:

- $8.6 billion was the expected cost of the acquisitions. (The latter figure included $2.0 billion for annual program approvals and $2.0 billion for the 'off-the-plan' approvals granted to real estate developers, a significant portion of which—perhaps 50 per cent—is unlikely to be utilised);
- the remaining real estate investment ($6.1 billion) was expected development expenditure, of which $4.2 billion represented expected development of commercial real estate and $1.7 billion development of residential real estate;
- the main locations for expected real estate investment were NSW ($8.3 billion), of which more than 85 per cent was in Sydney, and Queensland ($3.9 billion), of which 70 per cent was on the Gold Coast. Approximately 65 per cent of expected real estate investment on the Gold Coast was attributed to residential real estate for development, including 'off-the-plan' approvals. By contrast, nearly 66 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 less than 3 per cent of expected investment in real estate ($369 million) but involved more than 1450 proposals, comprising 40 per cent of the number of real estate proposals examined. Of the more than 1450 proposals, Australian citizens living abroad accounted for 37 per cent, and intending migrants 29 per cent, of the expected expenditures on purchases of developed residential property.

Total expected investment in tourism was $5.0 billion: the expected development expenditures amounted to 72 per cent of the total. Most of the expected investments in tourism were in Qld ($2.7 billion) and NSW ($1.8 billion).

Of the $32 billion total expected investment, at least $5.0 billion was attributable to Australian entities participating in ventures with foreign interests (see Table A.4). Taking account of this, and on the basis that little more than half of the $4.0 billion annual program and 'off-the-plan' approvals are likely to be utilized, a better approximation of total expected foreign investment approved in 1988–89 would be, say, $24 billion rather than $32 billion. Even the latter figure would, of course, be subject to the statistical qualifications explained at the beginning of the Chapter.

During the year, more than 5100 proposals were submitted to the Government for consideration, cf more than 3700 in 1987–88. Of this total, 338 were withdrawn and 350 were approved automatically—in anticipation of amendments to the Foreign Takeovers Act. Thus, in 4475 cases decisions were needed. The very substantial increase in the number of proposals needing decision in 1988–89 is in large part the result of the full-year effect of the real estate policy changes in late 1987.

Of the 4398 proposals approved during 1988–89, 1879 were approved without conditions and 2519 were approved subject to conditions. Most of the conditions were in respect of acquisitions of urban real estate.

The rejection rate for proposals was 1.7 per cent. This compares with 3.1 per cent in 1987–88, 0.4 per cent in 1986–87, 1.5 per cent in 1985–86 and 2.6 per cent in 1984–85. The decrease in the number of rejected proposals in 1988–89 reflects the improved understanding of residential real estate policy during the year. Total expected investment associated with the 77 proposals rejected in 1988–89 was $53 million. Of the 77 rejected proposals, there were 71 in the real estate sector, two in the tourism industry, two in services other than tourism, one in minerals and one in the resource processing sector. Further details are provided in Chapter 3. Several of the rejected proposals were later re-submitted with new and/or additional information and approved.

Table 2.1 provides an industry breakdown of proposals of more than $50 million. As the figures indicate, the proportions of expected investment attributable to different industry sectors, from proposals of $50 million or more, changed in some respects between 1987–88 and 1988–89.

TABLE 2.1: EXPECTED INVESTMENTS OF MORE THAN $50 MILLION

Industry Sector	Expected investment 1987–88 $b	1987–88 Per cent	1988–89 $b	1988–89 Per cent
Manufacturing	4.1	25	3.3	15
Mining	1.9	12	1.5	7
Finance & Insurance	1.3	8	0.6	3
Services (excluding Tourism)	1.7	10	1.4	6
Tourism	1.5	9	4.0	18
Real Estate	5.7	35	9.4	43
Other	0.2	1	1.6	7
Total	16.5	100	21.8	100

Note: Figures may not add due to rounding.

The data indicate a relative increase in expected large investments in the real estate and tourism sectors and a decline in manufacturing, mining, finance and insurance and non-tourism services sector. However, these figures are susceptible to the lumpiness associated with a few big proposals.

Proposals by country of investor

Information on the number and value of proposals approved by country of investor is given in Table A.4. Expected investment levels by country of investor for 1985–86 to 1988–89 are summarised in Table 2.2.

TABLE 2.2: EXPECTED INVESTMENT LEVELS BY COUNTRY OF INVESTOR 1985–86 to 1988–89

Country of investor	Expected investment 1985–86 $b	1986–87 $b	1987–88 $b	1988–89 $b
Japan	1.9	3.2	5.4	9.1
United States	1.7	3.6	1.7	3.7
United Kingdom	1.8	2.1	4.7	3.6
Hong Kong	0.4	0.6	0.8	2.0
New Zealand	0.5	3.5	2.8	2.0
Singapore	0.1	0.2	0.2	0.5
Australia	2.2	4.2	6.0	5.0
Other	1.2	1.1	3.2	6.2
Total	9.8	18.5	24.8	32.0

Note: Figures may not add due to rounding.

Japan, the United States, the United Kingdom, Hong Kong and New Zealand were the main expected investing countries in 1988–89. 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 to a lesser extent New Zealand, is a more recent phenomenon.

Japan was the largest source country for expected investment approved in 1988–89, accounting for 28 per cent of the total expected investment for the year, cf 22 per cent in 1987–88. (Japanese investment as a proportion of the total stock of direct foreign investment in Australia would be a good deal lower than 20 per cent 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 feature of expected Japanese investment in Australia approved in 1988–89 was its concentration in real estate and tourism. 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 jobs for Australians associated with the tourist industry. About 54 per cent of total expected Japanese investment ($4.9 billion) involved the real estate industry; of this amount $3.8 billion—nearly 80 per cent—was expected real estate development. Japanese interests also accounted for some 60 per cent of the total expected investment in the tourism industry, mainly in Queensland and, to a lesser extent, in New South Wales and Western Australia.

The United Kingdom and the United States together accounted for approximately 60 per cent of the $4.4 billion total expected investment in the manufacturing sector.

Although direct investment from the United States was predominantly directed towards the manufacturing sector, there was significant expected investment also in services (other than tourism), mining and resource processing.

Direct investment from the United Kingdom was spread between the real estate and to a lesser extent services (other than tourism) and the finance and insurance and manufacturing sectors.

Expected investment from Hong Kong was mainly in real estate, tourism and other services. Hong Kong investors also accounted for 31 per cent of the number of expected purchases of residential real estate by intending migrants.

More than 70 per cent of expected New Zealand investment was in the real estate sector. There was also some investment in manufacturing and services other than tourism. New Zealanders accounted for nearly 55 per cent of the number of total expected purchases of developed residential real estate by intending migrants.

Location of expected investment

The distribution by State and Territory of expected investment is shown at Table A.5 and summarised in Table 2.3.

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 rising figure for Queensland compared with earlier years is partly due to the change in real estate policy, which has had a proportionately greater impact upon the figures for that State. Even so, the main destinations for foreign investment over the past three years have been New South Wales and Queensland.

TABLE 2.3: EXPECTED INVESTMENT BY STATE AND TERRITORY

Location	Expected Investment		
	1986–87	1987–88	1988–89
	$b	$b	$b
New South Wales	4.7	8.0	11.3
Victoria	1.1	1.9	1.3
Queensland	2.9	5.2	7.5
Western Australia	1.5	1.7	1.9
South Australia	0.5	0.7	0.4
Tasmania	0.1	0.1	0.1
ACT	0.1	0.1	0.1
Northern Territory	0.1	0.1	0.1
	10.9	17.7	22.9
Other (a)	7.5	7.1	9.1
Total	18.4	24.8	32.0

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 and State departments and authorities with 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.

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 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.

Processing of proposals

The Board recognises the desirability of examining proposals promptly to enable decisions to be taken by the Government and conveyed 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, recent years have seen a trend towards some foreign investors (mostly through Australian advisers) 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 1988–89 was 22 days, about 2 days longer than in 1987–88. The number of proposals examined per staff member during 1988–89 was approximately 190, compared with some 35 per staff member a few years ago. The variation over any period 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 variations in the degree of complexity of policy requirements in those sectors.

Freedom of information

In 1988–89, 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. As a result of these procedures, a full release of documents in respect of two of the six requests and a partial release in respect of two other requests was possible. There are a number of provisions available under the FOI Act for denying access to commercially confidential documents. This, of course, has relevance to 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 took place during the second half of 1988. At 30 June 1989, no decision in respect of them had been handed down.

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 1988–89 was a little under $50,000. As in previous years, about 75 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 $750,000 in 1988–89. 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.

At end June 1989, there were 22 officers in the Foreign Investment Branch of Treasury compared with 15 in early September 1987.

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 1988–89 and comments on some of the more significant cases.

Urban real estate

Last year's Annual Report noted that the abolition of the $600,000 cumulative threshold that applied to foreign purchasers of urban real estate until 1987 had resulted in a large increase in the number of real estate proposals submitted to the Board for examination. The heavy flow of real estate proposals continued in 1988–89, when there were 3797 applications (of which 3726 were approved by the Government and 71 were rejected). The expected investment associated with the approved proposals involved an expected $8515 million for the purchase of property and $6144 million of expected development expenditures.

For policy purposes, the real estate industry is divided between the *residential* and *commercial* sectors (and within each of these sectors between purchases of *developed property* and purchases of *property for development*). The discussion below is in terms of these different categories.

Residential real estate

For 1988–89, total expected investment in residential real estate was $5185 million. A disaggregation of this figure according to type of proposal is provided in Table A.7. Briefly, $4815 million was attributable to *residential real estate for development* proposals and $370 million to purchases of *developed residential real estate.*

The latter category is restrictive in policy terms because the Government wishes to reduce any upward pressure from foreign buying on established house prices in Australia. Accordingly, approvals are only given for a strictly limited range of purchasers. Of the 1462 approved proposals for the acquisition of *developed residential real estate* in 1988–89, 563 were accounted for by Australian citizens living abroad and 604 by approved migrants and other foreign nationals entitled to permanent residence in Australia. About half of the last category involved purchases by New Zealand citizens, who have an automatic entitlement to permanent residence in Australia.

The Foreign Acquisitions and Takeovers Regulations, which came into operation on 1 August 1989, will exempt from examination purchases of residential real estate by Australian citizens living abroad and foreign nationals entitled to permanent residence in Australia. This change will exclude from examination in future years about one thousand routine proposals.

Reflecting the restrictive policy applying to most foreign purchasers of *developed residential real estate*, there were 51 rejections of proposed acquisitions of established housing during 1988–89. These proposals were rejected because the prospective buyers did not fall into one of the specific categories through which the guidelines permit purchase of developed residential real estate. A few of the rejected proposals involved the purchase of rural residential properties—ie small rural blocks with an established dwelling. Generally speaking, unless the Government is satisfied that such proposals involve the takeover of a viable, genuine farming business, they are treated as the purchase of developed residential property.

During 1988–89, there were 1846 approved proposals for the acquisition of *residential real estate for development* with total expected investment of $4815 million. Of these figures, $422 million was accounted for by three annual programs and $1986 million by 298 'off-the-plan' approvals.

Under the 'off-the-plan' arrangements, foreign applicants may receive approval to buy up to 50 per cent of the units or condominiums in a new residential development project, either prior to or during the construction phase. Moreover, to streamline examination procedures, an Australian real estate developer may apply to the Board for a general approval to sell to foreign interests up to 50 per cent of the individual dwellings in a new development. Subject to an undertaking by the developer to report all sales to the Board annually so that compliance with the 50 per cent requirement can be monitored, the Government issues such general approvals and thus saves the time and expense that would otherwise be involved if individual foreign purchasers had to make separate applications to the Board.

The effect of these procedures, however, is that the Board's statistics overstate the likely extent of foreign purchases, since it is expected that few of the 298 developers (in 1988–89) with 'off-the-plan' approvals will sell a full 50 per cent of their developments to foreign purchasers. For that reason, the figure of $1986 million in Table A.7 for 'off-the-plan' proposals is undoubtedly an overstatement of actual purchases by non-residents. A preliminary analysis of 'off-the-plan' reports received to date by the Board from developers indicates that aggregate sales to foreign interests are unlikely to exceed 25 per cent of total sales, although in some individual developments foreign sales are close to the 50 per cent ceiling.

Apart from annual programs and 'off-the-plan' approvals, the Board examined 1545 proposals by foreign interests to acquire *residential real estate for development* (expected investment of $2407 million). These proposals comprise the purchase of broadacres for residential subdivision, vacant building blocks for single dwellings and in some instances for integrated residential developments such as town house and high rise units. These proposals are approved on condition that construction is commenced within a stipulated period of time; such proposals add to the housing stock in Australia and yield direct economic benefits.

Queensland was the main location for expected foreign investment in residential real estate developments (the bulk of which are concentrated on the Gold Coast), followed by New South Wales: the two States together accounted for 85 per cent of expected investment in the development of residential real estate in 1988–89.

There were 18 rejections of proposals involving *residential real estate for development* in 1988–89. Most of them were rejected because either the planned development expenditures were not considered significant in relation to the acquisition price for the property (there is a normal expectation that it should be at least 50 per cent) or the proposed timetables for development were unsatisfactory. The Government does not favour foreign interests holding vacant land in an undeveloped state for a long time and expects proposals to provide for development of properties to commence within a reasonable period (normally 12 months for small projects but with some flexibility in the case of larger, more complex developments). Two proposals were rejected because the prospective foreign purchasers had not established to the Government's satisfaction that they had the technical and financial capacity to undertake developments on the scale envisaged—these proposals were subsequently re-submitted with greater detail and approved.

Commercial real estate

During 1988–1989, the Government approved 399 proposals involving non-residential commercial real estate and rejected two. The total expected investment associated with the approved proposals was $9,475 million.

Of the approved proposals, 22 with a total expected expenditure of $1528 million were processed under the annual program arrangements. This figure is little changed from 1987–88, when 22 annual programs were approved with a total value of $1558 million. The annual program figures tend to exaggerate actual foreign investment because companies submitting annual program applications tend to err on the high side in estimating their expected level of purchases. In its 1987–88 Report, the Board expressed the tentative conclusion that little more than half of the annual program approvals would be utilised. Follow-up inquiries and reports from the companies involved have indicated that during 1987–88 only about 30 per cent of programs were utilized compared with about 20 per cent in 1986–87.

A further 137 individual proposals were approved as *commercial real estate for development*, with expected consideration of $1641 million and a further $4157 million expected to be spent on development. Included in these figures are three major development projects which together account for nearly 40 per cent of the total. In accordance with normal practice, the expected investment associated with these projects has been recorded in the Board's statistics for the year in which the approval was given (1988–89) although it is obvious that actual expenditures will be spread over several years. Moreover, there is an element of double counting since one of the projects was originally approved (with different ownership) in 1986–87 and would have been included in the Board's statistics for that year.

For acquisitions of *developed commercial real estate*, the policy seeks either 50 per cent Australian equity participation or the demonstration that Australian equity is not available on reasonable terms and conditions. Where properties are actively marketed to Australians for at least three months, or are sold by public auction or open tender, the Government normally accepts that Australian equity is not available if the highest offer for the property in question comes from a foreign interest.

During 1988–89, there were 240 approvals of proposals for the acquisition of developed commercial real estate, most on the basis of 100 per cent foreign ownership following the marketing of the property in the manner described in the immediately preceding paragraph. These proposals involved expected investment of $2149 million.

Two proposals involving *developed commercial real estate* were rejected, because the marketing efforts undertaken were considered by the Government to have been unsatisfactory. One of these proposals was subsequently approved, after fresh marketing of the property by the vendor did not elicit a higher offer from an Australian interest.

The major investor countries in commercial real estate were Japan, New Zealand and Hong Kong. The major location of commercial real estate investment was Sydney, which accounted for about two-thirds of the total figure. Examples of major commercial real estate proposals in Sydney include the acquisition by the Japanese owned Kumagai-Gumi and Sogo companies of the Waltons Bond site on the corner of George, Park and Pitt Streets, Sydney for redevelopment as a department store/office complex, and the acquisition by a joint venture consisting of two Japanese companies (Nomura Real Estate Development Co Ltd and Toyo Real Estate Co Ltd) and the Australian owned Lend Lease Development Pty Ltd of property at Darling Harbour for development as a retail/office/hotel complex.

One aspect of the Board's work which is not reflected in the statistics of new proposals but which has occupied some time in 1988–89 has concerned requests by foreign interests to be permitted to dispose of vacant land before it has been developed in the manner envisaged when the parties concerned originally sought approval to buy it. Of course, there can be a number of valid reasons why a particular proposal may not proceed to development. Even so, the Government is concerned to ensure that real estate is not acquired by foreign interests for speculative reasons. In one or two instances where foreign interests have chosen to sell the land rather than develop it in accordance with the approval given when the land was acquired, the Government informed the parties concerned that they will not be given approval to buy further land for development in Australia for a specified number of years.

Tourism

There were 40 new business proposals and 42 acquisition proposals in tourism and related industries in 1988–89. The total expected investment for these industries was $4997 million: substantially more than double the $2091 million total expected investment in tourism associated with approved proposals in 1987–88. The increase was mainly attributable to the greater number of new business proposals in 1988–89 (40 with expected investment of $2920 million compared to 13 and $1039 million in 1987–88). Proposed new hotel and resort developments accounted for most of this planned new business expenditure—more than 25 applications in 1988–89 involved the proposed establishment of new hotels and tourist resorts. Of course, not all of these proposals can be expected to be undertaken in the short term—some will take a number of years to commence and some may not proceed at all.

As in earlier years, expected investment in the tourism industry was again concentrated in Queensland ($2675 million) and New South Wales ($1839 million). These two States accounted for approximately 90 per cent of total expected investment in the tourism industry. Japanese interests were again the main expected investors in the industry, accounting for slightly more than two-thirds of the total expected investment in 1988–89. Further details of the breakdown of expected tourism investment by location and country of investor are provided in Table A.6.

There were twenty-six tourism proposals involving expected investment of $50 million or more, amounting to $3950 million. Among the largest of these proposals were the acquisitions of the Sanctuary Cove resort development on the Gold Coast by the Japanese-owned EIE group and of a part interest in the 'Mirage' resorts at Port Douglas and Surfers Paradise by the Japanese-owned Mitsui Group and Nippon Shinpan.

A feature of the tourism figures is the relatively high proportion of total expected investment associated with development expenditures and the relatively lower amount attributable to the purchase of assets. Of the $4997 million expected investment in tourism, more than $3600 million was expected development expenditures and less than $1400 million was the consideration payable for the purchase of assets. While these figures are partly explained by the conventions used in recording the Board's statistics—100 per cent of new business proposals are recorded as development expenditures even though part of the investment is normally the purchase of land—the expected investment in tourism contains a heavy emphasis on development.

Two proposals for investment in the tourism industry were rejected. One proposal for a new hotel on the Gold Coast was not approved because the development timetable was too indefinite. While the Government indicated to the parties the steps necessary to make the proposal consistent with policy, the foreign interest concerned decided not to proceed. Another proposal for a Japanese company to participate in a joint venture with an Australian group for a new hotel and commercial development at Woolloomooloo Bay in Sydney was rejected by the Government.

Service industries (excluding tourism)

During 1988–89, the Board examined 163 proposals for investment in the services industries sector (excluding tourism), comprising 17 new businesses and 146 proposed acquisitions. These numbers were little changed from 1987–88, when there were 13 new businesses and 147 acquisitions. The total expected investment associated with proposals in the non-tourism services sector in 1988–89 was $2645 million, compared with $2972 million in 1987–88.

There were thirteen proposals involving $50 million or more. Among the major new business proposals in the services sector was a joint venture between the US-owned Warner group and Australian interests to establish a series of new cinemas in Australia having more than one theatre in each establishment. Major takeovers in the services sector included the Mojo-MDA advertising group (bought by two international consortia), the Mathers shoe retailing business (acquired by the US-owned Kinney Shoes), and the industrial, commercial and domestic security business of Wormald (purchased by the UK Racal-Chubb Group).

Two proposals in the services sector were rejected. The Government decided that a proposal by a Malaysian-owned company to purchase an interest in a Perth evening newspaper was inconsistent with foreign investment policy. A proposal by the US-owned Morgan group to establish a heavy machinery distributorship for 'Caterpillar' products in Western Australia was initially rejected as contrary to the national interest but a restructured proposal involving the same company was later approved.

Finance and insurance

The Board examined 69 proposals in the finance and insurance industries during 1988–89 (65 acquisitions and 4 new businesses). The total expected investment was $1216 million. The equivalent figures for 1987–88 were 96 proposals (89 acquisitions and 7 new businesses) involving an expected investment of $1862 million.

The four new business proposals in 1988–89 involved a new Korean-owned merchant bank, a UK-owned general insurance company, a West German-owned finance company and a new Japanese-owned investment company. The expected investment in the new businesses was $116 million compared with the figure for 1987-88 of $61 million.

During the year, the Treasurer gave approval for the overseas parents of three licensed Australian trading banks to acquire the minority Australian interests in their local operations and take foreign ownership of the three banks concerned to 100 per cent. These proposals involved The Industrial Bank of Japan Limited acquiring the minority 15 per cent interest in IBJ Australia Bank Ltd, the Oversea-Chinese Banking Corporation acquiring the 30 per cent minority interest in Bank of Singapore (Australia) Ltd and the Bank of America National Trust & Savings Association acquiring the minority 25 per cent interest in Bank of America Australia Ltd from Coles Myer Ltd.

Another major acquisition in the finance sector during the year involved Citibank Ltd's acquisition of the credit card business known as Australian Card Services Pty Ltd from the Smorgon family company, Linfa Pty Ltd.

The Government also approved two competing proposals to acquire an interest in the Australian insurance company, Lumley Corporation Ltd. Dutch-owned Nationale Nederlanden (Australia) Ltd proposed to acquire an 18.9 per cent interest from BT Insurance Holdings Ltd and Edward Lumley Holdings Ltd of the UK proposed to acquire the outstanding 47 per cent interest that it did not already own. Edward Lumley Holdings Ltd successfully completed a takeover offer for the outstanding issued ordinary share capital of Lumley in August 1989.

Manufacturing

In the manufacturing sector, after substantial increases in the two preceding years, total expected foreign investment fell to $4353 million (from $5222 million in 1987–88). Maintaining the pattern of recent years, expected development expenditure on new businesses, at $257 million, was small in relation to the expenditure on acquiring interests in existing businesses, viz $4095 million. By far the largest investors in this sector were the US ($1546 million) and the UK ($1105 million). Switzerland was a distant third with $256 million.

In this sector there was little change in the number of proposals received by the Board: the total of 125 proposals compares with 129 in 1987–88. The new business approvals included a joint venture between the Japanese Fujitsu group and Telecom to undertake research and development of telecommunications products and a joint venture between Pioneer Concrete and the French Lafarge group to make plasterboard. There were twenty manufacturing approvals involving expected expenditure of $50 million or above, the largest being the reorganisation of the Amatil food and tobacco group whereby Coca-Cola of the US replaced BAT as the largest shareholder but BAT obtained a majority interest in the tobacco operations formerly conducted by Amatil.

Other major acquisitions included the purchase by a joint venture between CSR and the Redland Group of the UK of the PGH brick and tile business; the purchase by SICPA of Switzerland of the Sidney Cooke printing supplies business; the purchase by Nestle of Switzerland of the 50 per cent of the Allen Life Savers confectionery business it did not already own; the purchase by the Wilson Neill Ltd of New Zealand of the Cascade brewing business; and the purchase of the minority interests in the confectionery and beverage manufacturer Cadbury Schweppes Australia by the UK parent Cadbury Schweppes plc.

No manufacturing proposals were rejected during 1988–89. However, one manufacturing proposal that was subject to an interim order under the Foreign Takeovers Act—the proposed acquisition of the Kirby steering gear operations by TRW Inc of the US—was eventually rejected in the early months of the next year.

Minerals

The 87 proposals (84 acquisitions and three new developments) in the mineral sector in 1988–89 involved proposed total expenditure of $2157 million, down from $2619 million in 1987–88.

There was a substantial amount of restructuring in the coal industry during 1988–89, whereby a number of Australian-owned companies sold their interests to foreign investors. The improved outlook for coal exports and prices that developed during the year was a factor leading to these developments. The increased foreign ownership of the coal industry arising from these proposals was considered by the Government to be more than offset by the benefits to Australia of the coal resources passing into the hands of major companies that would be prepared to continue to capitalise and develop them over an extended period of years.

The larger proposals approved included the acquisition by the EEC-based Shell group of extensive coal interests from CSR; the US-owned Esso group's acquisition of coal interests from White Industries; the purchase by the Italian AGIP group of coal interests from Mount Isa Mines and the US Arco group's acquisition of the Cook Colliery. The Renison Goldfields/Dalgety development of the Glendell open cut coal project and the Murchison Zinc/Esso/Aztec development of the Scuddles base metals ore deposit in Western Australia were the largest new development proposals approved.

The largest sources of expected expenditure in the minerals sector were the US, the UK, the rest of the EEC, and Japan. Most proposals involved gold (28), coal (26) or oil (13). Twelve of the coal proposals involved Japanese interests, but both UK and US companies made substantially greater total investments in Australian coal mines in 1988–89 than did Japan.

Only one mining proposal was rejected in 1988–89: the Government decided that the proposed acquisition by Emperor Mines (incorporated in the Isle of Man) of all the shares in the Western Australian gold mining company Southern Resources was not in the national interest.

Resource processing

The major resource processing proposal examined during the year was the planned joint venture between Noranda of Canada and North Broken Hill to establish an export pulp mill at Wesley Vale in Tasmania. This project is not included in the Board's statistics for 1988–89 because it was abandoned by the two companies after the Government indicated that foreign investment approval would be subject to the negotiation of tougher environmental conditions than those required by the State Government.

There were 14 other resource processing proposals in 1988–89, involving total expected investment of $1625 million. A significant amount of this expected investment was associated with two proposals—one involving the merging of the lead and zinc production facilities of CRA and North Broken Hill and another involving the planned development of heavy mineral sand deposits in Western Australia, by the US-owned Kerr-McGee Chemical Corporation and the Australian-owned Minproc.

Five proposals involved the establishment or acquisition of interests in abattoirs with a total expected investment of $51.7 million. Two of these proposals involved Japanese interests, two involved French interests, and one involved Singaporean interests.

One resource processing project was rejected. It involved the takeover of a rock lobster processing business in Western Australia. The Government decided that the proposal was inconsistent with foreign investment policy.

Rural land

As noted in Chapter 1, recent amendments to the Foreign Acquisitions and Takeovers Act have exempted from foreign investment scrutiny proposals involving rural properties valued at $3 million or less. Pending the commencement of this amending legislation, but in accordance with an announcement by the Treasurer, acquisitions of rural businesses below this threshold that were submitted for examination were approved automatically and for that reason are not included in the Board's statistics for both 1987–88 and 1988–89.

Proposals involving rural properties valued at more than $3 million are approved unless judged contrary to the national interest.

There were 23 rural property proposals above $3 million in 1988–89, involving a total expected consideration of $238 million. In the previous year there were 14 proposals involving $232 million. Two proposals accounted for a large component of the total expected investment—a takeover of Sherwin Pastoral Company Limited by Bankers Trust Australia Limited and the acquisition of the hop farming business of Elders IXL Ltd by John I. Haas Inc of the USA. Only one proposal above $3 million involved a Japanese owned company—that proposal concerned the acquisition of an interest in a beef cattle grazing and feedlot property at Glen Innes, New South Wales.

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

This chapter summarises trends in aggregate foreign investment in Australia and Australian investment abroad and presents 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.

Overview of foreign investment inflows

Table 4.1 sets out foreign investment flows into Australia from 1984–85 to 1988–89. In 1988–89, foreign investment in Australia totalled $26.1 billion compared with $23.0 billion in the previous year. Foreign investment attributable to the official sector (mainly general government borrowing) was $0.8 billion in 1988–89, down sharply from the previous year's figure of $4.0 billion. This mainly reflected a fall in borrowing domiciled in Australia, which may have partly been attributable to the increased Commonwealth budget surplus. The budget surplus also enabled repayment of $3.2 billion of Commonwealth government borrowing domiciled abroad, although this was partly offset by new State government borrowing domiciled abroad of $2.8 billion. Foreign investment in the non-official sector was $25.3 billion in 1988–89, $6.3 billion higher than for 1987–88.

TABLE 4.0: RECONCILIATION BETWEEN FOREIGN INVESTMENT CAPITAL FLOWS AND AUSTRALIA'S BALANCE OF PAYMENTS 1984–85 to 1988–89

	1984–85 $b	1985–86 $b	1986–87 $b	1987–88 $b	1988–89 $b
Foreign Investment in Australia	14.8	19.1	21.3	23.0	26.1
Australian Investment Abroad	3.2	4.9	12.4	14.4	10.5
Balance on Capital Account	11.6	14.2	8.9	8.6	15.6
Balancing Item	–0.4	0.6	4.0	3.3	2.5
Balance on Current Account	–11.1	–14.8	–12.9	–11.8	–18.1

Sources
ABS 5301.0: Balance of Payments, Australia, September 1989
ABS 5306.0: Foreign Investment, Australia, June Quarter 1989
ABS 5305.0: Foreign Investment, Australia, 1987/88

TABLE 4.1: FOREIGN INVESTMENT IN AUSTRALIA, 1984–85 to 1988–89

	1984–85 to 1988–89 annual average		1984–85		1985–86		1986–87		1987–88		1988–89	
	$b	per cent	$b	per cent	$b	per cent	$b	per cent	$b	per cent	$b	per cent
Official	4.1	19.6	4.1	27.7	5.6	29.3	6.2	29.1	4.0	17.4	0.8	3.1
Non-official												
—Direct	5.1	24.4	2.6	17.6	3.3	17.3	4.1	19.2	5.2	22.6	10.5	40.2
—Portfolio and other	11.6	55.5	8.1	54.7	10.2	53.4	11.1	52.1	13.8	60.0	14.8	56.7
Total Non-official	16.7	79.9	10.7	72.3	13.5	70.7	15.1	70.9	19.0	82.6	25.3	96.9
Total Official and Non-official	20.9	100.0	14.8	100.0	19.1	100.0	21.3	100.0	23.0	100.0	26.1	100.0

Sources
ABS 5306.0 Foreign Investment, Australia, June Quarter 1989
ABS 5305.0 Foreign Investment, Australia, 1987/88
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'.

Table 4.2 indicates that foreign investment in 1988–89 in the non—official sector comprised:

- $10.5 billion as *direct* investment, an increase of over 100 per cent on the previous year; and
- $14.8 billion *portfolio and other* ('non-direct') investment, an increase of 7 per cent over the previous year.

Of the $5 billion increase in direct investment, there was a more than six-fold increase in direct investment in corporate equities from $0.6 billion in 1987–88 to $3.8 billion in 1988–89 and an increase in net equity in branches of $1.5 billion. In respect of direct investment, some $2.4 billion of the increase represents the ABS's imputed estimate for undercoverage of real estate investment in Australia that was based on an analysis of data obtained as a by-product of the foreign investment policy approvals mechanism.

Estimates of undercoverage for 1986–87 and 1987–88 will be available in the September quarter 1989 issue of ABS publication 5306.0.

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

For the period 1984–85 to 1988–89, the non-official portfolio and other investment category has been the major contributor to non-official foreign investment in Australia (averaging around 70 per cent). This mainly reflects the high levels of foreign portfolio borrowings.

There was a further sharp fall in foreign portfolio investment in corporate equities in 1988–89, which may partly reflect the higher returns available from other financial instruments. Portfolio borrowings increased about 20 per cent from the previous year to $13.7 billion in 1988–89. This includes borrowing by public trading enterprises.

It is noteworthy that borrowings by banks increased each year from $1.9 billion in 1984–85 to $4.3 billion in 1987–88 and to $8 billion in 1988–89. Borrowings by banks increased from about 18 per cent of non-official foreign investment in 1984–85 to about 32 per cent in 1988–89.

Australian investment abroad

Australian investment abroad fell from $14.4 billion in 1987–88 to $10.5 million in 1988–89 (See Table 4.0). These figures include increases in Australia's official reserve assets. Australian investment abroad excluding increases in official reserve assets fell from $10.5 billion in 1987–88 to $9.6 billion in 1988–89.

TABLE 4.2: INFLOW OF NON-OFFICIAL FOREIGN INVESTMENT IN AUSTRALIA, 1984–85 to 1988–89

	1984–85 to 1988–89 annual average		1984–85		1985–86		1986–87		1987–88		1988–89	
	$b	% of total	$b	% of total	$b	% of total	$b	% of total	$b	% of total	$b	% of total
Non-official direct investment												
—Reinvestment of earnings	1.5	9.0	0.6	5.6	0.9	6.7	1.2	7.9	2.4	12.6	2.6	10.3
—Corporate equities	1.7	10.2	0.3	2.8	2.1	15.6	1.7	11.3	0.6	3.2	3.8	15.0
—Net equities in branches	0.5	3.0	0.1	0.9	–0.6	–4.4	0.1	0.7	0.6	3.2	2.1	8.3
—Borrowings												
—Banks(a)	0.13	0.8	0.03	0.3	0.6	4.4	0.7	4.6	–0.1	–0.5	–0.6	–2.4
—Other	1.2	7.2	1.1	10.3	–0.1	–0.7	0.5	3.3	1.7	8.9	2.6	10.3
—Other	0.1	0.6	0.4	3.7	0.3	2.2	–0.3	–2.0	0.1	0.5	0.02	0.08
Total direct investment	5.1	30.5	2.6	24.3	3.3	24.4	4.1	27.2	5.2	27.4	10.5	41.5
Non—official portfolio and other												
—Corporate equities	1.5	9.0	0.5	4.7	–0.1	–0.7	4.0	26.5	2.4	12.6	0.6	2.4
—Borrowings												
• banks(a)	4.4	26.3	1.9	17.8	3.8	28.1	3.9	25.8	4.3	22.6	8.0	31.6
• other public sector	2.9	17.4	3.2	29.9	2.1	15.6	0.3	2.0	3.8	20.0	5.1	20.2
• other private sector	2.7	16.2	2.4	22.4	4.5	33.3	2.6	17.2	3.2	16.8	0.6	2.4
—Accounts payable/ prepayments received	0.2	1.2	0.2	1.9	–0.03	–0.2	0.2	1.3	0.1	0.5	0.5	2.0
Total portfolio and other investment	11.6	69.5	8.1	75.7	10.2	75.6	11.1	73.5	13.8	72.6	14.8	58.5
Total Non-official	16.7	100.0	10.7	100.0	13.5	100.0	15.1	100.0	19.0	100.0	25.3	100.0

Sources
ABS 5306.0 Foreign Investment, Australia, June Quarter 1989
ABS 5305.0 Foreign Investment, Australia, 1987/88
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.
Figures may not add due to rounding.

Investment levels

Table 4.3 shows that the estimated level or stock of foreign investment in Australia as at 30 June 1989 was $222.9 billion, comprising $78.2 billion of equities, $137.0 billion in borrowings and $7.7 billion in other forms. This represented an increase of around $31.9 billion, or 16.7 per cent, over the level at 30 June 1988. Of the increase during 1988–89, $14.6 billion was accounted for by an increase in the stock of direct investment. The remainder was accounted for largely by increases in portfolio private borrowings ($11.1 billion) and in portfolio public borrowings ($5.3 billion). The large increase in the level of portfolio borrowing reflects, inter alia, the capital transactions during that period.

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 1988. The United States and the United Kingdom (the traditional source countries) each have an estimated stock higher than that of Japan ($26.5 billion). Singapore, Switzerland, New Zealand and the Federal Republic of Germany had estimated stocks each of between $5 and $10 billion.

Australia's level of external debt

At 30 June 1989, the level of Australia's net external debt was estimated at $108.2 billion, nearly 20 per cent higher than the estimate of a year earlier (Table 4.5). The increase in the growth of net debt is primarily a result of the increased current account deficit in 1988-89. Net external debt as a proportion of GDP has shown a small increase during the past four years.

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

The following factors need to be borne in mind while using ABS data to make observations about the level of foreign ownership and control of particular industries. 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 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.

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

	Official	Non-official							TOTAL		
		Direct(a)			Portfolio and other investment						
		Equity	Borrowing	Other	Corporate equities	Borrowing: Public Sector	Borrowing: Private Sector	Accounts payable/ prepayments	Equity	Borrowing	Other
At June 30											
1985	15.2	26.1	7.2	3.5	11.2	14.9	30.4	2.8	37.3	67.4	6.6
1986	23.8	27.8	8.9	3.8	12.7	19.0	40.8	2.8	40.5	92.1	6.9
1987	30.2	40.1	9.7	3.3	23.4	18.9	46.4	3.8	63.5	104.9	7.4
1988	33.0	46.3	11.2	3.4	20.2	22.8	50.3	3.8	66.5	117.1	7.5
1989	33.8	58.5	13.8	3.2	19.7	28.1	61.4	4.4	78.2	137.0	7.7

Source
ABS 5305.0 Foreign Investment, Australia, 1987/88
ABS 5306.0 Foreign Investment, Australia, June Quarter 1989.
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.
Figures may not add due to rounding.

TABLE 4.4: LEVEL OF FOREIGN INVESTMENT IN AUSTRALIA BY COUNTRY, 1984–85 TO 1987–88 ($A BILLION)

Country	1984–85	1985–86	1986–87	1987–88
USA	26.8	31.9	40.8	39.2
UK	26.1	29.3	37.1	44.0
Japan	16.2	20.8	21.3	26.5
Singapore	8.9	8.3	9.4	6.9
Germany (FR)	3.6	5.5	7.1	6.4
New Zealand	1.5	2.1	4.9	5.3
Switzerland	4.1	5.9	7.5	7.4
Netherlands	2.4	3.0	4.1	4.2
Canada	1.8	1.9	3.4	2.5
Hong Kong	3.4	3.0	3.0	4.4
Bel-Lux	2.0	2.6	2.6	3.9
Central America and Caribbean	2.2	1.8	2.2	2.7
France	1.6	1.6	2.0	1.5
Other ASEAN	0.8	0.7	1.1	1.3
Sweden	0.3	0.3	0.4	0.3
Italy	0.2	0.3	0.3	0.3
Other	9.4	20.4	28.6	33.8
TOTAL	111.3	139.4	175.8	191.0

Sources: ABS 5305.0 Foreign Investment, Australia, 1987/88
ABS 5352.0 Foreign Investment, Australia, 1987/88: Supplementary Country and Industry Studies
Note: Figures may not add due to rounding.

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).

TABLE 4.5: AUSTRALIA'S LEVEL OF EXTERNAL DEBT, 1984–89 ($A BILLION)

At June 30	Foreign borrowing				Australian lending abroad and reserve assets			Net external debt(b)			
	Official(a)	Non-official		Total	Official	Non-official	Total	Official	Non-official	Total	% GDP
		Public Sector	Private Sector								
1984	8.9	8.9	26.3	44.1	12.4	1.8	14.2	–3.5	33.4	29.9	15.5
1985	14.9	15.0	37.6	67.5	13.6	2.6	16.3	1.3	49.9	51.2	23.8
1986	23.4	19.0	49.6	92.1	13.2	3.8	17.0	10.2	64.8	75.0	31.4
1987	29.9	18.9	56.2	104.9	18.0	4.5	22.5	11.9	70.6	82.4	31.3
1988	32.8	22.8	61.5	117.0	20.8	5.9	26.7	11.9	78.4	90.3	30.4
1989	33.7	28.1	75.2	137.0	21.3	7.5	28.8	12.4	95.9	108.2	32.3

Sources
ABS 5305.0 Foreign Investment, Australia, 1987/88
ABS 5306.0 Foreign Investment, Australia, June Quarter 1989
Note:
(a) General government and Reserve Bank
(b) Foreign borrowing by Australian residents less the sum of Australian lending abroad and reserve assets
Figures may not add due to rounding

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 recent study in respect of registered financial corporations[3] as at June 1986 found that foreign ownership in the industry accounted for 38.1 per cent of the value of the assets of registered financial corporations within Australia at that date. Most foreign ownership was attributable to the USA and UK which accounted for 12.5 per cent and 11.4 per cent of assets, respectively. 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.

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

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

	Foreign ownership			
	'Direct'	'Other identified'	Total foreign ownership	Australian ownership
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[j]	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). 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%.

(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) and other relevant publications provide an explanation of 'direct' and 'other identified' categories of foreign ownership.

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
8. Foreign Takeovers Amendment Act 1989

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: 1977–1988
- Australia's Foreign Investment Policy—A Guide for Investors, third edition, 1989.

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 posts.

Attachment B

Foreign investment proposals—press releases by the Treasurer, 1988–89

No 103	Statement by the Treasurer, the Hon Paul Keating, MP—Foreign Investment Proposal: Emperor Mines Ltd and Southern Resources Ltd—14 September 1988
No 142	Statement by the Treasurer, the Hon Paul Keating, MP—Foreign Investment Policy: Hotel Development at Woolloomooloo Bay—23 December 1988
No 9	Statement by the Treasurer, the Hon Paul Keating, MP—Foreign Investment Proposal: proposed acquisition by Chunagon Co Ltd of Planet Fisheries WA Pty Ltd and Weddell Fisheries Pty Ltd—9 February 1989
No 17	Statement by the Treasurer, the Hon Paul Keating, MP—Foreign Investment Proposal: Hotel Development at Woolloomooloo Bay—1 March 1989
No 20	Joint Statement by the Treasurer, the Hon Paul Keating, MP and the Minister for Arts, Sport, the Environment, Tourism and Territories, Senator the Hon G.F. Richardson—Foreign Investment Proposal for the proposed Wesley Vale Pulp Mill—15 March 1989
No 25	Statement by the Treasurer, the Hon Paul Keating MP—Foreign Investment Proposal: Mitsui & Co Ltd and Nippon Shinpan Co Ltd—Acquisition of 49% Interest in Mirage Resorts

Attachment C

SUMMARY OF AUSTRALIA'S FOREIGN INVESTMENT POLICY AS AT AUGUST 1989

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 that have total assets of more than $5 million (more than $3 million for rural properties);
- proposals for the establishment of new businesses involving total investment of $10 million or more;
- proposals for investment in the media irrespective of size;
- direct investments by foreign governments or their agencies irrespective of size;
- proposals to acquire non-residential commercial real estate valued at $5 million or more; and
- proposals to acquire residential real estate irrespective of size (unless exempt under the regulations).

A foreign interest is briefly defined as:

- a natural person not ordinarily resident in Australia;
- any corporation, business or trust in which a single foreigner (and any associates) has 15 per cent or more of the ownership or in which several foreigners (and any associates) have 40 per cent or more of the ownership.

The Foreign Acquisitions and Takeovers Act 1975 applies to most examinable proposals and provides penalties for non-compliance. The text of the Act and associated Regulations and full details of the guidelines are contained in the booklet 'Australia's Foreign Investment Policy—A Guide for Investors'.

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 establish new businesses unless the proposal is contrary to the national interest.

Real Estate

Proposed 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 (on condition that a dwelling is built within 12 months) and to buy home units, townhouses etc 'off-the-plan' or under construction, on condition that no more than half of the units in any one development are sold to foreign interests.

Proposed acquisitions of developed non-residential commercial real estate are normally approved, 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.

Proposed acquisitions of developed residential real estate are exempt from examination in the case of Australian citizens living abroad and foreign nationals entitled to permanent residence in Australia (such as intending migrants who have received approval from the immigration authorities to take up permanent residence in Australia). Proposals by all other foreign interests to acquire developed residential real estate are examinable and are *not* normally approved except in the case of foreign companies buying for their senior executives resident in Australia and foreign nationals temporarily resident in Australia for more than 12 months (subject to the sale of the property when they cease to reside 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. Where Australian equity participation is not available on reasonable terms and conditions, the 50 per cent guideline is applied flexibly. Proposals for acquisitions of existing mining businesses (other than oil and gas) need to demonstrate net benefits.

Banking

The Government has indicated it 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 1972 and banking policy, including prudential requirements.

Civil Aviation

Following the deregulation of domestic air services scheduled to occur in October 1990, the Government will approve proposals by foreign interests to acquire existing businesses or to establish new businesses in the civil aviation industry, except that there will be restrictions on the level of equity that may be held in a domestic carrier by foreign international airlines operating services to Australia.

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.

Statistical appendix

Foreign investment proposals

Table A.1	Proposals by number and total expected expenditure, 1985–86 to 1988–89
Table A.2	Proposals for acquisitions and new businesses, by industry sector, 1988–89
Table A.3	Proposals over $50 million for acquisitions and new businesses, by industry sector, 1988–89
Table A.4	Total expected investment associated with proposals, by country of investor and industry sector, 1988–89
Table A.5	Proposals by location of expected investment, 1988–89
Table A.6	Expected investment associated with tourism proposals, by country of investor and location of investment, 1987–88 and 1988–89
Table A.7	Expected investment in urban real estate, by type and number of proposals, 1988–89
Table A.8	Expected investment in developed residential real estate, by category of investor, 1988–89
Table A.9	Purchases of developed residential real estate by intending migrants and other foreign nationals entitled to permanent residence, by country of investor, 1988–89
Table A.10	Total expected investment in urban real estate, by category of real estate and location of investment, 1988–89
Table A.11	Acquisitions of rural land involving properties with total assets of more than $3 million, 1988–89

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 1988–89, nearly 70 per cent of the total expected investment resulted from little more than three 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 and 1988–89 are not comparable with those for earlier years. First, policy changes have altered the range of investment proposals that 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) were 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 and 1988–89. 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, 1987–88 and 1988–89 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 1988–89(a)

	1985–86		1986–87		1987–88(a)		1988–89	
Type of proposal	No	$b	No	$b	No	$b	No	$b
Approved unconditionally	580	2.5	529	7.7	1641	18.4	1879	19.69
Approved with conditions	710	7.3	818	10.8	1450	6.4	2519	12.33
Total Approved	1290	9.8	1347	18.5	3091	24.8	4398	32.02
Rejected	20	0.5	5	0.019	100	0.054	77	0.53
Total decided	1310	10.3	1352	18.5	3191	24.8	4475	32.56
Submitted but not examinable	17		6		–		–	
Approved automatically(b)	–		–		424		350	
Withdrawn	51		54		139		338	
Total considered	1378		1412		3754		5163	

(a) Policy changes during 1987 varied the range of examinable proposals, as a result of which figures for 1987–88 and 1988–89 are not comparable with earlier years.

(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 1988–89 and expenditure data was not recorded for statistical purposes.

TABLE A.2: PROPOSALS FOR ACQUISITIONS AND NEW BUSINESSES, BY INDUSTRY SECTOR, 1988–89

Industry sector	No of Proposals	Consideration $ billion	Expected development expenditure $ billion	Total(a) expected investment $ billion
Agriculture, forestry & fishing				
—acquisitions	26	0.24	0.00	0.24
—new businesses	1	0.00	0.02	0.02
—total	27	0.24	0.02	0.26
Mineral exploration & development				
—acquisitions	84	1.75	0.09	1.84
—new businesses	3	0.00	0.31	0.31
—total	87	1.75	0.40	2.15
Manufacturing				
—acquisitions	118	4.09	0.00	4.09
—new businesses	7	0.00	0.26	0.26
—total	125	4.09	0.26	4.35
Finance & insurance				
—acquisitions	65	1.10	0.00	1.10
—new businesses	4	0.00	0.12	0.12
—total	69	1.10	0.12	1.22
Services (excl Tourism)				
—acquisitions	146	2.38	0.01	2.39
—new businesses	17	0.00	0.25	0.25
—total	163	2.38	0.26	2.64
Tourism(b)				
—acquisitions	42	1.38	0.70	2.08
—new businesses	40	0.00	2.92	2.92
—total	82	1.38	3.62	5.00
Real estate	3726	8.62	6.15	14.77
Resource processing				
—acquisitions	11	0.57	0.65	1.22
—new businesses	3	0.00	0.41	0.41
—total	14	0.57	1.06	1.63
Total				
—acquisitions	4218	20.13	7.60	27.74
—new businesses	75	0.00	4.28	4.28
—total	4293	20.13	11.89	32.02
Financing arrangements & corporate restructures	105			

(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) 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, 1988-89

	No of Proposals	Consideration $ billion	Expected development expenditure $ billion	Total(a) expected investment $ billion
Manufacturing				
—$100m & over	9	2.61	0.00	2.61
—$50m-$100m	11	0.56	0.16	0.72
—total $50m & over	20	3.17	0.16	3.33
Mining				
—$100m & over	6	0.73	0.33	1.06
—$50m-$100m	6	0.47	0.00	0.47
—total $50m & over	12	1.20	0.33	1.53
Finance & Insurance(a)				
—total over $50m	7	0.59	0.00	0.59
Services (excl Tourism)				
—$100m & over	3	0.67	0.14	0.81
—$50m-$100m	10	0.61	0.00	0.61
—total $50m & over	13	1.28	0.14	1.42
Tourism.(b)				
—$100m & over	14	0.81	2.30	3.11
—$50-$100m	12	0.21	0.63	0.84
—total $50m & over	26	1.02	2.93	3.95
Real Estate				
—$100m & over	28	3.91	3.63	7.53
—$50m -$100m	28	0.86	1.05	1.91
—total $50m & over	56	4.77	4.68	9.44
Other(c)				
—total $50m & over	5	0.55	1.01	1.57
TOTAL —all sectors				
—$100m & over	66	9.50	7.41	16.90
—$50m-$100m	73	3.09	1.85	4.94
—Total $50m & over	139	12.59	9.26	21.84

(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 four proposals in the resource processing sector and one proposal in the agriculture, forestry & fishing sector.

TABLE A.4: TOTAL EXPECTED INVESTMENT ASSOCIATED WITH PROPOSALS, BY COUNTRY OF INVESTOR AND INDUSTRY SECTOR, 1988–89

Industry sector	US $m	UK $m	FRG $m	Other EC $m	Switz-erland $m	Can-ada $m	NZ $m	Japan $m	Sing-apore $m	Mal-aysia $m	Korea $m	Hong Kong $m	World Other $m	Sub-total $m	Aust (a) $m	Total $m
Agriculture, forestry and fishing	117	51	11	5	0	0	0	17	0	0	0	14	33	248	15	263
Mineral exploration and development	430	219	13	212	0	128	13	158	20	26	0	9	106	1334	823	2157
Manufacturing	1546	1105	17	231	256	89	229	121	6	5	0	25	106	3736	618	4354
Finance and Insurance	221	315	80	90	50	0	36	188	25	1	36	40	10	1092	124	1216
Service (excl Tourism)	809	492	6	132	66	0	236	135	10	4	0	436	80	2406	239	2645
Tourism(c)	138	83	0	0	50	0	59	3516	280	76	1	392	131	4726	271	4997
Real estate	89	1268	130	171	132	32	1392	4927	120	751	76	1072	2314(d)	12474	2292	14766
Resource processing	365	50	15	13	0	2	0	42	7	0	0	0	478	972	653	1625
Total	3715	3583	272	854	554	249	1965	9104	468	863	113	1988	3258	26497	5035	32023
Number of proposals (b)	227	390	57	87	55	22	721	674	157	94	13	745	889	4131	454	4585

(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 3 for explanation—which have been recorded as World Other because the country of investors is not known in advance.

TABLE A.5: PROPOSALS BY LOCATION OF EXPECTED INVESTMENT, 1988-89

State or Territory	Number	Consideration $ billion	Expected Development Expenditure $ billion	Total expected investment $ billion
New South Wales	968	5.694	5.615	11.309
Victoria	237	1.013	.322	1.335
Queensland	2142	3.611	3.935	7.547
Western Australia	601	1.156	.767	1.923
South Australia	060	.276	.142	.418
Tasmania	011	.121	.000	.121
ACT	017	.064	.040	.104
Northern Territory	009	.137	.006	.143
Other (a)	353	8.060	1.063	9.123
Total	4398	20.132	11.890	32.023

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

TABLE A6: EXPECTED INVESTMENT ASSOCIATED WITH TOURISM PROPOSALS(a), BY COUNTRY OF INVESTOR AND LOCATION OF INVESTMENT, 1987–88 AND 1988–89

$ million

	Japan		Hong Kong (d)	ASEAN		World Other		EC (inc UK)		NZ		Sub-Total		Aust		Total(c)	
Location	87–88	88–89	88–89	87–88	88–89	87–88	88–89	87–88	88–89	87–88	88–89	87–88	88–89	87–88	88–89	87–88	88–89
NSW	270	803	363	10	340	140	113	–	3	25	31	445	1653	191	187	636	1839
VIC	–	23	–	–	–	–	–	–	–	–	–	–	23	–	–	–	23
QLD	946	2415	13	10	–	–	116	10	47	86	29	1051	2597	17	54	1068	2675
WA	170	240	–	–	–	–	10	–	20	–	–	170	269	–	20	170	289
SA	–	–	–	–	16	–	31	–	–	–	–	–	47	–	10	–	57
ACT	–	35	–	–	–	–	–	–	–	–	–	–	35	–	–	–	35
NT	–	–	15	–	–	–	16	–	–	–	–	–	31	–	–	–	31
Other(b)	–	–	–	20	34	4	–	71	14	20	–	114	48	102	–	216	48
TOTAL	1385	3516	392	40	390	144	286	81	84	131	60	1782	4727	309	270	2091	4997

(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 $5 million on which to build a $3 million motel 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.

(d) There were no tourism proposals from Hong Kong in 1987–88

TABLE A.7: EXPECTED INVESTMENT IN URBAN REAL ESTATE BY TYPE AND NUMBER OF PROPOSALS, 1988–89

	No of proposals	Consideration $ billion	Expected Development Expenditure $ billion	Total expected investment $ billion
Developed residential	1462	.367	.003	.370
Residential for development				
—ordinary approvals	1545	.710	1.696	2.407
—off-the-plan approvals	298	1.986	–	1.986
—annual programs	003	.422	–	.422
—total residential for development	1846	3.118	1.696	4.815
Developed commercial	240	1.861	.288	2.149
Commercial for development				
—ordinary approvals	137	1.641	4.157	5.798
—annual programs	022	1.528	–	1.528
—total commercial for development	159	3.169	4.157	7.326
Sub-Total	3707	8.515	6.144	14.659
Acquisitions of real estate related businesses	019	.107	–	.107
Total	3726	8.622	6.144	14.766

TABLE A.8: EXPECTED INVESTMENT IN DEVELOPED RESIDENTIAL REAL ESTATE, BY CATEGORY OF INVESTOR, 1988–89

Category of investor	No of proposals	Expected investment $ million
Australian citizens abroad(a)	563	146
Intending migrants(b)	607	135
Company purchases for senior executives	80	43
Foreign nationals temporarily resident in Australia(c)	169	36
Other(d)	46	10
Total	1465	370

(a) Also includes purchases by couples where one partner is an Australian citizen and the other is their foreign national spouse.

(b) Includes purchases by other foreign nationals who, although entitled to permanent residence in Australia, are currently residing abroad.

(c) 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.

(d) 'Other' comprises 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 AND OTHER FOREIGN NATIONALS ENTITLED TO PERMANENT RESIDENCE, BY COUNTRY OF INVESTOR, 1988–89

Country of investor	No of Proposals	Expected investment $ million
New Zealand	279	48
Hong Kong	187	54
Japan	10	7
EC (incl UK)	27	7
ASEAN	32	5
Other	72	14
Total	607	135

TABLE A.10: TOTAL EXPECTED INVESTMENT IN URBAN REAL ESTATE BY CATEGORY OF REAL ESTATE AND LOCATION OF INVESTMENT, 1988–89

Location	Commercial for Development $ b	Developed Commercial $ b	Developed Residential $ b	Residential for Development $ b	Total $ b
NSW	4.931	1.510	.176	1.696	8.313
Queensland	1.013	.375	.121	2.397	3.906
Victoria	.194	.063	.026	.101	.384
Western Australia	.065	.146	.038	.180	.430
Other(a)	1.123	.055	.008	.439	1.626
Total	7.326	2.149	.370	4.814	14.659
Number of Proposals	159	240	1462	1846	3707

(a) Other includes ACT, Northern Territory, Tasmania, South Australia and annual programs covering more than one State or Territory.

TABLE A.11: ACQUISITIONS OF RURAL LAND INVOLVING PROPERTIES[(a)] WITH TOTAL ASSETS OF MORE THAN $3 MILLION, 1988–89

Location	No of proposals	Consideration $ million
New South Wales	11	80
Queensland	5	23
Other(b)	7	135
Total	23	238

(a) The total area involved in these 20 proposals was 8.50 million hectares.
(b) Other comprises one Tasmanian property, one Victorian property, one South Australian property, two Western Australian properties and two proposals to acquire a company that owned rural land in more than one state.