Foreign Investment Review Board

Report 1992–93

Department of the Treasury

Foreign Investment Review Board

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Foreign Investment Review Board

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The Hon Ralph Willis, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

In accordance with the Foreign Investment Review Board's responsibility to advise the Government on foreign investment matters, I have the honour to submit to you the Board's Report for the financial year 1992-93.

The first chapter of the Report outlines the activities of the Board; the second chapter provides a summary of the year's foreign investment proposals and comments on the more significant cases; and the third chapter reviews trends in foreign investment in Australia and Australian investment abroad. The Report has a number of Appendices that provide supporting material on foreign investment policy.

Yours sincerely

K.C. Stone

K.C. Stone, AO
Acting Chairman

HIGHLIGHTS FOR 1992-93

Policy

- The Treasurer announced on 1 April 1993 further policy liberalisations, namely:
  - the removal of the 50 per cent Australian equity requirement for the acquisition of developed non-residential commercial real estate. Prior to this change, acquisitions by foreign interests of developed non-residential commercial real estate were normally approved, unless judged contrary to the national interest, on the condition that the acquisition was made with 50 per cent Australian equity participation. Where it could be demonstrated the 50 per cent Australian equity was not available on reasonable terms and conditions, proposals providing for up to 100 per cent were approved.
  - the extension of the 'off the plan' policy to include acquisitions that are part of extensively refurbished buildings. Under the 'off the plan' arrangements, developers can sell up to 50 per cent of the project to foreign purchasers. To qualify as an extensively refurbished structure, the building's use has to undergo a change from non-residential (eg, office, warehouse, hotel, motel, etc) to residential and the costs of refurbishment are to be at least 50 per cent of the total acquisition costs.
- The Treasurer announced on 20 April 1993 an increase to the maximum permitted foreign interest involvement in mass circulation newspapers by a single shareholder to 25 per cent, with unrelated foreign interests allowed to have (non-portfolio) shareholdings of up to 5 per cent.

Proposals

- In 1992-93 there were 3,825 proposals for investment in Australia submitted to the Government:
  - 3,602 were approved (2,268 with conditions), 165 withdrawn and 58 rejected.
- The rejection rate was 1.6 per cent. Most rejections continued to be in relation to developed residential real estate.
- Total expected investment for proposals approved in 1992-93 was approximately $24 billion, compared with around $18 billion in 1991-92 (major qualifications apply to these and other FIRB statistics).

- Expected investment increased for manufacturing (from $2.3 billion in 1991-92 to $4.7 billion in 1992-93), mining ($2.2 billion to $5.2 billion), services excluding tourism sector increased from ($3.5 billion to $3.7 billion) and real estate ($5.7 billion to $6.0 billion).

- Eighty-one approvals with expected investment of more than $50 million each accounted for about $17 billion of expected investment, or about 72 per cent of the total expected investment.

- The most significant investor source countries in terms of total expected investment were United Kingdom ($4.2 billion), United States ($3.9 billion), Japan ($2.0 billion) and Germany ($1.1 billion).

- Australian interests were parties to 229 foreign investment approvals and were expected to contribute $4.8 billion in investment (about 20 per cent of total expected investment).

- The average time taken to process proposals remained at 15 days for 1992-93.

Annual Report

- Chapter 1 outlines the Board's activities during 1992-93.

- Chapter 2 provides a summary, on an industry basis, of proposals examined during 1992-93 and comments on some of the more significant cases.

- Chapter 3 summarises trends in foreign investment in Australia and Australian investment abroad.

- Appendix A provides a summary of foreign investment policy.

- Appendix B lists legislation, policy statements and publications concerning foreign investment policy and its administration.

- Appendix C lists the Treasurer's press releases on foreign investment during 1992-93.

- Appendix D provides a chronology of measures relating to foreign investment policy from 1983 to 1993.

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Chapter 1

FOREIGN INVESTMENT REVIEW BOARD

The Foreign Investment Review Board (FIRB) is a non-statutory body established in April 1976 to advise the Government on foreign investment administration and 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.

Membership

Mr Kenneth Stone, was appointed Acting Chairman from 1 October 1992 with Mr Desmond Halsted continuing as a member. Mr Tony Hinton, First Assistant Secretary, Investment and Debt Division, the Treasury, succeeded Mr Pooley as the Executive Member on 25 August 1992. (Mr Graham Maguire was appointed as Member of the Board from 26 August 1993. Mr Maguire was a Senator for South Australia in the Commonwealth Parliament between 1983 and 1993.)

Sir Bede Callaghan, who served as the Board's Chairperson since its establishment in 1976 until his retirement on 30 September 1992, died in September 1993. Sir Bede had a long and distinguished role in the public sector, most notably as a Managing Director of the Commonwealth Banking Corporation, and as an Executive Director of the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank).

Functions

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 the Government's foreign investment policy and for making decisions on proposals rests with the Treasurer.

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 comments were 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 liaison with the State Governments as important in the administration of Australia's foreign investment policy.

In keeping with one of the Board's functions of fostering an awareness and understanding of the Government's policy and providing guidance to investors, a number of meetings were held 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.

Processing of Proposals

The Board seeks to ensure that proposals are dealt with quickly and efficiently and every effort is made to avoid unnecessary interference in normal commercial practice. The information and other requirements have been designed to keep to a minimum the cost incurred in seeking foreign investment approval.

The average time taken to process a proposal in 1992-93 was maintained at 15 days. The number of proposals examined per staff member during 1992-93 was approximately 192 (160 proposals in 1991-92), compared with about 35 per staff member a number of years ago. The variation over a period in the number of proposals examined per staff member in part reflects the relative mix of straightforward 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 1992-93, the Board's Executive processed 14 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 and 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 three requests and a partial release in respect of six requests was possible. There are, of course, provisions in the FOI Act authorising denial of access to commercially confidential documents. This has relevance to documents provided to the Board (or prepared by the Board or the Executive) in its examination of a proposal. Of the remaining proposals, two lapsed, two were withdrawn and one remained outstanding.

No commercially sensitive or confidential documents have been released to applicants as a result of an FOI Act request or 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. To this end, the Board limits face to face meetings to once a month, with business between meetings conducted by telephone conferences. Government expenditure on the Board in 1992-93 was around $66,000. 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, printing expenses and incidentals.

Government expenditure on the Executive was about $726,000 in 1992-93. This expenditure was directed mostly to salaries, with relatively minor expenses being incurred for travelling, printing, advertising. In addition, some minor support costs were incurred by Treasury. 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 1993, there were 18 officers in the Foreign Investment Review Branch of Treasury.

International Organisations

Australia is a subscriber 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 is a subscriber 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.

Chapter 2:

FOREIGN INVESTMENT PROPOSALS

This chapter provides some statistical information on the proposals submitted in 1992-93 for examination and comments on some of the more significant cases.

Statistical Qualifications

Many qualifications need to be borne in mind in interpreting the Board's statistics. The data recorded on investment relate to expected investment on proposed acquisitions and new businesses submitted by foreign interests for examination under foreign investment policy, including future known development expenditures. In particular, the figures:

- relate to proposals approved, which may or may not be implemented; and, if implemented, perhaps only over a period of years;

- for real estate 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;

- provide no indication of the source of the funds for the investment. 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;

- do not necessarily reflect changes in foreign ownership since, in some cases, the vendor as well as the purchaser come within the definition of a 'foreign interest'; and

- in addition to being inherently 'lumpy' (ie, the tendency for a few large investments to skew any one year's figures), are restricted to investments which fall within the scope of the *Foreign Acquisitions and Takeovers Act 1975* and the Government's foreign investment policy. Therefore, they do not cover foreign portfolio investments, direct foreign investments below the examination thresholds, new businesses below the examination thresholds, expansions of existing foreign-owned businesses in Australia into related areas and sales by foreign investors to Australian residents.

Policy changes mean that the statistics are not necessarily comparable over time; in particular, the major liberalisations to foreign investment policy in recent years mean that the statistics for 1992-93 lack comparability in a number of significant respects with the figures for earlier years (see Appendix D for full details of policy changes).

The Board's statistics on foreign investment proposals are substantively different from the Australian Bureau of Statistics' (ABS) statistics of foreign investment in Australia. ABS statistics, which are set out in Chapter 3 of this Report, seek to measure actual investment transactions between residents of Australia and non-residents.

Having regard to the qualifications mentioned above, the Board urges particular caution about the use of the statistics provided, as well as for comparisons between the 1992-93 statistics and those of earlier years.

Definition of 'Expected Investment'

The term 'expected investment' that is used widely throughout this Report includes many elements:

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

Total expected investment is the aggregation of the cost of each acquisition, the development (if any) associated with each acquisition, the 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. Total expected direct investment approved during 1992-93 was $24.0 billion. However, because of the reasons set out in the paragraphs above about 'statistical qualifications', it cannot be concluded that all of this actually occurred during 1992-93. For example, it includes $5.9 billion of expected investment on development which is likely to be spread over the years ahead (to the extent that the acquisitions and development occur at all).

Proposals

As can be seen in **Chart 2.1** the annual number of foreign investment proposals increased sharply in the late 1980s. The substantial increase in the number of proposals in 1988 was mainly as a result of the tightening of policy in the residential real estate area. The number of proposals declined slightly in the early 1990s, associated with the recent recession, but has recovered slightly over the last two years to be 41 per cent above the trough in 1990-91.

Chart 2.1 Annual Number of Proposals Decided

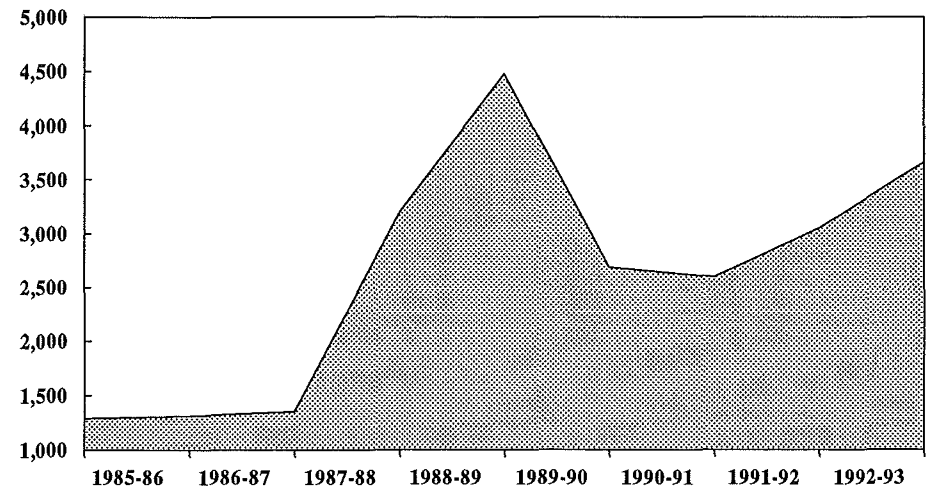


Table 2.1 provides a breakdown on the total number of proposals considered over the last four years. Of the 3,602 proposals approved during 1992-93, 1,334 were approved without conditions and 2,268 were approved subject to conditions. Most of the conditions were in respect of acquisitions of urban real estate, where the conditions mainly relate to specifying a period during which development should commence or requiring temporary residents to sell established properties when they cease to reside in Australia.

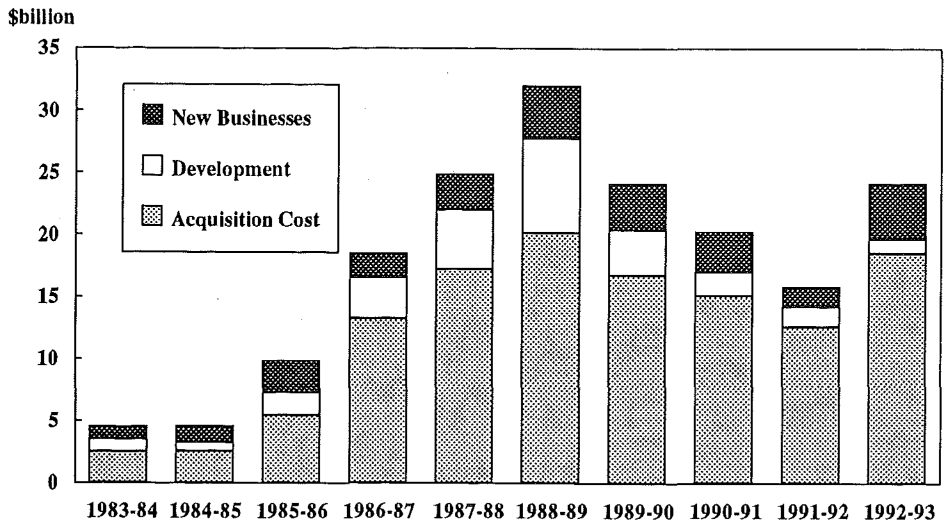
There were 58 rejected proposals (which does not include withdrawn applications) in 1992-93. Most of the rejected proposals were in the real estate sector and related to applicants failing to qualify for approval to acquire established residential real estate. The low rejection rate reflects the consultative approach to foreign investment, where foreign investors are encouraged to discuss potential proposals to ensure they are consistent with policy. Where a potential proposal is inconsistent with policy, the proponents may modify the proposal to ensure it conforms or may not proceed with the project. In some instances where a proposal has been submitted and it is clearly inconsistent with the policy, some proponents prefer to withdraw the proposal rather than have it rejected. As well, many real estate proposals that are inconsistent with policy proceed to a formal rejection rather than voluntarily being withdrawn to assist proponents with contractual obligations.

Table 2.1 Proposals by Number and Total Expected Investment, 1989-90 to 1992-93

	1988-89		1990-91		1991-92		1992-93	
Type of proposal	No	$b	No	$b	No	$b	No	$b
Approved unconditionally	1066	13.7	928	12.7	1048	12.0	1334	18.9
Approved with conditions	1554	10.4	1597	7.6	1933	3.8	2268	5.1
Total Approved	**2620**	**24.1**	**2525**	**20.2**	**2981**	**15.8**	**3602**	**24.0**
Rejected	61	0.4	69	1.9	66	1.8	58	0.1
Total Decided	2681	24.5	2594	22.2	3047	17.6	3660	24.1
Withdrawn	232		235		227		165	
Total Considered	2913		2829		3274		3825	

The expected investment from proposals in 1992-93 was 52 per cent higher than in 1991-92 and is only marginally below the peak in 1988-89. **Chart 2.2** provides a breakdown of total expected investment.

Chart 2.2 Expected Investment by Type of Expenditure



Summary of Approvals by Sector

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 investment associated with these proposals has been allocated to service industries (the ABS classifies these under manufacturing). 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.

Table 2.2 provides details of approved proposals broken down into sectors and for each sector the number of approvals and expected investment on acquisitions and new businesses for 1992-93. Of the total expected investment associated with approvals, the bulk is attributable to the expected cost of acquisitions, with 25 per cent accounted for by expected investment in new developments.

- The sector attracting the largest expected foreign investment is real estate, with some $6.1 billion of expected investment (or 25 per cent of the total) and 88 per cent of all approvals.
  - The overall importance of the real estate sector in terms of total expected foreign investment, however, is overstated as it includes expenditure for annual programs and 'off the plan' approvals granted to real estate developers. Based on past experience, a significant proportion (possibly up to half) of these advance approvals are not utilised. In addition, no account is taken of real estate that is developed under an annual program which is subsequently sold to Australian interests.
- Resource processing and mineral exploration and development sectors combined were the next most attractive to intending foreign investors, with a combined total of $7.0 billion or 29 per cent of expected investment.
- Just under a 20 per cent (or $3.9 billion) of expected investment was in the manufacturing sector.

Of the $24.0 billion total expected investment from approvals, about $4.8 billion was attributable to Australian entities participating in ventures with foreign interests. By excluding Australian participation, a better approximation of total expected foreign investment approved in 1992-93 would be $19.3 billion (compared with $12.8 billion in 1991-92).

Table 2.2 Approved Proposals for Acquisitions and New Businesses, by Industry Sector, 1992-93

Industry Sector	*No of approvals*	*Consideration $billion*	*Expected investment on development $billion*	*Total expected investment $billion*
AGRICULTURE, FORESTRY & FISHING				
- total	18	0.24	0.06	0.30
MINERAL EXPLORATION & DEVELOPMENT				
- acquisitions	49	4.13	-	4.13
- new businesses	5	-	1.12	1.12
- total	54	4.13	1.12	5.24
RESOURCE PROCESSING				
- acquisitions	4	0.21	-	0.21
- new businesses	5	-	1.53	1.53
- total	9	0.21	1.53	1.74
MANUFACTURING				
- acquisitions	78	4.38	0.01	4.39
- new businesses	6	-	0.33	0.33
- total	84	4.38	0.34	4.72
FINANCE & INSURANCE				
- acquisitions	33	0.73	-	0.73
- new businesses	5	-	0.02	0.02
- total	38	0.73	0.02	0.75
SERVICES(EXCL TOURISM)				
- acquisitions	94	2.52	0.04	2.56
- new businesses	22		1.17	1.17
- total	116	2.52	1.20	3.72
TOURISM				
- acquisitions	25	0.75	0.03	0.77
- new businesses	3	-	0.65	0.65
- total	28	0.75	0.68	1.43
REAL ESTATE	3184	5.11	0.98	6.09
Total				
- acquisitions	3484	18.07	1.05	19.12
- new businesses	47	0.01	4.88	4.88
TOTAL	3531	18.07	5.93	24.00
Financing arrangements & corporate restructures	71			

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

Larger Approvals

Table 2.3 provides a breakdown of proposals over $50 million by sector. These larger approvals are most significant in terms of total expected investment in the mining and manufacturing sectors and are less important in the real estate sector which was dominated by a large number of small transactions.

Table 2.3 Approvals over $50 Million for Acquisitions and New Businesses by Industry Sector, 1992-93

Industry Sector	*No of approvals*	*Consideration $billion*	*Expected investment on development $billion*	*Total expected investment $billion*
MINERAL EXPLORATION & DEVELOPMENT				
- $100m & over	16	3.38	1.07	4.44
- $50m-$100m	5	0.29	0.05	0.34
- total $50m & over	21	3.67	1.12	4.79
MANUFACTURING				
- $100m & over	10	3.43	0.16	3.60
- $50m-$100m	4	0.18	0.14	0.32
- total $50m & over	14	3.61	0.30	3.92
FINANCE & INSURANCE				
- total $50m & over	4	0.41	-	0.41
SERVICES(EXCL TOURISM)				
- $100m & over	7	1.62	1.02	2.64
- $50m-$100m	3	0.25	-	0.25
- total $50m & over	10	1.87	1.02	2.89
TOURISM				
- $100m & over	2	0.16	0.60	0.76
- $50m-$100m	5	0.32	-	0.32
- total $50m & over	7	0.48	0.60	1.08
REAL ESTATE				
- $100m & over	8	1.55	0.16	1.71
- $50m-$100m	9	0.42	0.18	0.60
- total $50m & over	17	1.97	0.34	2.31
OTHER				
- $100m & over	5	0.31	1.41	1.72
- $50m-$100m	3	0.06	0.15	0.21
- total $50m & over	8	0.38	1.55	1.93
Total				
- $100m & over	49	10.64	4.41	15.05
- $50m-$100m	32	1.75	0.51	2.27
TOTAL $50m & over	81	12.39	4.93	17.32

Notes: 'Other' comprises proposals in the resource processing and in the agriculture, forestry and fishing sectors.

Approvals by Country of Investor

Expected investment levels by country of investor for 1988-89 to 1992-93 are summarised in **Table 2.4** and details on expected investment by country and sector are provided in **Table 2.5**.

The United Kingdom and the United States were the most important sources of expected foreign investment in Australia during 1992-93. Other major sources included Japan, Germany, Hong Kong, Singapore and New Zealand.

- A noticeable trend in recent years has been the substantial decline in expected foreign investment from Japan. Japanese expected investment has steadily declined from $8.4 billion in 1989-90 to $2.0 billion in 1992-93.
  - In 1992-93 Japanese expected investment was concentrated heavily in the mineral exploration and resource processing sectors which, taken together, accounted for over 50 per cent of the $2 billion expected investment. A further 22 per cent went to real estate sector.
- Expected investment sourced from the United Kingdom was concentrated in mineral exploration and services sectors.
- Expected investment from the United States was heavily concentrated in the manufacturing sector, with approximately 39 per cent or $1.8 billion of expected investment in this sector - the remaining expected investment was more evenly spread between the other sectors.

Table 2.4 Expected Investment by Country of Investor by Year of Approval

	Expected investment			
	1989-90	*1990-91*	*1991-92*	*1992-93*
Country of investor	*$b*	*$b*	*$b*	*$b*
Japan	8.4	5.0	2.6	2.0
United States	1.8	3.9	1.9	3.9
United Kingdom	2.6	2.9	1.9	4.2
Germany	0.1	0.3	0.4	1.1
Hong Kong	1.0	0.4	0.6	0.8
New Zealand	1.8	1.1	1.0	0.6
Singapore	0.3	0.2	0.7	0.9
Australia	4.4	2.3	3.0	4.8
Other	3.7	4.0	3.7	6.0
Total	24.1	20.2	15.8	24.0

Notes: Figures may not add due to rounding. The contribution attributed to Australia reflects expected investment by Australian entities participating in ventures with foreign interests.

Table 2.5 Total Expected Investment Associated with Approved Proposals, By Country of Investors and industry Sector 1992-93 ($million)

Industry Sector	*USA*	*UK*	*Germany*	*France*	*Other EC*	*Switzerland*	*Canada*	*NZ*	*Japan*	*Singapore*	*Malaysia*	*Other Asean*	*Hong Kong*	*World Other*	*Sub-total*	*Aust (a)*	*Total*
Agric, Forestry & fishing	24	13	3.0	-	4	-	-	-	62	-	-	198	-	2	304	-	304
Mineral Explor. & Development	386	1173	174	356	135	-	26	45	845	-	104	-	5	971	4218	1024	5243
Manufacturing	1848	777	148	11	62	40	-	329	158	31	15	5	80	6	3510	1212	4721
Finance & Insurance	134	324	-	-	111	5	-	50	16	-	11	-	15	33	699	53	753
Services (excl tourism)	322	1336	107	5	82	1	104	89	65	352	12	-	260	733	3467	256	3723
Tourism	648	1	42	254	29	-	24	4	240	-	10	1	102	24	1355	71	1425
Real Estate (b)	507	270	48	26.8	402	9.1	7	36	454	508	219	42	339	1771	4639	1450	6089
Resource Processing	-	278	560	-	-	-	-	-	181	-	-	-	-	40	1059	684	1743
Total	3869	4173	1081	652	824	55	137	552	2021	890	370	246	802	3580	19251	4750	24001
Number of Proposals(c)	192	288	72	33	89	34	36	28	192	393	95	72	268	1741	3533	229	3762

Notes:

(a) The investment identified as originating from Australia represents the contribution by Australian-controlled companies and Australian residents to the total investment 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) 'Off-the-plan' approvals to real estate developers have been recorded as World Other because the country of investors is not known in advance.

(c) 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.

Location of Expected Investment

The distribution of expected investment by State and Territory is shown in **Table 2.6.**

New South Wales was the main destination for expected investment approved in 1992-93. Variations over time in the State and Territory distributions of proposed investments should be interpreted with caution; they reflect in part the lumpiness of particular projects. In addition, approval does not necessarily mean that the proposal went ahead. The main destinations for expected investment over the past four years have been New South Wales and Queensland, followed by Western Australia and Victoria.

Table 2.6 Expected Investment by State and Territory by Year of Approval

	Total Expected Investment			
	1989-90	*1990-91*	*1991-92*	*1992-93*
Location	*$b*	*$b*	*$b*	*$b*
New South Wales	7.1	4.9	4.4	4.6
Victoria	1.3	0.6	1.5	3.4
Queensland	6.3	5.0	1.9	3.7
Western Australia	2.6	2.6	1.7	0.8
South Australia	0.1	0.1	0.2	1.2
Tasmania	0.0	0.0	0.0	0.1
ACT	0.1	0.1	0.1	0.1
Northern Territory	0.2	0.2	0.2	0.5
Other (a)	6.4	6.7	5.9	9.7
Total	24.1	20.2	15.8	24.0

Notes:
Figures may not add due to rounding.
(a) Includes off-shore takeovers and proposals where the investment is expected to be undertaken in more than one State or Territory.

Urban Real Estate

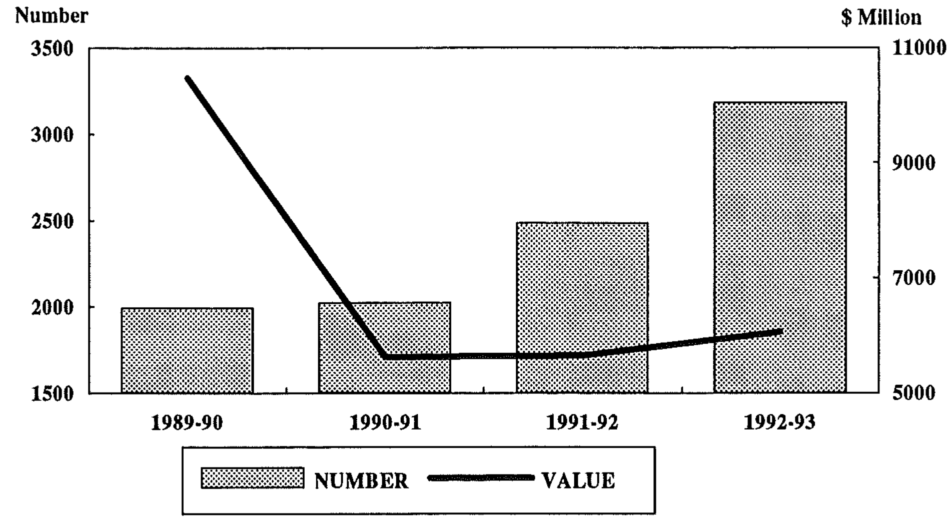
In 1992-93, a total of 3,236 proposals (3180 approvals) by foreign interests to acquire urban real estate in Australia were examined, a 27 per cent increase over the 2,549 proposals examined in 1991-92. The total expected investment in urban real estate increased by 7 per cent from $5,651 million in 1991-92 to $6,059 million in 1992-93 (a disaggregation of this figure according to type of proposal is provided in **Table 2.7**), maintaining the slight upward trend in the expected urban real estate investment in recent years **(Chart 2.3)**. There appears to be increasing investor interest in the acquisition of residential real estate for development, particularly the acquisition of real estate 'off the plan'.

Table 2.7 Expected Investment in Urban Real Estate by Type and Number of Proposals Approved in 1992-93

	Number of Approvals	*Consideration*	*Expected Development Expenditure*	*Total Expected Investment*
		$billion	*$billion*	*$billion*
Developed Residential	**1588**	**0.28**	**-**	**0.28**
Residential for Development				
- ordinary approvals	1113	0.27	0.61	0.88
- off-the-plan approvals	352	1.58	-	1.58
- annual programs	3	0.08	-	0.08
Total Residential for Development	**1468**	**1.94**	**0.61**	**2.54**
Developed Commercial	**90**	**2.29**	**-**	**2.29**
Commercial for Development	34	0.58	0.37	0.95
Sub-Total	3180	5.08	0.98	6.06
Acquisitions of real estate related businesses	4	0.03	-	0.03
TOTAL	3184	5.11	0.98	6.09

Note: The symbol '-' indicates an aggregate figure of less than five million dollars.

Chart 2.3 Approved Urban Real Estate



Certain categories of real estate purchases are exempt from examination under the Regulations of the *Foreign Acquisitions and Takeovers Act 1975*. A full listing of exempt categories is contained in the Treasury publication, Australia's Foreign Investment Policy - A Guide for Investors. Acquisitions of urban land within the exempt categories are not considered to raise significant issues from a foreign investment policy viewpoint.

For foreign investment policy purposes, the urban 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).

Residential Real Estate

Total expected investment in residential real estate for proposals approved in 1992-93 was $2,822 million, a 16 per cent increase from the $2,442 million in 1991-92. Consistent with past years, over 90 per cent of this expected investment - $2,544 million - was attributable to proposals involving residential real estate for development and just over 9 per cent ($278 million) was attributable to purchases of developed residential real estate, with the majority of these relating to purchases by foreign nationals temporarily resident in Australia.

Developed Residential Real Estate

The policy applying to developed residential real estate remains restrictive. Accordingly, approvals are given only for a strictly limited range of purchases. Under current policy, foreign purchases of developed residential real estate are normally only permitted in the case of foreign nationals who are temporarily resident in Australia for a period exceeding twelve months and foreign-owned companies buying homes for their senior executives resident in Australia. In both cases, a normal condition of approval is that the property be sold when no longer required for these purposes.

There was a significant increase in the number and value of expected investment in developed residential real estate for approvals in 1992-93, maintaining the trend of recent years (**Chart 2.4**). **Table 2.8** provides a disaggregation of approvals for the acquisition of developed residential real estate by foreign interests.

Chart 2.4 Approved Developed Residential Real Estate

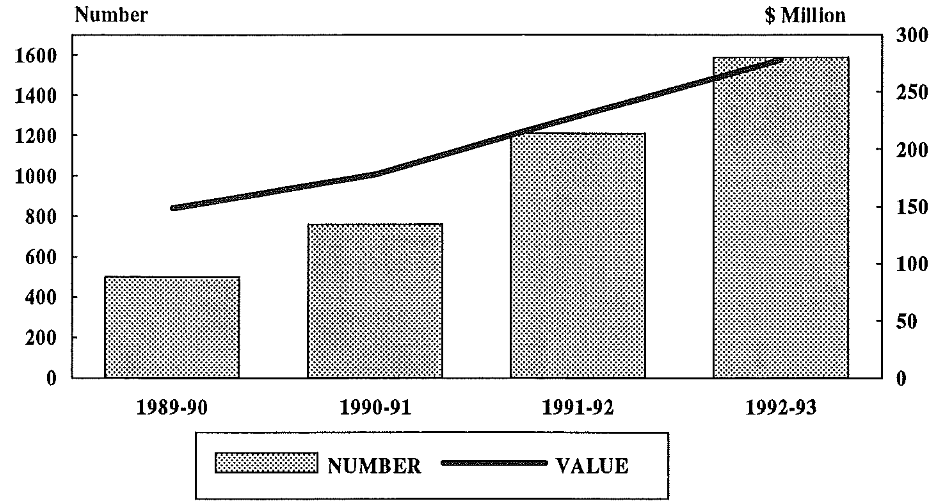


Table 2.8 Expected Investment in Developed Residential Real Estate, by Category of Investor Approved in 1992-93

Category of Investor	*No of Proposals*	*Expected Investment $million*
Australian citizens abroad [(a)]	199	40
Intending migrants [(a)]	9	5
Company purchases for senior executives	14	7
Foreign nationals temporarily resident in Australia [(b)]	1294	203
Other [(c)]	72	23
TOTAL	1588	278

Notes:

(a) Acquisitions of residential real estate by Australian citizens living abroad, approved migrants and other foreign nationals entitled to permanent residence in Australia became exempt from examination in August 1989. The figures in these two rows include purchases by couples where one partner is an Australian citizen and the other is their foreign national spouse, and purchases by approved migrants who, although entitled to permanent residence in Australia, are currently residing abroad.

(b) 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.

(c) '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.

Reflecting the comparatively restrictive nature of the policy, there were 38 rejections of proposed acquisitions of developed residential property in 1992-93. These proposals were rejected because the prospective buyers did not fall into one of the categories referred to previously and, in some cases, involved the prior unapproved acquisition of property which resulted in the purchaser being required to sell the property. It should be noted that, in addition to forcing divestiture, the Government also has the power to impose substantial financial and penal sanctions for the unapproved acquisition of property, including those acquisitions utilising corporate, trust or nominee arrangements. Many of the rejected proposals involved non-residents intending to purchase developed residential property, either as an investment or as a holiday home. Several involved proposals by foreign-owned companies seeking permission to buy 'executive housing' which were not approved because the company did not have a resident executive who would occupy the property or the scale of the proposed 'executive housing' accommodation appeared to be inconsistent with the size of the company's business activities in Australia. Other rejected proposals involved the acquisition of an established single dwelling that was to be demolished to permit redevelopment of the land. Normally, proposals of this kind are approved only if the existing dwelling has reached the end of its economic life and the proposed redevelopment is of a substantial nature.

Residential Real Estate for Development

There were 1,468 proposals approved for the acquisition of residential real estate for development during 1992-93, a 30 per cent increase over the 1,131 proposals approved in 1991-92. Total expected investment associated with those proposals amounted to $2,544 million, of which $1,939 million constituted acquisition costs and $606 million the expected development expenditure. However, the expected development expenditure relates to only acquisition costs of $204 million in ordinary approvals and the remainder of the acquisition costs ($1,735 million) comprises $1,584 million of developer 'off-the-plan' advance approvals, $71 million individual 'off-the-plan' approvals and $80 million of annual programs.

Annual Programs

The annual program arrangements are designed to avoid the need for established real estate developers to notify individual acquisitions of property. Such companies may be granted annual approvals to buy land up to specified limits on condition that they report to the Board at the end of the year on their acquisitions and the development undertaken. In 1992-93 three annual program arrangements (for residential real estate for development) were approved, totalling $80 million in expected acquisition costs. This was a significant decrease over the seven annual program approvals in 1991-92, which totalled $167 million.

'Off-the-Plan' Arrangements

Under the 'off-the-plan' arrangements, foreign interests may receive approval to buy up to 50 per cent of the units or condominiums in new residential development projects, providing the dwellings are bought before or during construction, or following completion but prior to being first occupied or used. In April 1993, the Government announced that the 'off-the-plan' category had been extended to include acquisitions that are part of extensively refurbished buildings where the building's use had changed from non-residential commercial to residential and the cost of refurbishment of the building was at least 50 per cent of its acquisition cost or current value.

To streamline procedures, a 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 limit can be monitored, the Government grants general approvals and thus saves the time and expense for proponents that would otherwise be incurred if individual investors were required to make separate applications to the Board.

One of the effects of this procedure is that the Board's statistics overstate the likely extent of foreign purchases, since few of the developers with 'off-the- plan' approvals will actually sell a full 50 per cent of their developments to foreign purchasers.

In 1992-93, there were 340 proposals approved (as part of oridnary approvals in **Table 2.7**) involving expected investment of $71 million by individuals to acquire residential property 'off-the-plan' (six proposals were rejected). In addition there were 352 applications from real estate developers approved for advance approval to sell property, valued at $1,584 million 'off-the-plan' to foreign persons (three proposals were rejected). This is a significant increase over the 194 advance approvals for 1991-92 and may indicate increasing developer confidence in future growth in the residential market.

In the six year period to June 1993, a total of 1,366 'off-the-plan' approvals were granted to real estate developers and the Board has now received reports on more than 50 per cent of these developments. (There is necessarily a significant lag between the granting of approvals and receipt of reports due to construction time.) The returns received in the six years to June 1993 indicate that sales to foreign interests averaged about 16 per cent of total sales by number and about 23 per cent by value.

About half of all 'off-the-plan' sales to foreign interests were on the Gold Coast. In that region, about 22 per cent of sales by number and about 35 per cent by value were to foreign interests. The average purchase price paid by foreign interests was about 87 per cent higher than the average price paid by Australian residents suggesting a tendency for foreign investors to acquire more expensive dwelling units.

Elsewhere in Queensland, sales to foreign interests were 14 per cent by number and 16 per cent value of total sales and the average price paid by both Australian and foreign purchasers was substantially lower than on the Gold Coast. In New South Wales, sales to foreign interests accounted for 10 per cent by number and 14 per cent by value of total sales with foreign purchasers paying, on average, 37 per cent more for properties than Australian residents. In Victoria, 8 per cent by number and 14 per cent by value of sales were to foreign interests and in Western Australia 14 per cent by number and 25 per cent by value of sales were to foreign interests. South Australia accounted for only a small number of 'off-the-plan' approvals and only 6 per cent of reported sales in that State have been to foreign interests.

Integrated Tourism Resorts

On 25 July 1991, the then Treasurer announced a change in the foreign investment policy which would permit foreign investors to acquire any residential real estate within a designated Integrated Tourism Resort (ITR) without the need to obtain Government approval. There are established criteria to qualify as a designated ITR. The policy change was designed to encourage further investment in tourist resorts. The regulation made pursuant to the *Foreign Acquisitions and Takeovers Act 1975 (FATA)*, which gave effect to the policy change, came into force on 30 September 1991.

In 1992-93 three resorts qualified for designation as an ITR and two applications were rejected as they did not satisfy the criteria for designation as an ITR. For the period up until June 1993 ten resorts had been designated as ITRs.

Other Residential Real Estate for Development

Apart from annual programs and 'off-the-plan' approvals, the Board approved 773 proposals (as part of oridnary approvals in **Table 2.7**) by foreign interests to acquire residential real estate for development, with a total expected investment of $810 million, consisting of $204 million for acquisitions and $606 million for the associated development expenditure. These proposals comprised the purchase of broadacres for residential subdivision, vacant building blocks for single dwelling

construction and, in some instances, for integrated residential developments (such as townhouse and high rise units).

Residential development proposals are generally approved, subject to a condition that construction is commenced within a stipulated period of time. This category of investment adds to the total housing stock in Australia and yields direct economic benefits.

New South Wales and Queensland continue as the main locations for expected foreign investment in residential real estate development (76.4 per cent of the total). **Table 2.9** provides details of expected investment in real estate for each State and Territory.

Table 2.9 Total Expected Investment in Urban Real Estate by Category of Real Estate and Location of Investment, Approved in 1992-93

Location	Developed residential $billion	Residential for development $billion	Developed Commercial $billion	Commercial for Development $billion	TOTAL $billion
New South Wales	0.16	1.00	0.32	0.76	2.24
Victoria	0.04	0.20	0.30	0.15	0.70
Queensland	0.04	0.95	0.22	0.31	1.51
Western Australia	0.02	0.23	0.11	0.16	0.52
Other [(a)]	0.02	0.17	0.00	0.91	1.09
TOTAL	0.28	2.54	0.95	2.29	6.06
Number of proposals	1588	1468	34	90	3180

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

There were seven proposals rejected involving the acquisition of residential real estate for development in 1992-93. The anticipated acquisition and development costs of the real estate associated with these proposals was $0.6 million. The most common reasons for these rejections were one or more of the following:

(i) the planned development expenditures were not considered significant in relation to the acquisition price for the property (there is a normal expectation that proposed development expenditure should be at least 50 per cent of the acquisition price);

(ii) the proposed timetables for development were unsatisfactory; or

(iii) the prospective foreign purchasers had not established to the Government's satisfaction that they had the technical and financial capacity to undertake the proposed development.

Commercial Real Estate

In April 1993, the Government announced that proposals by foreign interests to acquire developed non-residential commercial real estate will no longer be required to have 50 per cent Australian equity participation. Prior to this change, acquisitions by foreign interests of developed non-residential commercial real estate were normally approved, unless judged contrary to the national interest, on the condition that the acquisition was made with 50 per cent Australian equity participation. Where it could be demonstrated the 50 per cent Australian equity was not available on reasonable terms and conditions, proposals providing for up to 100 per cent were approved.

During 1992-93, the Government approved 124 proposals involving non-residential commercial real estate. The total expected investment associated with the approved proposals was $3,237 million, a marginal increase on 1991-92 and only about 30 per cent of the 1988-89 figure.

Thirty four individual proposals were approved as commercial real estate for development, with expected consideration of $577 million and a further $371 million to be spent on development. There were 90 proposals approved for the acquisition of developed commercial real estate, most on the basis of 100 per cent foreign ownership, following extensive marketing of the respective properties. These proposals involved a total expected investment of $2,289 million.

Significant individual proposals included the Rodamco Group's acquisitions of interests in a number of Westfield Shoppingtowns and the C. Itoh Group's acquisition of Shimizu Corporations interests in a number of commercial properties and development sites in Sydney and Melbourne. Another significant proposal was Bankers Trust Australian Ltd's acquisition of the Mount Druitt Shopping Centre on behalf of Australian superannuants and institutional investors.

Tourism

Expected investment in the tourism sector associated with approvals in 1992-93 was slightly up on the previous year, with total expected investment of $1.43 billion (about $90 million more than 1991-92). **Table 2.10** provides a disaggregation of tourism investment by country of investor and location of investment.

A total of 28 proposals involving new businesses and acquisitions were approved, of which four proposals accounted for about 65 per cent of total expected investment in tourism. There were three proposals to establish new tourism businesses, involving total expected investment of $653 million and 25 proposals involving acquisitions of existing tourism projects and businesses for which total expected investment amounted to $773 million.

The comparative figures for the preceding year were nine new business proposals (involving expected investment of $318.5 million) and 47 proposed acquisitions of existing businesses (with total expected investment amounting to $1,017.6 million).

Finance and Insurance

Foreign investor activity in the finance and insurance sector in 1992-93 was at a similar level to the preceding years. During 1992-93, the Board considered and approved 38 proposals, comprising 5 new business proposals and 33 proposed acquisitions in this sector. The total expected investment for these approvals was $752 million, compared with $731 million in 1991-92. There were four proposals involving acquisitions with expected investment in excess of $50 million each. Together, they accounted for 54 per cent ($407 million) of total expected investment in the sector. These acquisition proposals were in insurance, financial, and investment services. The more significant of these were the proposed merger of Sun Alliance Australia Limited and Royal Insurance Australia Limited and the takeover of the Occidental Life Insurance Company of Australia Ltd by Mercantile Mutual Life Insurance Company Limited.

Service Industries (excluding tourism)

During 1992-93, the Board examined 117 proposals for investment in the services industry sector (excluding tourism), comprising 23 new business proposals and 94 proposed acquisitions. The total expected investment for the new businesses and acquisitions was $1,168 million and $2,556 million, respectively. Only one proposal was rejected.

Of the 22 approved new business proposals, three accounted for 87 per cent ($1,018 million) of the total expected investment. These significant proposals involved the establishment of new businesses in the telecommunications and data processing sectors.

There were seven proposals involving acquisitions with expected expenditure of $50 million or more. Together they accounted for 73 per cent ($1,868 million) of total expected investments in the service industries (excluding tourism). The more significant acquisition proposals in this sector considered by the Board were in transport, communications and data service industries. These were the acquisition by British airways PLC of an interest in Qantas Airways Limited, the proposal by The Telegraph PLC to increase its interest in John Fairfax Holdings Limited, the

Table 2.10: Expected Investment Associated with Tourism Approvals[a], by Country of Investor and Location of Investment, 1991-92 and 1992-93 $ Million

Location	Japan		Hong Kong		ASEAN		World Other		EC (Inc UK)		NZ		Sub-Total		Aust		Total(b)	
	91-92	92-93	91-92	92-93	91-92	92-93	91-92	92-93	91-92	92-93	91-92	92-93	91-92	92-93	91-92	92-93	91-92	92-93
NSW	317	120	16	87	54	-	42	46	152	46	-	-	580	299	-	-	580	299
QLD	209	76	2	-	18	-	72	26	-	42	-	4	301	147	49	71	350	217
WA	-	-	-	-	76	1	-	-	19	-	-	-	95	1	-	-	95	1
Other(c)	39	45	7	15	80	10	69	600	26	238	53	-	273	908	39	-	312	908
Total	564	241	25	102	227	11	183	672	197	326	53	4	1249	1355	88	71	1336	1425

Notes:
Figures may not add due to rounding
(a) Tourism proposals defined by reference to Australian Standard Classification Numbers 9138, 9141, 9143, 9144, 9232, 9233, 9241, 9242.
(b) 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 foreign investor to buy land valued at $3 million to build a $9 million motel would be classified as a new 12 million tourism business. By contrast, a proposal to buy land valued at $3 million 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.
(c) Other comprises expenditure in the other States and the Territories and also expenditure to be undertaken in more than one State or Territory.

acquisition of FM Australia Limited by Village Roadshow Limited and the acquisition of Paxus Corporation Limited by Continuum (Australia) Limited.

Manufacturing

Expected investment in the manufacturing sector associated with proposals approved during 1992-93 was $4.7 billion. Around 93 per cent of this consisted of expected investment related to acquisition costs, with only a small proportion attributable to expected investment in development. Of the 84 proposals considered, 14 involved expected investment of $50 million or more and accounted for around 83 per cent of expected expenditure. No proposals in the manufacturing sector were rejected during 1992-93.

The major source countries for expected investment in the manufacturing sector were the United States ($1.8 billion), the United Kingdom ($0.8 billion) and New Zealand ($0.3 billion). Japanese investment in manufacturing increased slightly to $0.2 billion but remained well below the level of recent years. However, as foreign investment approval is not generally required for the expansion of existing Australian businesses and because of the large investment base in manufacturing by United States, United Kingdom and Japanese companies, actual investment in manufacturing could be significantly understated.

The major acquisitions approved during the course of the year were Mission Energy Company's participation in the Loy Yang B power station, the Campbell Soup Company's takeover of Arnotts Limited, United Biscuits acquisition of Coca-Cola Amatil's snack food business and Email's acquisition of the building products and metal forming subsidiaries of National Consolidated Ltd and Goodman Fielder Watties' acquisition of the Uncle Tobys Company.

There was considerable public interest and debate over the proposed acquisition of Arnotts Limited by the Campbell Soup Company. The proposal was examined to ensure that it was not contrary to the national interest and received foreign investment approval subject to Arnotts continuing to be an Australian listed company, the majority of the members of the Arnotts' Board being Australian citizens and Arnotts' headquarters and manufacturing operations continuing to be based in Australia. These conditions were agreed to by Campbell in discussion with the Board and were designed to ensure that Arnotts' activities remained centred in Australia as it undertook an export drive into Asia. While foreign investment approval was granted, the ultimate decision remained with the shareholders of Arnotts who were in a position to decide whether or not to accept the Campbell offer.

Minerals

Conditions in the minerals industries showed some modest improvement in 1992-93 over the previous year. Reflecting continued low economic growth in key industrial economies, world energy commodity prices and other mineral commodity prices continued to fall in Special Drawing Right terms, by 5.3 per cent and 6.5 per cent respectively (falls of 8.5 per cent and 7.3 per cent in 1991-92). However, because of a lower Australian dollar exchange rate, energy commodities expressed in $A terms increased in 1992-93 by 8.1 per cent in (cf, a fall of 7.1 per cent in 1991-92) and other minerals commodities increased by 2.9 per cent (cf, a fall of 6.1 per cent in 1991-92)[1]. Company profits in the mineral resources sector also improved from $5.2 billion in 1991-92 to nearly $6 billion in 1992-93, following a sharp fall in the previous year from $6.6 billion[2].

While there were fewer investment proposals in the minerals sector approved in 1992-93 than in the previous year (54 compared with 72 in 1991-92) total expected investment approved in 1992-93 rose sharply from $2.15 billion to $5.2 billion, only marginally below the record level in 1990-91. There were 49 acquisitions and five new businesses. The leading source countries were the United Kingdom ($1,173 million), Japan ($845 million) and the United States ($386 million).

On an industry basis, the number of approvals and total expected investment for the past two years are shown in **Table 2.11**.

Table 2.11 Minerals Sector Approvals, 1991-92 and 1992-93, by Number and Total Expected Investment

Industry	Acquisitions				New Businesses			
	No of approvals		$ million		No of approvals		$ million	
	1991-92	1992-93	1991-92	1992-93	1991-92	1992-93	1991-92	1992-93
Gold	32	16	818	970	-	-	-	-
Oil and gas	9	6	493	406	2	-	267	-
Coal	9	16	83	1668	-	3	-	845
Base metals	9	6	181	1020	5	1	193	220
Other	5	5	63	63	1	1	50	50
TOTAL	64	49	1638	4127	8	5	510	1115

1 See ABARE: Agriculture and Resources Quarterly, Vol 5, September 1993.

2 See ABS: Company Profits, Australia, June Quarter 1993, (Cat No: 5651.0).

Foreign investor interest in the coal industry bounced back from the low level in 1991-92. There were 19 approved proposals (including 3 new mines), compared with nine proposals (no new mines) in 1991-92. Total expected investment reached a record $1.7 billion, well up on the $83 million recorded in the previous year. While world coal prices remained subdued, demand conditions improved. Continued sluggish demand for coking coal for export, reflecting flat aggregate steel production in coal importing countries, was offset by improved prospects for domestic black coal consumption, mainly due to growth in demand for coal fired electrical power. At the same time, increased demand for steaming coal in Asian markets for electrical power made for more buoyant prospects for coal exporters.

Of the three new coal mines approved in 1991-92, two were directed to export markets and one to service the domestic market. The Japanese company Idemitsu and Korean Company Lucky-Goldstar International Corp were granted approval to develop the Ensham Mine in stages with a total investment of up to $425 million. Ensham is a new steaming coal mine in central Queensland. Shell Australia Ltd, in partnership with Marubeni Thermal Coal Pty Ltd and Showa Coal (NSW) Pty Ltd received approval to develop a new steaming coal mine at Dartbrook in NSW. A joint venture between Samsung Corporation of Korea and the Australian company, Clutha Limited, received approval to develop a new mine, principally to supply coal to Pacific Power's new power station at Mount Piper (with some exports to Korea planned). Major acquisitions in the coal industry included the naturalised company CRA Limited achieving a controlling interest in the NSW coal miner, Coal and Allied Industries Limited, Hanson Plc of the UK, through its subsidiary, Peabody Resources (UK) Ltd successfully buying all the coal assets previously owned by another UK company, Richard Costain (Holdings) Ltd, and the purchase of all the shares of McIlwraith McEachern by the US controlled Cyprus Australia Coal Company, the principal asset of the target company being a major interest in the NSW coal mining company, Oakbridge Limited. Collectively, these three purchases involved assets of about $1 billion.

The number of proposals to invest in the gold industry declined from 32 in 1991-92 to 16 in 1992-93, but total expected investment rose from $818 million to $970 million. In the past two years, Australian gold production has remained almost constant at around 230 tonnes and, for the second year in a row, no proposals for new gold mines were received.

Activity in the oil and gas sector remained modest, with only six acquisitions with total expected investment of $406 million (well down on the peak of $1.3 billion in 1990-91). Conditions of oversupply remained in world metals markets, keeping prices low. While total expected investment associated with approved acquisitions in the base metals sector appeared to rise significantly in 1992-93 to just over $1 billion, this increase was largely due to the approval given to Minorco SA to acquire BP Australia Ltd's 49 per cent interest in the Olympic Dam mine in

South Australia. In the event, that proposal did not proceed as the other joint venture partner, Western Mining exercised its pre-emptive rights and acquired the entire 49 per cent stake to take its interest to 100 per cent. The new base metals case was a proposal by the naturalised company, MIM Holdings Limited, in partnership with certain Japanese companies, to develop a new lead mine operation on the Macarthur River in the Northern Territory at a cost of $250 million.

While the primary influences on the level of activity in the Australian minerals sector continue to be world demand and supply, the current period represents the first full 12 months after the Government significantly liberalised its foreign investment policy applying to the mining sector, announced as part of the One Nation Statement in February 1992.

Resource Processing

There were nine proposals in the resource processing sector during 1992-93, with a total expected investment of $1.7 billion. Development expenditure accounted for $1.5 billion of the total and this was dominated by a proposal for a steel mill.

Rural Land

There were 14 rural property proposals in 1992-93, involving total expected investment of $178 million. In the previous year, there were nine proposals and total expected investment of $74 million. The major proposal involved the purchase by Indonesian interests of the 50 per cent interest it did not already own in some Northern Territory cattle stations.

AGGREGATE FOREIGN INVESTMENT

This chapter summarises trends in foreign investment in Australia and Australian investment abroad using Australian Bureau of Statistics (ABS) data.

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 for approval, along with the expected associated expenditures, while those of the ABS are estimates of actual transactions that have occurred.

Foreign Investment Flows

Foreign investment flows involve the creation or extinction of foreign financial assets or the change in ownership of a financial asset. There is a relationship between net capital flows and the current account deficit. In any year, the inflow of foreign investment into Australia, minus the outflow of Australian investment abroad, equals the balance on capital account in Australia's balance of payments. Within the balance of payments, the balance on capital account should equal the current account deficit, but because of statistical discrepancies and net errors and omissions, a balancing item results.

This relationship for the last five years is set out in **Table 3.1**. A feature of the financing of the current account deficit is that this has occurred in an environment where foreign investment in Australia has declined by half in the past five years, but this decline has been partially offset by a decline in Australian investment abroad.

Table 3.1 Reconciliation Between Foreign Investment Capital Flows and Australia's Balance of Payments 1987-88 to 1992-93

	1988-89	*1989-90*	*1990-91*	*1991-92*	*1992-93*
	$b	*$b*	*$b*	*$b*	*$b*
Foreign Investment in Australia	32.7	23.8	21.4	15.1	16.5
Australian Investment Abroad	12.7	5.9	4.0	-1.0	0.1
Balance on Capital Account	20.0	17.9	17.4	16.1	16.4
Balancing Item	-2.1	4.3	-1.1	-3.5	-0.9
Balance on Current Account	-17.8	-22.0	-16.3	-12.5	15.5

Sources:

ABS 5302.0: Balance of Payments Australia, Sept Quarter 1993

ABS 5303.0: Balance of Payments, Australia, 1991-92

ABS 5305.0: International Investment Position, Australia, 1991-92

ABS 5306.0: International Investment Position, Australia, Sept Quarter 1993

Table 3.2 provides a breakdown of the flow of foreign investment into Australia from 1988-89 to 1992-93. Up until 1991-92, non-official investment accounted for the vast majority of the capital inflow. In 1992-93 there was a substantial increase in borrowing by the official sector (mainly general government borrowing domiciled abroad) with some state governments actively borrowing on overseas financial markets. The dominance of the official sector in 1992-93 was also accentuated by the continued decline in non-official investment.

Non-official investment is divided into direct investment and, portfolio and other. Under the ABS framework for foreign investment statistics, direct investment represents capital 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 proportion of portfolio and other investment to the total continued to rise over the period, peaking at 58.4 per cent in 1990-91, while the proportion of direct investment to the total reached an historical peak of 47.6 per cent in 1991-92. This was followed by a dramatic decrease in 1992-93, with direct investment accounting for 21.1 per cent and portfolio and other investment 9.6 per cent of the total. Foreign investment continued to decline against the historical peak in 1988-89. Within the overall decline of foreign investment in 1992-93 there was a pick-up in investment in corporate equities, however, this was partially offset by the turnaround in borrowings of the non-official sector from an inflow of $7.1 billion in 1991-92 to an outflow of $2.7 billion in 1992-93.

The estimated level or stock of foreign investment in Australia as at 30 June 1993 was $337.1 billion, comprising $119.8 billion of equity investment, $210.2 billion in borrowings and $7.0 billion in other investment. This represented an increase of $34.0 billion, or 11.2 per cent, over the level at 30 June 1992 (see **Table 3.3**).

Table 3.2: Inflow of Foreign Investment in Australia, 1988-89 to 1992-93

	1988-89 to 1992-93 annual average		1988-89		1989-90		1990-91		1991-1992		1992-93	
	$b	%	$b	%	$b	%	$b	%	$b	%	$b	%
Official	4.2	19.1	3.0	9.1	3.7	15.5	0.7	3.3	2.1	13.9	11.5	69.3
Non-official												
Direct investment												
Reinvestment of earnings	1.1	4.8	2.1	6.5	1.1	4.6	0.7	3.1	0.7	4.4	0.7	4.4
Corporate equities	3.6	16.2	3.9	11.8	2.3	9.7	4.9	22.9	2.9	19.5	3.8	22.8
Net equities in branches	1.3	5.8	2.2	6.8	1.6	6.6	1.5	7.2	0.7	4.9	0.3	1.9
Borrowings	1.7	7.9	3.5	10.6	2.4	10.3	1.3	6.2	2.6	17.5	-1.2	-7.5
Other	0.0	0.0	0.4	1.1	-0.3	-1.2	-0.2	-1.1	0.2	1.4	-0.1	-0.5
Total direct investment	*7.6*	*34.7*	*12.1*	*36.9*	*7.1*	*30.0*	*8.2*	*38.2*	*7.2*	*47.6*	*3.5*	*21.1*
Portfolio and other												
Corporate equities	2.1	9.4	2.1	6.5	1.3	5.6	3.2	15.0	1.1	7.1	2.5	15.1
Borrowings												
Public sector	1.5	6.9	4.4	13.5	5.0	21.1	-0.8	-3.6	-0.7	-4.8	-0.4	-2.3
Private Sector	6.4	29.2	10.5	32.2	7.1	29.8	10.2	47.8	5.2	34.5	-1.1	-6.4
Accounts payable/prepayments	0.1	0.7	0.6	1.9	-0.5	-2.0	-0.2	-0.8	0.3	1.7	0.5	3.1
Total portfolio and other	*10.1*	*46.1*	*17.7*	*54.0*	*13.0*	*54.5*	*12.5*	*58.4*	*5.8*	*38.4*	*1.6*	*9.6*
Total Non-official	17.7	80.9	29.7	90.9	20.1	84.5	20.7	96.7	13.0	86.1	5.1	30.7
Total	21.9	100.0	32.7	100.0	23.8	100.0	21.4	100.0	15.1	100.0	16.5	100.0

Source: ABS 5306.0 International Investment Position, Australia September Quarter 1993
Note: Figures may not add due to rounding

Table 3.3: Level of Foreign Investment in Australia, by Type of Investment ($ Billion)

	OFFICIAL		NON-OFFICIAL							TOTALS		
			Direct			Portfolio and other investment						
	Borrowing	Other	Equities	Borrowing (a)	Other	Equities	Borrowing (a) Public Sector	Borrowing (a) Private Sector	Other	Equities	Borrowing (a)	Other
At 30 June												
1987	30.3	0.4	41.0	10.6	3.3	24.3	19.6	46.8	3.8	65.3	107.4	7.5
1988	33.1	0.3	49.1	13.0	3.4	20.6	24.0	53.2	3.8	69.7	123.3	7.5
1989	36.8	0.1	62.8	16.8	3.5	22.3	28.4	65.2	3.8	85.1	147.3	7.4
1990	39.4	0.0	70.2	19.0	3.2	23.3	33.0	71.4	3.3	93.5	162.7	6.5
1991	40.9	0.0	75.0	20.2	3.2	26.5	33.9	83.2	3.4	101.5	178.2	6.6
1992	43.8	0.0	77.4	23.6	3.4	29.3	33.9	88.1	3.6	106.8	189.4	6.9
1993	57.6	0.0	84.6	24.2	2.9	35.2	35.6	92.8	4.1	119.8	210.2	7.0

Sources: ABS 5305.0 International Investment Position, Australia, 1991-92
ABS 5306.0 International Investment Position Australia, September Quarter 1993

(a) As a result of a change in methodology used to value non-equity securities issued on foreign capital markets, levels from December quarter 1991 are not strictly comparable with levels from earlier periods.

Australian Investment Abroad

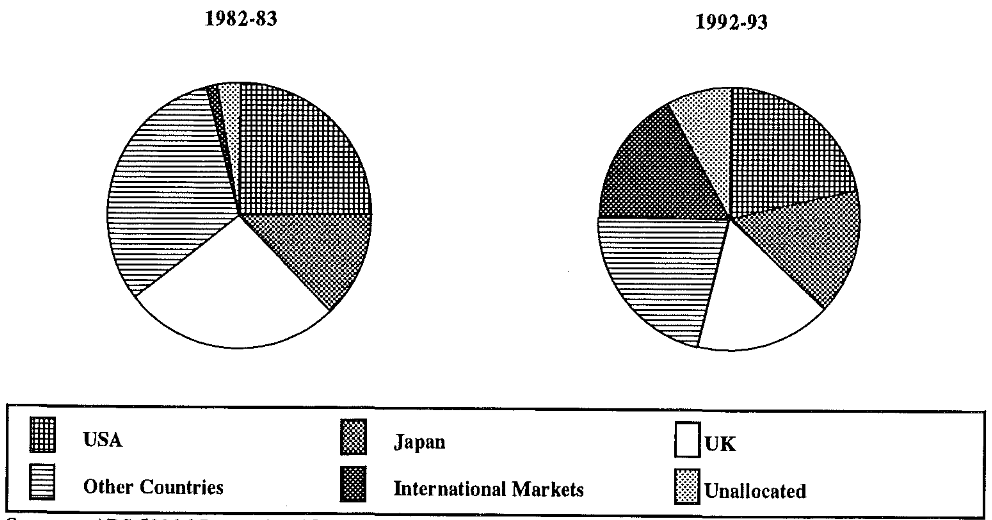
There was a return to Australian investment abroad in 1992-93 following a withdrawal of investment of $1 billion in 1991-92. Nevertheless, this flow was only marginal at $0.1 billion and well below the peak of $16.4 billion in 1987-88. The return to Australian investment abroad occurred principally in portfolio lending in the non-official sector, with investment in portfolio corporate equities showing a repatriation of funds to Australia. This was partially offset by an increase in direct investment corporate equities which more than doubled, and by the withdrawal of investment from investment groups abroad.

Foreign Investment by Country

At 30 June 1993, the United States ($72.6 billion), United Kingdom ($57.8 billion) and Japan ($52.2 billion) continued to hold the largest stocks of investment in Australia

The dominance of UK, US and Japan as the main source of foreign investment in Australia, however, has declined modestly in recent years. As can be seen in **Chart 3.1** the major trend evident over the last ten years has been investment in Australia through the international capital markets and international institutions - the nature of these markets means that the bulk of the investment is of a portfolio nature.

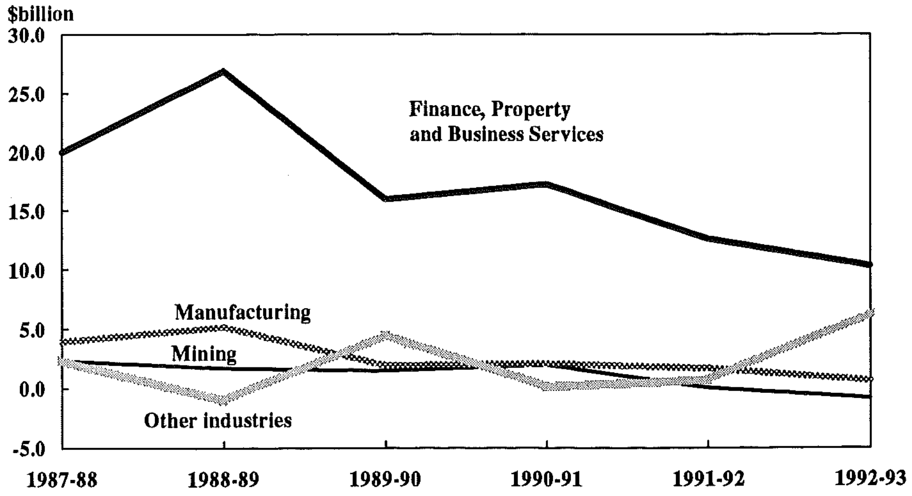
Chart 3.1 Share of Foreign Investment in Australia - Selected Years



Source: ABS 5306.0 International Investment position, Aust Sept Qtr 1993
ABS 56305.04 International Investment Position, Aust: Detailed Country by Industry Statistics 1982-83

Foreign Investment by Sector

Chart 3.2 Foreign Investment Flows by Sector



Source: ABS 5305.0 International Investment Position, Aust 1991-92
ABS 5306.0 International Investment Position, Aust Sept Qtr 1993
ABS 56305.040001 International Investment Position, Aust : Detailed Country by Industry Statistics 1987-88 to 1991-92

Associated with the deregulation of the financial system and the asset boom of the mid 1980s was a substantial increase in investment in the finance, property and business services sector. The subsequent decline in this sector, as can be seen in **Chart 3.2**, more than accounted for the decline in the total flow of investment to Australia between 1988-89 and 1992-93.

Despite this recent decline in the relative importance of the Finance, Property and Business Services sector, it has over the longer term been a significant component of investment flow to Australia. Over the last decade, the relative importance of the finance, property and business services sector as a proportion of investment flows to Australia has increased from around 35 per cent in 1982-83 to around 63 per cent in 1992-93.

SUMMARY OF AUSTRALIA'S FOREIGN INVESTMENT POLICY AS AT 30 JUNE 1993

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.

Notification

The types of proposals by *foreign interests* to invest in Australia which should be notified to the Government can be summarised as:

- acquisitions of *substantial interests* in existing Australian businesses with total assets over $5 million ($3 million for rural properties);
- plans to establish new businesses involving a total investment over $10 million;
- investments in the media irrespective of size;
- direct investments by foreign governments or their agencies irrespective of size;
- acquisitions of non-residential commercial real estate valued over $5 million;
- acquisitions of residential real estate irrespective of size (unless exempt under the regulations);
- takeovers of offshore companies whose Australian subsidiaries or assets are valued over $20 million or account for more than 50 per cent of the target company's global assets; and

- proposals where any doubt exists as to whether they are notifiable.

A *foreign interest* is briefly defined as:

- a natural person not ordinarily resident in Australia; and
- any corporation, business or trust in which there is a *substantial foreign interest*, ie 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 in aggregate of the ownership.

Examination by sector

The *Foreign Acquisitions and Takeovers Act 1975* applies to most examinable proposals and provides penalties for non-compliance.

Rural Properties, Agriculture, Forestry, Fishing, Resource Processing, Oil & Gas, Mining (Excluding Uranium), Manufacturing, Non-Bank Financial Institutions, Insurance, Sharebroking, Tourism (Hotels and Resorts), Most Other Services.

The Government registers, but normally raises no objections to, proposals above the notification thresholds where the relevant total assets/total investment falls below $50 million. Notification thresholds are $3 million for purchases of rural properties, $5 million for acquisitions of substantial interests in other existing businesses, $10 million for the establishment of new businesses and $20 million for offshore takeovers.

The Government examines proposals to acquire existing businesses (with total assets over $50 million) or establish new businesses (with a total investment over $50 million) and raises no objections to those proposals unless they are contrary to the national interest. Offshore takeovers do not generally raise national interest issues.

Real Estate

Proposed acquisitions of *residential real estate* are exempt from examination in the case of Australian citizens living abroad and foreign nationals entitled to permanent residence in Australia.

Proposed acquisitions of *real estate for development* (within 12 months) are normally approved unless they are contrary to the national interest.

Foreign interests are normally given approval to buy *vacant residential land* (on condition that construction of a dwelling is commenced within 12 months) and to buy home units, townhouses etc *'off-the-plan'*, under construction or newly constructed but never occupied, on condition that no more than half of the units in any one development are sold to foreign interests.

Proposed acquisitions of residential property (both vacant land and existing dwellings) which are within the bounds of a resort that the Treasurer has designated as an *'Integrated Tourism Resort'* are exempt from examination.

All other proposals by foreign interests to acquire developed residential real estate are examinable and are <u>not</u> 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 buying for their own use as a principal residence (subject to the sale of the property when they cease to reside in Australia).

Proposed acquisitions of *developed non-residential commercial real estate* are normally approved unless they are contrary to the national interest.

Banking

Foreign investment in the banking sector needs to be consistent with the *Banking Act 1959*, the *Banks (Shareholdings) Act 1972* and banking policy, including prudential requirements.

The Government will permit the issue of new banking authorities to foreign owned banks where the Reserve Bank is satisfied the bank and its home supervisor are of sufficient standing, and where the bank agrees to comply with Reserve Bank prudential supervision and arrangements. In addition, foreign owned banks will not be precluded from bidding for the smaller banks (if available for sale), ie for banks other than the four majors.

Civil Aviation

Foreign airlines flying to Australia can generally expect approval to acquire up to 25 per cent of the equity in a domestic carrier individually or up to 40 per cent in aggregate provided the proposal is not contrary to the national interest. In special circumstances the Government is prepared to consider foreign equity proposals in excess of these guidelines provided the proposal is not contrary to the national interest. All other foreign investors (including those which do not operate an airline service to Australia) may acquire up to 100 per cent of a domestic carrier or establish a new aviation business unless judged contrary to the national interest. In the case of Australia's international flag carrier, Qantas, total foreign ownership is restricted to a maximum of 35 per cent in aggregate, with individual holdings limited to 25 per cent. In addition, a number of national interest criteria must be satisfied, relating to the nationality of Board members and operational address of the enterprise.

Shipping

The *Ship Registration Act 1981* requires that, for a ship to be registered in Australia, it must be majority Australian-owned (ie owned by an Australian citizen, a body corporate established by or under law of the Commonwealth or of a State or Territory of Australia), unless the ship is designated chartered by an Australian operator.

Media

All proposals to invest in the media sector are subject to prior approval under the Government's foreign investment policy.

Broadcasting

The broadcasting regulatory regime, enacted through the *Broadcasting Services Act 1992 (BSA)*, includes revised foreign ownership and control limits for commercial radio broadcasting services and introduces limits for subscription television broadcasting services.

Foreign interests in commercial television broadcasting services continue to be limited to a 15 per cent company interest for individuals and a 20 per cent company interest in aggregate. A foreign person may not be in a position to exercise control of a commercial television broadcasting licence. No more than 20 per cent of directors may be foreign persons.

Foreign ownership and control limits have been removed for commercial radio.

For all subscription television broadcasting services licences, foreign interests are limited to a 20 per cent company interest for an individual and a 35 per cent company interest in aggregate.

There are no other foreign ownership and control restrictions on other broadcasting services under the BSA.

Newspapers

Foreign investment in mass circulation newspapers is restricted. All proposals by foreign interests to acquire an interest in or to establish a newspaper in Australia are subject to case-by-case examination. The maximum permitted foreign interest involvement in mass circulation newspapers by a single shareholder is 25 per cent and unrelated foreign interests are allowed to have (non-portfolio) shareholdings of up to 5 per cent.

Telecommunications

Only the Commonwealth of Australia may hold shares in Telstra Corporation Ltd and these shares cannot be transferred. Optus Communications Pty Ltd, Australia's second general telecommunications company is 51 per cent Australian owned. Government policy stipulates that this 51 per cent Australian ownership level is to be maintained in the foreseeable future. Australia's third licensed mobile carrier, Vodaphone Pty Ltd is currently 95 per cent foreign owned. It is, however, a condition of the licence that, on or after 1 July 2003, foreign interests must not hold 50 per cent or more of Vodaphone's total issued shares.

Uranium

Foreign interests may explore for uranium and are not required to seek Australian participation in their exploration activities. With respect to development or uranium projects, the Government's policy provides for the operation of the 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.

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* (now known as the Foreign Acquisitions and Takeovers Act as amended).
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, No 14 of 1989 - August 1989.*
9. Foreign Acquisitions and Takeovers Regulations (Amendment), No 302 - 24 September 1991.

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.
13. Statement by the Treasurer, the Hon Paul Keating, MP - *Proclamation of Foreign Takeovers Amendment Act 1989* and Gazettal of Foreign Acquisitions and Takeovers Regulations - 6 July 1989.
14. Statement by the Treasurer, the Hon J. Kerin, MP - Foreign Investment Policy: Integrated Tourism Resorts - 25 July, 1991.
15. Statement by the Treasurer, the Hon J. Kerin, MP - Foreign Investment in the Print Media - 10 October 1991.
16. Statement by the Treasurer, the Hon J. Dawkins, MP - Economic Statement: Foreign Investment Policy Changes - 26 February 1992.
17. Statement by the Treasurer, the Hon J. Dawkins, MP - Modification to Foreign investment policy. Residential Real Estate and Developed non-commercial real estate - 1 April 1993.

18. Statement by the Treasurer, the Hon J. Dawkins, MP - Foreign Investment Policy: Mass circulation newspapers - 20 April 1993.

Publications

- Foreign Investment Review Board Reports: 1977 to 1993.
- Australia's Foreign Investment Policy - A Guide for Investors, Revised September 1992.

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.

FOREIGN INVESTMENT PROPOSALS - PRESS RELEASES BY THE TREASURER, 1992-93

No. 140	Statement by the Treasurer, the Hon J. Dawkins, MP - Retirement of Sir Bede Callaghan, CBE, Chairman of the Foreign Investment Review Board - 11 September 1992.
No. 189	Statement by the Treasurer, the Hon J. Dawkins, MP - Foreign Investment Proposal: Campbell Soup Company's proposed acquisition of Arnotts - 7 December 1992.
No. 198	Foreign Investment Proposal - Pacific BBA Building Products Pty Ltd: Proposed acquisition of Siddons Ramset Limited - 23 December 1993.
No. 199	Foreign Investment Proposal - W.A. Deutsher Pty Ltd: Proposed acquisition of Siddons Ramset Limited - 23 December 1993.
No. 23	Statement by the Treasurer, the Hon J. Dawkins, MP - Modification to Foreign investment policy. Residential Real Estate and Developed non-commercial real estate - 1 April 1993.
No. 32	Statement by the Treasurer, the Hon J. Dawkins, MP - Foreign Investment Policy: Mass Circulation Newspapers - 20 April 1993.

CHRONOLOGY OF MEASURES RELATING TO FOREIGN INVESTMENT POLICY, DECEMBER 1983 TO JUNE 1993

20 December 1983

The Treasurer announced the Government's decision to continue the broad thrust of the previous Coalition Government's foreign investment policy. Specific guidelines for Australian participation would continue for new mining and primary industry projects and, in certain circumstances, for proposals to invest in the finance and insurance sectors, to develop real estate and to take over existing rural businesses. The Government also announced its intention to appoint two additional representatives to the Foreign Investment Review Board.

18 April 1984

Following a Trade Practices Commission (TPC) ruling that allowed stockbroking firms to incorporate, the Treasurer announced the results of a review of foreign investment policy as applied to the stockbroking industry (prior to the TPC ruling, non-residents were precluded from having an interest in unincorporated stockbroking firms). Under the revised policy, proposals by foreign interests to acquire shareholdings in stockbroking businesses would only be allowed to proceed, where they involved the acquisition of less than 15 per cent of shares by a single foreign interest or of less than 40 per cent by two or more foreign interests.

10 September 1984

The Government invited applications from domestic or foreign interests for a limited number of banking authorities and decided to initiate proceedings to enable the Bank of China to open a branch in Australia.

The Treasurer also announced the temporary waiving (for one year) of some sections of its foreign investment policy relating to the merchant banking sector. The "Australian opportunities test" (ie the requirement that Australians be given the opportunity to bid on market terms for interests available for sale) and the "substantial economic benefits" test of foreign investment policy were to be set aside for a period of 12 months in respect of merchant bank restructuring proposals.

18 December 1984

The Treasurer announced the Government's decision to increase to 50 per cent the maximum permitted shareholding in Australian stockbroking businesses that might be held by foreign interests. This revised the previous limitations announced on 18 April 1984.

27 February 1985

The Treasurer announced that the Government had selected 16 new banks which would be invited to establish operations in Australia. Each would be required to proceed with discussions with the Reserve Bank and the Treasury with a view to developing their proposals.

22 May 1985

The *Banks (Shareholdings) Act 1972* (which limits the size of shareholdings in banks authorised under the *Banking Act 1959*) was amended in order to facilitate the establishment of new banks in Australia. The major amendments were an increase in the size of individual shareholdings in a bank which might be held without the Governor-General's approval from 10 to 15 per cent, and allowing the Governor-General to grant exemptions from the new higher limit in the national interest.

29 October 1985

The Acting Treasurer announced a number of modifications to policy aimed at streamlining existing procedures, the most significant of which were:

- the practice of requiring the demonstration of specific opportunities for Australians to purchase interests available for sale (the "opportunities test") was discontinued;
- the administrative threshold below which takeovers were normally approved, in the absence of special circumstances, was increased from $2 million to $5 million;
- the notification threshold for new businesses (except in the media or civil aviation) was increased from $5 million to $10 million;
- the notification threshold for foreign investment in real estate was increased from $250,000 to $600,000;

- the liberalised stance in relation to merchant banks was extended to other non-bank financial intermediaries;

- the need for 50 per cent Australian equity for land bought for development and subsequent resale was to be applied only to developments costing $10 million or more; and

- the exemption threshold for offshore takeovers was increased from $3 million to $20 million.

15 April 1986

As part of the Government's Economic and Rural Policy Statement, it announced the relaxation of the rules applying to foreign investment in rural land such that only proposals over $3 million (previously $1 million) would be subject to the stricter test of providing effective Australian participation or benefits of national or regional significance to gain approval.

28 July 1986

The Treasurer announced a number of significant relaxations to policy including:

- the net economic benefits test and Australian equity requirements for takeovers and new businesses in the manufacturing, tourism and non bank finance sectors were suspended and proposals were to be automatically approved unless contrary to the national interest;

- the minimum Australian equity requirements for real estate for development (both for retention or resale), and service industry real estate (hotels and motels, tourism resorts) were abolished;

- acquisitions of developed commercial real estate were to be allowed provided there was 50 per cent Australian equity (previously there was a virtual prohibition); and

- the policy test on rural property acquisitions over $3 million was relaxed such that approval would now be granted where it could be demonstrated by the intending investor that proposed on-farm development expenditure would be at least one - third of the acquisition price.

30 April 1987

The Treasurer announced a number of further liberalisations including:

- passing amendments to the *Foreign Takeovers Act 1975* providing for the exemption from notification of takeovers below $5 million ($3 million for rural businesses);

- extending the national interest based test (applied to manufacturing, tourism and non-bank finance sectors since July 1986) to other sectors namely resource processing, services, insurance, sharebroking and rural properties; and

- improvements to the benefits associated with naturalised or naturalising status, namely, that all takeovers or new businesses involving naturalised or naturalising companies (including new mines where at least 50 per cent is owned by the naturalised or naturalising company) would be approved unless contrary to the national interest.

The Government also announced that it would introduce legislation to replace the thin capitalisation and corporate restructuring conditions of approval that had been imposed on foreign investors under foreign investment policy.

29 September 1987

The Government decided to restrict substantially foreign acquisitions of developed residential real estate and to introduce legislation to require compliance with the amended policy. The $600,000 examination threshold was abolished and approvals of developed residential real estate were to be restricted to Australian citizens resident abroad, intending migrants and foreign companies buying for their senior executives resident in Australia.

20 January 1988

The Government announced that the Australian participation guidelines for foreign investment in respect of new mining projects over $10 million would no longer apply to new oil and gas developments which could now be approved with 100 per cent foreign equity, provided they were not considered contrary to the national interest.

6 July 1989

The Treasurer announced the proclamation, on 1 August 1989, of the *Foreign Takeovers Amendment Act 1975* and the gazettal of the Foreign Acquisitions and Takeovers Regulations. The amended legislation, to be known as the Foreign Acquisitions and Takeovers Act, gave legislative effect to the changes to residential real estate policy announced in September 1987.

25 July 1991

The Government decided that foreign investors may acquire any residential real estate (vacant land for development, units off the plan, or established properties) within a designated Integrated Tourism Resort (ITR) without the need to seek approval under the Foreign Acquisitions and Takeovers Act. The ITR exemption would only apply to residential real estate within resorts that have applied for and been designated exempt by the Treasurer.

26 February 1992

As part of the Government's One Nation Economic Statement, further policy liberalisations were announced, namely:

- the Government would register, but normally raises no objections to proposals above the notification thresholds where the relevant total assets/total investment falls below $50 million. Notification thresholds are $3 million for purchases of rural properties, $5 million for acquisitions of substantial interests in other existing businesses, $10 million for the establishment of new businesses and $20 million for offshore takeovers;

- the 50 per cent Australian equity and control guideline for participation in new mining projects, and the economic benefits test for takeovers of existing mining businesses, were abolished; and

- that new banking authorities would be issued to foreign owned banks where the Reserve Bank is satisfied the bank and its home supervisor are of sufficient standing, and where the bank agrees to comply with Reserve Bank prudential supervision and arrangements. Moreover, foreign owned banks will be allowed to bid for the smaller banks (if available for sale), ie, for banks other than the four majors.

1 April 1993

The Treasurer announced two changes to foreign investment policy:

- 'off the plan' acquisitions to include acquisition that are part of extensively refurbished buildings subject to the building's use changing from non-residential to residential and the costs of refurbishment to be at least 50 per cent of total acquisition costs; and

- proposal by foreign interests to acquire developed non-residential commercial real estate were no longer required to have 50 per cent Australian equity. Prior to this change, acquisitions by foreign interests of developed non-residential

commercial real estate were normally approved, unless judged contrary to the national interest, on the condition that the acquisition was being made with 50 per cent Australian equity participation. where it could be demonstrated that 50 per cent Australian equity was not available on reasonable terms and conditions, proposal providing up to 100 per cent were approved.

20 April 1993

The Treasurer announced the Government's decision to increase the maximum permitted foreign interest involvement in mass circulation newspapers by a single shareholder to 25 per cent and that it would allow unrelated foreign interests to have (non-portfolio) shareholdings of up to five per cent.