

# Chapter 1

Foreign Investment  
Review Board



# Foreign Investment Review Board

This is a non-statutorily mandated report providing information on the operation of Australia's foreign investment review arrangements during 2007-08. It covers the role of the Foreign Investment Review Board (the Board or FIRB) and day-to-day administration of these arrangements by the Treasury.

## Functions of the Board

The FIRB is a non-statutory body established in 1976 to advise the Treasurer on the Government's foreign investment policy (the policy) and its administration. As such, the Board's functions are advisory only. Responsibility for making decisions on foreign investment proposals and for the policy rests with the Treasurer. The Treasury's Foreign Investment and Trade Policy Division (the Division) advises Treasury ministers on foreign investment matters and provides secretariat services to the Board.

The role of the Board, including through its secretariat, is to:

- examine proposed investments in Australia that are subject to the policy and supporting legislation, and to make recommendations to the Treasurer on these proposals;
- advise the Treasurer and other Treasury portfolio ministers on the operation of the policy and the *Foreign Acquisitions and Takeovers Act 1975* (the FATA), and on proposed investments that are subject to each;
- foster an awareness and understanding, both in Australia and abroad, of the policy and the FATA;
- provide guidance to foreign persons and their representatives/agents on the policy and the FATA; and
- monitor and ensure compliance with the policy and the FATA.

Information on the operation of the FATA is provided in Chapter 3 and in *Australia's Foreign Investment Policy* provided at Appendix A to this report. A copy of the FATA and the regulations made under it are provided at Appendices D and E respectively.

## Board membership

During 2007-08, the Board comprised three part-time members and a full-time Executive Member.

**Mr John Phillips AO** was first appointed Chairman of the Board on 16 April 1997 and was reappointed for a further term of five years on 18 April 2007. He has extensive high-level experience in the public, finance and business sectors, including as Deputy Governor of the Reserve Bank of Australia. He has been director of a number of leading Australian companies and is Chancellor of the University of Western Sydney.

**Ms Lynn Wood** has been a Board member since April 1995 and was reappointed on 3 April 2005 for a further term of five years. She has extensive experience as a director and is currently chairman of Noni B Ltd and a non-executive director of GPT Funds Management Limited, MS Australia Limited, and the Committee for Economic Development of Australia (CEDA). She is a Fellow of the Australian Institute of Company Directors and was awarded a Centenary Medal in 2003.

**The Hon Chris Miles** was appointed to the Board on 8 June 1999 and was reappointed for a further term of five years on 8 June 2004. His membership of the Board expired in June 2009. Between 1984 and 1998 Mr Miles was a member of the House of Representatives representing the seat of Braddon, Tasmania. From 1996 to 1998 he was Parliamentary Secretary (Cabinet) to the Prime Minister, with special responsibility for tax legislation in the House of Representatives. Prior to his distinguished parliamentary career, Mr Miles taught in the education systems of Tasmania, the ACT and NSW. He is currently a director of two private companies.

**Mr Patrick Colmer** commenced as the Executive Member of the Board on 20 November 2006. Mr Colmer has an extensive background as a public policy adviser in a variety of government agencies. He was the General Manager of Treasury's Indirect Tax Division from 2002 to 2006 and was an Assistant Commissioner in the Australian Taxation Office from 1999 to 2002. Earlier, he was a manager in the Commonwealth Health Department responsible for general practice standards and health workforce policy.

## Relationship of the Division to the Board

As the Executive Member of the Board, the General Manager of the Division, Mr Colmer, provides the link between the Board and the Treasury. The Division is responsible for the initial examination of proposals received under the policy or the FATA, and for preparing recommendations to Treasury ministers or Divisional officers the Treasurer has authorised to make decisions under the FATA and the policy. It also provides a contact point for foreign investors and their representatives/agents.

The Board provides advice on the application of the policy and the FATA across the range of proposals received by the Division and on foreign investment policy issues. It provides specific advice on the more significant applications received and also reviews the general handling of other applications. The Board performs this role with the benefit of weekly reports prepared by the Division on proposals received and through regular meetings and telephone discussions with the Executive Member. Formal Board meetings are generally held monthly, with telephone discussions taking place in the

intervening weeks. The Board members draw on their considerable collective and individual professional and commercial experience in discharging their advisory role.

The Division performs other roles beyond providing secretariat services to the Board and examining foreign investment proposals. It also advises the Treasurer on broader investment and trade-related policy matters. This includes providing advice on and being a party in the investment-related work of multilateral forums, such as the Organisation for Economic Co-operation and Development (OECD), the World Trade Organization (WTO) and the Asia-Pacific Economic Cooperation (APEC), and bilaterally through the negotiation and ongoing operation of free trade agreements (FTAs) and investment protection and promotion agreements (IPPAs). Chapter 4 covers these activities.

The Executive Member of the Board is also the Australian National Contact Point (the ANCP) for the *OECD Guidelines for Multinational Enterprises* (the OECD Guidelines, a copy of which is at Appendix F). The ANCP is responsible for implementing the OECD Guidelines, handling inquiries, conducting formal reviews when the adherence of a multinational enterprise to the OECD Guidelines is questioned, facilitating discussions with interested stakeholders, and reporting on its activities to the OECD Investment Committee.

## **Administration of foreign investment policy**

### **Information, advice and education**

In keeping with the Board's role of fostering awareness and understanding of Australia's foreign investment review arrangements and the policy, the Division regularly engages with potential foreign investors, their representatives/agents and Australian businesses to provide information on the operation of the policy and the FATA and their application, including to specific proposals.

The Division also provides a telephone inquiry line, +61 2 6263 3795, an email address, [firbenquiries@treasury.gov.au](mailto:firbenquiries@treasury.gov.au), and a website, [www.firb.gov.au](http://www.firb.gov.au), for people seeking information or advice on the policy and legislation.

### **Consideration timeframe**

The FATA provides a 30-day statutory period for a decision to be made on proposals lodged under the FATA, with up to a further 10 days to advise the applicant parties. The statutory period commences upon receipt of a completed section 25, 26 or 26A notice. The FATA also provides for the issue of an Interim Order, which extends the available examination period and prohibits the proposal for up to 90 days. Interim Orders are usually issued to allow the applicant additional time to provide adequate information for assessing the proposal. Proposals subject to the policy but not the FATA are decided (where possible) within the 30-day statutory deadline set by the FATA.

The Treasurer has provided an authorisation (effectively a delegation) to the Executive Member and other senior division staff to make decisions on foreign investment proposals that are consistent with the policy or do not involve issues of special sensitivity. Around 95 per cent of proposals are decided under this authorisation, predominantly in the real estate sector. The Board maintains a continuing oversight of decisions made under this arrangement.

These arrangements, along with the use of application forms for residential real estate purchases, streamline the application and approval process. These forms, once completed, signed and submitted together with additional supporting information (if required), facilitate a timely decision on applications.

### **Examination and approval process**

Proposals are initially examined by the Division's Investment Review Unit (the Unit) with the Board's input on significant applications. The Unit also undertakes associated compliance work. Proposals are examined as to whether they conform with the requirements of the policy and the FATA, including the proponent's fulfilment of conditions attached to past approvals. While the overwhelming majority of proposals are not objected to, the Treasurer has powers under the FATA to prohibit proposals that are contrary to the national interest or to raise no objections to them subject to conditions that are considered necessary to ameliorate national interest concerns (see *Australia's Foreign Investment Policy* at Appendix A). Decisions are advised in writing to the applicants or their representatives/agents. Where the Treasurer makes a decision on a significant proposal, he may also issue a media release.

The involvement of the Board in individual foreign investment proposals is normally determined by the nature and significance of the particular proposal. In the case of more significant proposals (for example, in terms of their size, complexity or policy issues raised), the Board becomes involved early in the examination process and contributes to advice provided to the Treasurer or other relevant Treasury ministers.

### **Consultation arrangements**

In examining large or otherwise significant proposals, consultations are undertaken by the Board's secretariat with Australian, state and territory government departments and authorities with responsibilities relevant to the proposal. Advice and comments provided by such agencies are important in assessing the implications of proposals and, in particular, determining whether they raise any national interest issues. Such consultation is undertaken on a strictly confidential basis to protect the information provided by the applicant. The Board regards this liaison with key stakeholders as an integral part of the administration of the policy.

Where major proposals are in the public domain, the Board may also receive submissions from third parties. Consideration of such submissions can be an important part of the examination process and the development of advice on the proposal to the Treasurer.

## National interest

The FATA empowers the Treasurer to prohibit an acquisition if he is satisfied it would be 'contrary to the national interest'. However, the general presumption is that foreign investment proposals will generally serve the national interest. This reflects the positive stance of successive Australian governments towards foreign investment, given the important role it plays in the operation of our economy and Australia's national development.

The national interest, and hence what would be contrary to it, is not defined in the FATA. Instead, the FATA confers upon the Treasurer the power to decide in each case whether a particular investment would be contrary to the national interest.

In preparing the Board's advice, consideration is also given to whether an investment is consistent with Australia's foreign investment policy available on the Board's website at [www.firb.gov.au](http://www.firb.gov.au), and at Appendix A. This contains information on Australia's foreign investment screening arrangements and on national interest matters, especially relating to real estate and other sectors with specific requirements.

A proposal that does not meet the requirements set out in the policy would ordinarily be regarded as being contrary to the national interest. Additional guidance on aspects of the national interest include, for example:

- existing government policy and legislation (for example, applying to telecommunications, broadcasting, the media, aviation, environmental regulation and competition policy);
- national security interests; or
- economic development.

The policy document includes the principles announced by the Treasurer on 17 February 2008. Investments by foreign governments and their agencies are assessed on the same basis as private sector proposals with national interest implications determined on a case-by-case basis. The evaluation also considers these matters:

- an investor's operations are independent from the relevant foreign government;
- an investor is subject to and adheres to the law and observes common standards of business behaviour;
- an investment may hinder competition or lead to undue concentration or control in the industry or sectors concerned;
- an investment may impact on Australian Government revenue or other policies;
- an investment may impact on Australia's national security; and

- an investment may impact on the operations and directions of an Australian business, as well as its contribution to the Australian economy and broader community.

### **Handling of commercial-in-confidence and personal information**

The Board recognises that much of the information required to assess a proposal will be commercially sensitive or be private to the applicant. Consequently, appropriate procedures are in place to ensure that confidentiality is protected.

Moreover, the Government is required to respect the privacy and sensitivity of personal and commercial information that is provided by applicants to the Board, in accordance with the requirements of the relevant legislation, including the *Privacy Act 1988* (Privacy Act) and the *Freedom of Information Act 1982* (FOI Act). However, in accordance with the Privacy Act, to provide whole-of-government advice to the Treasurer on applications or where the applicant may have breached the FATA or the policy, other government agencies may be consulted and relevant information may be provided to those agencies. Most commonly, those agencies will be the Department of Immigration and Citizenship (DIAC), the Australian Taxation Office (ATO) and the Australian Federal Police (AFP).

In the event that third parties outside government seek access to confidential information, it would not be made available without the permission of the person(s) who provided it, except upon order by a court of a competent jurisdiction or through the operation of the FOI Act.

In 2007-08, the Division received two applications under the FOI Act (also two in 2006-07) seeking information concerning foreign investment matters. The FOI Act provides criteria to determine whether particular documents or parts of documents are available or exempt from release. These include for example, that the document contains commercially sensitive information where its release would cause harm to its provider. In line with the provisions of the FOI Act, the Division may consult with the parties to a proposal about documents they provided which are the subject of an FOI request, to seek their views on their possible release to an applicant.

## **2007-08 outcomes**

### **Cost of the Board's operations**

Total Board expenses in 2007-08 were \$127,443 (\$122,057 in 2006-07). Remuneration of Board members was around 91 per cent of total Board expenses, with the remainder expended on local travel, car hire and incidentals. Board members' fees are determined by the Remuneration Tribunal.

Total expenses of the Division for 2007-08 were \$3.3 million (\$3.2 million in 2006-07). These expenses mainly comprised employee salary (including superannuation and

accruing leave entitlements) and administrative costs. Over the course of 2007-08, the Division employed an average of 32 staff, the same as for 2006-07.

### Consideration of proposals and enquiries

In 2007-08, a total of 8,548 applications for foreign investment approval were considered, with 7,841 approved, 14 rejected or not approved, 521 withdrawn and 172 exempt or not subject to the policy or the FATA. Of the 7,855 applications decided in 2007-08 (that is, those approved or not approved but not those withdrawn or exempt), 7,488 were decided within the Division under the Treasurer's authorisation and 367 were decided by a Treasury minister, in most cases by the Treasurer's then Parliamentary Secretary or the Assistant Treasurer.

Additionally, in 2007-08 the Division handled approximately 36,400 telephone enquiries and 5,300 items of correspondence<sup>1</sup> in relation to potential proposals, compliance with conditional approvals and the policy and the FATA. This represented a decrease in the number of phone enquiries (approximately 37,600 in 2006-07) and an increase in correspondence received (around 5,000 items received in 2006-07).

In 2007-08, one Final Order and 13 Interim Orders were made and published in the Commonwealth of Australia *Gazette*.<sup>2</sup> No Divestiture Orders were made. Final Orders are issued where a proposal, assessed in terms of the policy, is considered to be contrary to the national interest. Divestiture Orders are issued where an acquisition has already occurred and is subsequently assessed, in terms of the policy, as being contrary to the national interest.

The Board and the Division endeavour to ensure that all foreign investment proposals are dealt with in a timely and efficient manner and every effort is made to avoid any unnecessary delays to business decision-making.

In 2007-08, 95 per cent of proposals were decided within 30 days, compared with 90 per cent of proposals in 2006-07. Of the real estate cases (which represent the majority of proposals received) decided in 2007-08, 73 per cent were finalised within two weeks, compared with 34 per cent in 2006-07. The proposals that took more than 30 days to decide were generally delayed by a lack of sufficient information from the parties or because the application involved significant complexity or sensitivity.

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1 This figure excludes all correspondence in relation to proposals that were yet to be finalised when the correspondence was received.

2 The FATA provides the Treasurer with the power to make orders prohibiting an acquisition (an Interim Order or Final Order) or having the effect of requiring an interest to be disposed (a Divestiture Order). While the prohibition under a Final Order is not subject to any time limitations, an Interim Order prohibits the acquisition proceeding during the period from gazettal until the earlier of an additional 90 days, or until a decision has been made.

## Changes to foreign investment policy — residential real estate

On 18 December 2008, the Assistant Treasurer released details of administrative changes to the Government's foreign investment screening arrangements for acquisitions of residential real estate by foreign persons. These changes generally maintain the restrictions imposed under the policy in place in 2007-08 but provide for streamlined notification and administrative arrangements. The changes were implemented progressively – those that only required changes to the policy came into effect immediately, while those requiring changes to the Regulations came into effect on 31 March 2009. There were no changes to the FATA.

Prior to this announcement, foreign investment screening arrangements for residential real estate had not been updated since 1989 and thus no longer gave appropriate effect to the intent of the Government's foreign investment policy. The changes are designed to streamline and update foreign investment screening for residential real estate acquisitions, enhancing flexibility in the market and reducing compliance costs for temporary residents and the construction industry. The changes are now fully implemented. The Government will monitor the changes to ensure these continue to be in the national interest. Further information relating to these changes can be found on the Foreign Investment Review Board website at [www.firb.gov.au](http://www.firb.gov.au). The policy and related documents have been updated to reflect the changes.

## Monitoring and compliance activity

The FATA provides the Treasurer with wide-ranging legal powers to enforce the decisions made, including the ability to:

- unwind or divest (by requiring the parties to sell shares, assets or property) transactions that have gone ahead, without prior foreign investment approval having been obtained, where that purchase is inconsistent with policy;
- prosecute a foreign person (including a natural person or a company) that fails to obtain prior approval;
- prosecute a foreign person that fails to comply with an order to sell shares, assets or property; and
- prosecute a foreign person that fails to comply with conditions attached to any approval granted under the FATA.

Provisions of the *Crimes Act 1914* and the *Criminal Code Act 1995* make it an offence to provide false or misleading information, or to enter into any schemes for the purpose of avoiding the provisions of the FATA.

In examining proposals, the applicant's compliance with any conditions relating to past proposals is taken into account. Instances of lack of compliance with conditions may result in future proposals being rejected. It is general policy to report potential breaches of the FATA to DIAC, the AFP and other government agencies as appropriate.

In order to ensure compliance with foreign investment policy, the Division systematically monitors whether foreign persons are complying with the conditions of their approvals. This involves cooperation with relevant members of the business community, local government authorities, the legal profession, and on occasion, the general public.

In addition, compliance activities focus on:

- settling outstanding compliance matters;
- investigating separately, instances of possible non-compliance reported by members of the public; and
- improving awareness of the policy in the local government arena and within appropriate Australian, state and territory government agencies.

The Division's compliance and monitoring procedures and documentation processes are subject to ongoing review with a view to ensuring consistent treatment of cases of non-compliance. The application of these processes has in some cases resulted in further investigations by DIAC prior to issuing visas or in a refusal to issue a visa to those who have breached approvals with conditions.

Links with the AFP, DIAC, the ATO and the Australian Transaction Reports and Analysis Centre (AUSTRAC) were strengthened with the exchange of information and advice within the limits allowed by the Privacy Act.

