



# FOREIGN INVESTMENT REVIEW BOARD

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Report 1985-86



**Foreign Investment  
Review Board  
Report 1985–86**

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The Foreign Investment Review Board was established in April 1976. The members during 1985-86 were Sir Bede Callaghan, CBE, Chairman; Mr Kenneth Stone; Mr Desmond Halsted; and Mr F.G.H. Pooley, Executive Member in his capacity as First Assistant Secretary of the Foreign Investment Division of the Department of the Treasury.

During the year the functions of the Board were:

- . to examine proposals by foreign interests for investment in Australia and make recommendations to the Government on these 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 policy;
- . to provide guidance, where necessary, to foreign investors so that their proposals may be in conformity with Government policy;
- . to keep abreast of the activities of foreign-controlled businesses operating in Australia; and
- . to maintain liaison with State Government authorities.

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

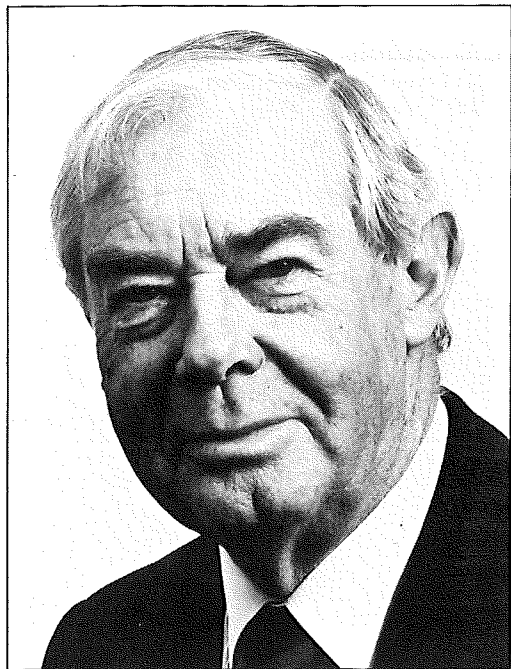
The Board's functions are advisory only. Responsibility for administration of the Government's foreign investment policy and for making decisions on proposals rests with the Treasurer.



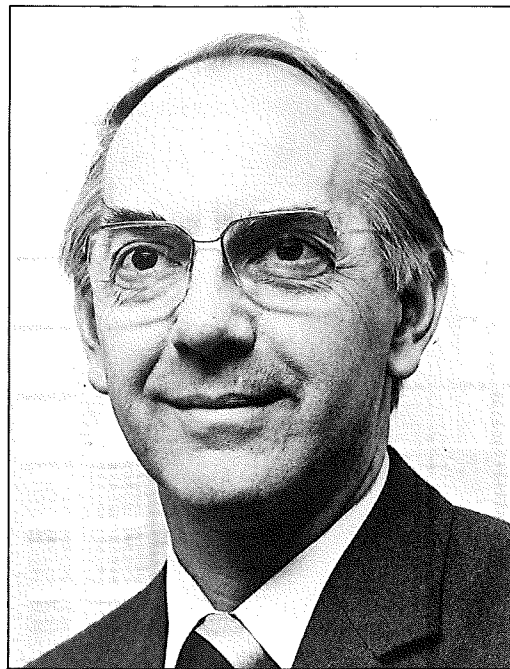
Sir Bede Callaghan, CBE, has been Chairman of the Board since 1976. He is a former Managing Director of the Commonwealth Banking Corporation. Sir Bede has also been an Executive Director of the International Monetary Fund and the International Bank for Reconstruction and Development.



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



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



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



## Foreign Investment Review Board

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October 1986

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

My dear Treasurer

In accordance with its responsibility to advise the Government on foreign investment matters, the Foreign Investment Review Board has the honour to submit to you its Report for 1986.

The first chapter of the Report reviews the activities of the Board during 1985-86, including its examination of foreign investment proposals; Chapter 2 examines proposed foreign investment in industry sectors; and Chapter 3 reviews developments in the levels and inflows of foreign investment in Australia, as indicated by data produced by the Australian Bureau of Statistics, and information on foreign ownership and control in the Australian economy.

Yours sincerely

Bede Callaghan  
Chairman

## Highlights for 1985-86

- the Board considered 1310 proposals for investment in Australia. Of these proposals, 1290 were approved by the Government (710 subject to conditions) and 20 were rejected.
- the rejection rate for proposals was 1.5 per cent, compared with 2.6 per cent in the previous year.
- approval was given to 1186 proposals for acquisitions of shares and other assets and to 104 new business proposals.
- total expected investment foreshadowed in proposals approved was around \$9800 million; \$7300 million was in respect of acquisitions and \$2500 million was on new businesses.
- a good part of the increase in total expected investment compared with 1984-85 was attributable to some special, non-recurring factors, such as the Government's decision to allow foreign bank entry and the policy relaxation in the non-bank financial sector. There were also several large acquisitions involving majority Australian equity participation.
- investor interest in service industries remained strong (total expected investment of \$2600 million).
- as a result of policy changes, expected investment in finance and insurance was high (\$2800 million).
- Japan was the most significant source country in terms of total expected investment (\$1930 million, almost 20 per cent of the total).
- the United Kingdom and United States remained significant source countries in terms of numbers of proposals approved (330 and 315 proposals, respectively).
- investor interest from New Zealand continued to increase.
- Australian interests were parties to 235 foreign investment proposals and were expected to contribute around \$2200 million in expenditure (22 per cent of total expected investment).
- the average time taken to process proposals decided in 1985-86 was 40 days (compared with 43 days in the previous year); 56 per cent of proposals were processed within 30 days or less.
- almost 350 meetings were held by the Board and/or its Executive with foreign and Australian investors.
- modifications were made to the Government's foreign investment policy, which had the effect of significantly liberalising policy. Details are given in Attachment C.

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# Chapter 1: Administration of foreign investment policy in 1985-86

The Board's primary function is to assist the Government in its administration of foreign investment policy. The Board examines proposals by foreign interests to undertake direct investment in Australia and makes recommendations to the Government on whether they are consistent with the Government's policy.

This Chapter outlines the Board's activities during 1985-86 and, in particular, the Board's role in the consideration of foreign investment proposals. The Chapter also provides summary statistics on proposals decided during the year and reports the changes that were made to foreign investment policy.

Several qualifications need to be borne in mind in interpreting the statistics. Briefly, expected expenditures associated with proposals are those contemplated by the foreign investors at the time submissions are made to the Board - if only because circumstances change, the expenditures are not always realised; actual expenditure, although recorded against one year, may be spread over several years; expenditures include the contributions by Australian parties to proposals; and the data only cover foreign investment notifiable to the Board in terms of the *Foreign Takeovers Act 1975* or the Government's foreign investment policy. (The qualifications are explained in full in Part I of the Statistical Appendix.)

## Summary of proposals

The aggregate level of total expected investment associated with foreign investment proposals approved by the Government in 1985-86 was \$9.8 billion, double the 1984-85 expected level of \$4.6 billion. The interpretation of these figures is subject to the qualifications in the previous paragraph. The total expected investment was inflated by non-recurring and unusual circumstances that may be summarised as follows:-

- the expected investment of \$2.8 billion in the finance and insurance sector was mainly due to the Government's decision to grant 16 new trading bank licences to foreign entities and to the policy relaxations in the non-bank financial sector that resulted, inter alia, in the number of merchant banks in Australia increasing from about 60 to 120. Fourteen of the trading banks and over 30 of the merchant banks were approved under foreign investment policy in 1985-86. The Government's decision to grant merchant banks foreign exchange licences was a further factor increasing the capitalisation of merchant banks and inflating the 1985-86 figures; and

expected investment of \$2.2 billion arose from investments undertaken by Australians in partnership with foreign interests, including several large acquisitions which involved majority Australian equity. That is \$2.2 billion of the \$9.8 billion was attributable to Australian, rather than foreign, investment.

Were the non-recurring and unusual factors to be excluded from the aggregate, the total expected investment in 1985-86 would have been about \$5 billion - around the same as in the previous year.

The following table provides some general details of the proposals considered by the Government over the four years to 1985-86.

**Foreign investment proposals: number and total expected expenditure, 1982-83 to 1985-86<sup>a</sup>**

Type of proposal	1982-83		1983-84		1984-85		1985-86	
	No	\$m	No	\$m	No	\$m	No	\$m
Approved without conditions	800	1573	781	1932	770	1902	580	2540
Approved with conditions	310	1595	427	2567	482	2699	710	7277
<b>Total approved</b>	<b>1110</b>	<b>3168</b>	<b>1208</b>	<b>4499</b>	<b>1252</b>	<b>4601</b>	<b>1290</b>	<b>9817</b>
Rejected	60	367	54	111	34	537	20	504
<b>Total decided</b>	<b>1170</b>	<b>3535</b>	<b>1262</b>	<b>4609</b>	<b>1286</b>	<b>5138</b>	<b>1310</b>	<b>10322</b>
Not requiring approval under Act <sup>b</sup> or policy	108		36		26		17	
Withdrawn	85		67		66		51	

a All expenditure data are rounded and discrepancies may occur between the sum of the component items and totals shown.

b *Foreign Takeovers Act 1975.*

During 1985-86 the Government took decisions on 1310 foreign investment proposals, compared with 1286 in 1984-85. Of the 1290 proposals approved during 1985-86, 580 (45 per cent) were approved without conditions and 710 (55 per cent) were approved subject to conditions. During the previous three years, between 62 and 72 per cent of proposals were approved without conditions. (The majority of conditions arose from taxation considerations - see below.) The rejection rate for proposals of 1.5 per cent compares with 2.6 per cent in 1984-85, 4.3 per cent in 1983-84 and 5.1 per cent in 1982-83.

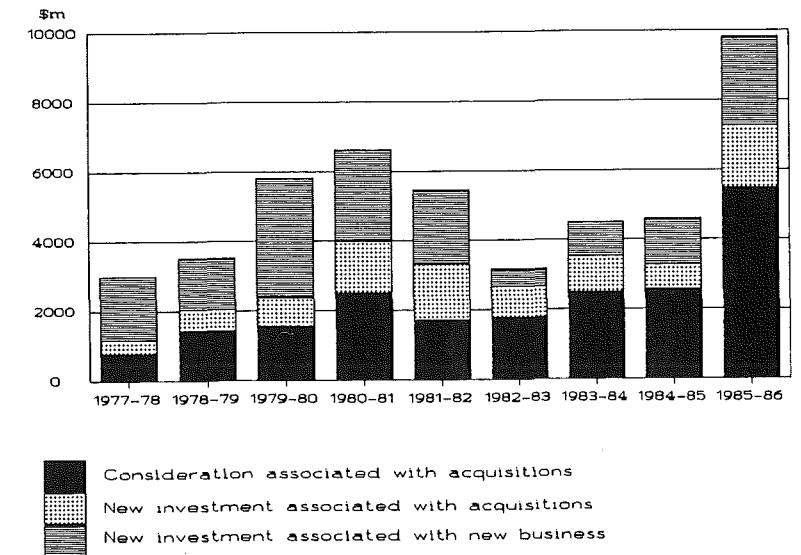
The reduction in the number of rejected proposals in recent years reflected the effects of the progressive liberalisation of policy that occurred in September and December 1984, October 1985 and July 1986.

Total expected investment associated with the 20 proposals rejected in 1985-86 was \$500 million.<sup>1</sup> This compares with \$540 million in 1984-85.

Movements in total expected investment associated with foreign investment proposals over the nine years to end-June 1986 are illustrated in the chart below.

Some further detailed statistical information on foreign investment proposals submitted to the Board is in Part 1 of the Statistical Appendix; references to tables in the text of this Chapter relate to tables in the Appendix.

**Chart 1** Foreign investment proposals, 1 July 1977 to 30 June 1986, expected expenditure associated with approved proposals, by type of expenditure.



<sup>1</sup> Of the 20 rejected proposals, seven involved investment in developed real estate; three were for the exercise of pre-emptive rights in a single mining joint venture, in which there was an Australian bidder; two involved company restructurings which would have resulted in a loss to Australian tax revenue; and the others were for investment in the manufacturing, rural and finance sectors. Six of the proposals rejected were subsequently approved after being resubmitted in a modified form.

**Acquisitions of shares and assets**

As it was in previous years, the large majority of proposals submitted for examination by the Board in 1985-86 concerned the acquisition of shares and other assets. Acquisitions involving a business - apart from portfolio investments - fall within the scope of the *Foreign Takeovers Act 1975*. The detailed provisions of foreign investment policy (relating to, for example, the criteria against which the economic benefits of proposals are assessed) are relied upon for the purpose of examining acquisitions falling within the scope of the Act.

The Act applies to all acquisitions of shares and other assets irrespective of their value. However, in the administration of policy during 1985-86, the Government did not normally expect investors to demonstrate economic benefits in respect of proposals involving acquisitions of businesses whose total assets amounted to less than \$2 million up to October 1985 and \$5 million thereafter, unless there were special circumstances.

As shown in Table 1.3 of the Appendix, there were 1186 proposals approved for acquisitions of shares and other assets in 1985-86 (representing 92 per cent of all proposals approved during the year). The expenditure arising from these proposals represented 74 per cent of total expected investment on all proposals approved. In addition, 18 acquisition proposals were rejected.

Major points to be noted from the table include:

- almost one quarter (276) of all acquisitions resulted in control of the businesses concerned passing from Australian to foreign interests. In its examination of proposed acquisitions of this type, the Board sought to ensure that, consistent with the policy guidelines, the economic benefits offered were sufficient to offset the loss of Australian ownership and control. The total assets of the businesses affected by these proposals were about \$3400 million, a majority of which was accounted for by businesses in the finance and insurance sectors;
  - of the acquisitions that resulted in a loss of Australian control, 175 (63 per cent) involved businesses with total assets of less than \$2 million;
  - the consideration to be paid for acquisitions leading to a loss of Australian control was about \$1100 million or 21 per cent of the consideration associated with all acquisitions. The expected new investment on these acquisitions of \$119 million represented about 7 per cent of that on all acquisitions. Total expected investment was \$1250 million or nearly 13 per cent of the total for all approved proposals;
- there were 121 proposals (10 per cent) involving a change of control from one foreign interest to another. The total assets of the businesses affected by these proposals were around \$2600 million, around half of which was accounted for by businesses in the manufacturing sector;

- 345 (29 per cent) of the proposals involved acquisitions of partial interests in businesses. These proposals involved total considerations of about \$3100 million, of which almost \$1000 million was accounted for by one large proposal (involving majority Australian equity) in the service industries sector and a significant proportion of the remainder was attributable to proposals involving businesses in manufacturing. In the majority of proposals involving the acquisition of partial interests, there was some reduction of Australian ownership of shares or assets;
- a further 139 (12 per cent) proposals involved the acquisition of real estate for business use and 57 (5 per cent) proposals were for the acquisition of rural properties; and
- 219 (18 per cent) proposals involved company restructuring and company financing arrangements, and 15 proposals (1 per cent) involved the acquisition of real estate for non-business use. The effect of these proposals on Australian ownership and control was negligible.

Tables 1.4 and 1.5 disaggregate acquisitions into those where the acquisition was of a controlling interest (that is, where there was a change in the identity of the person with the capacity to exercise effective control over the business concerned) and those where a partial interest in ownership only was to be acquired. (In some cases, the investor acquiring the partial interest already had a controlling interest in the business.)

**Conditions applied to proposals approved**

A total of 710 proposals (55 per cent of all proposals approved) were approved subject to conditions. This compares with 39 per cent in the previous year and 35 per cent in 1983-84. Table 1.6 details the types of conditions that were applied.

The most frequently imposed condition related to the taxation aspects of proposals, in particular, the manner in which proposals were to be financed. While foreign investors are not asked to pay more tax than an Australian investor would pay in undertaking a similar investment, taxation conditions are applied in order that a foreign investor, through the structuring of an investment, does not obtain a taxation advantage not available to Australian investors and that aspects of proposed investments, such as financing, reflect normal commercial practice.

Of the other conditions, the majority involved statements that served to remind foreign investors of their obligations under other legislation, requirements to report back to the Board (for example in respect of environment protection and local zoning) and undertakings by the parties to resell shares or assets (in particular, real estate) to Australians or eligible foreign purchasers at a later date if other basic conditions could not be met.

One set of conditions related to commitments by parties to undertake, at a (usually) specified future date, a rearrangement of their affairs to provide an increase in, or the admission of, Australian equity.<sup>2</sup>

The Board avoided recommending the imposition of conditions that would have required the parties to alter aspects of their proposed investments relating to the operations and conduct of their businesses; such 'performance requirements' would not have been in the commercial interests of the parties to proposals and would have represented an unwarranted intrusion of foreign investment policy into business affairs.

#### New businesses

Proposals for the establishment of new businesses involving expenditure of \$5 million or more (\$10 million or more after 29 October 1985) and all proposals for new businesses in the media and civil aviation sectors are subject to examination under foreign investment policy.

During 1985-86, the Board examined 106 proposals for the establishment of new businesses of which 104 were approved by the Government (Table 1.7).

Total expected investment associated with new business proposals approved in 1985-86 was around \$2500 million; or 26 per cent of the total expenditure on all approved proposals. This was primarily in respect of new trading and merchant banks - \$1800 million or 70 per cent of total expected investment associated with approved new business proposals was in finance and insurance; \$400 million (16 per cent of expenditure on new businesses) was in service industries.

#### Proposals by industry sector

The composition by industry sector of foreign investment proposals examined by the Board in 1985-86 is outlined in Table 1.7. The following salient features are noted:

there was an increase, over the previous year, in the number of acquisition proposals in all sectors except agriculture, forestry and fishing, mineral exploration and development and real estate. The number of new business proposals increased, over the previous year, in the manufacturing, mineral exploration and development and finance and insurance sectors;

<sup>2</sup> In July 1986, the Government announced relaxations of foreign investment policy in respect of manufacturing and real estate. Consistent with the policy liberalisation, the Government permitted the lapsing of requirements under existing approvals for the introduction of Australian equity where the 50 per cent Australian equity guidelines for new proposals were abolished or where the policy test had changed from net economic benefits to approval unless contrary to the national interest.

in terms of total expected investment:

- the high level of expected investment in the manufacturing sector (\$1600 million) was due in large part to a handful of quite large takeover proposals;
- investor interest in service industries remained strong (\$2600 million); and
- expenditure on new businesses and acquisitions in the finance and insurance sector aggregated \$2800 million, reflecting the policy moratorium in the merchant banking sector followed by the more liberalised policy in respect of nbfis and the Government's decision to allow some new foreign trading banks to operate in Australia.

The types of major foreign investment proposals submitted to the Board in recent years have varied considerably. This is a reflection of a number of factors, including changes in industry prospects and circumstances and amendment to Government regulations. In the early 1980s, proposals for investment in minerals or mineral-related projects underpinned the then high levels of direct foreign investment in Australia. The importance of this sector has been overtaken by proposals for investment in the finance and insurance and service industries (particularly, tourism-related projects). These proposals arose from the deregulation of the Australian financial sector and the investment opportunities available in the tertiary sector. Subdued world prices for Australia's natural resource exports, the result partly of excess world supply, contributed to the reduced importance of the minerals sector in terms of total expected expenditure on foreign investment proposals in recent years.

Details of proposed investment by industry sector in 1985-86 are given in Chapter 2.

#### Proposals by source country

Information on the number and value of proposals approved by country of source of investment is given in Tables 1.8 and 1.9 and is summarised for 1984-85 and 1985-86 hereunder.

Country of Investor	Expected investment \$m	
	1984-85	1985-86
Japan	381	1930
United Kingdom	1241	1804
United States	699	1672
Malaysia	350	102
New Zealand	345	514
Canada	125	173
Hong Kong	73	357
Australia <sup>a</sup>	828	2199
Other	570	1067
	<u>4601</u>	<u>9818</u>

<sup>a</sup> Represents the expected contributions by Australian controlled companies and residents in partnership with foreign investors.

The Board notes salient features for 1985-86 as follows:

- in terms of total expected investment, Japan was the most significant source country, with almost \$2000 million or about 20 per cent of total expected investment from all sources;
- the United Kingdom and United States remained major source countries and together accounted for 35 per cent of total expected investment;
- investor interest from New Zealand continued to increase, to about 5 per cent of total expected investment from all sources; and
- interest from Hong Kong investors increased in 1985-86 to about \$350 million.

**Location of expected investment**

The distribution by State and Territory of expected investment is shown at Table 1.10 and is summarised below.

For the reasons mentioned earlier in the Chapter, variations between years in the State and Territory distributions of proposed investments should be interpreted with caution. For what the figures are worth, New South Wales and Victoria experienced substantial increases in 1985-86 and Western Australia and South Australia were estimated to show decreases. Around 40 per cent of the total expenditure was expected to be made on businesses operating in more than one State or Territory.

Location of Expected Investment	Expected investment (\$m)	
	1984-85	1985-86
New South Wales	650	2686
Victoria	431	1914
Queensland	291	352
Western Australia	889	481
South Australia	223	83
Tasmania	23	101
ACT	12	-
Northern Territory	80	154
	<u>2599</u>	<u>5771</u>
Other <sup>a</sup>	<u>2002</u>	<u>4048</u>
Total	4601	9818

<sup>a</sup> Includes 'off-shore' acquisitions, proposals in more than one State or Territory and company reorganisation proposals.

**Claimed benefits arising from acquisitions and new businesses**

As in previous years, investors proposing the acquisition of shares and other assets in 1985-86 cited a wide range of expected benefits (Table 1.11 refers). The most commonly mentioned benefits in 1985-86 included the maintenance of business viability, increased employment, improved managerial efficiency, economies of scale and industry rationalisation, the development of export markets or import replacement, introduction of new technology, provision of access to finance and improvement in the stock and/or quality of residential, retail, commercial or industrial property.

Expected benefits from the establishment of new businesses (Table 1.12) were primarily the provision of access to finance, increased competition, increased employment and trade benefits.

**Claimed reasons for sale**

Information on the reasons put forward by owners for selling maintain part or all of their businesses is given in Table 1.13. As in previous years, many owners attributed their reason for selling to liquidity difficulties and the need for funds for other investment opportunities. Profit taking was another major reason advanced.

**Other operations of the Board**

During the year, the Board and its Executive continued to liaison with, and sought confidential advice and comment on foreign investment proposals from Commonwealth and State Government departments and authorities. Such advice and comment was particularly helpful in assessing the extent of the benefits and other implications of proposals.

In keeping with its functions to foster an awareness and understanding of the Government's policy and to provide guidance to investors, members of the Board and its Executive participated in a large number of meetings (almost 350) with both potential foreign investors and Australian businesses to explain foreign investment policy and its administration and to explain the application of the policy to particular proposals. Over the course of the year, presentations on foreign investment policy and other matters were given to visiting business and other groups from Canada, the United States, Japan, China, New Zealand and the United Kingdom and also to local businesses and other groups.

The information booklet for foreign investors 'Australia's Foreign Investment Policy - A Guide for Investors' was updated during the year to take account of policy and other changes. The booklet has also been re-printed in Japanese and French.

**International organisations**

Australia subscribes to the 1976 Declaration of the Organisation for Economic Co-operation and Development (OECD) concerning international investment and multinational enterprises. The Declaration comprises two instruments (covering national treatment and investment incentives and disincentives) and a set of voluntary guidelines ('the Guidelines') concerning the conduct of multinational enterprises in member countries. Australia also subscribes to two OECD Codes of Liberalisation ('the Codes'), one covering capital movements and the other invisible transactions.<sup>3</sup> The broad thrust of the OECD's work in this area is to liberalise international capital flows.

<sup>3</sup> The Code of Liberalisation of Capital Movements (more commonly known as the 'Capital Code') and the Code of Liberalisation of Current Invisible Operations (more commonly referred to as the 'Invisibles Code').

Other exemption provisions which have been argued include section 33(A) (documents affecting Commonwealth relations with the States), section 34(1) (Cabinet documents), section 36(1) (internal working documents) and section 40(1) (documents the release of which could reasonably be expected to have a substantial adverse effect on the proper and efficient conduct of the operations of an agency).

Some decisions to deny requests for documents have been appealed to the Administrative Appeals Tribunal. Particular care continues to be taken during these proceedings to ensure that evidence presented contains no reference to commercially sensitive or confidential information. As in previous years, during 1985-86 no commercially sensitive or confidential documents were released to applicants as a result of an FOI Act request or a subsequent appeal.

The Executive participated in further hearings which were held in connection with two cases remaining before the AAT under appeal as at 30 June 1985. The Tribunal affirmed the Department's decision in one case and, in the other, the Tribunal decided that, for the documents under dispute, reasonable grounds existed for the claim that disclosure would be contrary to the public interest on three documents in full and two documents in part; it was determined that for the remaining documents the subject of that appeal, no reasonable grounds existed to deny access on the basis that their release would be contrary to the public interest. After carefully taking into account the Tribunal's decision, the Treasurer decided, consistent with section 58A of the Freedom of Information Act 1982, that release of the documents would not be in the public interest and he decided not to revoke the conclusive certificate covering these documents.

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

The Board is concerned to ensure that, consistent with the proper discharge of its functions, the cost of its operations is minimised. Government expenditure on the Board in 1985-86 was a little under \$80 000 compared with \$77 000 in 1984-85. As in previous years, most of the expenditure was for the remuneration of the Board members (67 per cent), with the remainder for (local) travel, car hire and printing.

Government expenditure on the Foreign Investment Division of the Treasury was about \$1.2 million in 1985-86. This expenditure was directed mostly to salaries, with minor expenditures being incurred for legal fees, travelling and computer services. The total cost of the foreign investment screening process would also include a minor part of the expenditure of other Government authorities and agencies, in both the Commonwealth and the States, that are consulted on foreign investment proposals.

## **Chapter 2: Foreign investment by industry**

This Chapter provides a summary, on an industry basis, of the proposals submitted to the Board for examination in 1985-86 and comments on some of the more significant proposals.

#### **Service industries**

During 1985-86 the Board examined 406 proposals for investment in the service industries sector. There were 15 proposals to establish new businesses involving total expected investment of around \$400 million, compared with 18 such proposals (\$650 million) in 1984-85. All new business proposals were approved. Proposals for acquisitions of shares and other assets of Australian businesses numbered 391, compared to 401 in 1984-85. Of the proposed acquisitions, 176 were approved outright, 202 were approved subject to conditions, 9 were either withdrawn or were found to be exempt from examination and four were rejected. Of the four rejected proposals, two were subsequently resubmitted in a modified form and approved.

The total expected expenditure associated with service industries proposals was \$2600 million, compared with \$1350 million in 1984-85. There was a large increase in consideration payable, attributable to two major proposals in the retail sector (see below), which accounted for about 56 per cent of total considerations for all service industries proposals. The rejected proposals would have involved considerations of \$4 million.

More than 96 per cent of the proposals for investment in the service industries sector concerned acquisitions of partial or controlling interests in businesses operating in Australia, and were thus examined under the provisions of the Foreign Takeovers Act. On the assumption that the proposed acquisitions took place, about 38 per cent of the acquisitions led to a loss of Australian control over the businesses concerned; 16 per cent resulted in the loss of some degree of Australian ownership of businesses which were already foreign controlled; about 37 per cent resulted in some loss of Australian ownership, but did not involve any change in control and the other 9 per cent were acquisitions of interests held by other foreign investors or proposals involving an effective increase in Australian ownership.

Investor interest during the year centred on tourism, the import/distribution, wholesaling and retailing industries, the private hospital industry and the construction industry.

#### **(i) Tourism and entertainment facilities and services**

Proposals submitted to the Board for investment in tourist and entertainment-related facilities and services during 1984-85 totalled 21, compared with 32 in the previous year. Total expected investment on these proposals was about \$440 million, a reduction on the \$600 million recorded in the previous year. There were four proposals to develop major international standard accommodation facilities, one in Tasmania and three in NSW; these proposals accounted for 62 per cent of total expected new investment in the services sector.

(ii) Construction

There were 21 proposals submitted to the Board during 1985-86 for investment in the construction industry. Whereas the total consideration payable on proposals submitted in 1984-85 was \$15 million, in 1985-86 it was \$134 million, most of which was attributable to three major proposals.

(iii) Private hospitals and health care services

There was a marked renewal of foreign investor interest last year in the private hospital and health care services industries. Seven proposals for the acquisition and expansion of private hospitals, mainly in NSW and Queensland, were approved during 1985-86 involving considerations of about \$61 million and development expenditures in excess of \$5 million. Some of these proposals involved rationalisation of small, uneconomic hospitals.

Over the past two years, foreign-controlled companies operating in the private hospital industry have fulfilled undertakings given to the Government to introduce Australian equity participation into their Australian operations.

(iv) Wholesale and retail

During 1985-86, the Board considered 338 proposals in the wholesale/retail sector, compared with 199 proposals in 1984-85. Proposals approved involved considerations totalling \$1500 million and the level of expected new investment associated with these proposals was \$79 million.

The largest single proposal considered by the Board during the year was the acquisition by G.J. Coles & Coy Limited of The Myer Emporium Limited. The acquisition required foreign investment approval because G.J. Coles & Coy Limited was partially owned by K-Mart Corporation of the United States. The Government raised no objections to the proposal on the basis that it was expected to result in economic benefits sufficient to offset the minor loss of Australian ownership in The Myer Emporium Limited, that the enlarged group would continue to be Australian controlled and because sufficient opportunity had been made available to Australians to make a bid. The other major proposal in this sector was the merger of Australia's second and third largest grocery store chains, Woolworths Limited and Australian Safeway Limited, which resulted in Safeway Stores Inc of the United States holding a minority interest in the merged Woolworths/Safeway group. The proposal was approved on the basis that it was expected to offer economic benefits, would result in a decrease in foreign control of the retail industry and because sufficient opportunity for Australians to make a bid had been provided.

Following the trend established in the previous year, there was a continuing high level of acquisitions in timber merchandising and builder's hardware wholesaling and retailing sectors, as well as in the professional equipment and business machines/computer distribution sectors.

Due in part to financial difficulties associated with the depreciation of the Australian dollar during the year, there was a higher number of proposals for the acquisition of companies involved in importing and distribution, in particular in the motor vehicle, farm machinery, paper products, chemicals and food sectors.

**Finance and insurance**

On 29 October 1985 the Treasurer announced significantly liberalised guidelines for the whole of the non-bank financial institutions (nbfi) sector and the insurance sector. The new guidelines replaced the policy moratorium for merchant banks introduced on 10 September 1984 and the previous restrictive policy in respect of other categories of nbfis. The policy changes were introduced in the light of the measures the Government had taken to deregulate financial markets, and in order that the insurance sector should be subject to the same policy as applied to most other tertiary services. Further details are given in Attachment C.

With regard to the policy guidelines in respect of Australian stockbroking businesses, it is the Government's intention to review industry developments prior to 1 April 1987, after which stock exchange rules are expected to permit interests outside the industry to own up to 100 per cent of stockbroking businesses.

**Major areas of activity**

The Board examined 240 proposals for investment in the financial and insurance sectors in 1985-86, a 24 per cent increase over the previous year. Of these proposals, 235 were approved and three were rejected. The other two proposals did not require Government approval under foreign investment policy.

The 235 approved proposals included 69 new businesses, six subsidiary financing arrangements, 29 proposals for the restructuring of ownership of existing businesses and 131 proposals for the acquisition of ownership interests in existing Australian businesses (including three indirect acquisitions through the off-shore takeover of parent companies.)

Of the 69 new business proposals, 14 were for trading banks, 32 merchant banks, 9 general financiers, 1 holding/investment company, 11 stockbrokers, and 2 general insurers.

The 14 new trading bank proposals were considered in the context of the Treasurer's announcement of 27 February 1985. As noted in last year's Report, the Board did not examine the new trading bank proposals against the economic benefits criteria of foreign investment policy, given that the Government had already decided in principle that the foreign banks concerned should be permitted to establish banking operations in Australia. The foreign investment screening process did, however, enable the Government to take taxation considerations into account and provided an opportunity to ensure that the proposed corporate and capital structures were satisfactory from a taxation viewpoint.

Of the three rejected proposals in the finance and insurance sectors, two involved new businesses. One of these, concerning the establishment of a new bank, was subsequently approved after the ownership structure had been amended to satisfy taxation requirements. The second, involving a stockbroking business, was rejected because it did not provide for the foreign interest to be limited to 50 per cent ownership. The proposal was subsequently amended to conform to the policy guidelines and was approved.

The 131 approved proposals for investment in existing Australian businesses comprised acquisitions of ownership interests in permanent building societies (2), authorised money market dealers (2), merchant banks (16), general financiers (30), unit trusts (1), holding/investment companies (10), general insurers (4), life insurance companies (2), insurance brokers (24), stockbrokers (13) and other financial services businesses (18). The other nine proposals in this category were for acquisitions of property for use by businesses in the finance and insurance sectors.

The one acquisition proposal rejected by the Government involved a merchant bank and the restructuring of its consortium ownership. The proposal was subsequently approved after agreement had been reached between all shareholders on a form of restructuring.

The large number of merchant bank proposals reflected the continued impact on this sector of the policy moratorium, with many foreign interests taking advantage of the policy waiver to establish new wholly-owned businesses, and others seeking to rationalise the ownership of consortia businesses by moving to majority or 100 per cent ownership.

Since the commencement of the moratorium in September 1984, more than 60 proposals for the establishment of new merchant banking businesses have been approved by the Government, while approval has also been given for ownership restructurings of more than 20 existing merchant banking businesses. The Board understands that well over half the approved new businesses had commenced operations by 30 June 1986.

At the start of the policy moratorium, foreign ownership of the merchant banking industry was estimated to have been around 67 per cent (on the basis of asset value). Since then, a number of factors have been at work influencing ownership and control of the industry. At about the same time as the moratorium began, the Reserve Bank varied its guidelines on trading bank participation in nbfis, permitting 100 per cent ownership of merchant banks. The three major private trading banks took advantage of this policy change to buy out the minority foreign shareholders in their merchant bank affiliates. The effect was a one-off increase in Australian ownership of the merchant banking industry estimated at about 8 per cent. Another factor tending to reduce foreign ownership of the merchant banking industry has been the "upstreaming" of a slice of the assets of a number of foreign owned merchant banks to their new Australian trading bank parent companies. It is not easy to quantify this influence.

These factors would have been partially offset by the loss of Australian ownership of about 5 per cent resulting from the buy-out by foreign participants of their Australian partners in consortia-type merchant banks in the past two years. A continuing influence on the aggregate level of foreign ownership of merchant banks will be the establishment of new foreign-owned businesses, including those which have already obtained approval, but have not yet commenced business. The extent of any resultant increase in foreign ownership will depend in part on how much business the new entrants attract from existing (Australian-owned) merchant banks.

The high level of interest in previous years in acquisitions of interests in small established insurance brokers continued in 1985-86, reflecting an increasingly competitive environment and legislative changes providing for the registration and regulation of the activities of insurance brokers.

The significant number of acquisition proposals involving general financiers was partly a result of the more liberalised policy guidelines which came into effect from October 1985. Many acquisitions reflected moves by industry participants to rationalise existing ownership structures by the buy-out of minority shareholders, some were off-shore takeovers, and some were acquisitions of the financial assets of other finance businesses as their owners rationalised product lines.

#### **Manufacturing**

A total of 268 proposals for investment in manufacturing was submitted to the Board for examination during 1985-86. Of these, one was withdrawn, 264 were either approved outright or with conditions and three were rejected. Of the 264 proposals approved, 215 involved the acquisition of shares or assets of Australian businesses. Proposed expenditure on these acquisitions (consideration plus new investment) was around \$1500 million, most of which was consideration. Of the other 49 proposals approved, 42 were either company reorganisations or financing arrangements and 7 involved the establishment of new businesses.

#### **Major areas of activity**

The Board's 1984-85 Report noted the relatively high level of proposals in the food, beverage and tobacco industry. Foreign takeover activity in this industry has continued, and during 1985-86 a further 41 proposals were considered by the Board. Of these, 18 involved a change in control. The considerations involved in the 39 proposals approved totalled \$709 million. In one of the larger cases, no objections were raised by the Government under foreign investment policy to the Campbell Soup Co of the US increasing its interest in Australia's largest biscuit manufacturer, Arnotts Ltd, to 40 per cent. The most important food industry case involved a merger between the New Zealand public company Goodman Group Ltd and two major Australian food groups, Fielder Gillespie Davis Ltd and Allied Mills Ltd. The resulting company, Goodman-Fielder Ltd, is one of the largest food groups in Australia with total assets exceeding \$1000 million. Philip Morris Companies Inc received approval to acquire the 21 per cent minority interest in its Australian subsidiary Philip Morris (Australia) Ltd, and other proposals resulted in substantial rationalisations of the soft drink industry and the flour industry.

Interest in acquisitions in the broad industrial machinery and equipment goods classification (including construction machinery, whitegoods and electrical appliances) was also high with 69 cases decided involving total consideration of \$300 million. The most significant proposal in this area was the bid for the Australian-controlled whitegoods manufacturer, Simpson Limited, by Hoover Appliances – an American company. There was also a takeover offer for Simpson by another major Australian whitegoods manufacturer, Email Limited. The Government decided that, having regard to the effects on industry structure of the competing bids, and having received a commitment by Email Limited to match the Hoover offer for Simpson, the Hoover proposal did not offer economic benefits of sufficient magnitude to warrant approval. Simpson was subsequently acquired by Email.

One of the largest proposals in the manufacturing sector during the year was in transport equipment. Following the takeover of Repco Limited by an Australian public company, some of Repco's major manufacturing divisions were sold off. Repco's brake operations were acquired by the UK-owned BBA plc, one of the world's largest manufacturers of brake and clutch materials. The acquisition was considered to be consistent with Government policy on rationalisation in the motor vehicle industry, and is expected to bring long-term benefits to the industry.

Other areas of investor interest included chemical, petroleum and coal products (32 proposals) fabricated metal products (27 proposals) and paper products, printing and publishing (25 proposals).

Of the seven new business proposals submitted, the two most substantial involved the establishment of optical fibre manufacturing businesses in Melbourne.

**Conditions of approval for manufacturing proposals**

Although very few manufacturing proposals are rejected, a large number of approvals are subject to conditions, most commonly taxation conditions. Other conditions of approval have been imposed, prompted both by specific claimed benefits and by possible adverse effects in relation to major Government policy objectives such as export promotion.

Trade implications of foreign investment include the introduction by foreign investors of technology and know-how, which has increased competitiveness and hence exports in some industries, while foreign investors are often also well-placed to market Australian goods internationally through their existing overseas marketing organisations. Trade benefits have commonly been claimed in respect of foreign investment proposals in the manufacturing sector and have often been an important factor contributing to approvals.

**Urban real estate<sup>1</sup>**

During 1985-86 the Government approved 135 proposals by foreign interests to acquire urban property and rejected seven. The total expected consideration for the acquisitions approved was \$400 million. This compares with 174 proposals approved in 1984-85 with a total consideration of \$200 million. In addition, the Government approved in 1985-86 16 annual programs for acquisitions of urban real estate, involving an expected total consideration of \$275 million.

<sup>1</sup> *The data in this section are taken from Part II of the Statistical Appendix. The data on real estate proposals in Part I of the Statistical Appendix cover only those acquisitions that may be classified to the real estate sector by reference to the Australian Standard Industrial Classification.*

The majority of proposals approved for the acquisition of urban real estate involved significant development of the property. In some situations, however, development was not a requirement under policy, including, for example, acquisitions by foreign parties of residences for their own use, acquisitions by Australian citizens resident abroad and purchases by foreign-owned insurance companies of real estate as part of an investment portfolio. The 135 individual proposals approved involved estimated development expenditure of about \$1500 million, indicating total expected investment (acquisition consideration plus development expenditure) of \$1900 million. This represented a significant increase from the total expected investment of \$670 million in 1984-85. About 50 per cent of the estimated development expenditure associated with proposals approved in 1985-86 was attributable to a single project for development and resale to Australians: it will take several years to complete.

Conditions were attached to 71 per cent of approved proposals, principally involving undertakings to resell the real estate to Australian or other eligible interests in certain circumstances (for example, where migration did not occur or where Australian equity participation had not been introduced within an approved period of time) and the financial structure, in respect of taxation implications, of proposals.

As noted, the Government decided that seven proposals were inconsistent with foreign investment policy. The economic benefits offered by two of them were insufficient. In two other cases, there were both insufficient economic benefits and Australian equity. In the other three proposals, there were unclear migration intentions and the proposals offered insufficient economic benefits or Australian equity to satisfy the policy guidelines.

The United Kingdom was the source of the largest number of real estate proposals in 1985-86 with 31, followed by New Zealand 18, Japan 17 and Hong Kong 16.

**Rural properties<sup>2</sup>**

In 1985-86 the Government approved 56 proposals for the acquisition of rural land by foreign interests, for a total consideration of \$44 million. The expected development expenditure associated with the proposals, at \$15 million, was equivalent on average to about one-third of the acquisition price for these properties. Of the proposals, 23 were approved outright and 33 were approved with conditions.

In 1984-85, 59 proposals were approved for a total consideration of \$42 million and expected development expenditure of \$75 million.

**Resources, mining and petroleum**

Foreign investment proposals in the minerals area remained modest in 1985-86, reflecting continued weak demand for most of Australia's internationally-traded minerals. The decline experienced in recent years in the number of foreign investment proposals in the mineral development and exploration area continued in 1985-86. There were 94 mining and exploration proposals considered in 1985-86, of which 91 proposals involving expected investment of \$570 million were approved and three were rejected. The proposals approved comprised 72 cases for the acquisition of shares in, or assets of, existing businesses, 11 proposals for investment in new mining businesses and 8 proposals for the reorganisation of companies.

<sup>2</sup> *The data in this section are taken from Part II of the Statistical Appendix.*

The proposals for new businesses were in the areas of gold, petroleum and base metals, with total expected investment of \$210 million. Twenty-nine of the 91 proposals approved were for exploration programs, involving total expenditure of \$30 million, the major areas of interest being gold exploration (10 proposals) and petroleum (9 proposals).

**Resource processing**

During 1985-86, 13 proposals for foreign investment in resource processing were approved under the Government's foreign investment policy, involving total expected investment of \$260 million. Of these proposals, 12 were for the acquisition of shares in, or assets of, existing businesses and one was for the establishment of a new business.

## Chapter 3: Developments in foreign investment

This chapter summarises trends in the estimates of foreign investment inflows in Australia compiled and published by the Australian Bureau of Statistics (ABS) and reports recent data on foreign ownership and control in Australia.

It seems desirable to emphasise that the ABS data are – as indicated by the text – based on different criteria from those used by the Foreign Investment Review Board.

The analysis of foreign investment inflows is on the basis of the new framework for foreign investment statistics introduced by the ABS in the 1985 September quarter publication on foreign investment (Catalogue No 5306.0). The principal effects of the introduction of the new framework are discussed below.

**The new framework**

Under the new statistical framework, the term 'foreign investment' has been broadened to include all foreign financial assets and liabilities, including investment in enterprises, government borrowing, foreign exchange reserves, investment by households, etc. This has resulted in the incorporation of several items not previously included in foreign investment publications, the most important additions being:

- . borrowings by trading banks, previously classified under the balance of payments item 'non-official monetary sector transactions';
- . certain short term credit items, previously included in the balance of payments item 'trade credit n.e.i.'; and
- . foreign financial assets controlled by the Reserve Bank, previously classified under the balance of payments item 'official monetary movements'.

The new framework also incorporates a change in the definition of direct investment. Previously, ownership of 25 per cent or more of the ordinary shares or voting stock of an enterprise was generally used as a measure of 'significant influence' by an investor over the enterprise, and such investment was classified as direct investment. Under the new framework, this threshold has been lowered to 10 per cent. ABS investigations indicate that the change has increased the levels and flows of direct investment in Australia by between 2 per cent and 5 per cent (with a corresponding reduction in the value of portfolio and other investment).

The ABS has recompiled data series from 1982-83 on the basis of the new framework or, where this has not been possible, it has provided an estimate of the magnitude of the breaks in series that have occurred. The ABS expects to extend the recompiled data series back to 1979-80 by December 1986.

**Overview of foreign investment inflows**

Table 3.1 details the inflow of foreign investment in Australia from 1982-83 to 1985-86. Inflows in 1985-86 reached \$14.6 billion (excluding Australian currency borrowings by trading banks in the June quarter<sup>1</sup>) compared with \$15.3 billion in the previous year. Foreign investment attributable to the official sector (ie 'general government' and the Reserve Bank) was \$3.2 billion, an increase of \$0.6 billion on that recorded in 1984-85. Foreign investment in the non-official sector (trading banks, other financial enterprises, trading enterprises and households) was approximately \$11.4 billion - \$1.2 billion lower than for 1984-85. Investment in the non-official sector in 1985-86 comprised:

- \$0.7 billion (5 per cent of total inflow) direct investment, a decrease of 72 per cent over the previous year; and
- \$10.7 billion (73 per cent of total inflow) portfolio and other ('non-direct') investment, an increase of 6 per cent over the previous year.

**Non-official direct investment**

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

The ABS classifies 'direct investment' inflows into five categories - 'reinvestment of earnings' (the unremitted profits of branches and subsidiaries) 'corporate equities' (proceeds from the net sale of shares to non-residents) 'net equity in branches' (changes in the net assets of unincorporated enterprises owned by non-residents) 'borrowings' (borrowings by direct investment enterprises from related investors) and 'other net accounts payable by direct investment enterprises to direct foreign investors'.

Inflows of non-official direct investment, as a proportion of total non-official investment, were much smaller in 1985-86 compared with the two previous years. They were \$724 million in 1985-86, compared with \$2,606 million in 1984-85 (see Table 3.2). The fall in direct investment was primarily due to a change in "in-house" borrowings from a \$1127 million net inflow in 1984-85 to a net outflow<sup>2</sup> of \$1206 million in 1985-86. Direct investment in corporate equities in 1985-86, however, increased threefold to \$1499 million (\$353 million in 1984-85).

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

Reflecting the high level of foreign borrowings so far in the 1980s, then on-official portfolio and other investment category has been the major contributor to inflows of foreign investment in Australia in each of the past four years (see Table 3.2). The proportion of non-official foreign investment classified as 'portfolio and other' investment was 94 per cent in 1985-86 (compared with 80 per cent in 1984-85, 78 per cent in 1983-84 and 90 per cent in 1982-83).

<sup>1</sup> These data were not available at the time of compilation.

<sup>2</sup> A net outflow of investment or negative investment denotes a net withdrawal of investment from Australia. In the case of foreign direct investment in Australian enterprises, negative investment could arise from: repayments of debt exceeding new borrowings; foreigners selling their equity to Australians; the remittance abroad of previously accumulated income of branches; and losses incurred by foreign direct investors.

**Table 3.1: Foreign investment in Australia, 1982-83 to 1985-86**

	1982-83 to 1985-86 annual average		1982-83		1983-84		1984-85		1985-86	
	\$m	per cent	\$m	per cent	\$m	per cent	\$m	per cent	\$m	per cent
Official	1937	15.4	1061	10.3	950	9.4	2579	16.9	3157	21.6
Non-official										
• Direct	1558	12.4	895	8.7	2006	19.9	2606	17.0	724	5.0
• Portfolio and other	9081	72.2	8357	81.0	7134	70.7	10108	66.1	10725 a	73.4
Total Non-official	10639	84.6	9252	89.7	9140	90.6	12714	83.1	11449 a	78.4
Total Official and Non-official	12576	100	10313	100	10090	100	15293	100	14606 a	100

a Excludes Australian currency borrowings by trading banks for the June quarter 1986.

Source: ABS: Balance of Payments, Australia, June quarter 1986 (Cat No 5302.0), Foreign Investment, Australia, March quarter 1986 (Cat No 5306.0).

Table 3.2: Inflow of non-official foreign investment in Australia, 1982-83 to 1985-86

	1982-83 to 1985-86 annual average		1982-83		1983-84		1984-85		1985-86	
	\$m	per cent	\$m	per cent	\$m	per cent	\$m	per cent	\$m	per cent
<b>Non-official direct investment</b>										
Reinvestment of earnings	304	2.9	-586	-6.3	553	6.1	627	4.9	620	5.4
Corporate equities	707	6.6	391	4.2	585	6.4	353	2.8	1499	13.1
Net equity in branches	-137	-1.3	574	6.2	-784	-8.6	65	0.5	-404	-3.5
Borrowings	355	3.3	448	4.8	1050	11.5	1127	8.9	-1206	-10.5
Other	330	3.1	68	0.7	602	6.6	434	3.4	215	1.9
<b>Total</b>	<b>1559</b>	<b>14.6</b>	<b>895</b>	<b>9.7</b>	<b>2006</b>	<b>21.9</b>	<b>2606</b>	<b>20.5</b>	<b>724</b>	<b>6.3</b>
<b>Non-official portfolio and other</b>										
Corporate equities	311	2.9	858	9.3	584	6.4	143	1.1	-342	-3.0
Borrowings										
- trading banks	2105	19.8	371	4.0	436	4.8	2373	18.7	5242 a	45.8
- private sector enterprises n.e.c.	3962	37.2	4586	49.6	3216	35.2	3778	29.7	4266	37.3
- public sector enterprises n.e.c.	2505	23.5	2536	27.4	2355	25.8	3575	28.1	1552	13.6
Accounts payable/prepayments	199	1.9	6	0.1	543	5.9	239	1.9	7	0.1
<b>Total</b>	<b>9082</b>	<b>85.4</b>	<b>8357</b>	<b>90.3</b>	<b>7134</b>	<b>78.1</b>	<b>10108</b>	<b>79.5</b>	<b>10725 a</b>	<b>93.7</b>
<b>Total Non-official</b>	<b>10639</b>	<b>100.0</b>	<b>9252</b>	<b>100.0</b>	<b>9140</b>	<b>100.0</b>	<b>12714</b>	<b>100.0</b>	<b>11449 a</b>	<b>100.0</b>

a Excludes Australian currency borrowings by trading banks for the June quarter 1986.

Source: ABS: Foreign Investment, Australia, December quarter 1985 (Cat No 5305.0), Balance of Payments, Australia, June quarter 1986 (5302.0).

### Australian Bureau of Statistics studies

The studies suggest that over the past decade there has been relatively little overall change in the levels of foreign ownership of particular Australian industries and resources - see Table 3.5.<sup>4</sup> In the mining and manufacturing sectors there has been virtually no change; in minerals processing and life insurance there was a minor increase in foreign ownership; and in general insurance there was a decrease in foreign ownership.

### Australia's level of external debt

The ABS foreign investment statistics now include data on Australia's net external debt which is given in Table 3.4.

At 30 June 1985, the level of Australia's net external debt was \$51.4 billion compared with \$29.3 billion a year earlier (an increase of \$22.1 billion). About 40 per cent of the increase was attributable to valuation changes flowing from the depreciation of the \$A during the period. (The \$A value of Australia's external debt is significantly affected by exchange rate movements because the vast majority of overseas borrowings are denominated in \$US and other foreign currencies.)

### Investment levels

Table 3.3 shows that the level or 'stock' of foreign investment in Australia as at 30 June 1985<sup>3</sup>, comprised \$11.9 billion of corporate equities and \$79.5 billion in the investment forms. This represented an increase of \$27 billion, or 42 per cent, over the aggregated level at 30 June 1984. Of the change during 1984-85, approximately \$3.2 billion was accounted for by an increase in the stock of direct investment. The remainder was accounted for largely by increases in the levels of borrowings by trading banks (\$2.7 billion) borrowings by private sector enterprises n.e.c. (\$9.4 billion) borrowings by public sector enterprises (\$6.6 billion) and official sector transactions (\$4.4 billion). The growth in 1984-85 in the level of foreign investment was \$17 billion more than the growth in the preceding year.

Within the non-official portfolio and other investment category, the proportion of these inflows in the form of borrowings by trading banks increased from its low level in the earlier years to 23 per cent in 1984-85 and 49 per cent in 1985-86. The increased importance of foreign borrowings by Australian trading banks appears to reflect the increased integration of the Australian financial system with international financial markets, as well the level of on-lending by banks to private sector enterprises (reflecting re-intermediation). Debt financing has expanded in most countries as world capital markets have become more developed and integrated and there has been an increased preference for more liquid short-term debt instruments by lenders as a result of volatile interest rates and exchange rates.

<sup>3</sup> The latest complete data available at time of compilation.  
<sup>4</sup> Greater detail of the ABS foreign ownership studies covering the mining, manufacturing, life and general insurance industries, agricultural land and registered financial corporations is given in the Board's 1984-85 Report.

Table 3.3: Level of foreign investment in Australia, by type of investment (\$A million)

	Official			Non-official					Total			
	Direct			Portfolio and other investment					Accounts payable/ prepayments	Corporate equities	Other	
	Corporate equities <sup>a</sup>	Other	Corporate equities	Trading banks	Borrowings		Accounts payable/ prepayments	Corporate equities				Other
					Public sector enterprises n.e.c.	Private sector enterprises n.e.c.						
At 30 June												
1983	8132	8006	10290	2338	1203	6242	16497	1708	10344	44072		
1984	8900	8353	11845	2662	1630	8717	19951	2378	11015	53421		
1985	13262	9072	14350	2878	4376	15359	29354	2788	11950	79489		

a Paid up value.

Source: ABS: Foreign Investment, Australia, December quarter 1985 (Cat No 5306.0).

Table 3.4: Australia's level of external debt, 1983-85 (\$A million)

	Foreign borrowing			Australian lending abroad and reserve assets			Net external debt <sup>a</sup>			
	Official	Non-official	Total	Official	Non-official	Total	Official	Non-official	Total	
		Public Sector	Private Sector <sup>b</sup>							
At 30 June										
1983	7681	6242	21723	35646	10751	1891	12642	-3070	26074	23004
1984	8542	8717	26595	43854	12420	2135	14555	-3878	33177	29299
1985	12949	15359	40395	68703	13521	3773	17294	-572	51981	51409

a Foreign borrowing by Australian residents less the sum of Australian lending abroad and reserve assets.

b Including all trading banks.

Note: Because of differences in bases of compilation, the foreign borrowings data in this table are not comparable with that in Table 3.3.

Source: ABS: Foreign Investment, Australia, December quarter 1985 (Cat No 5306.0).

Table 3.5: Foreign ownership by industry sector - selected years, per cent

	Foreign ownership			Australian ownership
	'Direct'	'Other identified'	Total foreign ownership	
Mining <sup>a</sup>				
1972-73	37.5	12.0	49.5	50.5
1982-83	33.6	16.8	50.4	49.6
Minerals processing <sup>b</sup>				
1972-73	-	-	39.7i	60.3
1981-82	27.6	18.6	46.3	53.7
Manufacturing <sup>c</sup>				
1972-73	27.7	3.5	32.1	68.8
1982-83	28.4	4.5	32.9	67.1
Life insurance <sup>d</sup>				
1973	18.8	18.0	36.8	63.2
1983-84	24.5	15.8	40.3	59.7
General insurance <sup>e</sup>				
1972-73	-	-	45.4i	54.6
1983-84	32.5	1.6	34.1	65.9
Registered financial corporations <sup>f</sup>				
1983-84	26.5	9.4	35.9	64.1
Agricultural land <sup>g</sup>				
1983-84	-	-	5.9	94.1
Transport <sup>h</sup>				
1983-84	-	-	5.1i	94.9

Notes:

- a Based on value added - ABS: Foreign Ownership and Control of the Mining Industry, Australia, 1982-83 (Cat No 5317.0).
- b Based on value added - ABS: Foreign Ownership and Control of the Mining Industry and Selected Mineral Processing Industries, Australia, 1981-82 (Cat No 5317.0).
- c Based on value added - ABS: Foreign Ownership and Control of the Manufacturing Industry, Australia, 1982-83 (Cat No 5322.0).
- d In terms of the value of premiums received for life insurance policies and annuities - ABS: Foreign Ownership and Control of the Life Insurance Industry, Australia, 1983-84 (Cat No 5311.0).
- e In terms of the value of premiums received - ABS: Foreign Ownership and Control of the General Insurance Industry, Australia, 1983-84 (Cat No 5309.0).
- f Based on value of corporations' assets - ABS: Foreign Ownership and Control of Registered Financial Corporations, Australia, 1984 (Cat No 5334.0).
- g Based on number of hectares. By location, the highest level of foreign ownership was in the NT, in which 13.0 million hectares or 18.2 per cent of its agricultural land was estimated to be foreign owned. Corresponding figures for the States were Queensland, 8.4 million hectares (5.3 per cent); WA, 3.6 million hectares (3.1 per cent); SA, 2.7 million hectares (4.3 per cent); NSW, 0.7 million hectares (1.1 per cent); Tasmania, 0.05 million hectares (2.1 per cent); and Victoria, 0.06 million hectares (0.4 per cent) - ABS: Foreign Ownership and Control in Agriculture, Australia, 1983-84 (Cat No 5536.0).
- h Based on value added - ABS: Foreign Ownership and Control of the Transport Industry, Australia, 1983-84 (Cat No 5335.0).
- i It is not possible to disaggregate total into 'direct' or 'other identified' foreign ownership.

Studies of foreign ownership in agricultural land and in the transport industry have been undertaken for the first time; the level of foreign ownership in each sector was found to be less than 6 per cent.

In using ABS data to make observations about the level of foreign ownership and control of particular industries, the following factors need to be borne in mind. First, movements in the aggregate level of foreign ownership or control of an industry over time may be caused either by changes in the degree of foreign ownership of particular enterprises in that industry and/or by differences in the relative growth rates of foreign and Australian owned enterprises. Secondly, the basis used to measure ownership or control (for example, value added, employment or turnover) may lead to different results because of differences in the capital intensities, efficiencies or stages of development of operations of enterprises in the industry. Finally, factors other than share ownership may affect the control of businesses and the extent of participation in the profits of a business; these factors cannot be covered by the ABS studies.

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

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

Transport industry

An ABS study completed in 1985-86 covers foreign ownership and control of the transport industry. The results of the study are summarised in Table 3.6.

Foreign ownership in the industry in 1983-84 was 5.1 per cent of value added. Most foreign ownership was attributable to the UK (2.9 per cent) and USA (1.0 per cent).

In 1983-84, foreign-controlled establishments accounted for 3.4 per cent of value added in the transport industry, while joint foreign and Australian-controlled establishments and naturalised or naturalising establishments combined accounted for 0.1 per cent of value added. Most foreign control was attributable to the UK (2.3 per cent).

In terms of specific transport sectors, foreign ownership and control was the highest in freight forwarding (except road) and water transport. Foreign ownership accounted for 20.5 per cent of value added in the freight forwarding (except road) industry and 16.5 per cent of value added in the water transport industry. In terms of control, foreign-controlled establishments, joint foreign and Australian-controlled establishments and naturalised and naturalising establishments accounted for 13.1 per cent and 16.6 per cent respectively in freight forwarding (except road) and water transport.

**Table 3.6: Transport industry - foreign ownership and control<sup>a</sup>, 1983-84**

Sector	Foreign ownership per cent	Foreign control, joint Australian/foreign control and control by naturalised and naturalising companies per cent
Road freight transport	5.5	3.8
Road passenger transport	0.2	n.p.
Rail transport	3.5	n.p.
Water transport	16.5	16.6
Air transport	2.7	0.1
Freight forwarding (except road)	20.5	13.1
<b>TOTAL</b>	<b>5.1</b>	<b>3.5</b>

Source: ABS: *Foreign Ownership and Control of the Transport Industry, Australia, 1983-84* (Cat No 5335.0).

Note:

*a* Based on value added.  
n.p. - not published.

In comparison with foreign participation in most of the other industry sectors surveyed by the ABS to date, foreign ownership and control in the transport industry is very modest. The results of the survey are not surprising, given the restrictions placed on foreign entry into civil aviation, coastal shipping arrangements, State Government ownership of rail transport, and the highly competitive nature of road transport services. The higher incidence of foreign participation in freight forwarding may reflect the advantage in having international ownership links in respect of international freight forwarding. (It should be noted that the survey covers only enterprises with operations based in Australia. This basis would have a significant impact on the measure of the level of foreign ownership of shipping services providing international water transport because a majority of shipping servicing Australian ports is based and owned outside Australia.)

**Other measures of foreign participation**

The ABS studies outlined above deal with foreign participation in specific industry sectors and, as such, do not indicate the level of foreign ownership in the Australian economy generally.

A general measure that has been used to provide a very rough indication of the level of foreign ownership in the Australian economy is the proportion of company income, net of tax, that is payable overseas.<sup>5</sup> Table 3.7 below shows movements in this ratio since 1974-75 and indicates that, apart from 1982-83, the proportion has remained relatively stable (in the mid-twenties) over the last decade. The substantial decrease in company income payable overseas during 1982-83 was primarily attributable to the fall in undistributed income associated with the business recession.

**Table 3.7: Company income payable overseas, 1974-75 to 1984-85**

Year	Adjusted income payable overseas as a percentage of total company income after tax
1974-75	23.5
1975-76	27.9
1976-77	27.3
1977-78	29.7
1978-79	23.1
1979-80	26.4
1980-81	26.1
1981-82	23.3
1982-83	12.3
1983-84	26.5
1984-85	26.1

Source: Derived from ABS data.

Another measure of the extent to which foreign investors share in the income generated in the economy is net income payable abroad as a proportion of net domestic product. Data for the period since 1978-79 are provided in Table 3.8.

Net income payable abroad as a percentage of net domestic product has increased from around 2.0 per cent at the turn of the decade to 3.4 per cent in 1985-86, reflecting in large part a substantial increase in interest payments abroad on borrowings.

Table 3.9 provides details of total consumption, saving and investment in the Australian economy as a proportion of gross national disposable income. The table indicates that Australia has drawn upon the savings of other countries to supplement its domestic savings and thereby facilitate economic development.

<sup>5</sup> Considerable care must be exercised in drawing, from the data, any conclusions relating to foreign participation in the Australian economy. The measure is subject to short-term fluctuation and apparent trends may be subject to reversal as revised and more recent data become available. Moreover, the proportion, apart from being calculated from data subject to problems of statistical estimation, would be affected by various influences in addition to the level of foreign ownership.

**Table 3.8: Net income payable abroad and net domestic product, 1974-75 to 1985-86**

Year	Net income payable abroad <i>a</i> (\$m)	Net domestic product <i>b</i> (\$m)	Net income payable abroad as a percentage of net domestic product
1978-79	2 006	96 245	2.0
1979-80	2 488	108 674	2.3
1980-81	2 507	123 874	2.0
1981-82	3 179	141 390	2.2
1982-83	2 829	154 559	1.8
1983-84	4 745	174 449	2.7
1984-85	6 341	193 628	3.3
1985-86	7 333	214 036	3.4

*a* Income payable on foreign investment in Australia less income receivable on Australian investment abroad.

*b* Defined as GDP less depreciation.

Source: ABS: Australian National Accounts, National income and expenditure, 1984-85 (Cat No 5204.0), Budget Paper No 10, 1986-87, Foreign Investment, Australia 1983-84 (Cat No 5305.0). Balance of Payments, Australia - Historical series on microfiche. June quarter 1986 (Cat No 5337.0).

**Table 3.9: Consumption, saving, investment and net lending abroad 1979-80 to 1985-86 (per cent of gross national disposable income)**

Year	Consumption			Saving <i>b</i>	Investment			Net lending abroad <i>e</i>
	Private <i>a</i>	Government	Total		Private <i>c</i>	Government <i>d</i>	Total	
1981-82	60.6	16.4	77.0	23.0	21.3	7.6	28.9	- 5.9
1982-83	63.5	17.1	80.6	19.4	15.6	8.4	24.0	- 4.6
1983-84	62.3	16.8	79.1	20.9	16.9	7.8	24.7	- 3.8
1984-85	63.0	17.2	80.2	19.8	16.8	8.1	24.9	- 5.2
1985-86	63.2	17.4	80.6	19.4	17.0	8.3	25.4	- 6.0

*a* Private consumption includes the statistical discrepancy, which is treated as unidentified consumption.

*b* Defined as gross national disposable income (GDP less net property income from abroad after deducting withholding taxes paid abroad less net transfers from abroad) less consumption (less the statistical discrepancy).

*c* Private gross fixed capital expenditure plus changes in stocks.

*d* Gross fixed capital expenditure of public enterprises and general government.

*e* Equals balance on current account plus net undistributed income attributable abroad as published in ABS Balance of Payments publications.

Sources: National Income and Expenditure, 1984-85 (Cat No 5204.0). Budget Paper No 10, 1986-87 and ABS: Quarterly Estimates of National Income and Expenditure, Australia, September Quarter 1985 (Cat No 5206.0).

## Attachment A

### Foreign investment policy and administration—legislation, policy statements and publications

- Legislation*
1. Companies (Foreign Take-overs) Act 1972, No 134 of 1972 – November 1972
  2. Companies (Foreign Take-overs) Act 1973, No 199 of 1973 – December 1973
  3. Foreign Takeovers Act 1975, No 92 of 1975 – August 1975
  4. Foreign Takeovers Amendment Act 1976, No 93 of 1976 – September 1976
  5. Statutory Rules 1975, No 226 – December 1975
  6. Statutory Rules 1976, No 203 – September 1976
  7. Commonwealth Functions (Statutes Review) Act 1981, No 74 of 1981 – June 1981

- Policy Statements*
1. Statement by the Treasurer, the Hon Phillip Lynch, MP – Foreign Investment in Australia – 1 April 1976
  2. Press Release by the Treasurer, the Hon Phillip Lynch, MP – The Foreign Investment Review Board – 8 April 1976
  3. Joint Statement by the Deputy Prime Minister and the Treasurer – Uranium Projects – 28 May 1976
  4. Press Release by the Treasurer, the Hon Phillip Lynch, MP – OECD Declaration on International Investment and Multinational Enterprises – 22 June 1976
  5. Statement by the Treasurer, the Hon John Howard, MP – Review of Foreign Investment Policy and Exchange Control Procedures Impinging on Capital Inflow – 8 June 1978
  6. Press Release by the Treasurer, the Hon John Howard, MP – Foreign Investment in Uranium – Yeelirrie Uranium Project – 10 June 1979
  7. Press Release by the Treasurer, the Hon John Howard, MP – Review of Commonwealth Functions – 30 April 1981
  8. Statement by the Treasurer, the Hon John Howard, MP – Foreign Investment Policy – 20 January 1982
  9. Statement by the Treasurer, the Hon Paul Keating, MP – Review of Foreign Investment Policy – 20 December 1983.
  10. Statement by the Treasurer, the Hon Paul Keating, MP – Foreign Investment Policy and Stockbroking – 18 April 1984.
  11. Statement by the Treasurer, the Hon Paul Keating, MP – Participation in Banking in Australia and Other Issues of Financial Deregulation – 10 September 1984.
  12. Statement by the Treasurer, the Hon Paul Keating, MP – Foreign Investment Policy and Stockbroking – 18 December 1984.
  13. Statement by the Treasurer, the Hon Paul Keating, MP – New Banking Authorities – 27 February 1985.

14. Statement by the Acting Treasurer, the Hon Chris Hurford, MP – Review of Foreign Investment Policy – 29 October 1985.
15. Statement by the Acting Treasurer, the Hon Chris Hurford, MP – Economic and Rural Policy Statement – 15 April 1986.
16. Statement by the Treasurer, the Hon Paul Keating, MP – Foreign Investment Policy Relaxations – 28 July 1986.

- Publications*
- . Foreign Investment Review Board Reports: 1977–1985.
  - . Australia's Foreign Investment Policy – A Guide for Investors, 1985.

French and Japanese translations of the Guide, which contains the Government's foreign investment policy statement, are available. 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 or on request to:

The Executive Member  
Foreign Investment Review Board  
c/- The Treasury  
CANBERRA ACT 2600

## Attachment B

### Foreign investment matters -press releases by the Treasurer, 1985-86

No 80	Foreign Investment Proposal - Bulmer Australia Ltd/Percentum Group of Companies - 4 July 1985.
No 82	Foreign Investment Proposal - Bulmer Australia Ltd/Percentum Group of Companies - 10 July 1985.
No 94	Foreign Investment Proposal - Prudential Assurance Company Ltd - Takeover bid for Network Finance Ltd - 7 August 1985.
No 97	Foreign Investment Proposal - K-Mart Corporation/G.J. Coles & Coy Limited/The Myer Emporium Limited - 8 August 1985.
No 117	Foreign Investment Proposals - Merchant Banking Sector - 13 September 1985.
No 118	Foreign Investment Proposals - March Quarter 1985 - 17 September 1985.
No 135	Foreign Investment Proposal - Case Communication plc/Case Communication Systems Ltd - 25 October 1985.
No 136	Review of Foreign Investment Policy - 29 October 1985.
No 154	Foreign Investment Proposals - June Quarter 1985 and 1984-85 - 27 November 1985.
No 32	Simpson Holdings Ltd - 7 April 1986.
No 36	Economic and Rural Policy Statement - 15 April 1986.
No 53	Foreign Investment Proposals - September and December Quarters 1985 - 17 June 1986.

## Attachment C

### Summary of changes to foreign investment policy- 29 October 1985 and 28 July 1986 statements

#### (i) 29 October 1985 statement

##### Opportunities test

The practice of requiring foreign investors to demonstrate that potential Australian investors had been given specific opportunities to express an interest in, or bid for, a business or assets of a business subject to acquisition was discontinued.

##### Increases in administrative thresholds

Takeovers - increase from \$2 million to \$5 million in the administrative threshold below which approval is required, but which is readily given in the absence of special circumstances.

New businesses - increase from \$5 million to \$10 million in the threshold below which approval is not required, other than for media and civil aviation proposals.

Urban real estate - increase from \$350,000 to \$600,000 in the threshold below which approval is not required. The threshold applies to the cumulative value of acquisitions of real estate purchased since June 1978.

##### Non-bank financial institutions (nbfis) and insurance companies

A liberalised stance in relation to merchant banking was continued and extended to other nbfis.

All new business proposals in the nbfi and insurance sectors involving investment of less than \$10 million were exempted from foreign investment policy screening.

For nbfis, new business proposals involving investment of \$10 million or more and takeover proposals were to be approved unless considered to be contrary to the national interest.

For insurance companies, the general foreign investment policy criteria, including the requirement for net economic benefits, were applied to takeover proposals and new businesses involving investment of \$10 million or more.

##### Real estate

The 50 per cent Australian equity participation guideline in respect of proposals for land acquisition, its development and resale to Australians, was applied only to major and/or long term developments (ie those costing \$10 million or more and/or taking more than five years to complete).

The 50 per cent Australian equity guideline remained for all proposals for land acquisition, its development and retention by foreign interests.

Developers with approved annual programs for real estate acquisitions were allowed six months grace after date of purchase before attempting to introduce 50 per cent Australian equity, where necessary.

Purchases of real estate by general insurance companies operating in Australia were exempted from notification where the acquisitions are made from the reserves of the companies and are within the prudential guidelines of the Insurance Commissioner.

#### Amendments to Foreign Takeovers Act

It was proposed that acquisitions of existing mining exploration rights would be exempted from notification under the Act.

Offshore takeovers - ie when both purchaser and target are located offshore, but Australian assets are incidentally involved - would be exempted from the Act where the Australian assets are worth \$20 million or less (the present threshold is \$3 million) unless the Australian assets represent more than one half of the world-wide assets of the target.

#### (ii) 28 July 1986 statement

##### Manufacturing

Proposals for acquisitions of existing manufacturing businesses and for the establishment of new manufacturing businesses involving investment of \$10 million or more will be approved unless they are judged to be contrary to the national interest.

##### Real estate

###### (a) Development/retention, development/resale

Proposals for acquisitions of real estate for development and retention, or for development and resale to Australians will be approved unless they are judged to be contrary to the national interest. The requirement that such proposals include 50 per cent Australian equity no longer applies.

###### (b) Service industry real estate

Proposals for the establishment of, or the acquisition of, service industry real estate, such as hotels and tourist resorts, are no longer required to provide for 50 per cent Australian equity participation and joint Australian/foreign control. Such proposals will now be approved with 100 per cent foreign ownership unless judged to be contrary to the national interest.

###### (c) Developed real estate

Proposals for acquisitions of developed, non-residential, commercial real estate will be approved subject to the acquisition being made with 50 per cent Australian equity participation. Where it can be demonstrated that 50 per cent Australian equity participation is not available on reasonable terms and conditions, investments with 100 per cent foreign ownership will be approved unless they are judged to be contrary to the national interest.

###### (d) Rural properties

Proposals to acquire rural properties will be approved where economic benefits can be demonstrated, eg where on-farm development expenditure of at least one-third of the acquisition price is proposed. Other proposals that provide for an effective 50/50 Australian/foreign ownership and control of the property will also be approved.

###### (e) Existing equity requirements

In those areas where the 50 per cent Australian equity guideline has been dropped and where the economic benefits test no longer applies, requirements under existing approvals for the introduction of Australian equity participation into particular projects within specified timeframes have been allowed to lapse.

# Statistical appendix

## Part I

### Foreign investment proposals

**Notes:** 1. The data in this Appendix have been derived from information contained in submissions to the Government from foreign interests concerning their proposals for investment in Australia. In considering these statistics, several major qualifications must be borne in mind:

- (a) they are a record of the intentions of foreign interests, as indicated in proposals submitted to the Board. The expenditures recorded are those contemplated at the time of submission. Obviously, the proposed actions and, more particularly, the expected expenditures of foreign investors may not always be realised in the light of changing circumstances. Actual expenditure may be dependent upon the completion of further detailed feasibility studies or upon successful exploration in respect of mineral development;
- (b) actual expenditure may be spread over several years and the aggregate data can be influenced significantly by relatively few, very large proposed investments. In 1984-85, more than half the total expected investment resulted from about two per cent of the proposals approved;
- (c) 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 foreign 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 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; and
- (d) the data are restricted to investments that come within the ambit of the Foreign Takeovers Act 1975 and the Government's foreign investment policy and, therefore, do not cover several categories of new business proposals involving expenditure of less than \$10 million, expansions of the existing Australian activities of foreign businesses, or a significant amount of foreign investment of a strictly portfolio nature that falls outside the Foreign Takeovers Act.

Considerable caution should, therefore, be exercised in using the statistics of foreign investment proposals as indicators of the total level of foreign direct investment activity in Australia.

2. With the exception of Tables 1.1 and 1.2 (which also cover rejected proposals) the data in the tables relate only to proposals approved by the Government. Some of the tables do not include data on proposals for the restructuring of companies and company financing arrangements.

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

4. Data on expected investment by industry sector have been compiled by reference to the Australian Standard Industrial Classification published by the Australian Bureau of Statistics. In some cases, acquisitions by diversified company groups are classified according to the industry of the major activity of the group. Acquisitions of real estate to be used for purposes incidental to the main business activity of the purchaser are classified according to that activity.

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

42 **Table 1.1: Number of foreign investment proposals submitted to the Foreign Investment Review Board, 1 July 1979 to 30 June 1986**

Type of proposal	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
Approved without conditions	757	710	847	800	781	770	580
Approved with conditions	329	462	362	310	427	482	710
<b>Total approved</b>	<b>1086</b>	<b>1172</b>	<b>1209</b>	<b>1110</b>	<b>1208</b>	<b>1252</b>	<b>1290</b>
Rejected	20	40	47	60	54	34	20
<b>Total decided</b>	<b>1106</b>	<b>1212</b>	<b>1256</b>	<b>1170</b>	<b>1262</b>	<b>1286</b>	<b>1310</b>
Not requiring approval under Act or policy	360	447	140	108	36	26	17
Withdrawn	51	74	77	85	67	66	51

**Table 1.2: Total expected investment associated with foreign investment proposals (\$ million), 1 July 1979 to 30 June 1986**

Type of proposal	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
Approved without conditions	1439	1585	2021	1573	1932	1902	2540
Approved with conditions	4369	5033	3426	1595	2567	2699	7277
<b>Total approved</b>	<b>5808</b>	<b>6618</b>	<b>5447</b>	<b>3168</b>	<b>4499</b>	<b>4601</b>	<b>9818</b>
Rejected	488	510	166	367	111	537	504
<b>Total decided</b>	<b>6296</b>	<b>7128</b>	<b>5613</b>	<b>3535</b>	<b>4609</b>	<b>5138</b>	<b>10322</b>

Table 1.3: Proposals for acquisitions of shares and other assets, 1 July 1985 to 30 June 1986<sup>a</sup>

Type of acquisition	Number	Consideration <sup>b</sup> (\$m)	Expected new investment (\$m)	Total expected investment (\$m)
Mineral exploration farm-ins	14	12	10	22
Restructuring of companies <sup>c</sup>	219	-	-	-
Acquisitions of real estate for non-business use	15	19	-	19
	248	31	10	41
Acquisitions of real estate for business use	139	655	1520	2175
Acquisitions of rural properties	57	62	16	78
	196	717	1536	2253
Other acquisitions of controlling interests in businesses				
- from foreign interests	121	514	1	515
- from Australian interests				
total assets less than \$2m	175	124	7	131
total assets of \$2m or more	101	1007	112	1119
	397	1645	120	1765
Other acquisitions of partial interests in businesses				
- from foreign interests	41	360	8	368
- from Australian interests				
total assets less than \$2m	127	48	5	53
total assets of \$2m or more	138	2445	130	2575
Other <sup>d</sup>	39	217	-	217
	345	3070	142	3212
<b>Total</b>	<b>1186</b>	<b>5463</b>	<b>1808</b>	<b>7271</b>

a These proposals cover a range of transactions, only a proportion of which would lead to a loss by Australians of the capacity to exercise effective control of the businesses concerned.

b Payments for shares and other assets.

c Includes company financing arrangements.

d These acquisitions would have resulted in an effective increase in Australian ownership of the target company.

Table 1.4: Proposals for acquisitions of controlling interests<sup>a</sup>, by industry sector, 1 July 1985 to 30 June 1986

Industry sector	Acquisitions resulting in a loss of Australian control				Other acquisitions <sup>b</sup>				Total acquisitions			
	No.	Total assets <sup>c</sup> (\$m)	Consider- ation <sup>d</sup> (\$m)	Expected new investment (\$m)	No.	Total assets <sup>c</sup> (\$m)	Consider- ation <sup>d</sup> (\$m)	Expected new investment (\$m)	No.	Total assets <sup>c</sup> (\$m)	Consider- ation <sup>d</sup> (\$m)	Expected new investment (\$m)
Agriculture, forestry and fishing <sup>e</sup>	37	35	30	10	2	4	4	2	39	39	34	11
Mineral exploration and development	20	44	39	4	8	83	5	2	28	127	44	6
Manufacturing	79	532	370	75	46	1217	228	-	125	1749	598	75
Finance and insurance	48	2147	347	3	13	608	68	-	61	2755	414	3
Service	131	599	372	43	55	600	165	-	186	1199	537	43
Real estate <sup>f</sup>	5	1	-	-	1	8	7	-	6	9	7	-
Resource processing	3	5	4	-	2	50	50	-	5	55	54	-
<b>Total</b>	<b>323</b>	<b>3363</b>	<b>1163</b>	<b>135</b>	<b>127</b>	<b>2570</b>	<b>527</b>	<b>4</b>	<b>450</b>	<b>5933</b>	<b>1689</b>	<b>139</b>

a This table provides information on proposals subject to action under the Foreign Takeovers Act, ie. acquisitions of shares or other assets by foreign persons which resulted in a change in the identity of the person with the capacity to exercise effective control over the business concerned. The figures are not comparable with those for the category 'Other acquisitions of controlling interests in businesses' in Table 1.3 as they also cover mineral exploration farm-ins, rural property acquisitions, etc.

b Acquisitions by foreign interests of businesses already foreign controlled.

c Book value of the total assets of the businesses. In some instances the acquisitions involved companies with net assets significantly lower than their total assets.

d Payments for shares and other assets.

e Includes proposals for the acquisition of rural properties.

f These data cover only those acquisitions that may be classified to the real estate industry sector by reference to the Australian Standard Industrial Classification. Data covering all acquisitions of real estate are contained in Part II of the Statistical Appendix.

Table 1.5: Proposals for acquisitions of partial interests<sup>a</sup>, by industry sector, 1 July 1985 to 30 June 1986

Industry sector	Acquisitions resulting in a reduction in Australian ownership			Other acquisitions <sup>b</sup>			Total acquisitions		
	No.	Consideration <sup>c</sup> (\$m)	Expected new investment (\$m)	No.	Consideration <sup>c</sup> (\$m)	Expected new investment (\$m)	No.	Consideration <sup>c</sup> (\$m)	Expected new investment (\$m)
Agriculture, forestry and fishing <sup>d</sup>	20	36	3	2	3	-	22	38	3
Mineral exploration and development	28	191	44	16	73	-	44	263	44
Manufacturing	70	696	53	13	53	-	83	749	53
Finance and insurance	56	283	69	16	215	-	72	498	69
Service	129	1388	107	33	73	62	162	1461	169
Real estate <sup>e</sup>	101	519	1308	11	55	19	112	574	1327
Resource processing	6	1	4	1	170	-	7	171	4
<b>Total</b>	<b>410</b>	<b>3113</b>	<b>1589</b>	<b>92</b>	<b>642</b>	<b>81</b>	<b>502</b>	<b>3755</b>	<b>1669</b>

- a This table provides information on proposals notifiable under the Foreign Takeovers Act but which do not lead to a change in the identity of the person with the capacity to exercise effective control over the businesses concerned. The data do not include 192 proposals for the restructuring of companies, 15 proposals for real estate acquisitions for non-business use and 27 company financing arrangements. The figures are not comparable with those for the category 'Other acquisitions of partial interests in businesses' in Table 1.3 since some of the proposals listed under the other categories of Table 1.3 are included in this table.
- b Acquisitions by foreign interests of parts of businesses already foreign owned and acquisitions resulting in an effective increase in Australian ownership.
- c Payments for shares and other assets.
- d Includes proposals for the acquisition of rural properties.
- e These data cover only those acquisitions that may be classified to the real estate industry sector by reference to the Australian Standard Industrial Classification. Data covering all acquisitions of real estate are contained in Part II of the Statistical Appendix.

Table 1.6: Conditions applied to approved proposals, 1 July 1985 to 30 June 1986

Conditions:	Type of proposal		
	Acquisitions	New businesses	Total
Number of proposals approved with conditions	619	91	710
Resale	48	-	48
Australian equity	28	4	32
Taxation	649	139	788
Periodic reporting	52	5	57
Consultation	15	3	18
Development and zoning	11	1	12
Environment	6	1	7
Other	39	5	44
<b>Total</b>	<b>848</b>	<b>158</b>	<b>1006</b>

Table 1.7: Proposals for acquisitions and new businesses, by industry sector, 1981-82 to 1985-86

Industry sector	1981-82		1982-83		1983-84		1984-85		1985-86	
	No.	Total expected investment <sup>a</sup> (\$m)	No.	Total expected investment <sup>a</sup> (\$m)	No.	Total expected investment <sup>a</sup> (\$m)	No.	Total expected investment <sup>a</sup> (\$m)	No.	Total expected investment <sup>a</sup> (\$m)
Manufacturing										
. acquisitions	227	349	184	463	175	525	191	1072	208	1476
. new businesses	6	69	3	10	3	32	3	16	7	95
Resource processing										
. acquisitions <sup>b</sup>	na	na	4	(385 <sup>d</sup> )	10	(373 <sup>d</sup> )	4	(276 <sup>d</sup> )	12	(264 <sup>d</sup> )
. new businesses <sup>c</sup>	3	221	2 <sup>e</sup>	( )	1	( )	2	( )	1	( )
Service										
. acquisitions	332	744	274	388	316	775	308	701	348	2210
. new businesses	7	432	11	157	17	597	18	650	15	417
Agriculture, forestry and fishing <sup>f</sup>										
. acquisitions	89	127	83	(62 <sup>d</sup> )	59	(138 <sup>d</sup> )	61	114	61	87
. new businesses	-	-	1	( )	2	( )	5	51	-	-
Mineral exploration and development										
. acquisitions	180	591	156	366	169	815	127	310	72	358
. new businesses	14	1311	5	129	4	246	5	78	11	209
Finance and insurance										
. acquisitions	53	478	45	102	79	185	105	333	133	984
. new businesses	10	86	21	188	22	75	58	349	69	1792
Real estate <sup>g</sup>										
. acquisitions	117	1040	155	919	159	738	150	(648 <sup>d</sup> )	133	(1928 <sup>d</sup> )
. new businesses	-	-	-	-	-	-	2	( )	1	( )
Total										
. acquisitions <sup>h</sup>	998	3328	901	2677	967	3529	946	3268	967	7271
. new businesses	40	2119	43	491	49	970	93	1333	104	2547
. company restructuring/financing arrangements	171		166		192		213		219	

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

b Not available separately for years prior to 1982-83 - usually included with manufacturing or mining.

c Estimate only for years prior to 1982-83.

d To preserve confidentiality, these data have not been disaggregated.

e Proposals given in-principle approval only.

f Includes proposals for the acquisition of rural properties.

g These data cover those acquisitions that may be classified to the real estate industry sector by reference to the Australian Standard Industrial Classification. Data covering all acquisitions of real estate are contained in Part II of the Statistical Appendix.

h These proposals cover a range of transactions, only a proportion of which would lead to a loss by Australians of the capacity to exercise effective control of the businesses concerned.

Table 1.8: Source of total expected investment (\$ million), by industry sector, 1 July 1985 to 30 June 1986

Industry sector	US	EC			Japan	Australia <sup>b</sup>	ASEAN			NZ	Hong Kong	Canada	Other	Total
		UK	FRG	Other <sup>a</sup>			Singapore	Malaysia	Other <sup>c</sup>					
Agriculture, forestry and fishing <sup>d</sup>	32	12	1	1	1	18	-	2	-	2	3	-	16	87
Mineral exploration and development	181	66	3	53	77	105	-	-	-	1	-	48	33	566
Manufacturing	420	568	6	71	10	272	1	-	10	193	1	-	18	1570
Finance and insurance	731	642	36	157	292	331	50	3	10	103	215	125	83	2776
Service	273	222	37	61	547	1144	19	83	-	131	65	-	43	2626
Real estate <sup>e</sup>	5	270	33	34	1003	329	45	14	4	84	74	-	33	1927
Resource processing	29	25	4	35	-	-	-	-	-	-	-	-	170	263
Total	1672	1804	120	410	1930	2199	116	102	25	514	357	173	396	9818
Number of proposals <sup>f</sup>	315	330	51	114	86	235	30	21	11	123	56	31	(332)	1071

a Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg and The Netherlands.

b The expenditure identified as originating from Australia represents the contribution by Australian-controlled companies and Australian residents to the total expenditure associated with foreign investment proposals in which they are in partnership with foreign interests.

c Thailand, Indonesia, The Philippines and Brunei.

d Includes proposals for the acquisition of rural properties.

e These data cover only those acquisitions that may be classified to the real estate industry sector by reference to the Australian Standard Industrial Classification. Data covering all acquisitions of real estate are contained in Part II of the Statistical Appendix.

f These figures indicate the total number of proposals in which investors from the particular country (or country grouping) have an interest. Proposals involving investment from more than one country count as one proposal for each of the countries concerned and, therefore, the number of proposals under 'Other' is a balancing item.

Table 1.9: Source of total expected investment (\$ million), by type of investment, 1 July 1985 to 30 June 1986

Industry sector	US	EC			Japan	Australia <sup>b</sup>	ASEAN			NZ	Hong Kong	Canada	Other	Total
		UK	FRG	Other <sup>a</sup>			Singapore	Malaysia	Other <sup>c</sup>					
Acquisitions	1013	1348	92	350	1283	1925	65	93	4	514	170	85	331	7271
New businesses	658	457	28	61	647	274	51	9	20	-	188	88	66	2547
<b>Total</b>	<b>1672</b>	<b>1804</b>	<b>120</b>	<b>410</b>	<b>1930</b>	<b>2199</b>	<b>116</b>	<b>102</b>	<b>25</b>	<b>514</b>	<b>357</b>	<b>173</b>	<b>396</b>	<b>9818</b>
Number of proposals <sup>d</sup>	315	330	51	114	86	235	30	21	11	123	56	31	(332)	1071

a Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg and The Netherlands.

b The expenditure identified as originating from Australia represents the contribution by Australian-controlled companies and Australian residents to the total expenditure associated with foreign investment proposals in which they are in partnership with foreign interests.

c Thailand, Indonesia, The Philippines and Brunei.

d These figures indicate the total number of proposals in which investors from the particular country (or country grouping) have an interest. Proposals involving investment from more than one country count as one proposal for each of the countries concerned and, therefore, the number of proposals under 'Other' is a balancing item.

Table 1.10: Foreign investment proposals, by location of expected investment, 1 July 1985 to 30 June 1986

State or Territory	Number	Consideration <sup>a</sup> (\$m)	Expected new investment (\$m)	Total expected investment (\$m)
New South Wales	426	1318	1368	2686
Victoria	190	793	1121	1914
Queensland	106	204	148	352
Western Australia	104	354	127	481
South Australia	22	44	39	83
Tasmania	11	5	96	101
ACT	1	-	-	-
Northern Territory	10	4	150	154
Other <sup>b</sup>	870	2722	3049	5771
	420	2742	1306	4048
<b>Total</b>	<b>1290</b>	<b>5464</b>	<b>4355</b>	<b>9818</b>

a Payments for shares and other assets.

b This category includes 'off-shore' acquisitions, proposals where the expenditure was expected to be undertaken in more than one State or Territory and 219 proposals for the restructuring of companies/company financing arrangements.

**Table 1.11: Principal benefits claimed by applicants proposing acquisitions of shares or other assets<sup>a</sup>, 1980-81 to 1985-86**

Benefit	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
				per cent		
Maintain business viability or increase employment	14	11	11	11	16	16
Improved managerial efficiency or introduce new technology	9	10	8	10	10	13
Lead to economies of scale and industry rationalisation	6	5	7	6	12	10
Develop exports or replace imports	6	6	7	6	8	8
Introduce a new product or service	7	4	4	4	7	7
Increased competition	3	3	2	4	5	3
Increased knowledge of natural resource endowment	3	6	5	4	3	1
Provide access to finance	4	7	4	5	3	7
Increased Australian ownership	3	2	3	4	2	3
Increased residential, retail, commercial or industrial accommodation	11	13	14	12	8	7
Provide benefits to shareholders	4	2	2	1	1	2
Lead to increased capital investment	4	3	3	3	4	4
Provide access to markets	4	2	2	2	4	3
Provide stimulus to building industry or improve an urban property	na	16	12	14	8	6
Other	22	10	16	14	9	10
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

a The table covers proposals involving total expected investment of more than \$2 million.  
na Not available.

**Table 1.12: Principal benefits claimed by applicants proposing the establishment of new businesses<sup>a</sup>, 1980-81 to 1985-86**

Benefit	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
				per cent		
Develop exports or replace imports	11	13	7	14	9	7
Increased employment	19	15	13	23	21	10
Improved managerial efficiency or introduce new technology	15	19	13	6	9	4
Assist decentralisation	6	4	2	3	2	1
Introduce a new product or service	18	11	22	15	8	4
Lead to economies of scale and industry rationalisation	-	-	4	1	2	1
Increased competition	3	2	5	4	6	27
Increased knowledge of natural resource endowment	2	4	2	1	-	-
Provide access to markets	3	4	2	5	3	2
Provide access to finance	6	13	18	7	4	33
Other	17	15	12	21	36	11
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

a This table covers proposals involving expenditure of more than \$2 million.  
na Not available.

Table 1.13: Reasons given for sales of shares and other assets, 1980-81 to 1985-86

Reason	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
				per cent		
Liquidity difficulties	14	14	18	15	13	16
Funds needed elsewhere	13	10	12	19	15	12
Economies of scale	2	3	3	2	3	3
Profit taking	7	10	4	9	9	16
Personal (health, retirement etc)	15	15	13	9	7	7
Internal re-organisation	11	8	6	8	17	14
Spread exploration risk	12	5	7	9	8	2
Access to markets or finance	7	8	9	7	7	9
New issues of shares	na	5	4	4	1	3
Other	19	22	24	18	20	18
Total	100	100	100	100	100	100

na Not available.

## Statistical appendix

### Part II

### Foreign investment in real estate

- Notes:**
1. The data in this Appendix have been derived from information contained in submissions to the Government from foreign interests concerning their proposals for investment in Australia. Proposals which the Foreign Investment Review Board has been advised will not be proceeded with are not included. Data concerning annual program approvals have also been excluded.
  2. The data in the tables relate only to proposals approved by the Government.
  3. All expenditure data are rounded and discrepancies may occur between sums of the component items and totals.
  4. The symbol '-' indicates an aggregate monetary figure of less than \$50,000 or an aggregate area of less than 500 hectares.

Table II.1: Foreign investment in urban real estate<sup>a</sup>, 1980-81 to 1985-86

Period	Number of proposals <sup>b</sup>	Consideration <sup>c</sup> (\$m)	Estimated development expenditure (\$m)
1980-81	169	240.3	571.9
1981-82 <sup>d</sup>	193	292.7	1012.4
1982-83	143	425.5	606.0
1983-84	186	417.7	475.2
1984-85	174	201.9	467.2
1985-86	135	397.3	1502.5

- <sup>a</sup> In many cases, Australians have participated in the foreign investment proposal and have contributed a significant amount of the consideration and estimated development expenditure involved. For this reason and because some of the acquisitions were by intending migrants or by Australian citizens resident abroad and others were for sale to Australians on completion of development of the real estate, the data do not necessarily represent the eventual or long-term impact of the acquisitions on foreign ownership of Australian real estate.
- <sup>b</sup> These statistics do not include real estate acquired for service activities such as hotels, proposals which fall within the foreign investment policy exemption threshold unless they were notified because they came within the ambit of the Foreign Takeovers Act, and financing arrangements where the agreement would not confer the usual proprietary rights of real estate ownership.
- <sup>c</sup> Payments for shares and other assets.
- <sup>d</sup> Beginning in 1981-82, figures are revised to exclude proposals that are known not to have been proceeded with.

Table II.2: Foreign investment in urban real estate, by type of proposal, 1984-85 and 1985-86

Type of proposal	1984-85				1985-86			
	Number of proposals <sup>a</sup>	Consideration <sup>b</sup> (\$m)	Estimated development expenditure (\$m)	Total expected investment (\$m)	Number of proposals <sup>a</sup>	Consideration <sup>b</sup> (\$m)	Estimated development expenditure (\$m)	Total expected investment (\$m)
Development/sale	26	47.0	74.8	121.8	24	142.9	1331.1	1474.0
Development/retention	28 <sup>c</sup>	56.4	375.2	431.6	22 <sup>d</sup>	92.9	104.1	196.9
Own use	37	58.6	17.0	75.5	33	41.1	26.6	67.7
Australian citizens resident abroad	26	8.1	-	8.1	11	7.7	-	7.7
Intending migrants	29	9.6	0.3	9.9	23	48.3	40.0	88.3
Other <sup>e</sup>	28	22.9	-	22.9	22	64.4	0.8	65.3
<b>Total approved</b>	<b>174</b>	<b>202.6</b>	<b>467.2</b>	<b>669.8</b>	<b>135</b>	<b>397.3</b>	<b>1502.5</b>	<b>1899.9</b>

a See footnote b Table II.1.

b Payments for shares and other assets.

c Of these proposals, 18 involved 50 per cent or more Australian participation after implementation of the proposal. All proposals involved some Australian participation after implementation.

d Of these proposals, 10 involved 50 per cent or more Australian participation.

e This category provides data on investment proposals which fell within the ambit of the Foreign Takeovers Act but did not exceed the real estate exemption threshold. It also includes proposals which would result in no loss (in some cases a gain) of Australian ownership; and those by foreign-owned insurance companies to purchase real estate as part of an investment portfolio to assist their Australian insurance operations.

Table II.3: Foreign investment in rural land, 1976-77 to 1985-86

Period	Number of proposals	Area ('000 hectares)	Consideration <sup>a</sup> (\$m)
1976-77 <sup>b</sup>	72	1583	18.8
1977-78	74	2156	29.2
1978-79	49	4226	32.8
1979-80	94	2113	71.1
1980-81	128	1158	87.5
1981-82 <sup>c</sup>	77	2157	73.1
1982-83	73	1304	37.0
1983-84	46	1147	54.7
1984-85	59	1091	42.1
1985-86	56	3138	44.4

a Payments for shares and other assets.

b April 1976 to June 1977.

c Beginning in 1981-82, figures are revised to exclude proposals that are known not to have been proceeded with, whether they are advised in that financial year, or at a later date.

Table II.4: Foreign investment in rural land, by location of expected investment, 1984-85 and 1985-86

Location	1984-85			1985-86		
	Acquisitions of rural properties			Acquisitions of rural properties		
	Number of proposals	Area ('000 ha)	Consideration <sup>a</sup> (\$m)	Number of proposals	Area ('000 ha)	Consideration <sup>a</sup> (\$m)
New South Wales	18	95	7.8	14	11	10.5
Victoria	7	1	2.8	7	10	2.8
Queensland	8	218	7.7	13	685	17.1
Western Australia	19	756	22.6	14	212	8.6
South Australia	1	-	0.5	3	2	0.9
Tasmania	5	1	0.7	2	1	2.0
Northern Territory	1	20	-	1	-	0.1
Other <sup>f</sup>	-	-	-	2	2216	2.4
Total approved	59 <sup>b c</sup>	1091	42.1	56 <sup>d e</sup>	3138	44.4

a Payments for shares and other assets.

b In 1984-85, 5 of the acquisitions (involving consideration of \$1.3 million) were by intending migrants. Australian equity participation was provided for in 23 of the 59 proposals; in 14 of these cases, 50 per cent or more Australian equity was retained in the rural properties.

c Eight of these proposals (involving 407 000 hectares) represented the acquisition of properties already foreign-owned and did not, therefore, result in any loss of Australian ownership.

d Three of these proposals (involving 13 500 hectares) represented the acquisition of property already foreign owned and did not, therefore, result in any loss of Australian ownership.

e In 1985-86, six of the acquisitions (involving consideration of \$2.2 million) were by intending migrants. Australian equity participation was provided for in 27 of the 56 proposals; in 15 of these cases, 50 per cent or more Australian equity was retained in the rural properties.

f Two proposals involved the acquisition of properties situated on State borders.

Note: (1) During 1984-85, three proposals for the acquisition of rural properties involving consideration of \$1.9 million were rejected. The corresponding figure for 1985-86 was one proposal involving a total consideration of \$1.3 million.

(2) The figures in this table are not comparable with those in the category 'Acquisitions of rural properties' in Table 1.3. The figures in that table also include, for example, acquisitions of rural properties incidental to the establishment of new primary industry businesses or for subsequent use in mineral exploration and development.