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ECONOMICS REFERENCES COMMITTEE

Reference: Foreign investment by state owned entities

WEDNESDAY, 1 JULY 2009

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**SENATE ECONOMICS
REFERENCES COMMITTEE**

Wednesday, 1 July 2009

Members: Senator Eggleston (*Chair*), Senator Hurley (*Deputy Chair*), Senators Bushby, Joyce, Pratt and Xenophon

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Farrell, Feeney, Ferguson, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Furner, Hanson-Young, Heffernan, Humphries, Hutchins, Johnston, Kroger, Ludlam, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Sterle, Troeth, Trood, Williams and Wortley

Senators in attendance: Senators Bushby, Eggleston, Hurley and Joyce

Terms of reference for the inquiry:

To inquire into and report on:

- a. the international experience of sovereign wealth funds and state-owned companies, their role in acquisitions of significant shareholdings of corporations, and the impact and outcomes of such acquisitions on business growth and competition; and
- b. the Australian experience of foreign investment by sovereign wealth funds and state-owned companies in the context of Australia's foreign investment arrangements.

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Committee met at 11.07 am

CHAIR (Senator Eggleston)—I declare open this hearing of the Senate Economics References Committee for its inquiry into foreign investment by state owned entities. On 18 March 2009, the Senate referred this matter to the committee to report by 17 June 2009. The Senate has since extended to the reporting date for the enquiry until 17 September 2009. The reference seeks to explore, firstly, the international experience of sovereign wealth funds and state owned companies, their role in acquisitions of significant shareholdings of corporations, and the impact and outcomes of such acquisitions on business growth and competition and, secondly, the Australian experience of foreign investment by sovereign wealth funds and state owned companies in the context of Australia's foreign investment arrangements.

These are public proceedings although the committee may agree to a request to hear evidence in camera if so desired or may determine that certain evidence should be heard in camera. I remind witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to the committee. I now welcome the farmers from Liverpool Plains and invite you to make an opening statement.

[11.09 am]

CLIFT, Mr Michael, Private capacity

HIGGINS, Mr John Andrew, Private capacity

LYLE, Mr John Ranken, Private capacity

Mr Lyle—We are landholders on the Liverpool Plains south of Gunnedah and we are here today to speak on the Chinese Shenhua acquisition of land in our area. It is a first by a long shot in our area. Very briefly there is six per cent of arable land in Australia at this point in time and of that approximately 0.2 of a per cent is the really heavy, good, black soil flat plains. That is one of the major concerns that we have at this stage.

It is an area that I will probably be crossing over a few times in talking about food security, water and obviously the agricultural side of it, but mainly we get back to the Shenhua exploration licence that they have at the moment. Shenhua came in as Shenhua Energy Company Ltd in the first place. They are now, as we understand, Shenhua Watermark Coal Pty Ltd. Whether that is there for tax reasons or to keep the board happy re an acquisition of such I think is up to you perhaps to look at that situation. The main area that Shenhua are tackling at the moment is the Watermark catchment. This particular catchment is big; it is huge. It comes down over the Kamilaroi Highway, all of this area is south of Gunnedah, and the north-west slopes and plains. It closes the highway for four or five days in big rains and goes right over the top of the railway line. I do not think that Shenhua have any idea of the capacity of the water coming down in that area and what is going on there.

Our major concern is that down on the plains themselves it is like a ball running down a hill as far as pollution is concerned coming from these mines. They are talking massive mining. They are talking 10 million tonnes per annum from three open-cut mines. In our area we have never ever seen anything quite like that. I am probably the first one to say at some stage of the game, 'Sure, mining takes place.' But there are the right areas for it and the wrong areas for it and we believe this is one of the very, very wrong areas.

Shenhua have gone to the point where they want to buy the whole area, 195 square kilometres, they have openly stated that. We do not know at this stage who they have approached, who has agreed to sell. We know that some have. There are quite a few at this point in time I think would say that they would sell. There are the smaller farmers along the ridge but I would say that the majority are definitely against selling. That is something that is starting to split the community up. You have situations in Gunnedah where some are for and some are against mining. You also have the developers in Gunnedah who think it is wonderful, which is another bit of a worry. Now some of the farmers think it is great because they have virtually won the lottery. You are talking possibly four times the value for the properties that are being sold. But that gets passed on, what happens as far as council rates are concerned for everybody else et cetera. There are a lot of situations down the line that have to be addressed.

When Shenhua came in with the state government to go for these exploration rights, the state government asked for \$20 million at that particular time. They received \$300 million. You look at this and you do wonder what on earth is going on. They say that it was tendered out but there is no sign of any tendering anywhere. There is no sign of anything to do with it and you really do start asking a few questions. Some of the farming community has said to me, 'What is the difference between this and what happened with the AWB?' That is another issue.

With the 195 square kilometres that they are talking about buying, there is a big question mark there. What are they doing this for? Are they doing it to protect themselves against pollution if there is a problem somewhere inside? Then they can just say: 'It's on our land so what? Don't worry about it.' I think there is a big possibility of that. I cannot get any response whatsoever from Joe Clayton, who is running the situation up there, as far as a guarantee that, if anything goes wrong, they will take responsibility and fix it.

I will not go into great detail about the aquifers, but I think you would understand that they are water currents underneath the ground. If they are speared it is pretty well impossible to fix that. At the moment, Gunnedah has one of the best water supplies in the world. There are huge bores. There have been no restrictions ever. It is amazing. That eventually flows right through, down into the Murray-Darling system. If that is speared, Gunnedah will go from having one of the best supplies to having nothing. There is no water anywhere else. That is it. It is underground water and that is it.

The other problem we have got out on the plain is subsidence. What happens with subsidence is that when they are drilling underground—and it is approximately 250 metres wide and a two-metre drop—when the gear pulls back out everything drops. Some drops immediately and some takes up to five, 10 or maybe 15 years to happen—it happens over a period of time. So you then have this huge, great concave on the plain itself which cannot be fixed. I have asked them about that and they have said, 'No, it can't be done.'

The situation with Shenhua is starting to worry the hell out of the whole area as far as them taking coal. They are the major coal exporter in China and they are digging up coal here to take back. Why? Why do they need our coal? To me it is a case of stockpiling. Take the Breeza Plain. I am sorry to go backwards and forwards on some of these things, but I think they are important. The Breeza Plain is an area—and there are very few of them in the world—that can produce two crops a year. I am talking about winter crops and summer crops. They are big crops. I am not talking a few bags; I am talking tonnes—three and four tonnes. It is a fantastic food bowl; it really is. To wreck it with pollution or any of the other things that I have previously mentioned would be an absolute catastrophe.

This is obviously something that you would know about, but we are unable to purchase land in China. If we want to do that, we cannot just wander over there and say, 'We'd like to buy a mine.' They are wandering round the world at the moment—and this is all on the web—with \$1.3 trillion to spend. That is because you are dealing directly with the Chinese government. You are not dealing with a company; you are dealing directly with the Chinese government. They have the money and that is what they are doing. I would say they are picking the eyes out of pretty well anything they can find and having a go at purchasing it. When this recession is all over and washed up, they could be looking pretty smart.

Freehold land is land like the land which you have your houses on. It is the same in the country areas. Freehold land nowadays, with all this sort of thing going on, means very little. The mining companies can come in. They have been able to do that for years. I think it goes back to the purchase in wartime of resources for the various governments. When Shenhua first took up the rights it was sight unseen. Whether that had anything to do with the state government or not, we do not know. But we know for sure that no-one had bothered to come and have a look at the thing. They just saw it on a map, saw where the diggings had happened before as far as preliminary sites were concerned, and that was that.

There are various other things to consider, such as climate change. What is the point if we are just going to be boofing coal up into the air? What about clean coal? Where is the evidence for that? A lot of people are talking about it but there are no costings on it. There are no solutions re the underground ramifications et cetera. It goes on and on. They are just not there.

I would be saying exactly the same words whether it was a coalition government in power in New South Wales or Labor or whoever else—it does not matter. We have a water study at the moment which is studying all the goings-on in the whole area—aquifers and everything else concerned with it. The federal government have put money up for that. Minister Macdonald from the state government is quite happy to wander around and say, ‘Look what a wonderful job I have done putting this scheme up,’ but he will not put money up for it. Pam Allan is running that at the moment and doing a very good job—she was a Labor minister for the environment years ago. She has looked after that extremely well, yet Macdonald will not come to the party at all.

We look at the goings-on in the Chinese mines themselves. I think you have to look at the loss of life in their mines, their appalling record over there on human rights et cetera.

As far as the various political parties are concerned, the Nats are helping us, the Liberals are helping us, umpteen Labor people are helping us and the Greens are helping us, but we cannot get any help whatsoever from the New South Wales state government. We have not even had one minister come up and have a look at that site. We have repeatedly invited them. Not one has bothered to come up. I think that is appalling, quite honestly.

I think the FIRB has to be careful not to appease the Chinese government now, with the sacrifice of Watermark, after what happened with BHP-Rio. I think that is a possible area—but that is down the track a bit.

One personal area I will finish up on is the sixties draft. There are about 15 or so fellows in our area who were involved in that and nearly all of them went to Vietnam or Malaysia. Those guys come and chat to me and they are absolutely appalled at what is happening. I will finish on that note. Thank you very much, Mr Chairman, for hearing us this morning.

CHAIR—Thank you for your opening statement. Mr Higgins or Mr Clift, do you wish to add to that?

Mr Clift—Yes, I would like to follow on from that. I would like to thank you for the opportunity to speak today and thank the senators for listening. I am a sixth-generation farmer from the Liverpool Plains. The Clift families settled there in 1835, so we have been there for

quite some time. The agricultural land there is very special; there is not a lot of prime agricultural land in Australia. At the moment in our area there is competing land use between coalmining and prime agricultural food production for Australians to live on in future years. Our aquifers are at the head of the Murray-Darling Basin. It seems quite strange that we are trying to save the Murray-Darling and then we are putting in large coalmines, which are probably not the right activity in that place.

It is quite distressing to see that a lot of good Australian men and women have fought to keep Australia the way it is at the moment and here we are with the New South Wales state government releasing an exploration licence to Shenhua, which is a Chinese government owned company. It is not the right way to go in terms of good planning for the future of Australia. Mr Chairman, if there are any questions you would like to ask while I am speaking, fire away.

CHAIR—We will come back to questions.

Mr Clift—I do not have a lot more to add at this stage, so if you would like to ask questions we can go forward as we answer them.

CHAIR—Just as a point of clarification, you talk about the New South Wales government giving them a licence. Does that imply that they can override the owners of the land? Do they have a power to override the agricultural purpose which you are using this land for and conduct a mining operation or are they simply buying the freehold or leasehold of the land and proposing to use it for mining? Could you clarify that.

Mr Clift—They are proposing to buy the freehold land from individuals to carry on their activities.

CHAIR—But they do not have a right to override your use of the land under the New South Wales state law?

Mr Lyle—I think that if they get a mining right then, yes, in the end they can override the whole caboose and you then have to pack up and go. That brings forward another matter: is this going to end up happening with guys who do not want to leave? There are a lot of them in the area.

CHAIR—That is right.

Mr Lyle—Will they just stay put? I do not know.

Senator BUSHBY—Freehold title in Australia is not actually ownership of the land; effectively it is a much more permanent leasehold. The rights to minerals and other things that might be in the ground actually remain with the Crown.

Mr Lyle—Yes, that is right.

Senator BUSHBY—As a result, that gives the Crown the ability to grant exploration licences over any land.

Senator HURLEY—But not usually mining rights.

Senator BUSHBY—No, you will probably find that most parts of Australia have mining exploration licences granted over them. Whether the holders are actually able to act on those licences is a further step, but exploration licences are granted over freehold land and you cannot do anything about it.

Senator HURLEY—Yes, exploration licences. I agree with that.

Senator BUSHBY—But the minerals actually belong to the state.

Senator HURLEY—Yes, that is right.

CHAIR—I asked this question because I have seen an analogous situation in the south-west of Western Australia, at Capel between Bunbury and Busselton down on Geographe Bay, where mineral sands were mined and the mining companies moved in and took over farms, if you like, and mined there for many years. But in the end they restored the properties and handed them back to the farmers. They must have leased the land, I presume, or had some right to access the minerals. I was very interested in what the legal position was with respect to you. I invite Senator Joyce to open the questioning.

Senator JOYCE—Obviously the process of the inquiry is Foreign Investment Review Board guidelines. It was great to hear some of the key aspects that surround that issue being brought in, because I think it is very important to paint the picture of exactly what is going on so people clearly understand and put a human face on it. Right from the outset, I would like to declare my interest: my family has had an association with John Lyle's family—my father bought a place from John Lyle some time ago—so I just put that on the record. But this is something away and apart from that after many years.

We talk about the rights of land. We now have a fully overseas-owned entity coming in and taking a position of a right of ownership that basically is superior to the right of ownership that the Australian citizens themselves have in that area of land. In that 190 square kilometres, the overseas entity now, because it has the mineral rights and the freehold on top, has a superior right. People say, 'That was the right of minerals; the right of the minerals has always belonged to the Crown,' but actually there has been a diminution of the freehold title over a period of time, hasn't there, Mr Higgins?

Mr Higgins—Yes.

Senator JOYCE—It might be interesting for the committee to hear about that. Correct me if I am wrong: I think there was a period of time where you did have some more substantial ownership of the mineral rights that were proximate to the encumbrance of your block, and then Mr Wran woke up one day and just removed that right, and it was gone. Can you give me any enlightenment on that?

Mr Higgins—The history is very complex. I can simplify it, perhaps, in this way. Some land grants reserved all the mineral rights for the Crown, as has been mentioned. Other land grants—in New South Wales, anyway—were absolute, so the mineral rights were included in the Crown

grant. What Premier Wran did in, I think, the early eighties was to appropriate the mineral rights from that small number of grants where the mineral rights were vested in the freeholder. There ensued a long, litigious course with amendments in parliament, and those rights were eventually restored. There is compulsory acquisition legislation now so that the freeholder who has those restored mineral rights does not have the complete discretion to deal with them; they can be appropriated for value under the current legislation. So that is the mineral rights.

To go back to the general situation, where the minerals vest in the Crown, the 1906 Mining Act in New South Wales prohibited exploration on land that was under cultivation without the consent of the landholder. The 1973 version of the Mining Act prohibited activities under an exploration licence without the consent of the landholder where the minister was satisfied that there would be damage to the surface of the land. The whole of the Mining Act was again revised in 1992, and that is the act we deal with today. In answer to Senator Eggleston's question, it essentially gives the holder of the exploration licence the right to come onto your land. If you cannot agree on the terms that that access should be governed by then the mining warden will determine those terms. In the end, the freeholder will have to give that access on the best terms that he can secure. So the holder of the mineral right—that is, the exploration licence—can come onto freehold land.

Exploration licences in that situation normally have a term of about five years. Those terms were much longer. They are getting shorter and shorter, as far as I can tell. At the end of five years, the explorer is obliged to prepare a proposal or an application for a mining lease. On the Liverpool Plains, which is the area we are concerned about in the Namoi valley, at the headwaters of the Murray-Darling, the New South Wales Department of Primary Industries has over decades surveyed largely all of the coal resources in that area. What it has put up for sale is the coal, or an option to buy the coal. That is really why these vast sums of money have been paid by BHP, first of all, and now by the Chinese government for these so-called exploration licences. They are really mine development planning agreements. There is no exploration going on. Everybody knows the coal is there. Everybody knows how much coal is there. Everybody knows what the quality of the coal is that is there, subject to a little bit of refinement.

These so-called exploration licences are conditional upon many, many things. The first condition is that they apply for a mining lease. In the case of BHP's site, which adjoins the one owned by the Chinese government, BHP has to do design work for a rail tunnel through the Liverpool Ranges down to the coal loading port of Newcastle, which is the largest coal export port in the world and is about to triple in size. So BHP, in its exploration licence, is obliged to do design works and feasibility studies for upgrading that route to Newcastle. It is also obliged to do design works and study upgrading the railway line north of this area. In other words, this is just the first patch running north to Queensland. Another condition is that it should do feasibility studies for a coal-fired power plant in the area as part of the coal use scheme. So this is anything but an exploration licence. It is a mine planning agreement.

Senator JOYCE—Can I just jump in there. Obviously, there are Foreign Investment Review Board guidelines about the national interest and it must be assessed whether it is in the national interest for the Chinese government to be the owner of a substantial section of the Liverpool Plains in a prime agricultural area. Let us cut to the issue. In your view, why is it not in Australia's national interest for the Chinese government to own—how many square kilometres is it?

Mr Lyle—It is 195.

Senator JOYCE—to own 195 square kilometres of some of the best agricultural land in Australia and the mining rights underneath it. Why is that not in Australia's national interest? Currently, under the law in the definition of 'real estate' it does not come under FIRB guidelines. It needs a \$100 million trigger point. I suppose one of the goals you would be looking at—without putting words in your mouth—is to have that bar lowered so that people do look at what is happening in the Liverpool Plains. Currently, we cannot refer this to the Foreign Investment Review Board. Do you think it should be covered by the Foreign Investment Review Board guidelines?

Mr Higgins—Without the shadow of any doubt it should be subject to the Foreign Investment Review Board review with advice to the Treasurer and a decision should be made by the Treasurer in regard to the national interest. There is a serious defect in the present FIRB scheme. The title we are talking about, the exploration licence for example, is issued by state government. It is not reviewable for that reason also. The New South Wales government could be, shall we say, a renegade government and it is left with final determination of a matter that is not lastly to do with New South Wales, it has to do with the national interest. Here we have the Foreign Investment Review Board not having referred to it matters that are decided by state government even though the ultimate issue for FIRB deliberation is the national interest whereas the New South Wales government is presumably concerned with the interests of New South Wales. There is a non sequitur there. It ought to be remedied and I would make a strenuous submission that any licence issued by a state government does not necessarily comply with the sort of deliberations that the Foreign Investment Review Board should take into account.

Senator JOYCE—Let's drill down. You are saying the first thing the Foreign Investment Review Board should take under their auspices are licences issued by state governments?

Mr Higgins—Yes.

Senator JOYCE—Are you happy with the \$100 million kick-off limit for the Foreign Investment Review Board? Is it all right if China apply for \$99,999,99 worth of land so long as they do not buy that extra dollar's worth? Do you think \$100 million worth of rural land is a bar too high? Should it be lowered?

Mr Higgins—It should be lowered. After all, China has already purchased the exploration licence for \$300-odd million. That is not reviewed by the Foreign Investment Review Board because it was granted by a state. It is not real estate or any other type of interest as far as I can determine that would in any case come under the Foreign Investment Review Board rules even if it were issued by another party. Then there is the aggregation of the real estate over that area. Bear in mind that we are dealing with a body of minerals which is 190 square kilometres. We have real estate on top of that. None of those farms are even close to \$100 million. They are \$5 million or \$10 million at the most and they will be aggregated one at a time but each of those is a separate issue.

Senator JOYCE—It is creeping acquisition. You go piece by piece by piece so that you never trigger the guidelines. Also they could separate it into different companies—Chinalco buys that and Shenhua buys that and—surprise, surprise—none of them is over \$100 million. Do you

think that there should be a related entity test in the Foreign Investment Review Board guidelines that says: 'You're all part of the government of the People's Republic of China so, if you are buying land in Australia, we are going to add it all up into a bundle. That can be a trigger. If it adds up to more than \$100 million we will look at it en globo'?

If you were writing the guidelines, you would ask, 'What is in the national interest?' Let us look at the Liverpool Plains. Obviously, we have to have mining or our economy will sink—we understand that. I presume you are saying that it shouldn't be precluded from prime agricultural land—and I think you said 0.2 per cent of land is heavy black soil land. Other places such as the Hay Plains and the Darling Downs would also come under that. Why is this land different? You want the Foreign Investment Review Board to look at a whole range of issues including aquifers. Tell me what you think the Foreign Investment Review Board should be looking at.

Mr Lyle—They will not sign off on damage done. That is probably one of the main gripes. BHP will not either. If any damage is done to aquifers or anything at all, they will not sign off, so you are in court fighting the Chinese government. It gets worse than that with who owns what with the power stations. The New South Wales government as of yesterday—and goodness knows what has happened this morning—owned seven power stations and five of them were in the Hunter. They want to sell those. Premier Rees wants to sell the whole lot at some stage. I do not know whether he has sorted that out with the unions or not and where he is at with that at the moment, but they are definitely for sale. Shenhua were the main interested party.

We could have coal being mined in our area by foreign government-owned companies and being transferred straight down the road directly to their own power stations in the Hunter Valley. When I was a youngster, which was a long time ago, power stations and whatever were national interests. They stayed with the country. They had nothing to do with anyone outside. I know they have sold them in Victoria and elsewhere, but to me it is desperately wrong. There are all sorts of other things they can sell other than power. That is something the state should keep control of, run efficiently and well, but it is not.

Senator JOYCE—Will the state government's selling of those power stations to the Communist People's Republic of China go before the Foreign Investment Review Board?

Mr Lyle—No, it will not.

Senator JOYCE—If you could wave a magic wand and be the boss in Canberra for a day and were changing the Foreign Investment Review Board guidelines, what would you bring into consideration under the act?

Mr Higgins—That is the ultimate question. We would like to discuss that with you right now, but we would also like to make a carefully considered written submission in due course. I will attempt to deal with some of the key issues. This matter raises the question of sovereignty and the notion of strategic issues. Ultimately, if the Chinese government purchased every piece of real estate in Australia—and it can do it by creeping acquisition under the present arrangements—then Australia would cease to exist, as I understand the notion of polity. The issue of sovereignty is real.

John Lyle mentioned that it is widely reported that they have a war chest of \$3 trillion. I read an extract from a newspaper the other day—and you can always believe what is in the newspaper—about the Chinese taking an interest in the Perilya mining company. They were desperate for some more funds. The Foreign Investment Review Board approved it with no conditions attached. The investor was to take up 50.1 per cent of the business, and it was China's Zhongjin company, which is another government owned company. The reporter's information is that, according to the Chief Executive of Perilya, there were no other funds in the marketplace to take up that interest. We are talking about depressed capital markets at the moment and a huge war chest in the hands of a totalitarian regime that is able to make these decisions quickly and acquire strategic interests. That in itself is an example of a sovereign government investing in Australian private assets. It can do it, whereas the private capital markets of the world cannot. It is a matter of scale.

There is another scale issue which touches on some things that were already raised, and that is that modern mining goes through the country and extracts the minerals at a rate that is increasing exponentially. It bears no relationship to mining with young children and donkeys. Whole landscapes are laid to waste quickly. The miner disappears and the community cleans up the mess. The New South Wales state government would remake the entire landscape of New South Wales in the image of the Hunter Valley if it only had enough Chinese money to do it. That is the implication of the statements made by the New South Wales Minister for Mineral Resources, Mr Macdonald. He also says that agriculture is a threat to mining. It is in that context that I raised the state approval matter earlier that takes it outside of the Foreign Investment Review Board.

In terms of how the national interest test would be constructed, I think it is a very difficult question that you ask. When you have a 90-pound gorilla in the market able to muster up resources like that at any time to take a strategic interest in a sovereign Australian resource and hold it or do essentially what it likes with it and then to buy the land over the top of it, to minimise it as best it can all other compliance issues—environmental ones and so on—then I think it is a very serious situation, especially, as you have already pointed out, given that creeping acquisition is perfectly feasible under the present regime.

Senator JOYCE—A lot of the comparisons have said that Australia was built on foreign investment and that the Japanese were doing this back in the 1970s, but what they always fail to say is that the Japanese had to do it in a strategic partnership with 51 per cent ownership by an Australian group. That is the part seems to be forgotten. How much of Shenhua is owned by Australians? How much of the mining lease will be owned by Australians after they purchase it? What will be the Australian citizens' ownership of that whole project if it goes forward?

Mr Higgins—Nil.

Mr Lyle—To answer your question, Senator Joyce, we felt that maybe there should be five independent representatives on the panel that makes the decisions, because it is going to get worse and worse. Some pretty major decisions are going to have to be made concerning the acquisition of not just land but all sorts of things in Australia. One area that we have not touched on this morning is what security checks actually took place when this area was designated for Shenhua. When you get down to the nitty-gritty of it all, you are nicely spaced between Williamtown and Amberley and those sorts of places and you are talking about selling power stations as well. It is pretty scary stuff. It really is, I think.

Senator HURLEY—You have raised a number of quite serious environmental and agricultural concerns about this possible development. It does sound as if there are a number of difficulties. But I think you did also mention a tender process. You have mentioned BHP's involvement. If Shenhua did not develop this, would somebody else develop it?

Mr Lyle—We do not know. We really do not know.

Senator HURLEY—Would you have the same objection if BHP were doing this?

Mr Lyle—It would depend on how they went about it. I think that has to come into it. Shenhua are wandering around up there at the moment, quite seriously, like the cat that has just got the cream. They are telling us: 'We're away. We'll be mining here in three years time.' So whether a deal has been done or not, who knows? We really do not know.

Senator, quite seriously, I think it would have to be looked at if it happens. It is down the track perhaps; I do not know. I do not think you can just say no to all mining, but it would have to be looked at. We would have to get guarantees, as I stated earlier, that if there is damage done it is addressed. At the moment, no-one will do that, and that is very worrying as far as we are concerned. If the Breeza Plain becomes contaminated, they will not receive the grain down at the terminals in Newcastle—they will not do it.

Senator HURLEY—You are saying that Shenhua have refused to address any contamination issues.

Mr Lyle—Yes.

Senator HURLEY—Has an environmental impact study been done?

Mr Lyle—No. That is what is meant to be coming up with this water study. They have done their own environmental study. They did it in two days.

Senator HURLEY—Does that qualify as an environmental impact statement under the state government law?

Mr Lyle—No.

Senator HURLEY—So it is yet to be done?

Mr Lyle—Yes.

Mr Higgins—That was a very small thing in connection with the exploration activities. They did a fauna count. They were going to do it in two days, with no independent person with them while it was done, and that was going to be their benchmark for their environmental—

Senator HURLEY—It was done by Shenhua employees?

Mr Higgins—Yes, or consultants.

Senator HURLEY—That will feed into the environmental impact statement that is required by the New South Wales state government?

Mr Lyle—Yes.

Mr Higgins—Yes, that was to feed into the environmental effects management plan for the exploration stage—the test drilling and that sort of thing. That is the way these things are done in New South Wales. They are completely devoid of any kind of integrity or independence. The henhouse is managed by the fox.

Senator HURLEY—But that is not related to the fact that the company proposing the mining here is a foreign company; that would happen here regardless, I presume.

Mr Higgins—That is correct. So, in answer to your question, the issue is the same. For example, BHP says it does zero harm wherever it goes—that is its published environmental standard. BHP at the same time will not put up a bond. Presumably it does zero harm so it would not be any difficulty for BHP to put up a bond because it would no doubt get it back. But that is the culture in mining in New South Wales.

Senator HURLEY—Until the environmental impact statement is done, you do not really know what the requirements will be for rehabilitation or remediation if there is any harm.

Mr Higgins—We do know this much: the flood plains of the upper Namoi and the lower Namoi, for that matter, are about as flat as you can get and you cannot mine coal under such land without causing subsidence. It ceases to be safe if the land above the panel of coal they are taking out does not subside because then it could subside at any time and kill everybody and destroy the plain, so it must subside. The coal is taken out in panels, one beside the other, several kilometres long and a hundred metres wide, so the surface of this essentially flat flood plain of the highest agricultural quality is now so many uneven depressions. So far as we know, it would be impossible to farm it in the way it has been farmed until now, and there is no farming method yet developed that would deal with it.

The other aspect of the matter is that subsidence mining will mix all the waters in all of the aquifers that are above the panels of coal taken out. That will expose them to mineralisation that has been locked up for aeons. That will acidify the water and the water will slowly, over tens and hundreds of years, drain down the Murray-Darling Basin towards Adelaide. These things are quite certain; it is unarguable that those will be the effects of any longwall mining in that area. But, no, it does not make a distinction between one miner privately owned and another owned by the Chinese government.

There is this distinction though. BHP, which holds the tenement next door, has not sought to buy all the land. It has purchased some but it has by no means sought to buy it all. The Shenhua operation has sought to buy all of the land and one can only speculate about why that is so. It certainly would remove, shall we say, the nuisance value of private landholders above their tenements. That nuisance might have many expressions, whether compliance with environmental regulation, occupational health and safety issues, or just plain nuisance, and it is just a matter for speculation.

Senator HURLEY—I think you have already said that you do not know who the other tenderers were.

Mr Lyle—We have been told—not directly by the minister or anybody like that—that there was a tender and, if there were, that is excuse for the money going up to \$300 million. They say that it was tendered, but now we do not know. It is all speculation as far as that is concerned, but I do not know whether it was ever tendered, quite honestly.

Senator HURLEY—I think that was the statement that was made, was it not?

Mr Lyle—That came from the minister's department, I think, or something like that. Who knows?

Senator HURLEY—The minister said—and this is dated 15 August last year:

... the licence is for exploration only, not mining.

and he went on:

The exploration phase alone is expected to last for several years ... There is strict environmental regulation, which ensures that exploration does not have any significant impacts on aquifers.

But as you said, you do not place a lot of faith—

Mr Lyle—Does it mention tendering there, Senator, or not?

Senator HURLEY—It says:

The NSW Government will grant an exploration licence for the Watermark area near Gunnedah for a period of five years following a rigorous tender process ...

Mr Lyle—Okay. I have not heard of anyone else—

Mr Higgins—It is strictly not correct. There was not a tender process; it was asking for expressions of interest, which is a subtle difference. But the Mining Act makes a distinction between a licence granted on an application and a licence granted pursuant to a tender. These were all expressions of interest that were called for and the net result was that the preferred person expressing interest was invited to apply for a licence.

Senator HURLEY—And you are not aware of other people that might have expressed an interest?

Mr Higgins—I am not aware of those others who expressed interest.

Senator JOYCE—I really want to drill down to just one thing. You imagine that the Foreign Investment Review Board should take into account prime agricultural land. I might be biased here, but I would clearly see the Breeza Plains as some of the best agricultural land in Australia,

without a shadow of a doubt. You drive across it and it just does not have a match. If it did have a match, it would probably be areas of the Haystack Plains, and there are some cane growing areas around Tully—and I am not quite across all of Tasmania. It is possible, isn't it, to look at some agricultural land and say that this is not the rolling hills of Dangelmar; this is something completely and utterly different. This is not Weabonga—and Hansard will be tearing their hair out now because they have got to translate all of this—this is something different. What we have here is the Breeza Plains. Would you be able to identify key areas of what you see to be the prime agricultural land of our nation? You cannot say everywhere because some areas are way beyond other areas and they should certainly be taken into consideration in FIRB guidelines.

Mr Lyle—There are definitely areas like the Breeza Plain and you go right out to the mountains at the back there with Windy Station. All that area all comes into it. Then there is some very good country around as you go up to Moree and up through there in pockets. Then you have Dalby and Emerald and exactly the same situations are happening there. It is all encroaching and coming in further and further. Three-quarters of the Gunnedah Shire is under some sort of an exploration licence. It is pretty worrying stuff living there. You worry about it all the time. It is with you.

Senator JOYCE—For the record Moree Plains Shire Council is the richest agricultural shire by production in the world. It is not just unique in Australia; it is unique on a global basis. What happens if this country is owned predominantly by somebody else? What is the difference to our nation?

Mr Lyle—We should be producing the food and selling the food ourselves. We should be producing the minerals and selling them ourselves, not somebody else, particularly not a government-run show like China coming in here, buying all that country and doing what they like. What is to stop them buying up the Breeza Plain?

Senator JOYCE—Nothing.

Mr Lyle—And producing the food. Out it goes to their own food supply and stockpile. They can stockpile coal and iron ore and do what they like. It really is the case of the old cow. We are selling the cow and not the milk. It is pretty frightening stuff. The power station bit really does terrify me. I just think this is the last straw. It has not happened yet, but it is not far away I would suggest.

Senator JOYCE—Is there anything in your consideration of the Foreign Investment Review Board guidelines that stops foreign entities from owning the core or the premium product of agricultural land—owning the whole lot.

Mr Lyle—No, there is not.

Mr Higgins—The net result would be that Australians would become tenants in their own land buying food produced by a foreign government on what used to be Australian soil. It is quite bizarre but it is a matter of degree. To come back to answer your earlier question as to what test the Foreign Investment Review Board should apply, I think perhaps you were leading to some prescriptive test such as it is prime agricultural land? Then those areas are excluded or subject to specific considerations. I think that is probably one way that it could be developed.

Another way is that the Foreign Investment Review Board do a comprehensive cost-benefit analysis. At the moment there is no intellectual policy framework to determine what the national interest is. We would like an attempt at defining that. There is certainly no macroeconomic modelling that the Foreign Investment Review Board does which would be, if you like, the cost-benefit analysis of allowing a foreign government to own Australian land. That would be a very difficult exercise, but I think this is a very difficult question and it requires very careful consideration. There is a long list of issues that would need to be included in that cost-benefit analysis and I do not know how you would quantify many of them.

There is the socioeconomic fabric of the communities affected by mining developments where the miner has also acquired all the land. We would say that the Foreign Investment Review Board would need to have considered both the grant of the minerals title and the acquisition of the overlying land. There are Indigenous and European cultural issues and heritage and intergenerational equity issues. We are selling the farm to do what? Buy imported beer while Chinese or other foreign nationals run what used to be Australian farming land, mine Australian minerals and take the profits offshore incidentally. If I could come back to that in a minute, I shall. There is the climate change issue. We would start to lose control of that if we are talking fossil fuels. Water and prime agricultural land have already been mentioned and the strategic issues have been mentioned.

China I think made an announcement just yesterday that they had finished stockpiling in China for the time being their requirements for iron ore going forward. That has massive effects on market prices and activities in Australian mines and on all those jobs we hold so dear and jobs that have not yet been created. A cost-benefit analysis in an economic exercise would be very difficult, but if there is none now it should be done on a case-by-case basis or alternatively specific assets should either be off limits or have special rules attached to them.

If I can come back to revenue and strategic holdings: if a foreign government owns Australian natural resources and real property and extracts the minerals for its own purposes then it is doing so under our tax regime and for strategic purposes and for the benefits of vertical integration if it were a trading corporation. We are dealing here with a totalitarian state, not a state that might be a democracy under the rule of law, so there is always a strategic issue. In an ordinary, free market economy the benefits of vertical integration are quite clear. A car maker in Japan, for example, would want iron ore and coal to make steel. If they owned the coal and the iron ore in the ground in Australia, mined it and shipped it home, they would not pay any Australian any margin of profit for exploiting that. They would pay a few wages and a little royalty to the New South Wales government and spend the rest of their efforts to ensure that the profit attributable to Australian operations in their coal and iron ore mines is at a minimum so that their Australian tax obligation is at a minimum. These are ordinary commercial considerations in a situation like this.

There is not much benefit in this sort of an operation for Australia. There are a handful of jobs, and they are getting fewer. There is a small amount in royalties to the state government and there is ruination of the landscape afterwards. The benefit of jobs is always writ large whenever this is discussed. North-east of Boggabri is a large, open-cut mine—and I will not name it. I am reliably informed by the manager that there are 45 permanent jobs in that mine and that 12 of those jobs are filled by local residents from the town of Gunnedah, which has a population of about 8,000, and from Boggabri, which has a population of about 800. As you can see from those figures, there is no real material benefit from those local jobs. There is no doubt a

multiplier effect going into the local community into other businesses, but it is not a large employer.

The New South Wales Minister for Mineral Resources, Ian Macdonald, recently said that there would be 3,000 to 4,000 jobs in the BHP mine, which is the mine adjoining the Shenhua mine, and a multiplier effect on the local community of some number. The figures do not add up. Jobs figures are always boosted—and the factor on that is probably about 100 times. The benefits in the cost-benefit equation have to be looked at very carefully. The Australian Bureau of Statistics figures on precisely what the contribution of mining is to the Australian economy are very revealing. It is very small: 1.2 per cent of our employment and less than four per cent in total revenue to those businesses.

I think the way the Foreign Investment Review Board must try to review these things is to look at the cost and the benefit. On that score, some figures have been done on the BHP tenement. That is said to have a life of 40 to 50 years. The figures produced so far for local agricultural are that in about 70 years the revenue from local agriculture will equate to the revenue from the mine.

CHAIR—We will have to finish there because we are a little bit over time now, unless there are any other burning questions.

Senator HURLEY—No.

Mr Lyle—Mr Chairman, on behalf of the three of us, I would like to thank you very much for giving us your time. The farming community from home are very worried about all this. As we had reasonably short notice for this hearing, would we be able to give you a submission as soon as we possibly can? There are a few other issues we would like to touch on in a submission, so that would be most helpful.

CHAIR—Yes, we would be very happy to accept a submission from you. It should be directed to be secretary of the committee, at the address on the webpage.

Mr Lyle—Thank you so much. It is much appreciated.

CHAIR—Thank you for appearing and for your evidence.

[12. 12 pm]

BUTLER, Mr John Leslie Thomas, Private capacity

EDWARDS, Mr William Alexander, Private capacity

CHAIR—Welcome. Thank you for appearing before us today. I invite you to make an opening statement.

Mr Edwards—I will begin with a short preamble. My major focus today will be on China, because I believe that China is easily the most potent factor in the equation and will be particularly so in the future. However, that does not discount the role of other countries and regions such as Singapore, the Middle East, Russia, Brazil and so on.

I have made 10 points for my opening presentation and I will start with point No. 10, because I believe it is vital that we understand this point. My point is that economic theories and ideologies come and go, they vary between generations, they vary between circumstances and they vary between eras, but there is one constant that is always there and it is proven by many centuries of human experience, and that is that the rich get rich by accumulating productive and valuable assets and the poor either never had those assets in the first place or they lost them or sold them to somebody. That is the route to poverty, or eventual poverty—sometimes it is quite gradual. That is the key point.

I will now go back to the list and begin with point No. 1. I do not know whether you are aware of it—my guess is that you are becoming aware of it—but there is an enormous global natural asset grab occurring. Ownership of natural assets is being increasingly dominated by sovereign wealth funds and national—that is, government owned—organisations. For example, in the 1970s some 70 per cent of the world's oil and gas reserves were owned by large multinationals. The situation today is that an estimated 80 per cent of the world's oil and gas reserves are owned by sovereign wealth funds and national oil companies. That is a dramatic and, I believe, dangerous turnaround in economies that are so heavily energy dependent. It is quite dangerous. By the way, this grab for natural resources is an age-old strategy that has been used for many, many centuries to achieve economic and strategic dominance. That is an inescapable historical fact.

The second point I want to make is that you can show me all the economic theories you like—they vary considerably and I am happy to explain some of them later—but history, including recent and age-old history, is a far better teacher than half-baked economic ideology. If you look back at history, all great economic powers—Britain, America, the Romans and various others—controlled assets by various forms of colonisation, some of it military and some of it economic. It is no accident, I believe, that the previously colonised countries such as China and smaller ones like Malaysia have recently limited outside access to control of their own resources while at the same time they are trying to get hold of as many assets as they can in other countries. They know what it is about.

I have handed out to you a recent release from 27 June on Business Spectator, which is probably Australia's top real-time business news on the internet. It says that in the last week China has been accused by the US and the European Union of choking off exports of inputs that are vital to the industries of other countries. It involves something like nine of these inputs, including things like zinc. The Oz Minerals story, I think, is an interesting one to look at in relation to zinc. They have been accused of choking off supplies to other countries, thereby putting their industries in a position of duress. That has gone to the WTO in the last week. I predicted some time ago that this would happen—

Senator JOYCE—What exactly do you mean by 'shaking off'?

Mr Edwards—Choking off. They could effectively put a choke hold on some of these things. I think what is happening in that regard is extremely dangerous, both in economic and in strategic terms. It is very dangerous.

The third thing is that the Chinese strategy appears to me to be to control the supply chain right through from the mines to the manufacturers and, in that sense, to control prices at the same time. There is evidence for this in the accidental statement made by the official of the China Iron and Steel Association that they were setting out to disrupt the relationship between BHP and Rio with a view to making sure that prices did not go the way they did not want them to go. Another example, I believe, is the attempt by the Chinese to gain control of the Midwest iron ore region. They have got control of one of them—Midwest. The other one, Murchison, they have not yet got control of—at least, not when I last looked. A third example, if you look at the Rio-Chinalco deal, is the 600-page side agreement that Chinalco had with Rio. Robert Gottlieb, Australia's top finance journalist, analysed it and he found that it gave them very considerable say over the way Rio was going to be run. I think that is extremely dangerous.

The fourth thing—while we cringe here and worry about whether we are offending China—I personally think that China is growing more hard-nosed and arrogant as time goes by and I find some of their hypocrisy quite offensive. While they are accusing other countries of protectionism, which they have done, the very words they used were 'financial protectionism' and of monopolisation, at the same time they are severely limiting access to their own assets particularly in areas such as natural resources. In other areas like the Coca-Cola case where Coke tried to take over their main juice producer they used some of their recent legislation on monopolies to block that.

Another one that has got considerable relevance to Australia is the area of rare earths. China currently controls something like 60 per cent of the world's rare earth reserves. It produces close to 90 per cent of the processed rare earths in the world and if that is not a monopoly position, I do not know what is. Yet this flies completely below the radar of things like the ACCC if you are talking about competition or monopolies. Completely below the radar, it has taken over Arafura Resources, which is involved in that, but, more importantly—and I do not know whether it has achieved it yet—it is trying to get control of, I think, something like 51 per cent of the Lynas Corporation, a listed Australian company. The Lynas Corporation just happens to own the largest undeveloped deposit of rare earths in the world and China is going to get a controlling interest in Lynas Corporation, if it gets its way.

The fifth thing I want to say is that the Chinese government claims independence for its entities whilst at the same time it is actively orchestrating coordinated global takeover activity. You will see that in one of the things that I have given you. It is 'China's M&A grand strategy'. I gave that for copying. What it points out, and it is just very recent, is that Beijing's National Development and Reform Commission says that Chinese companies—that is not just government owned entities but Chinese companies full stop—must clear foreign takeovers with central authorities first so as to combine corporate and national strategic planning interests. In other words, China Inc. is a reality; it is not a figment of someone's paranoid imagination.

The sixth thing that I want to say is that the Chinese government currently is funnelling huge wads of money via state owned banks to Chinese entities to enable these takeovers. There was a lot of money, if I remember correctly, funnelled into Chinalco. These are huge sums of money. The seventh thing is that there is a danger I believe that the Chinese government will use the beachheads that it establishes here, when it takes over things like OzMinerals for example, as a conduit to funnel in huge amounts of its foreign reserves to enable the rapid take-up of Australian assets in the form of mining leases and so on. I think that is an immense danger.

The eighth point I want to make is that I believe the national interest test is a very weak instrument. I think it is not properly administered for a start, but I think it is a very weak instrument. What I would like to point out to you is that the acid test of a truly strong economy—not a make-believe strong economy—is its ability to consistently run current account surpluses. We have not even looked like running one since we had deregulation in 1983 and I think that speaks volumes far louder than what any red herring type economic analysis does. I must point out too that that is in spite of a massive amount of foreign capital coming into this country and a massive boom, which we have just been through, and we still have not been able to run a current account surplus. That's life. The problems of course are two-thirds due to the net income deficit which is a mixture of interest payable on foreign debts and dividends payable to foreign owners of our resources.

As for No. 9 and some of the specific issues that I have—which I think I spelled out to a limited degree in my submission—I think that as soon as you get ownership by things like Chinese-government-owned entities of mining assets you will get life-of-mine contracts. The output from that mine will be tied up completely for, say, China's interest, and nobody else's. I know, for example, that they are running around trying to do business here. A good friend of mine is the biggest shareholder in a listed Australian mining company and they are trying to tie up a life-of-mine contract and they do not even own the company.

The second thing—which the previous people who were on today mentioned—is vertical integration. I believe that it is a serious mistake in terms of pricing to let customers get control of producers, and that is of course what is occurring.

The third thing is—as the people who are here earlier pointed out—that mining is a very capital-intensive business. In fact the level of employment, say, in an underground mine might have labour amounting to a maximum of about 30 per cent of the total costs. If you are talking about a large open cut, maybe labour is no more than 10 per cent, and it can be less than that actually. So you are not really getting a great spin-off in terms of employment.

The second thing about that is that a lot of the capital equipment they use is actually imported. So we are not really gaining much out of that as well. I am concerned also that they will end up using equipment and services imported from their own countries. They will promise to do otherwise but I do not think those promises are worth much. In fact at the time of acquisition people will say anything in order to get approval, and as soon as they get below the radar things change. It happens with private companies; it will happen with places like China. There is also of course the ability to use transfer pricing, which I am sure you are all familiar with, and which I think is very likely to happen.

The final thing amongst the specific issues that I would like to raise, and I will raise it briefly, concerns Chinese business practices. I was interested to see a very recent study which has just been released, a 420-page study, by the African Labour Research Network. It looks at the Chinese operations throughout a good deal of Africa. I will just read you, very briefly, one of their conclusions. The report says:

Chinese companies are among the worst employers in almost every African country the study looked at. African workers are going back to the same horrific working conditions that their fathers suffered under colonial rule.

I think that that should not be treated lightly. I think it may tell you something about the sorts of business practices that we could expect.

I will close with my tenth point again. Economic theories and ideologies come and go. They change between generations, between circumstances, between eras. But one thing does not change and that is that the route to riches is in owning productive and valuable assets. The road to poverty is littered with people who either never had them in the first place, or sold them, or lost them. And that is all I would like to say.

CHAIR—Very wise words, Mr Edwards. Mr Butler, do you have anything that you would like to add by way of an opening statement before we go to some questions?

Mr Butler—Thank you, Mr Chairman, for giving me the opportunity to be here. I am here as a layperson, a citizen of Australia. You have my original submission—

CHAIR—Yes.

Mr Butler—and my concerns are pretty much covered in that. I am not going to try to give you a five-minute paper on economics—that is not my primary area of expertise—but I am concerned for the country. One of the reasons I would not attempt to give you a lecture anyway is that I thought that the many things I have heard spoken about this morning were self-evident. They were about selling the farm, if I can put it all into that basket. I thought that we all understood the pitfalls in that. I go beyond that and say, okay, I think we should all understand that without my having to try to spell it out again.

What do we do? Yes, we want foreign investment, I suppose, but shouldn't we be looking at how we control it, how we regulate it? Shouldn't we be asking perhaps whether there is a need for this particular investment to take place? Is that in our interests? Do we need another mine? Does Australia need it—not does China need it? If we do need it, why? What are the benefits to us?

If we decide that, yes, something like this should go ahead, under what circumstances? How do we ensure that Australia gets the benefit? Obviously we are not the only people concerned about that. This is a worldwide issue. The OECD in recent years has been looking at the very issues that we have been discussing here and they are concerned with the ability, particularly of sovereign wealth funds, to distort markets in the interests of their own governments. That applies to other government owned entities as well. So we need to look at how this can happen and what we can do about it. I do not pretend to have the answers to that but this is my starting point: how do we control it all, or to the best of ability?

I see the Treasurer has guidelines for foreign government owned investments and No. 1 is: 'An investor's operations are independent from the relevant foreign government.' Frankly, I find that laughable. I have yet to see a state controlled entity—and I have seen many—that does not answer to its owner. This is true in commercial practice as well. All companies answer to their owners. It is particularly true of government owned entities. It always happens. So that, as a control, is nowhere near adequate. Those guidelines need a lot of work, and really what I am here to say is that this selling off of the farm, as a generic term, is obviously not good, we all know that, and we have to work out how we control it. How do we say: is this in the interests of Australia; do we need it; should we allow it and, if we do, under what circumstances and controls and how do make sure it actually benefits Australia and me and you as Australian citizens? That is about all I have to say, Mr Chairman.

CHAIR—Thank you, Mr Butler. You just referred to the Treasurer's six guidelines, which do require independence from a relevant foreign government. How would you amend them? Would you totally ban investment in Australia by entities in any way associated with a foreign government? How would you like to see these amended?

Mr Butler—I would not attempt to give you new wording for that because it is so inadequate, in my opinion. I was trying to say that, if you are going to address the question of whether an investor's operations are independent from the relevant foreign government, the answer to that is self-evident: they are not independent; they cannot be. So is that really a criterion for consideration? Because the answer is always going to be that they are not going to be independent. They cannot be. It just does not happen in the real world. I have worked in different levels of government for a large part of my working life. I have seen government owned entities, private companies and individuals all seeking approvals for an investment of some kind or another: a development, an investment—call it what you like. As Mr Edwards said, basically they will tell you what they think you want to hear at the time to get an approval.

CHAIR—I suppose the rationale for foreign investment has been, though, that capital is not readily available in Australia and it brings in additional capital to facilitate development. So if we banned foreign investment where would you see us obtaining the capital for development?

Mr Butler—I would not suggest we ban foreign investment. I do not believe we can stick our heads in the sand and just hope it will go away; it will not. But I think we need to be a lot more careful than we have been in the past as to how we justify decisions. Unfortunately, it has been my experience over many, many years that decision makers come and go but the investors, the development companies, keep on coming back, and I know from experience that if they keep asking they get approval eventually. It is a pretty sad situation.

Getting back to your question of how we would change that, I think you would probably throw that one away and simply say, as I said before: 'Do we need this? Is this to our benefit? To what extent is it to our benefit?' If you cannot come up with good answers to that then the answer is no in that particular case.

Mr Edwards—Could I make a comment on this particular issue?

CHAIR—Yes, of course.

Mr Edwards—I pointed out in my submission that the elephant in the room which nobody really talks about is the mismanagement of the Australian economy—that is, it is far too heavily dependent on debt, including a lot of foreign debt, and consumption, and that is largely due to the financialisation of this economy, just as has happened in the US of A. I looked the other day at a copy of a 1997 letter I sent to Peter Costello. I said that they were crazy to allow the banks to borrow offshore to on-lend here for housing, consumption and other items of that sort. All you have is money flowing out—interest on a foreign loan—and virtually no income coming in as a result of those expenditures. I think that was a serious mistake. I think also that, as I pointed out then, if Australians rely on people elsewhere in the world to do saving for them then they will not save themselves, and that is exactly what has happened. I believe, for example, that the loan to valuation ratios that the banks are using need to be capped at a much lower level than they are at the moment because the extreme rise in housing prices here has severely distorted the economy and run up our debt very considerably at the same time.

The other thing I would say is that you do not have to develop everything at once. In fact, most private companies—or public ones—that expand too rapidly and try to do everything at once get into trouble. That is what has happened with some of our mining companies in recent times. It is far better to retain a far bigger percentage of equity yourself, develop at a rate that is a bit slower, build up your capital and get the major benefit yourself than to give away the bulk of it to somebody else, which is what has happened here. For example, in mining there are various estimates but it is probably at least 80 per cent foreign owned now in Australia. Telecommunications and the media sector are largely foreign owned, and so on. So are food and beverages—you name it. It is all going down the tubes.

CHAIR—Thank you, Mr Edwards. I noticed that you wrote to Peter Costello about housing investment many years ago, and I thought that was very prescient of you.

Senator JOYCE—I think the elephant in the room is political correctness. We are not allowed to state the bleeding obvious: that if we let another nation's government come in and own the wealth-producing assets of our nation then quite obviously we cannot both be the beneficiaries of it. They are the beneficiaries of it, and you work for them—or maybe you do not work for them, in which case you are a pauper in your own country. You want to offer to your children more than the prospect of just driving a truck in a mine; you want them to actually have some sort of ownership of the mine. You cannot possibly have two people owning the mine. If the Chinese government own it, they are the beneficiaries of it and that is where it finishes.

We are looking at the Foreign Investment Review Board guidelines. There are the concerns that were brought about by the Chinalco Rio bid and the fact that Minmetals, a fully Chinese owned company—basically the People's Republic of China's company—will own 100 per cent

of OZ minerals if that deal progresses, which means it will own 100 per cent of the second biggest zinc mine in the world, Century Zinc, which means that the job that our children will have in that mine will be to drive a truck, and that is where it will stop. So, Mr Butler and Mr Edwards, if I were to wave a magic wand so that you were now the boss in Canberra just for a day and the only place you could have any effect were on the Foreign Investment Review Board guidelines, what would you change?

Mr Edwards—I would, I think, abolish the case-by-case approach to the review of foreign investments, because I think that all that leads to, ultimately, is creeping takeover of our assets. Once you have allowed one, it is very hard to knock back the next, because they will tell you, generally, the same old story; it is very difficult to do. I really think that what needs to happen is some sort of cap in the various sectors, including key strategic sectors, such that the total level of foreign investment should not exceed a certain percentage of the capitalisation or some other criterion of that particular sector. That has been done before. For example, I know that Taiwan, when I wrote a big paper for somebody way back in 1998, had virtually no foreign ownership of the companies listed on its share market; they had pretty tough limitations on it. So it is nothing new. It is done in China at this very moment. In fact, they have created legislation in relation to monopolies which so far, according to the instances that have occurred already, like the Coca-Cola one, seems to be targeted more at keeping foreign ownership out of the place than at their own domestic operations.

Senator JOYCE—That is the Huiyuan Juice company and Coca-Cola's attempt to purchase it for \$2.4 billion. It was knocked back by the Chinese government.

Mr Edwards—That is right

Senator JOYCE—What would you do, Mr Butler?

Mr Butler—I would go back to what I said a few minutes ago. These guidelines are guidelines for how you allow something that you have already decided you are going to allow. I have indicated the first one is useless. It is just not worth having. The others are all about deciding under what rules something should operate, given that you have already decided that you want it. There is nothing in this that indicates that our government would look at an investment proposal and say: 'Is this good for us? What do we get out of it?' I keep going back to that. I would have a new set of guidelines in front of that that say: 'Why is this proposed? Is it solely for the benefit of, say, China? Is it for the benefit of Australia? Do these minerals really need to be taken out of the ground?' That is another question one should ask. So it is all about why. The first assessment of any proposal should be: why is it proposed and what are we, as Australians, going to get out of it? Then you can start to look at how you regulate it. But you have to make the decision first about whether or not you really want it to happen. You may want it because you want some foreign investment—you may want some more funds in the country—but you still have to look at what the benefit is for Australia.

Senator JOYCE—You walk down the street and everybody will use the analogy: sell the milk, not the cow. If you sell the cow you are gone—you are going to starve. Why is it that everybody, when you walk down the street, understands that? In fact, they almost crawl over themselves to tell you that. When that Chinalco thing was on, the phone would just ring hot and emails would come in. It really concerned people, quite obviously. Why do you think there is a

disconnect between the bureaucracy's and the government's position on foreign investment in Australia and the idea of the people on the street about foreign investment in Australia? How do you see that disconnect coming about? Why isn't it self-evident that one of the fastest growing economies in the world is China and it has terribly restrictive covenants on foreign investment?

Mr Butler—There is an easy answer to that: the people on the street have no faith in the government in making those decisions. The people on the street will say to you: 'What does it matter what we think? The government's going to make its decision anyway.' In this particular case, people are pretty cynical about a Chinese-speaking Prime Minister who is very friendly with the Chinese government. That may not be politically correct to say, but you want to know what the man on the street thinks. To my knowledge, that is what the man on the street thinks: 'What does it matter what we want? The government is going to make a decision.' From my experience, as I said before, if developers or investors keep on asking the same question they will eventually get their approval, and the public knows that. It will happen.

Senator HURLEY—Mr Edwards, you mentioned other foreign investors in Australia and said that they were not as relevant. Certainly Chinese investment, which you concentrated on, has grown a lot fairly recently. But statistics that I have from the ABS indicate that China is indeed right down the bottom of the table, compared with other countries. In 2008 they invested \$7.9 billion, compared with the United Kingdom at \$427 billion and the United States at \$418 billion. They were less than Malaysia and less than Belgium. Given that it is still relatively small compared to these other countries, why are you so worried about China?

Mr Edwards—For a number of reasons. I am very interested in the trajectory. If you look at the trajectory, it looks like there is exponential growth in the inroads they are making into Australia.

Senator HURLEY—Why is it so bad that they are making inroads when the established inroads made by Hong Kong, Japan, the United States and the United Kingdom are not a problem?

Mr Edwards—I think that has been amply pointed out. What you are talking about in the case of China is not only numerous government-owned bodies doing it but strategic national coordination in China of foreign takeover efforts. I think that in itself is a major danger. Another one is that they are a country that will very soon become the most powerful economy in the world, not like Japan, which never has—it only got to second place. They will easily be the most powerful economy in the world. In fact, I believe in many ways they are at the moment. They are also a big customer of ours.

The areas where they are showing most interest in buying our assets are those that involve inputs into their own economy, so that they are able to exercise a stranglehold. There is a consistency to the pattern of their investment elsewhere in the world, and that is to get a stranglehold on things, particularly natural resources.

I look at a country the same as I look at a person—you can only understand them in terms of their history. The history is not particularly good. For example, one of the provinces in China, which has a very big Muslim element, has 25 per cent of their natural resources. I understand that at the moment they are trying to, by transmigration, reduce the influence of the Muslim

population in that area. I really do not think they will stop at much. They have proven themselves to be very tough minded. I saw in a recent documentary on one of the current affairs programs them shooting in cold blood numerous young Tibetans who were trying to escape across the Himalayas. As they trudged through the snow they were simply shot down. I do not believe that this is the sort of country that you want to be getting control of your assets.

I must tell you by the way that I have very close Chinese-based or Chinese-born friends. In fact, I am the guardian of the children of a woman who has come here from the People's Republic of China. I am not anti-Chinese in the ethnic sense but I am anti Chinese government control over these things.

Mr Butler—May I make a brief comment along the same lines?

Senator HURLEY—While you are doing that, Mr Butler, I would like you to expand on what you meant by your statements about our Chinese-speaking Prime Minister being friendly with the Chinese and what that implies.

Mr Butler—I will start with that first. I was responding to a question of what the man on the street thinks. The man on the street thinks that, when the Prime Minister speaks Mandarin when we have Chinese visitors, he is not just being polite but being a bit too cosy with the Chinese government. That is what I meant. That may or may not be the case, but that is the perception around Australia.

Senator HURLEY—So what is the problem with being cosy with the Chinese government as opposed to being cosy with United States government?

Mr Butler—The United States government is not buying our resources.

Senator HURLEY—Yes, they are. Mr Butler, I just read out the figures from the table.

Mr Butler—Not to the same extent.

Senator HURLEY—Hugely more. Chinese investment in Australian was 0.5 per cent of the total. For the United States, the total is 24.3 per cent.

Mr Butler—That is today. That is going to change dramatically over the years. You have the figures and I do not, and I do not dispute them, but perhaps the United States is not buying our mineral resources in the same way that China intends to in the future.

Mr Edwards—May I ask the deputy chair a question about that? Are those figures you are quoting the current percentages of foreign ownership or are they the current purchases? There is a very distinct difference.

Senator HURLEY—They are 2008 figures from the ABS.

Mr Edwards—Are they the purchases in that year or are they the levels of ownership? Do the figures mean current purchases or existing purchases that may have been done 10 years ago?

CHAIR—I think they are relevant to that financial year, because I have seen that table as well.

Senator BUSHBY—Senator Hurley actually asked about the investment levels as well. But concerning China, Mr Edwards made some comments about the nature of the country itself. Certainly it is a totalitarian regime and that comes with a lot of aspects that we as Australians would find distasteful. What would you say about the argument that the best way of addressing the fact that it is a totalitarian regime is to encourage its development, and to foster a growing middle class would impose democratic values on the country?

Mr Edwards—I would say that that is a utopian pipedream and that it is far more important to look after your own interests first. That is what I would say.

Senator JOYCE—These figures—and to your defence, Mr Edwards and Mr Butler, you have not seen them—talk about the foreign investment in Australia from China being \$7.9 billion. I can assure you that that is very passé. That figure has long since been left behind in the dust. If that were the case, even the current investment that was proposed for Chinalco I think would have been twice whatever their total investment tabulated in this is, and we have the Minmetals deal as well. So do not concern yourself; these figures are way out of date.

Mr Butler—Going back to a comment I was making before—and I got a little bit sidetracked on the Prime Minister I think—part of the answer to Senator Hurley's question about why do not we see the Prime Minister being too cosy with United States government is that there is also a perception out there that China economically is a danger to Australia. Nobody sees the United States that way. Whether it is true or not, I am answering Senator Joyce's question as to why there is a difference between public perception and what actually happens.

The other comment I want to make is that as a senior public servant I dealt with Chinese developers and investors. I have Chinese friends and in my own private business I have subsequently dealt with a large number of Chinese clients. Trust me, they are ruthless in business. If they want to move into Australia and control our economy, that is what they will do unless we look out for it.

Senator HURLEY—How are you proposing that the Australian Prime Minister deals with China and how do we deal with Chinese business—not deal with them at all?

Mr Butler—Sorry, I do not quite understand what you mean.

Senator HURLEY—Are you proposing that the Australian Prime Minister not deal with the Chinese government and that we do not deal with Chinese business people because they are ruthless?

Mr Butler—Not at all, no.

Senator HURLEY—People used to say this about Japanese businesses. They used to say that they were ruthless.

Mr Butler—They used to be. I do not know that they are now. I do not know whether they measure up to the Chinese. No, I am quite happy for the Prime Minister to have discourse with the Chinese government—of course, that is his job.

Senator HURLEY—But not to speak Chinese to them? Is that the problem? I do not understand where the problem lies.

Mr Butler—I did not say that, Senator. In response to Senator Joyce's question about why it appears the view on the street is not reflected in what happens, one of the comments I made was that there is a perception that the Prime Minister is too cosy with the Chinese government.

Senator HURLEY—Well, a lot of people I speak to think that that is not a problem.

Senator JOYCE—That is his view and he is entitled to it.

Senator HURLEY—I am entitled to ask questions about it.

CHAIR—Let us not have a discussion across the table. Let us hear the witnesses, because we have to wrap up at 12.55.

Mr Butler—That is not actually my view. The reality is the Prime Minister must have discourse with the Chinese government. It is polite for the Prime Minister to speak Mandarin to the Chinese government. But I am relating to you what I believe to be a perception from the man in the street. I do not want the Prime Minister to stop talking to the Chinese government. That would be silly.

Senator JOYCE—Is it polite for him to sneak the fifth highest official of the Chinese government into our nation without informing the Australian media?

Senator HURLEY—Sneak?

Senator JOYCE—He was.

Senator HURLEY—Honestly!

Senator JOYCE—The Australian media never knew that he was here.

Senator HURLEY—That is completely absurd.

Senator JOYCE—Was it polite for them to hire three buses to put in front of the Hyatt Hotel so no-one could see them having lunch?

CHAIR—We are drifting away from the reference that the committee has. Since we are behind time, we will conclude now and resume after a quick lunch. Thank you, Mr Edwards and Mr Butler for appearing.

Mr Butler—Thank you, Mr Chairman.

Proceedings suspended from 12.56 pm to 1.31 pm

DRYSDALE, Professor Peter David, Private capacity

CHAIR—Welcome. We have received your submission. Would you like to make an opening statement?

Prof. Drysdale—Yes. I passed a note to the secretariat from which will make a few points to begin with, if it is acceptable.

CHAIR—Of course. Thank you very much.

Prof. Drysdale—The note I passed over focuses more on the direct terms of reference of your committee, which is really on the state owned enterprise aspect of Chinese foreign investment in Australia. There are three main points that I want to draw attention to from the document I handed over to you. The first is about the motivation for Chinese foreign direct investment more generally but also particularly in Australia. The first point to make in respect of the resources sector in Australia is that Chinese investors in this sector aim to secure stakes in projects that are linked to supplying the rapidly growing markets in China.

Putting yourselves in their shoes, the second point to make is that they perceive foreign investment as an investment in their future too, as the projects they invest in in Australia and other countries and the firms that they link up within Australia and other countries bring management know-how, technology and other resources to them in the links that the projects provide. They have a positive impact on the operational efficiency of firms in China, as well as the corporate standing of firms in China.

They are undertaking this investment in the context of what is called in China a ‘going out’ strategy, which is a policy that released the controls on foreign investment abroad and encouraged Chinese enterprise to take up stakes in foreign companies and undertake foreign investment, and foreign investment has grown rapidly under that policy. Of course, the other point is that this investment offers a lot of advantages to the host countries, including Australia, because in countries like Australia this investment provides capital, technology, know-how and, most importantly in the case of this Chinese resource investment, access to markets.

These benefits are very substantial for Australia and this is the first big point I want to make. What the Chinese are doing in this sector in Australia is not untypical of what foreign investors over a very long period of time—over the more than 50 years that I have been looking at this thing—have done in Australia. Through their investment they contribute to the efficiency of the Australian industry. We have undoubtedly one of the most efficient and competitive resource sectors in the international economy. Undoubtedly, that efficiency and competitiveness is importantly due to the presence of foreign investment alongside domestic businesses in developing and exporting the resources to international markets. This is across a wide range of activities in our resource sector. We would not be the most competitive player in this sector without foreign investment and we are not going to remain the most competitive sector internationally without the continuation of foreign investment, including Chinese foreign investment. That is the first big point I make in this note.

The second thing is obviously about the issue that you are focused on, which is: what is different about this wave of Chinese foreign investment from other waves of foreign investment that we have had before—US foreign investment, European foreign investment, Japanese foreign investment and Korean foreign investment? It has to do with the fact that China is a partially reformed economy at this point and that state owned enterprises are still an important although a diminishing part of that economy. At the same time, the role and the nature, the character, of state owned enterprises is evolving and changing very rapidly indeed.

You will all know that China had invested in the Channar iron ore mine in the 1980s. That investment took place through the Ministry of Minerals and Metallurgical Industry in China, so it was a state owned enterprise. At that time that ministry was a state owned enterprise and it encompassed a vast range of activities in that sector. Steel and other enterprises under that umbrella have now been segmented into separate competing entities and corporatised. Some of these enterprises are listed on the Chinese as well as international stock markets. These are all ostensibly state owned enterprises.

Alongside that big institutional change there have been changes in corporate governance that include the establishment of non-executive boards and executive independence in the day-to-day operation of most state owned enterprises. Of course, some state owned enterprises in so-called strategic sectors or strategic industries are more independent than other state owned enterprises in their operations.

The other aspect of that is that since 2003 the State owned Assets Supervision and Administration Commission of the State Council, SASAC, in China has assumed the responsibility for exercising ownership of state owned enterprises on behalf of the Chinese government. SASAC has two important roles. It supervises the key state enterprises and their management; it exercises a monetary role in their profit and management performance. Its second important role is that it carries forward the reform of state owned enterprises. It has the responsibility for reforming state owned enterprises, the privatisation of state owned enterprises, their governance and their consolidation. All of these things are also a main responsibility for SASAC.

It is under the umbrella of SASAC that some of these changes have been effected over the last five or six years—under SASAC these changes have taken place in the state owned enterprise sector of the Chinese economy. So it is an active and an ongoing process and it is aimed at making state owned enterprises conform to normal commercial market disciplines. That is the principal objective of it. Of course, many still believe that state owned enterprises, because they include in their management teams—not always and not necessarily—political cadres in China. For that reason they are disqualified from the normal rules and regulations applying to other foreign investors in host countries like Australia but I think that is a mistaken view. State ownership has been a policy consideration in a number of countries in the regulation of foreign investment. Of course, it has now become explicitly so in the case of Australia. It is a matter that the regulatory authorities look at.

The second main point is just about the scale of it all, and I will speak to that very briefly. In the 1980s Chinese investment abroad ran at less than half a billion dollars a year. In the 1990s it ran at a bit under \$2.5 billion a year. It has since grown rapidly under the new policy, which has released control on investment abroad. Earlier, most investment from China was by private

investors but state owned enterprises were given the green light recently. Chinese investment in the last year for which numbers are available was running at about \$41 billion and that is about double what it was four years ago. It is a considerable element of overseas investment abroad. And to get it into perspective—and this is the second main point I want to make in this submission—global FDI fell by at least 20 per cent last year; Chinese FDI doubled. So China is now the principal source of new foreign investment activity internationally. It is an element in the supply of international capital that no country that takes its own interests into account can afford to ignore. It is a very important source of capital and market innovation. That is the second main point I want to make.

The final point in the note I gave you that I would like to emphasise is that obviously these things are changing. Institutional and policy circumstances surrounding state owned enterprise investment abroad are changing. They are matters that Australia has an interest in—the way in which these changes are taking place. The argument that I put in the larger paper that I submitted to you and in the note that I handed across today is that it is important for these enterprises in their overseas investment activities to be involved in markets like the Australian market, which, because of the work of policymakers, is a well regulated, disciplined market that subjects the participants in this market to rules and behaviours that are governed by good policy in this country. You have control over that policy and that is the most important thing in managing foreign investment activity whether it is from state owned enterprises in China or from Japan or the United States.

It is important in my view that there be fuller participation by Chinese state owned enterprises subjecting themselves to the disciplines of robust and well governed market institutions such as we have here in Australia. Applying special conditions to those investments would just reinforce the perception of the primacy of regulatory solutions over market solutions to state owned enterprises in China, the government of China and our other partners and damage our foreign investment regime and environment, discourage Chinese and other investors from participating and help sustain the dominance of bureaucracy over the market both in Australia and also in China.

I think the circumstances would recommend strongly that we take an active role in relating to the Chinese authorities in respect of the investment of firms from China, whether they be state owned enterprises or private firms from China, in Australia. The rapid rise of China and Chinese investment has caught many people by surprise, including policymakers here. We are on the leading edge of it because of the active interest with a rapidly industrialising economy like China, like Japan's was 40 years ago, in the resource sector. These developments do not fully explain the elevation of policy interest in the matter, but they do encourage active policy participation in working with China to ensure that we understand the nature of the evolution of enterprise and its operation in China and the objectives of policy there, as that relates to Chinese participation in Australian industrial activity.

There are a lot of complex issues that have to be resolved within China. The Chinese alone will resolve those issues, but Australia can play its role through cooperation in this way. And it will not only be cooperation in these affairs between Australia and China; it will be cooperation, importantly, between the United States and China and other major partners of China. The aim there from the Chinese perspective will legitimately be to guarantee for itself the opportunity to improve its resource base, its technology base in particular, as it undertakes activities abroad;

secure reliable supplies of resources as it industrialises; and transform its enterprises into truly market disciplined international competitors. We have an interest bilaterally in relating to that process, so there is a role for government in getting together the relevant agencies in Australia and all the support—research support and informational support—that they can bring to bear on this process and interacting with the relevant Chinese agencies. There has been very little interaction between these agencies in Australia. An example is SASAC: it is new days for SASAC, but it is a very important organisation and a bit of knowledge about what it does would be helpful here. So these are active areas for policy interest.

If there is one last point I would make it is that there is an important opportunity for Australia here to play a fairly leading role in engaging the Chinese policy authorities in thinking through and responding to all the issues that arise as their big, state owned enterprises undertake investments abroad, including in the Australian resources sector. Thank you, Senator.

CHAIR—Thank you very much, Professor. In the course of today we have heard some comment about the six principles which the minister laid down last year regarding foreign investment, one of which was, of course, to have regard to the national interest, which is the test the Treasurer applies. You have referred in your written submission to:

... ‘additional factors’ that could demand a test of suitability beyond the ‘national interest’ test ...

Do we need to have additional factors taken into consideration?

Prof. Drysdale—My submission would be that the national interest test encompasses all the relevant factors that you need to apply in the consideration of foreign investment proposals in Australia. I think that in the longer paper I presented to you I have gone through a few circumstances in which you might wish to apply that test to Chinese or to other foreign direct investment proposals. They include, of course, where those investment proposals might impact upon security interests so they are likely to be very limited in character. We have had the application of the test in that respect concerning one Chinese investment proposal in Australia—whatever the rights and wrongs of that. But you can conceive of others, so that is an obvious area.

The other area that is considered is where the investment might in some way monopolise key resources in Australia to the detriment of the development. I have always presumed that the test was applied. For example, in the case of the Woodside North West Shelf project, I would presume that there was a test of that kind applied in respect of that project, and I am on record as having said that that was appropriate. And there are other circumstances that I think people sometimes think of as national interest tests, which just are not, and you can look at the way in which these investments work and the way in which they serve the development of a competitive and efficient industry in Australia. The example that is often cited—and this was mentioned, I think, in some of this discussion earlier—is where the investor is the customer or related to the customer in some way. It is a perfectly normal circumstance in resource sector investment for customers to invest in these projects. These are very large and complex projects technologically and in terms of the delivery of resources and the processing of the resources and the delivery of the resources either directly or in their processed form to the final market. An important interest of customers or related parties, and often in the Japanese case it was related parties but it might

as well have been the customers—trading companies or whatever—is to secure a window on the management of that process and to be involved in the process in its complex detail.

So this is a very normal thing in this sector and it has been the case for many, many years. It is not a new thing. Very infrequently would that be in itself or of itself a reason for rejecting, for example, an investment proposal on national interest grounds, and I think they are the three areas that I mentioned in the earlier paper that you might consider. All of these issues can be encompassed under the national interest test in the review of investment proposals from China and from other investors.

I was of the view that the elaboration of these principles was somewhat damaging to Australia's foreign investment climate. That was not an uninformed view. I take part in seminars around the world on foreign investment activity globally and these issues were raised in seminars that I took part in, for example, in 2008 in various parts of Europe about the investment climate in Australia. These principles, when you do them, do not only apply to Chinese investors; they impact upon the perception of Australia as a reliable host to investors from any source including North America or Europe or anywhere else. These issues were raised, I might say, by North Americans and Europeans in European seminars that I attended on foreign investment flows. They are subtle issues but they are not unimportant issues.

CHAIR—So are you saying that Australia is regarded as having a stricter foreign investment regulatory regime than other countries?

Prof. Drysdale—Some people argue that, and I have mentioned those arguments. There are various indexes that people construct to measure the restrictiveness of a foreign investment regime. On some of those measures—and I have quoted references to them in the longer paper—certainly Australia does not come out looking very good. My bottom line is, since the 1970s, Australia has pursued a very open approach to foreign investment, including in the resource sector. We have FIRB, which was established in the 1970s, to review proposals and to take the consideration of proposals to the relevant minister. I see that as a fairly robust and useful process.

When FIRB was being established back in the 1970s, I was among those doing work on the whole problem that we had in the 1970s with the surge in foreign investment, so-called resource nationalism and so on. The establishment of an institution like FIRB, which would be seen, for example, in North America as an interference with foreign investment and as a restrictive agent in respect of foreign investment, was a useful and positive development. It desensitised the management of foreign investment into Australia in a significant way. It made it easier to manage in policy terms and in political terms.

The truth of the matter is that, if you ask members of the community—and I am sure you have asked members of the community what they feel about foreign investment, not only Chinese investment but foreign investment—what they feel about foreign investment 70 per cent, as I remember the last poll, say: we do not want anymore foreign investment, whether it is Chinese, US or whatever. But, when you ask them whether they are comfortable with the foreign investment that is here, the same proportion will say: yes, we want the foreign investment that is here. So once you get in it is all right, but that is not a way to run policy.

So you have to have a process, effectively, that takes that political feeling into account and reassures people that there is a process through which you can scrutinise investment proposals, that that process is a serious process and that it is properly constituted. There is a question of whether it might be more transparent than it is. That is a question to which I am inclined to think not at this stage, although my views are evolving on that. That is the rationale for it. This is a long answer to your very specific question, but I think it helps to explain the view that I have about these measures of foreign investment restrictiveness in Australia, as they are dished up in some of the literature that I have commented upon as being open to some qualification.

CHAIR—Thank you.

Senator HURLEY—I want to follow up on those international comparisons. There were media reports back here that people in the United States were getting a bit worried about Chinese investment as well. There was some quite considerable concern there. Did the United States take policy action of any kind at all in response to that?

Prof. Drysdale—In respect of particular investment proposals they did—there was the oil industry case which was rejected in the US—but not in a regime changing way, if that is the implication of your question. This is a phenomenon that we are dealing with, like the Japanese phenomenon was some years back, that impacts not only on Australia but other countries. We are in the cockpit of it, frankly, because of the importance of the resource sector in this stage of development in China and the importance of China to us because of its development and industrialisation.

There have been prominent cases elsewhere. Chinese investment abroad is not just an Australian phenomenon; it is a global phenomenon. That is why I said in my earlier presentation that it is important that we work with China bilaterally. That is an important area of policy action, but this will be an area in which we will be working with other countries. It will be an area of interest regionally and will be an area of interest globally. Does that help?

Senator HURLEY—Yes, thank you. In speaking of resources, we have had submissions that say that there are particularly sensitive areas of the Australian economy that we should not allow the control of to go overseas. The mineral resource area was one that was mentioned in particular. You talked about how China is a customer for a lot of Australian resources, and a lot of people have been talking about that as the thing that has possibly saved Australia from being more badly affected by the global economic crisis. I think you did mention that is not uncommon for customers to buy into. It is happening to some extent in Australia. We have seen quite a lot of investment in resources. Are Chinese state-owned enterprises investing in other resources elsewhere in the world?

Prof. Drysdale—Just on the last point: obviously, yes. One of the issues is that, if we deny ourselves the opportunity of hosting Chinese investment here, it will go elsewhere. There are lots of prospective iron ore resources elsewhere in the world. People sometimes think that this is a kind of moonstone type of resource that we uniquely have supplies of. The big increment in supplies of iron ore to China did not come from Australia in the last boom period; they came from India and Africa, because we were not ready to supply the increment. I hesitate to say in a room with some friends present, but we in Australia were not prepared to lift the uptake into

China as rapidly as we might have to take advantage of the huge surge in demand for iron ore. We were underperforming in the Chinese market.

If you take the share that we had in a more stable market, like the Japanese market, which you can sort of use as a benchmark of our competitiveness in the international market or at least the regional market for these resources, that runs at well over 50 per cent but in China it is significantly under 40 per cent. I hope it will rise in the next period, but that is a measure of the failure of the Australian industry to deliver the uptake that was demanded into the Chinese market over this boom period. That was drawn from India, Africa and other places in Latin America.

I want to go back to the first point that you make because I think it is a really important starting point about how we have to think about this issue. There is no question of Chinese investors, Japanese investors or American investors ultimately having control of these resources. We have control of these resources. They are our resources; they are our sovereign resources. The policy regime that you and your colleagues put in place is what governs the use of these resources within a market. If there are problems in the market, if there are monopolies and distortions in the market, then the policymakers need to deal with those. We have the power to deal with them, including the power to deal with markets in which foreign investors are heavily involved and regulate them in respect of a whole range of things, including the way in which they develop the resources sensitive to the environment, Indigenous people and all the considerations that you and we as interested citizens would want to have sensitivities to.

Control over these resources is within our province. It is not the province of the investor that has delivered to it the right to undertake it, whether it be a foreign investor or a domestic investor. Again it might seem like a moot point but actually it is a fundamental point in the understanding of how we have to manage these market activities, whether they be market activities that foreigners take part in or domestic businesses take part in.

Senator HURLEY—To pursue that a bit more, I think one of the sources of anxiety with the state-owned enterprises is whether there is the potential for a country such as China to operate strategically to tactically put so much pressure on a country where they have significant investment that it changes the way that those resources are used.

Prof. Drysdale—One can imagine circumstances putatively in which that might be the case, but none of these circumstances, I think, are present in any of the projects or proposals relevant to the management of these investments in Australia. As I said in response to Senator Eggleston earlier, most of these investments are undertaken through a transparent process of taking up minority equity in projects and firms developing projects. That reflects the motivations and interests of the investors that I mentioned before with respect to Chinese investors, Japanese investors, Korean investors and so on. In these circumstances, I cannot posit a set of circumstances in which that would be an issue of concern.

Senator HURLEY—These state-owned enterprises do seem to be an increasingly used vehicle—and Australia has set up its own, of course, in the Future Fund. I think you said that they are changing rapidly. Why is it that they are being used as a vehicle more and more? Do the global economic circumstances have any impact on that—whether they are more or less useful for countries and investment?

Prof. Drysdale—I guess the latter part of your question relates to the global financial crisis. In respect of the first part of your question, as I said before, the fundamental objective is to see these enterprises operate competitively in an international market and stand the test of the international market. They stand the test of the domestic market fairly well. They are very profitable. They do have preferred access to credit in domestic terms because of the distortion in the capital market there. They are very profitable and competitive and they are measured on the basis of their performance in that respect.

There has been a powerful interest in seeing them get out of that closet and compete internationally, for a number of reasons, not in respect of the resource sector so much but in respect of the major industrial sectors—for example, telecoms or sectors like that. Given the fact that there is a large foreign investment presence in China, the only way that a Chinese state-owned enterprise is going to compete effectively at home, in its own market, is for it to go out and establish links with firms that can deliver market knowledge, management know-how, technologies and so on that will help them to compete at home on a level playing ground. So that is one motivation that has led to the going out strategy. It has been very important for the big industrial manufacturers in China to link up with international players, small and big, in order to improve their competitiveness in the market at home. In the resource sector, as I have said before, the motivation is somewhat different. It is to establish prospective investments which are linked to the supply of raw materials to the Chinese market.

So they are some of the considerations that are involved. At a fundamental level, those considerations relate to the mission which I mentioned is the second mission of SASAC, which is the reform and increasing market disciplining of state owned enterprises—that is, the development of the state owned sector to make it perform better. That has progressed quite a long way, as I said, in the last five years, and it is a continuing story and an ongoing process.

CHAIR—Thank you.

Senator JOYCE—I have quite a number of questions and will not get through them all, so I have to start with the most important first. For the purposes of the answers, could you just say what you think are the most relevant things first and truncate the end. My first question is: if foreign investment is such a great idea, then you would believe by the process of reciprocity that BHP and Rio would have the capacity to go and buy coalmines in China. Do they have that capacity? If not, why not?

Prof. Drysdale—That capacity is limited at this stage in a number of sectors, including the mining sector. Reciprocity in this sense is not the critical test to me, and I will say why it is not. It is not the critical test because actually it is what we do to ourselves that matters in respect of the impact on this economy and this society, not what the Chinese do to themselves. If they limit investment for whatever reason—and there are a number of reasons why they do, although that is, again, changing—

Senator JOYCE—So you are saying the rules are different for different countries.

Prof. Drysdale—Obviously they are different for different countries, but those rules of course are negotiable internationally and bilaterally.

Senator JOYCE—Could I go to China and buy 195 square kilometres of prime agricultural land?

Prof. Drysdale—No individual Chinese can buy that much prime agricultural land. That would not affect your consideration of policy which limited the opportunity to buy prime agricultural land in Australia, would it? It certainly would not affect mine.

Senator JOYCE—Yes, it would affect mine very much. You talked about sensitivity to Indigenous people and the environment. I want to refer to two areas that I thought you might want to comment on. The Chinese obviously are a large investor in Sudan and they basically prop up its government. How do you feel about the sensitivities of the African Sudanese who are being wiped out by the Janjaweed? How do you feel about the sensitivities of the Chinese investment in Burma and the Karen, who have been persecuted by that regime? How do you feel about the sensitivities of people in North Korea, the North Korean government being propped up by the Chinese next door? Do these indigenous people come into your observations when you are talking about sensitivity to indigenous people?

Prof. Drysdale—I think they are different matters and we use different policy instruments to deal with different matters. We use policy instruments such as environmental regulation, such as policies towards Indigenous people of various kinds in Australia, including those that encourage investors, domestic and international, to, for example, develop capacities in our Indigenous community—

Senator JOYCE—So we have different indigenous people, different countries, different rules.

Prof. Drysdale—Allow me to finish my answer to the question. We have, as I said before, full control and sovereignty over those policies. In the negotiation of policies in other countries we have to use different instruments, because, unless we presume hegemony, we do not have that same kind of control, and we do not presume hegemony if we are wise. So we use different instruments, mainly foreign policy instruments. We have to make decisions about how to apply those foreign policy instruments in different cases and there are different views about how to do that.

Senator JOYCE—Based on convenience.

Prof. Drysdale—Uniqueness in respect of what?

Senator JOYCE—No, based on convenience: it is convenient for us to ignore that; it is not convenient—

Prof. Drysdale—No, I did not say that at all. That is misinterpreting what I said. I said that we can actively engage in the use of those for policy instruments which we have at our command to deal with those issues. In particular I have been actively interested in the North Korean problem and have been engaged in looking at the issue carefully. We do not abdicate responsibilities for that at all but we use different instruments to manage it. If we do not carefully distinguish the instruments we use to manage different aspects of policies, basically we are living in fantasy land.

Senator JOYCE—I believe in the related entity test for tax and I think that it should stand. We are dealing with the same sorts of organisations. These are all arms of the same corporate structure and basically they are predominantly controlled by the Chinese government. I do not see how we can have this haphazard choice governing when we want to engage in a belief that something is right or wrong and then disengage so that we believe we have a right or a statement to protect certain indigenous people but then disregard other people because it is convenient to disregard them.

Prof. Drysdale—I think that is not the conclusion I would draw from this discussion at all. The conclusion I would draw from this discussion is that it is really quite important for Australia to engage these enterprises and entities in a system like the Australian system over which you and other policymakers have control and which introduces to them exactly the kinds of disciplines you might wish to put on them in other countries. If you retreat from doing that, Senator, you retreat from an opportunity to so influence them and I would think that it is really rather important to take every opportunity to engage them in a process which subjects them to these disciplines. But on the other issue of how related these entities are, then I would differ from you in respect of the nature of that relationship, and I think that you would have to look at that very carefully before you came to that conclusion.

Senator JOYCE—Let us go to where you quoted that the Chinese have been involved—India, Africa and Latin America. Can you tell me the great benefaction to Africa and where I can go to be able to say, ‘Boy, wasn’t that a great outcome for those people!’ You said that Africa is an area where the Chinese had invested and, because we did not have the capacity for the uptake of the delivery of iron ore, that alternative arrangements were made with India, Africa and Latin America. Can you please direct me to where I should go in Africa to see the great benefaction to the African people of Chinese investment.

Prof. Drysdale—If you went to South Africa and you discussed it with South African authorities, you would come to the conclusion that the impact of Chinese investment in South Africa had been positive—

Senator JOYCE—So South Africa is what you hold up as an example. Chinese investment in South Africa is what you deem to be—

Prof. Drysdale—It has had a very positive impact on the African economy.

Senator JOYCE—And Latin America?

Prof. Drysdale—And in Latin America, in Brazil, and not only investment but also in the uptake of all purchases from Brazil it has had a very positive impact on the Brazilian economy.

Senator JOYCE—This is when Australia could not come online. What period are we talking about here?

Prof. Drysdale—In the early part of this decade, until the boom ended last year—in the eight years before that.

Senator JOYCE—You also said that they are sovereign assets of Australia and we do not have to worry about that.

Prof. Drysdale—I did not say that. What I said was that they are sovereign assets of Australia and we have to exercise control over sovereign assets whether it is in respect of their use by foreign investors or domestic investors. I think that is what I said.

Senator JOYCE—Do you think there are any other factors that come into play in how we deal with foreign countries? Is it just a case of, ‘If it’s in our rule book, it says so and we don’t have to concern ourselves with anything else; we don’t have to be sensitive to other issues such as, for instance, the strength of the nation that we are dealing with, its capacity to grow and, to be completely honest, whether it is developing an expeditionary military force’? Should that come into our considerations, or do you think it is completely a case of, ‘That’s all old-fashioned ideas that we don’t worry about; it’s a new world’?

Prof. Drysdale—No. Again, I do not think you could draw that inference from what I have said.

Senator JOYCE—So what inference could you draw?

Prof. Drysdale—What I have said is that all of these other matters are matters of foreign policy interest. Specifically in respect of this issue, I said in my introductory remarks that it is important for Australia to be engaged, alongside other partners, with Chinese authorities in the management of this particular issue. So, no, I am not advocating a benign approach to this at all.

Senator JOYCE—If that were the case, we would not need a Defence Force.

Prof. Drysdale—I think my record will show that I have not advocated a benign approach to any of these aspects of foreign policy that you think dominate all other considerations in respect of the management of foreign investment in Australia. They do not. They have not in the case of all the other investors, including the United States. If we had had this conversation—as I did—in the 1950s about US investment then we would be having a very similar conversation in terms of politics and foreign policy.

CHAIR—Senator Joyce, after this we might have to go to Senator Bushby, because we still have Rio to hear.

Senator JOYCE—Sure. Let us just go to that, because that is something that is always thrown up—it is about Japan in the seventies and China in the noughties—so it is all the same. But it is not the same, is it? There was a completely different law that was in place with Japanese investment. Wasn’t it that there had to be a strategic partnership between domestic and foreign investments at that point in time? That is the case, isn’t it?

Prof. Drysdale—There was a completely different law.

Senator JOYCE—In the foreign investment, there had to be a strategic engagement with an Australian partner. I think it was up to 51 per cent. Wasn’t that the case?

Prof. Drysdale—No, I am talking about the period in which there was a surge of investment after those laws were in place.

Senator JOYCE—Can you tell me what year that law was—

Prof. Drysdale—I am talking about before there were such laws, and that was the problem. What happened in that period was that we lost market share in the resource sector. We became less competitive in the international marketplace. That was the problem. If you look back at that period carefully—and I do recommend that you look back at that period carefully—it was a period of considerable uncertainty with respect to foreign investment, not only from Japan but from other sources, into Australia. That was an experience that damaged the resource sector significantly in Australia, and that is when we moved to the robust process that I spoke about before and the establishment of FIRB. Post the mid 1970s, we have had a regime which is open and less subject to those restrictions, and that has been of considerable benefit economically and, I would say, in other terms.

Senator JOYCE—Are you saying that the development of the Central Queensland coalfields, which would have been pre 1993 and under the old rules, was at a time of immense uncertainty when we lost market share?

Prof. Drysdale—When?

Senator JOYCE—Are you saying that, under the old laws with the 51 per cent ownership, that was a period of immense uncertainty when we lost market share?

Prof. Drysdale—Yes.

Senator JOYCE—When did those laws change?

Prof. Drysdale—The second half of the 1970s. We started to gain market share through the 1980s.

Senator JOYCE—Just tell me this so that we can correlate your evidence with evidence that has already been given to us: weren't there other stages in the changes to the investment laws? Do you want to walk us through them piece by piece?

Prof. Drysdale—The main changes—and these are the relevant ones—were a move to release the ownership controls in the late 1970s and the establishment of FIRB in the 1970s. They are the main changes. Since then, we have basically had a fairly open approach to foreign investment in the resource sector. I think they are the big changes.

Senator JOYCE—I bring your attention to other evidence that has been tabled with us:

... Beijing's National Development and Reform Commission has put companies on notice that they must clear foreign takeovers with the central authorities first so as to combine corporate and "national strategic planning" interests.

Surely this shows that we are up against not market forces but a sovereign power with long-term strategic aims and that is basically corralling the whole corporate structure of the nation in a

certain direction. That is completely at odds with your belief in the corporate structure and the market tensions providing an outcome. This is a sovereign nation determining its nation's future from a centrally planned position, about which you have stated, 'We are at the cockpit of their considerations.'

Prof. Drysdale—What was your last point?

Senator JOYCE—You stated, 'We are at the cockpit of China's considerations.' I am saying that, if that statement is correct and we are at the cockpit of it, then we are at the behest of a centrally planned organisation.

Prof. Drysdale—The context in which I said that we are at the cockpit of China's consideration of investment projects abroad is the context of the rapid rise of the resource market in China. We were at the cockpit of the consideration of Japanese investment proposals in the 1970s and 1980s in the same way. That is the context in which I said it.

Senator JOYCE—The 1970s as well.

Prof. Drysdale—The process started in the 1970s but it went through the 1980s. So we are in the cockpit of China's consideration in respect of resource supplies in the same way.

There are two aspects with respect to the role of the state and approvals, and I have mentioned them both. One aspect is that China exercises control of external flows of capital. It has to control capital account; it is a process that all such proposals have to go through. There is no question about that. But considerations other than market interest considerations are at play in that, and I would put it to you that they are very limited in this context.

Senator JOYCE—What is limited?

Prof. Drysdale—Considerations other than market interest considerations are very limited in the decisions to release authority to undertake investment overseas.

Senator JOYCE—How would you know that? Have you been to meetings?

Prof. Drysdale—Because I have done research on it.

Senator JOYCE—Who told you—

Prof. Drysdale—Have you?

Senator JOYCE—I did not give the evidence. I ask the questions; you answer them.

Prof. Drysdale—Because I have talked to the authorities, I have looked at what happens and I have studied the issue.

Senator BUSHBY—Professor Drysdale, you have outlined your belief that there are a lot of benefits for Australia in terms of foreign investment. We do not have time go through those benefits in detail or to outline them. This committee has also heard a lot of evidence that there

are risks to Australia's interests from allowing sovereign wealth funds and state owned enterprises to invest heavily, particularly in energy resources. Do you think any restrictions are justifiable to ensure that we can maximise the benefits while still protecting our interests and, if so, what restrictions could be justifiable?

Prof. Drysdale—Most of the restrictions that are justifiable are restrictions that we would want to run across all investment proposals in respect of considerations of monopoly and so on and that are within the power of the regulatory authority in Australia to consider in looking at foreign investment proposals. So, yes, there are circumstances in which restrictions are relevant. I have said that. I have said that in respect of—

Senator BUSHBY—You actually said that, as decision makers, it is in our court, effectively, to decide what restrictions should or could apply, depending on the foreign investment proposed and how that might be looked at.

Prof. Drysdale—That is right. I have also said that, in the last few years, in most of the circumstances in which these investments have taken place and that we have had consideration of and the policy discussion over that there are a few that we would want to apply restrictions to.

Senator BUSHBY—Information that has been supplied to the committee suggests that China currently amounts to only about 0.5 per cent of the foreign investment in Australia. Given that it is a relatively minor player in the overall scheme of things, is it really that important that we look to China? Aren't there still plenty of other sources out there of foreign investment? I note that you did say that it was currently the primary source of foreign investment world wide. What percentage of current investment does it actually represent world wide? And how is that likely to impact on Australia's interests?

Prof. Drysdale—I would have to take that question on notice. It would be difficult to give you the answer to the last part of your question, without a lot more research. On the first part of your question, my data suggests that, as of 2007-08, Chinese investment accounts for about one per cent of total investment in Australia.

Senator BUSHBY—Is that actual investment in that year or—

Prof. Drysdale—It is accumulated stock of investment.

Senator BUSHBY—The information we have suggests that, as at 2008, it was 0.5 per cent.

Prof. Drysdale—Okay. It is in that order. It is relatively unimportant, you are right. But it is growing very rapidly, so the increment to it is likely to lift that percentage share. The important thing, as I said, is that overall foreign direct investment flows are falling very rapidly and are likely to continue to fall. China is the major source of new foreign investment abroad.

Just to get to the thrust of your question, I think the more fundamental point is that the consideration of Chinese investment in Australia has to be undertaken in the consideration of all foreign investment in Australia; it has to be seen as a part of policy towards all foreign investment. Taking specific action against China is not immune from the effects of such policy on the foreign investment environment more broadly.

Senator BUSHBY—I imagine it would also have an impact on foreign affairs—

Prof. Drysdale—Yes.

Senator BUSHBY—This is the economics committee. There is also an equivalent committee that looks at foreign affairs, and it may also have a view on some of those things.

Prof. Drysdale—I should just say on that that, at this stage, it is not a critical consideration; it is a second-order issue.

Senator BUSHBY—That is right. The argument has been put—and I note that you touched on this in the paper that gave to us—that the state-owned enterprises in China have an advantage because they have access to the Chinese sovereign reserves that have been built up. This gives them the opportunity to buy up, particularly now, when things are probably underpriced in the longer term. Does that give them an advantage as against other potential foreign investors and/or against potential domestic investors in projects?

Prof. Drysdale—It is no different from the kind of ‘advantage’ that Japanese or Korean investors had through their access to similar state funds. When a nation gives a priority to investment in the resource sector abroad by its national firms, it might from time to time extend to those enterprises funds that are submargin on commercial terms. That is the case and has been the case with Japanese investment. The point about that is that it is an advantage to Australian projects because we have access to capital on the most competitive terms through those activities. It adds to the increment of lower price capital that we have the opportunity to use.

Senator BUSHBY—In terms of adding to the lower price capital, doesn’t it also give them the ability to pay over the odds for something, because they do not necessarily need to get the same return as our commercial operators operating in Australia might?

Prof. Drysdale—That is an issue that might be important in some circumstances and certainly makes the capital from that source relatively more attractive. It is not an unusual circumstance in this business—from sources of capital other than Chinese sources of capital. It depends on the policy approach of relevant national governments.

CHAIR—Thank you, Professor Drysdale.

Prof. Drysdale—I am sorry we did not have more time.

CHAIR—That is always the problem with Senate inquiries, as the time is very limited.

[2.35 pm]

CREESE, Mr Stephen Ernest Nigel, Managing Director, Rio Tinto Australia

RITCHIE, Mr Douglas Campbell Walter, Managing Director, Strategy, Rio Tinto Ltd

CHAIR—Welcome. I invite you to make an opening statement.

Mr Creese—We do welcome the opportunity to speak to this committee today and to the submission that we have made. We believe that we have a unique perspective to offer, given our experience of working successfully with state-owned companies for more than 30 years as well as with a broad range of foreign investors. It was with Japanese companies that Hamersley Iron was able to develop the Pilbara iron ore mines. We were one of the first companies to open an office in China, and we have been working with Chinese firms since the early 1970s. In 1987, as Professor Drysdale mentioned, we established a joint venture with what is now China's Sinosteel to develop the Channar iron ore deposit. In 2001, we entered into a major joint venture Baosteel. These have been highly successful partnerships that have been trailblazers for the industry and for Chinese foreign investment in Australia. They remain fully commercial arrangements and mutually rewarding for us, our Chinese partners and Australia and China. People from Rio Tinto have also spent many years in China building relationships and their understanding of Chinese enterprises and how they operate. This perspective underpins our submission to this committee.

As you may know, Rio Tinto is a major contributor to Australia's wealth, adding significant value in the form of jobs, taxes, royalties and dividends. We employ around 15,000 people in Australia and we are the largest private sector employer of Aboriginal people, who comprise some eight per cent of our workforce. Over the last decade, we have directly invested in Australia about \$30 billion.

We believe that Australia's challenge is to continue to attract capital to support economic growth in a world where capital is increasingly competitive to find. State-owned enterprises are an increasingly significant part of the financial landscape. Australia already has positive experience in dealing with state-owned enterprises and has a robust foreign investment review regime to address any concerns. For example, neither the investment in 1982 by the government owned Korean steelmaker POSCO in the Mount Thorley mine or the Singaporean government's majority ownership of Optus through SingTel appear to have raised any concerns.

Rio Tinto supports the six principles set out by the Treasurer in February 2008 for screening investments linked to foreign governments applied on a case-by-case basis using existing decision-making processes. Clear and prompt decision making by government is critical in demonstrating that Australia is welcoming a foreign investment. In undertaking major capital transactions, time is of the essence. In our submission we suggest an approach of applying and assessing the independence criterion with respect to state-owned enterprises. Rio Tinto believes that it is crucial that these principles be applied in a way that creates a foreign investment regime that will be sustainable in a period where more capital flows are likely to come from government owned investors. The fact is that investment capital will go elsewhere, particularly in the resources sector, if it is too difficult to do so in Australia. This means that the Australian

economy will miss out on growth opportunities and that Australian businesses will lose market share to global competitors. This has occurred in the past, resulting in the creation of substantial competitors to Australian iron ore, in the case of Brazil, and coking coal, in the case of Canada, and at great cost to Australia.

The fact is that state owned enterprises have been reliable, long-term, commercially driven investors, and we have firsthand knowledge of that. We believe that there is an opportunity for Australia in the current climate to gain a long-lasting relative advantage by securing capital on competitive terms through closer engagement with SOEs, particularly with those in China. Australia is a trading nation. China is one of our most important trading partners. Investment should follow and underpin a significant trading relationship. A positive approach that sees foreign investment as an opportunity rather than a threat could underpin Australia's recovery from the current downturn and is essential for Australia's longer term growth prospects. Thank you.

CHAIR—Thank you. I would like to open the questioning by asking you a question about the effect investment by sovereign wealth funds and state owned enterprises may have on corporate governance and competition. Given that these bodies tend to lack transparency, do you think they may adversely affect competition and pricing and become involved in market manipulation? It seems to be a fairly common source of concern.

Mr Creese—I will start the answer to the question and then ask my colleague Mr Ritchie to assist. I will first take the latter part of your question, which was related to the competition issues. Having read the transcript of the session that the committee had with the ACCC, I felt that those issues were covered very comprehensively in the discussion that took place with Mr Grimwade and Mr Bordignon. Australia has rigorous competition laws. Australia has rigorous transfer-pricing laws. As the point was made by Professor Drysdale before, Australia is a sovereign nation able to protect its interests through its existing laws. Doug might like to comment on corporate governance.

Mr Ritchie—I take your point, and it is well made, about the domestic laws and capabilities that exist in Australia. But I would like to add one other comment, and that relates to the nature of an SOE. Whilst there are many, many SOEs in China, there is certainly the equivalent of the ASX 100 in China, and that is primarily with whom Australia at the moment finds itself dealing. After a considerable amount of personal experience in dealing with these SOEs, I have to say that not only do I find them commercial in their approach but I find that their standards, in terms of employment, occupational health and safety and attitudes to environment, are every bit as good as those of equivalent corporations elsewhere. I would also say that I have found that the people who manage these corporations manage them in exactly the same way as people like me manage our own corporations and they are judged in exactly the same way. That has to do with return on investment and the standards that one maintains that relate to the standards that the corporation itself sets. So I think that a lot of these fears that you express, Chair, as being around the place come from primarily, and unfortunately, a lack of familiarity with these state owned enterprises by the people who are making these comments.

CHAIR—Thank you. The most important issue that seems to concern people is pricing. If you have an owner who is also a customer, will that mean that there will be downward pressure

on pricing unless returned to Australia in terms of royalties, taxation and benefit to shareholders? Is there a conflict of interest there fundamentally?

Mr Ritchie—I do not think that is a question that can be answered simply. It depends upon a whole range of factors and primarily depends upon control and what the commercial motivations of the purchaser happen to be.

Senator HURLEY—I think, Mr Creese, you touched on the fact that the mining industry is generally fairly highly capital intensive and has long lead times. In that sense SOEs are useful because they are much more willing to look at long-term investments, so that is a very strong point in their favour. Can you elaborate for me on what problems there might be in terms of a change in government policy perhaps or a transfer to a different government section—are there any downsides in that respect?

Mr Creese—When Rio Tinto looks for a joint-venture partner coming into a project we focus on the capacity and capability of that partner to be a good commercial partner in that joint venture going forwards, so we want to try and make sure we have a reconciliation of the objectives under that joint venture. We also look at the financial security of that party. You are referring, Senator, to the lead times. With these resource projects we are talking about 15, 20, 30 or 40 years and a lot can change in that time frame. Before you embark on these you do have to have a very hard and close look at this. I think one of the things that Australia is actually good at, and we do know how to do these things, is writing joint-venture agreements. I think there is actually quite a lot of ignorance and the mining industry could actually get out there and explain a little bit more about what a joint-venture agreement is about. We have a great history as to how we go about doing these things making sure that we have the right checks and balances in those arrangements and that we put the right protections in place in terms of things such as you were referring. You will find in a normal joint venture that all those things will be covered off in some way.

Senator HURLEY—Of course I am right in assuming that a joint venture is covered by the law of the land in Australia, so it is the courts in Australia that would adjudicate on that.

Mr Creese—Absolutely and the assets remain and are part of Australia. Mining tenure is granted by the state or the Crown in the right of the particular state. Of course, everybody who takes that takes it by way of a licence or a lease subject to the terms and conditions of that. It is very closely regulated in terms of an overall industry. In fact, the mining industry is probably the most regulated of all.

Senator HURLEY—I think everyone says that! You are also very keen both in your submissions and in what you have said here today about dealing with foreign investments on a case-by-case basis. I am wondering if you could explain a bit more about your reasoning. Is that because you feel it is difficult to make a blanket comment on the types of investment to be wary of?

Mr Creese—I think it would be very difficult to come up with a regime which is sort of one size fits all because each of the proposals have unique characteristics. The flexibility of the structure that we have in Australia to be able to look at it on a case-by-case basis does allow for appropriate consideration to be given to factors in the particular circumstances of that particular

case. A hard and fast application of a rules based process would risk coming up with the wrong policy results.

Senator HURLEY—You said you approve of the extra guidelines that were put in place by the Treasurer last year. Do you see any further scope for that?

Mr Creese—We think the guidelines are a sensible list of guidelines which broadly would apply to assessment of any foreign investment. Just to come back to one of the points that was made earlier, the vast majority of the resource companies and resource operations in Australia are in fact foreign owned. Rio Tinto is a foreign owned company. BHP is technically foreign owned. In fact, our submission gives some details of all of this. We think the principles are sound. The one that we do say should be looked at when you look specifically at the question of state owned enterprises is the question of independence.

We think there is a subset of questions that really need to be asked about independence from the government from which the state owned enterprise springs. We say you have to go down to the real nitty-gritty questions of control. Can the state owned enterprise actually control operating assets through its investment? Can it actually influence and control key business decisions about such things as capital investments, product mix, production levels, pricing, contracting strategies, marketing and those things? You need to go down to that level of detail. If you answer, ‘Yes, they can,’ then you have got to say, ‘Now we understand the detail of how that might work in the context of that particular transaction, is this contrary to the national interest in terms of the way that would operate?’ So we think there is a more detailed level of inquiry than simply looking at: is it ‘independent’?

Senator JOYCE—There are so many questions I do not know where to start, but let me start here. The Treasurer’s guidelines that you just referred to: are they guides or laws?

Mr Creese—I am not sure it is up to me to answer that, or within my capacity, but I believe that they are policy guidelines as opposed to laws.

Senator JOYCE—Was any of your proposal in the Chinalco deal outside the Treasurer’s guidelines?

Mr Creese—We believe not. We set out in our submission why we believed it came within the guidelines, and also in our confidential submission to the Foreign Investment Review Board in relation to the Chinalco proposal.

Senator JOYCE—I realise it is a decision predominantly from the St James’s Square and the shareholders of Rio that the deal came to a conclusion, but were you in constant correspondence with the Foreign Investment Review Board up to that date?

Mr Creese—In the normal course of any major application we are in regular contact with the Foreign Investment Review Board. That is the normal process.

Senator JOYCE—Had they informed you that you were inside the guidelines?

Mr Creese—In particular, Senator, the principal application that was being made here was the one being made by Chinalco. We had a subsidiary application, which was linked into this, which related to reorganisation of our assets in Queensland in order to be able to facilitate the transaction. So we were not the primary proponents before the FIRB.

Senator JOYCE—From your negotiations, were there any issues that Chinalco conveyed to you where you might be outside the guidelines?

Mr Ritchie—Maybe I can answer that, Senator; I was the person who was responsible for the relationship and the negotiation and the deal. To put this in perspective, Chinalco made its original acquisition of 12 per cent of the PLC, the London entity, at the beginning of February 2008 and from then on they obviously had a lot of interaction with the Foreign Investment Review Board. We have had interaction with them in other cases, so we have a good knowledge ourselves. When the time came to actually negotiate the transaction which, as you point out, ultimately failed, both Chinalco and us were acutely aware not only of the six principles announced by the Treasurer but also generally of customer practice and what issues we needed to deal with to ensure that nothing offended those guidelines or, indeed, other foreign investment principles.

Senator JOYCE—All right; there is no trick question. So you are happy that you were within the guidelines. To your knowledge there was nothing apparent that you were outside any of those guidelines?

Mr Ritchie—Absolutely.

Senator JOYCE—Can we go to the deal structure itself. Although you were talking about 18 per cent ownership by Chinalco, was that 18 per cent across the whole of Rio or in certain sectors a greater ownership and in other sectors a lesser ownership?

Mr Ritchie—It was 18 per cent of the dual listed company as represented by 19 and a bit of PLC and 15 per cent of limited itself.

Senator JOYCE—Were there any strategic assets that Chinalco had a greater hold on, that is, nominated within the structure of the deal that their specific hold over certain assets were greater than 18 per cent?

Mr Ritchie—The assets are a separate component. We had a deal on shares as represented by convertible notes. But there were then joint-venture arrangements with respect to some specific assets.

Senator JOYCE—And some of those specific assets went up to 50 per cent, didn't they?

Mr Ritchie—One went up to 50 per cent.

Senator JOYCE—Which asset was that?

Mr Ritchie—Yarwun.

Senator JOYCE—Although the discussion in the media was 18 per cent there were some assets that were up to 50 per cent ownership by Chinalco. Would it have been possible to structure the deal so that you were underneath the Foreign Investment Review Board guidelines but Yarwun was still at 50 per cent?

Mr Creese—The answer is no. We would not have done that in any event. The Foreign Investment Review Board is Rio Tinto's most important regulator. I have had personal accountability for dealings with the Foreign Investment Review Board since 1995; I have been with the company since 1980. We make applications to the FIRB for all sorts of things which might be regarded as quite bizarrely technical but we still make those applications. We would not have sought in any way, shape or form to have avoided the application—although, as we were saying before, the principal applicant here was Chinalco.

Senator JOYCE—Would Chinalco in China have been a purchaser of the resources extracted from the ground in Australia?

Mr Ritchie—No. In no way other than they currently may be now in terms of purchasing a little bit of bauxite or other commodities.

Senator JOYCE—Is Chinalco 100 per cent owned by the Communist People's Republic of China?

Mr Ritchie—Its primary shareholder is SASAC, as I understand it.

Senator JOYCE—Is that just ipso facto the Communist People's Republic of China.

Mr Ritchie—Yes, that is the system there.

Senator JOYCE—As a related entity structure, any other company in China that is 100 per cent owned by the Communist People's Republic of China would be for all intents and purposes a related entity.

Mr Ritchie—I have heard you adopt the related entity—related party—test before, Senator. I am not sure that is an appropriate test to be applied in relation to any Chinese entity.

Senator JOYCE—What was the structure of Hamersley in your relationship? Was that with the Japanese government or Japanese corporate interests?

Mr Ritchie—Going back to when we originally had Japanese owners in Hamersley, they were Japanese corporate interests.

Senator JOYCE—Could I have gone to the Japanese share market and bought shares in those interests?

Mr Ritchie—I doubt you could have in those days. You might be able to these days.

Senator JOYCE—What year was that?

Mr Creese—It was in the late 60s.

Senator JOYCE—Was the law different at that point in time? Were you required by law to have a joint interest—that is, a 51 per cent?

Mr Ritchie—In the case of Hamersley we were required by the then Premier of WA to have foreign investment partners.

Senator JOYCE—Did in the Japanese convey to you that they were incredibly impeded or were not encouraged at all to participate in the deal because of the structure? What is the history of it? Was the structure a successful venture?

Mr Ritchie—Yes.

Senator JOYCE—Mr Ritchie, you said that the Chinese manage exactly the same way as anybody else. Once more I refer you to this document:

Further to reports this morning and yesterday of China's growing interest in foreign takeover targets like Brazil's MMX and possibly Xstrata and Vale, Beijing's National Development and Reform Commission has put companies on notice that they must clear foreign takeovers with the central authorities first so as to combine corporate and "national strategic planning" interests.

That is interesting to me. Does Australia have a like form of central planning to that?

Mr Ritchie—I think the best way to draw an analogy about what the NDRC is in our terms is that it is like FIRB except it does not just regulate inward capital investment; it also regulates outward capital investment. That is a system that the Chinese value. I do not think it is an appropriate question—

Senator JOYCE—I am just asking if Australia has outward capital investment.

Mr Creese—It used to through the Reserve Bank and the foreign exchange regulations. We used to have to go get clearances through the Reserve Bank for any form of investment overseas.

Senator JOYCE—Does the US have these?

Mr Creese—I do not believe the US does, but I—

Senator JOYCE—Does the UK have them?

Mr Creese—could not guarantee it.

Senator JOYCE—Does Germany have them? Canada? Is there any other country you can nominate that has the form of control where you have a central planning of where that nation is investing throughout the globe?

Mr Ritchie—We would have to take that on notice, but in our own business dealings we are aware of a number of countries that do have outward controls on capital.

Senator JOYCE—So it is not really the same as any other country, is it?

Mr Ritchie—I would say that no country is unique when it comes to—

Senator JOYCE—But that is not what you said. You said it was just the same as any other country, and I have just quite evidently proved to you that it is not.

Mr Ritchie—In terms of the way in which a country has sovereign powers to regulate whatever it likes to, it is exactly the same as any other country.

Senator JOYCE—As a regulator—but it does not have a regulator that has a central plan on where every part of that structure will be investing overseas. No other country but China has that.

Mr Ritchie—I do not know that they have a central plan that regulates every dollar that goes overseas.

Senator JOYCE—You talk about rigorous transfer pricing laws, and I understand exactly what you are saying there. Do you believe that in the nature of international relations there are conditions that might not be explicit but instead quite implicit, especially when there is a large discrepancy in the power structures between the two? Do you believe, to be quite honest, that there are implicit exemplifiers of that power structure which might be nominated by the defence force, foreign policy or financial power of a country?

Mr Ritchie—You are raising matters of foreign policy that I just do not believe that as a corporate we should be commenting on.

Senator JOYCE—That is fair enough. Have you ever heard of the concept of loss of face?

Mr Ritchie—Yes. I have lived and worked in Japan, China and various other places. I am very cognisant of it.

Senator JOYCE—I have seen quite a few emails that describe it to me. Obviously, with Asia there are implicit processes to a deal which are not explicit but must be understood. They are completely implicit in how you deal with them.

Mr Ritchie—I would say that is the same in dealing in many places around the world.

Senator JOYCE—On the position of reciprocity, if having a more open and robust form of foreign investment is such a great idea then why doesn't China engage in that and invite Rio Tinto over to open up and develop coal mines in China?

Mr Ritchie—In China, as part of a restructure we just sold a half ownership of an aluminium smelter that we had owned for many years.

Senator JOYCE—That is an aluminium smelter. I am saying coal mining.

Mr Ritchie—Okay. We could, if we wished, as part of the proposed transaction that we had with Chinalco, participate with substantial ownership levels—perhaps in most cases in excess of what we were proposing as reciprocal arrangements in their joint venture arrangements with us—in significant exploration and development projects in china. This argument of reciprocity, I must say, I am struggling to understand in the context of what we were proposing with Chinalco.

Senator JOYCE—Can you direct me to a major foreign owned coal mine in China?

Mr Ritchie—I know that Occidental built and developed one in the eighties. Whether it is still foreign owned I do not know, but that was a major coke and coal mine. In those days the total investment probably cost about \$300, which in today's dollars would be a massive mine.

Senator JOYCE—So you would say that there is the capacity for BHP or anybody else to get an entree into the Chinese coalmining market? There would be no sort of impediments put up against them?

Mr Ritchie—In relation to coal specifically, I really cannot answer you. I know that the joint ventures that we were proposing related to coking coal and to copper. In respect of other commodities, I really cannot tell you anything.

Senator JOYCE—So it is a joint venture.

Mr Creese—I can add to that. I was working with an Australian consortium that was going to get involved—and did proceed—in an onshore gas and oil exploration deal on Hainan Island in 1983.

Senator JOYCE—If Minmetals completes their OZ Minerals takeover, which I imagine they will, what percentage of Minmetals will be Australian owned at that stage?

Mr Ritchie—I cannot answer that.

Senator JOYCE—The answer is zero.

Mr Creese—If I may, I have heard that there was some discussion of a possible relisting and refloating of that company in Australia.

Senator JOYCE—‘Possible’. Where did you hear that?

Mr Creese—I read it in a newspaper.

Senator JOYCE—What percentage of the shareholding would that be?

Mr Creese—There was no mention of that.

Senator JOYCE—Was that to do with Prominent Hill and other interests or was that to do with the Minmetals purchase of the goldmines in Tasmania and what was formerly Century Zinc?

Mr Creese—I do not recall.

Senator JOYCE—You also referred to SingTel and Optus. I suppose the difference there is that, if we lose a telephone company, we can build another one. That is completely different to minerals in situ, in the ground, and life-of-mine contracts. Do you equate Optus and SingTel with the ownership of what has been the predominant provider of wealth for this nation—that is, our ownership of and connection to the mineral base of our nation?

Mr Ritchie—Again, I think that, with respect, it is an overly simplistic question—

Senator JOYCE—You can be as hard on me as you want. It is your right.

Mr Ritchie—on a very difficult issue. One of the reasons that this has attracted so much prominence is the transaction which we were proposing with Chinalco. In all honesty, it contained no control, direct or indirect, of Australian resources being vested in the Chinese. To try and run an argument that has as its basis control issues when in fact there were none is illogical.

Senator JOYCE—You drew the analogy with SingTel. What portion of the telecommunications market does Optus have?

Mr Creese—We are not able to help you with that, Senator.

Senator JOYCE—I think it is about 10 per cent; it is pretty minor.

CHAIR—Eight, I think.

Senator JOYCE—It might even be that; it might be less than that. What portion of the minerals market in Australia is Rio?

Mr Creese—You really have to look at it commodity by commodity.

Senator JOYCE—Well, let us talk about it. Let us start with coal.

Mr Ritchie—I can answer that, because I used to run our coal businesses.

Senator JOYCE—I was hoping you could, Mr Ritchie.

Mr Ritchie—About 24 per cent.

Senator JOYCE—About 24 per cent of the coal market. Mr Creese, if Chinalco had ended up with 18 per cent of Rio, even though we have now discovered—well, we have always known it;

I just wanted it on the record—that there were certain assets that they would have 50 per cent ownership of, who would have been the next biggest shareholder under them?

Mr Ritchie—One of the major institutions.

Senator JOYCE—What percentage of shares would they have held?

Mr Ritchie—Five or six.

Senator JOYCE—Is that Legal and General?

Mr Ritchie—Let us take it on notice. In the same way that you are suggesting a number for market share, we are just going to generalise.

Senator JOYCE—Roughly, I remember looking through the share registry and to the best of my knowledge Legal & General or somebody came in at about three or four per cent. In essence Chinalco would have been three to four times bigger than the next biggest shareholder. Did they have any discussions about who would be elected to boards and who would not be elected to boards? Did they have an interest in who was going to be a board member?

Mr Ritchie—I think it was published.

Mr Creese—Yes, the whole thing was published in terms of the details.

Mr Ritchie—What was published was that they would have the ability to nominate two directors to the nominations committee and for the nominations committee to determine whether to accept one of those directors it had to be an independent director and meet the independence tests as per the ASX and the LSE listing rules.

Senator JOYCE—But they could have voted for the rest. They did not lose their voting rights for all the other directors did they?

Mr Ritchie—No.

Senator JOYCE—It is a pretty powerful voting bloc.

Mr Ritchie—I suppose if you have invested a very large sum of money into a company, which by that stage would have been something like \$38 billion, then some stewardship would be appropriate.

Senator JOYCE—At the last shareholders meeting what actual percentage of shareholders voted?

Mr Ritchie—I cannot answer that.

Senator JOYCE—Because they do not always vote do they? In fact in a lot of times shareholders do not vote.

Mr Creese—It depends on the nature of the resolutions put up. The average shareholder turnout is in the order of 60 to 65 per cent. It depends on the particular resolution.

Senator JOYCE—That is interesting because now your 18 per cent is actually in effective terms getting to 25 to 30 per cent of the effective control of the company.

Mr Creese—That is if people do not exercise their rights.

Senator JOYCE—And a lot of them generally do not.

Mr Creese—Our statistics show that it depends on the nature of the resolution as to what the turnout is.

Senator JOYCE—This then turns it into a very powerful voting bloc with immense capacity not only to influence the two directors that they have but also to influence the other shareholders that—let us be honest—without whose vote they do not get in.

Mr Ritchie—I understand theoretically what you are saying. What I am struggling with is in what way this has some bearing on foreign investment.

Senator JOYCE—What I am saying is basically the strike limit at 15 per cent sometimes can be completely erroneous. A person can have a massive effect on the operation of a company, especially with the advent of Chinese sovereign wealth funds in the market. If I were Chinese, I would be doing exactly the same thing without a shadow of a doubt. I would be gunning for it. Fifty-one per cent is not the magic number. The magic number is when I have the capacity to influence the election of the directors and also the direction of the company because I am by far and away the biggest shareholder.

Mr Ritchie—With respect, again I just do not think you can pick one aspect of governance and presume, without looking at all the other aspects of the transaction or of the governance that goes towards it, that it has some disproportionate view. If they had, as they did, excused themselves from marketing and pricing decisions, if they had, as they did, excused themselves from various other forms of minority protection, which are just normal in joint ventures, then their level of influence in the organisation was an awful lot less, or would have been an awful lot less, than other comparable transactions. The fact of having one director out of a board of some 15 or 16 does not seem to me to give them very much control. The fact that they have no control over the day-to-day operating decisions, pricing decisions, marketing decisions or expansion decisions of the company sort of says that they have not got a lot of control there. I am struggling to pick one thing and to say that, because that is the case, then everything else is bad.

Senator JOYCE—Mr Ritchie, I disagree that you do not have a job unless I vote for you. I do not have to tell you anything; you just have to know that you had better behave yourself, otherwise you are going to be finding yourself another job at the next election of directors.

Mr Ritchie—I do not think that is the case at all.

Senator JOYCE—Just for the record, thank you very much for turning up. If the Chinese government genuinely believed in the corporate principle and that decisions be made on a

corporate interest, they would float the companies and allow people to buy and sell shares as they wish and make decisions in the short term as to the corporate interest. But by reason of the government owning a company, they own it for a purpose—they do not own it for fun—which is the long-term, strategic outcome for the people of China as represented by the Communist People's Republic of China's government. If they believed in the short-term corporate interest, then they would surely float the companies, as every other nation around the world has done.

Mr Ritchie—I have two comments. One is that they have already said that as a matter of policy that is their intention with their larger SOEs. The second point I want to make—and this is just from my personal experience but I think that it is relevant for an inquiry of this nature—is that China well recognises its need to be able to engage with the Western world and with the Western capital markets. In their dealings in terms of putting the proposed Rio Tinto-Chinalco transaction together we were extremely cognisant that this would be viewed not just in terms of getting it across the line but also in terms of how they would interact with Western capital over a long period of time. It was only by then coming away and Western capital and Western governments having a decent view about the way in which they behaved, that further transactions were capable of being done. My view is that Australia, as well as other Western countries, needs China an awful lot and we need to be finding a way to engage properly and meaningfully with China going forward, because otherwise it is not going to be a very good thing for Australia.

Senator JOYCE—I have just one final question. You talked at the start about a \$30 billion investment over a certain period of time. What was the period of time?

Mr Ritchie—Since 1998.

Mr Creese—The last decade.

Senator JOYCE—Can you tell me how much revenue you have made in that period of time?

Mr Ritchie—Sourced out of Australia? I would have to take it on notice, I am sorry.

Senator JOYCE—Thank you very much.

CHAIR—I thank the witnesses from Rio. Senator Bushby had to leave because he had a flight to catch. I would like to thank the secretariat, Hansard and all the witnesses for attending here today, and I close this session of this inquiry. Thank you.

Committee adjourned at 3.18 pm