



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

ECONOMICS REFERENCES COMMITTEE

**Reference: Foreign investment by state owned entities**

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**SENATE ECONOMICS  
REFERENCES COMMITTEE**

**Monday, 10 August 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, Wortley

**Senators in attendance:** Senators Eggleston, Heffernan, Hurley, Joyce, Pratt and Xenophon

**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 3.50 pm****ZUMBO, Associate Professor Frank, Private capacity**

**CHAIR**—I declare open this fifth hearing of the Senate Economics Committee inquiry into foreign investment by state owned entities. On 18 March 2009 the Senate referred to the Senate Standing Committee on Economics the international experience of sovereign wealth funds in state owned companies, the role and the acquisition of significant shareholdings of corporations, the impact and outcomes of such acquisitions on business growth and competition, and the Australian experience of foreign investment via sovereign wealth funds and state owned companies in the context of Australia's foreign investment arrangements. The committee is due to report by 17 September 2009.

These are public hearings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera. I remind all 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 a committee.

If a witness objects to answering a question the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may, of course, be made at any other time. A witness called to answer a question for the first time should state their full name and the capacity in which they appear, and witnesses should speak clearly and into the microphones to assist Hansard to record proceedings. Mobile phones should be switched off.

**CHAIR**—I welcome Associate Professor Frank Zumbo to these hearings. Professor Zumbo, do you wish to make an opening statement?

**Prof. Zumbo**—Yes, just briefly. Thank you, again, for the opportunity to appear on this second inquiry. I have some opening comments. I believe that there are three categories of issues that are raised within this inquiry in relation to foreign investment, and I will say that generically. I understand that it is in relation to state owned foreign enterprises and so forth, but also sovereign wealth funds. Within that context, I perceive three possible dangers from an Australian point of view. Firstly, there are corporate governance dangers of this type of foreign investment; secondly, competition dangers of this type of investment; and, thirdly, there are the national security issues.

In relation to corporate governance dangers, I have looked at this area very carefully and one thing I found was, ironically, a lack of information. While I was looking for this information I could not find comprehensive information on the size, scale, source or management of these vehicles. It is very hard to find the names of management of state owned enterprises, management of sovereign wealth funds or the size. One is left to look at tables compiled by magazines like *The Economist* from time to time. It is very hard to find information about the scale of these activities.

Obviously there is secrecy surrounding some of these vehicles, and that is detrimental. In Australia, in terms of office holders of corporations, their names are available on the register and so forth. Generally, we do not have that in relation to these foreign enterprises.

There may be links with government agencies, secret service or military, of the foreign country. We do not know. As I said, there is a lot of secrecy surrounding the size, source and management of these sovereign wealth funds.

The other issue I consider important under corporate governance dangers is if you have board members appointed by the foreign owned enterprise. That person may have divided loyalties towards the target company or the Australian company and the foreign country that appoints them. This notion of a separate legal entity is well established in our corporate law system, but it may not be so well established in other legal systems where if you sit as a board member you have a duty to that company solely. This issue of divided loyalties is being dealt with under corporate law in Australia, whereas the person may have those divided loyalties and it may be hard to pin those down.

In terms of the competition dangers, the concern is that there might be discriminatory pricing practices that may be implemented, so if a foreign owned enterprise—state owned company—has an ownership stake in a resources company in Australia, let us say for example, that may allow it to get preferential pricing. The problem then is that if the foreign owned enterprise gets preferential pricing then that may raise rivals costs and the target company has to make up the money somewhere else. There could be that element of price discrimination between ordinary Australian customers and the state owned enterprise.

There may be vertical integration of the state owned enterprise, so the manufacturer of steel, for example, may vertically integrate back to supplies and raw materials. That then gives that vertically integrated entity greater market power which they can exert both nationally and internationally.

Creeping acquisition is also an issue. I did find, when researching the area, that Chinese state owned companies, for example, were buying strategic shares in minerals companies around the world, so slowly building up their presence in a particular minerals sector which can give them greater pricing power, so there are competition issues.

The national security issues are the level of potential political interference or influence, perceived or actual. As there is a lot of secrecy surrounding these foreign owned enterprises we do not know how much influence the government or security agencies in that foreign country may exert.

Once again, there is a lack of transparency and perhaps even accountability regarding who owns these state owned enterprises, who is the guiding mind behind these enterprises, and then in terms of competition dangers about the creeping acquisitions, vertical integration and raising rivals costs. Those are just a few opening remarks.

**CHAIR**—Thank you. One of the key rationales for foreign investment is that the Australian capital market has been fairly shallow, so traditionally since the 1800s we have needed foreign investment to develop our mining industry, and things basically have not changed. Would you

agree with that? Are we still very dependent on foreign capital to develop major resource projects?

**Prof. Zumbo**—Absolutely. We are relying on foreign investment. Foreign investment certainly has enormous benefits, but we have to weigh that up against the costs and, in accepting those benefits, we need to be mindful of the cost.

One thing that has happened more recently over the last 20 or 30 years is the growth of these sovereign wealth funds, state owned enterprises. When we had Japanese companies buying into the Australian mineral sector they were privately owned corporations, and that ownership interest comes and goes with the interests of the particular private company. With state owned enterprises it is different. Those stakeholders are more long-term and there are other agendas. For example, China clearly needs access to resources to develop so, when a state owned enterprise from China invests in Australia, it is going to be very long term and it is very unlikely that they will ever divest themselves in the same way that some of those private Japanese companies have. That is not to say that private companies will not stay for a longer term, but it is almost unheard of that a state enterprise will pull out, unless there are other agendas. There may be political payback, for example, to punish a particular target nation and destabilise the impact of capital inflows. They are the broader issues that have emerged in more recent times. We certainly need foreign investment, but if we have it there needs to be transparency about who ultimately owns that foreign investment.

**CHAIR**—That is a fair point, that we need transparency about ownership. We have actually had Chinese sovereign wealth funds or state owned enterprises operating in Australia since the eighties when Rio, Chinalco and Sinosteel jointly developed the Channar iron ore mine in the Pilbara.

**Prof. Zumbo**—It is becoming more intensive.

**CHAIR**—Isn't the development of sovereign wealth funds, state owned enterprise investment, just another investment vehicle? We still own the minerals; they are still in the ground here; we control what happens. If we do not want them to be exported, we do not let it happen. The control mechanism, in the end, is the Foreign Investment Review Board, or the Treasurer, and that clause which says that they should act in the national interest. Is that not broad enough to cover any situation?

**Prof. Zumbo**—In theory, yes. The national interest should be broad enough to cover it, but you have to be mindful of the issues like sovereign risk. If Australia invites foreign investment and then starts curtailing the way that foreign investment is used—if we say that mine has to be shut down or a percentage of those resources cannot be exported—that impacts on Australia's sovereign risk as a place to invest. While we may have the legal power to do something, that legal power is conditioned by the way the world will perceive Australia as an investment destination. Although we may have the legal power, we may hesitate to use that legal power because we are concerned of scaring off foreign investment. The practicality may be that we will not enforce those rights as vigorously as we would like to because foreign investment might be frightened of Australia.

**CHAIR**—I saw in the paper today that the Foreign Investment Review Board's rules have been relaxed a little to make it easier for foreign investment to occur in Australia. Do you have a comment about that?

**Prof. Zumbo**—I am very nervous about that. One figure that I saw is that about 20 per cent of applications that the board is looking at currently will not be subject to the same scrutiny. I think scrutiny is important. You do not know if there is a problem unless you scrutinise and look very carefully. If we relax the rules such that 20 per cent of applications will no longer be considered by the board, we lose an element of market intelligence that we have now about the destination of this investment. Mind you, the board is not there to stop investment and we know their track record is to recommend foreign investment, but it is important to have that layer of scrutiny there so we know who is behind this investment, whether people are aggregating investment and are their particular sectors that have been identified by these foreign individuals. Let us invite these foreign individuals to invest, but let us keep a watchful eye on where they invest, how they invest and the scale of that investment.

**Senator HURLEY**—You were saying that you have looked very carefully at this issue, but is your expertise more in the consumer affairs area?

**Prof. Zumbo**—My expertise is competition and consumer law. I have had expertise in corporate issues and taxation issues. Where I feel that I can add some value I make comments in those areas. I also have an expertise in business ethics and corporate governance issues, teaching of course at the University of New South Wales. The corporate governance issues, in terms of transparency, cut across Corporations Law. We talked about transparency in the earlier inquiry in trade practices, so in terms of greater transparency, that is a common theme.

My expertise is competition and consumer law. Competition aspects are very much the focus of this submission.

**Senator HURLEY**—We have had some quite detailed submissions from people who have covered this area of foreign investment, sovereign wealth funds and state owned enterprises, and most of those people seem to have no problem with what is occurring.

**Prof. Zumbo**—They are entitled to their opinion and you need to know, obviously, what vested interest they represent or do not represent. I am concerned about the competition consumer law issues from an Australian perspective. Just because they have said that there is nothing wrong does not suggest to me that everything is okay. I believe there are issues and all I am trying to do is encourage a debate.

**Senator HURLEY**—Let us go through your objections in corporate governance dangers. You have said that SWFs and SOEs are generally operated by their respective governments in a secretive manner. What do you mean by that?

**Prof. Zumbo**—All I can do is relay my research in the area, in trying to find information about the ownership of these funds, how big they are and who controls them.

**Senator HURLEY**—We have a submission here today from Malcolm Cook and Mark Thirlwell that goes into quite a lot of information about who owns them and how big they are.

**Prof. Zumbo**—There is public information available on that. I have said that magazines do, from time to time, provide that information. That submission may have access to other more extensive information. I am relying on publicly available information.

**Senator HURLEY**—Because you have not been able to find the information you are saying that it is the governments that are secretive.

**Prof. Zumbo**—Let us put it in the positive. We need greater transparency. I think what I am saying there is that greater transparency is better than less transparency. I have looked very long and hard to gain this information. The information is there in piecemeal fashion. You have to construct it over a long period of time. I think there is an interest in having greater transparency where that information could be freely available. I am sure it would be available to FIRB, but that probably would be confidential. Some of the information may be confidential and may be sensitive, but in terms of understanding the size, I have just relied on publicly available data and from that I would like to see more data.

**Senator HURLEY**—You state:

Little is generally known of the internal operation of the funds or the state owned companies, as well as the actual or potential relationships between the management of the funds/companies and individual members of the Government or other Government agencies, especially the intelligence and/or military services of the countries sponsoring the funds/companies.

What makes you think that intelligence or military services may be involved?

**Prof. Zumbo**—If you look at some countries around the world and you look at their system of government, you will see that there is sometimes a link with the military and the military have a role in running business enterprises. I do not want to mention particular countries, because this is not about particular countries, this is about the issue of needing to know what those—

**Senator HURLEY**—We are talking about state owned funds, not corporations owned by military people.

**Prof. Zumbo**—There may not be much of a difference between the two in some countries. The reality is that in some parts of the world—

**Senator HURLEY**—I know you do not want to name countries, but it is a bit much that you make these statements without specifying.

**Prof. Zumbo**—Let me explain it this way. In some countries around the world the nature of relationships is very much part of business. The Chinese have a famous expression for that in terms of relationships. Knowing people is very important, who you are connected with and access to government. Yes, it is important in Australia too, but in some of these other countries around the world those relationships are much more critical to the way the government operates, to the way business ventures are undertaken, where the military personnel may have an interest in business organisations. I raise it as an issue. If you believe that there are no links to the military, that is a view that you may be able to form, but I am sceptical.

**Senator HURLEY**—I am interested in facts, and that is what the committee is trying to ascertain. You also state:

... sovereign wealth funds and state owned companies are increasingly taking controlling of influential interests in Australian target companies in strategic industries such as energy and resources.

What kind of figures do you have for that?

**Prof. Zumbo**—When this submission was written it was in the context of Rio Tinto and what have you. Having looked at the level of influence that Chinese state owned enterprises were trying to exert in the mineral industries around the world, I could see that had grown substantially. I am happy to provide you with numbers from those publicly available sources. I cannot quote you numbers today, simply because I do not have them at the ready. I did see a clear trend between the state owned enterprises buying into strategic shares in minerals and energy. I watched oil very closely. China has taken a considerable interest in oil around the world, particularly in Africa, and that is just the tip of the iceberg.

**Senator HURLEY**—You also state:

... there is a clear risk that the legal concept of an Australian target company being a separate entity may not be well understood or strictly adhered to by persons or entities closely linked to a sovereign Government through sovereign wealth funds and state owned companies.

Senator Eggleston said that we have had people operating in Australia on behalf of state owned enterprises for some time now. Do you have any evidence that this is the case?

**Prof. Zumbo**—I have raised that as an issue, given the size of the state owned enterprise investment in Australia is growing. There will be directors appointed who may have divided loyalty.

**Senator HURLEY**—They may have. You have no clear evidence or understanding.

**Prof. Zumbo**—I have not drilled down to the level of naming individuals and I do not think that it would be appropriate for me to name individuals.

**Senator HURLEY**—On what basis do you make that statement?

**Prof. Zumbo**—My review of the literature in this area.

**Senator HURLEY**—Which literature is that?

**Prof. Zumbo**—Magazine articles, journal articles and newspaper reports. You piece this together over a period of time. There are academic writings in the area. There is a whole literature in this area.

**Senator HURLEY**—The second issue you raise is competition dangers and you state:

Dangerous for competition this influence could lead to the Australian target company implementing discriminatory price practices ...

Would that not be subject to Australian regulations and laws?

**Prof. Zumbo**—Yes, but the relevant section 46 of the Trade Practices Act that deals with price discrimination has a very high threshold of substantial market power.

**Senator HURLEY**—Nevertheless, they have been operating under the same rules that Australian companies are operating under.

**Prof. Zumbo**—That is not to say that the law does not need to be strengthened.

**Senator HURLEY**—But that is not to say that an overseas company is worse than an Australian company.

**Prof. Zumbo**—And therein you have identified a particular problem. We do have price discrimination in this country that is distorting competition.

**Senator HURLEY**—You also stated:

... competition can also be dampened where, for example, the state owned company acquisition of a controlling or influential position in the Australian target company is part of a strategy to vertically integrate.

Again, that is not only a state owned entity that can do that kind of thing, it can be any kind of investment, whether domestic, foreign or any other company. That is not particular.

**Prof. Zumbo**—You have pointed out something I have said all along, that these issues are much broader. I have expressed my comments in relation to the terms of reference of this inquiry and specifically mentioned state owned enterprises, but you are quite right in suggesting that is an issue across the economy.

**Senator HURLEY**—Do you have any evidence that foreign investment or state owned entities, in particular, are any worse at this in the range of things than other companies?

**Prof. Zumbo**—Worse or better is a judgement call. In the context, I believe, it is at least equal to an issue in other sectors of the economy. What happens is that they will vertically integrate and then they will have very sensitive information about negotiations for buying and selling of that raw material, for example. They may be privy to information about competitors. They may be able to raise competitors' costs. It is a much more sophisticated issue.

**Senator HURLEY**—You also state:

Given the scale of proposed acquisitions it is clear that sovereign wealth funds and state owned companies have access to sums of money far in excess of any sums able to be generated by private commercial interests. In turn, this gives sovereign wealth funds and state owned companies a level of power and influence that surpasses that of even the largest multinational corporations or private equity investors.

Have you got data to back that up?

**Prof. Zumbo**—I am very happy to provide that. Where I was coming at there is that China has identified the purchase of oil, for example, as a strategic asset that needs to be acquired, so around the world they have spent a lot of money buying assets in particular African countries in terms of getting that access to oil. If a country like China believes that oil is essential to its economic growth it will devote sufficient resources from its budget to acquire that resource.

**Senator HURLEY**—I would like to read from a report prepared by Malcolm Cook and Mark Thirlwell who will be with us later today:

Sovereign wealth funds (SWFs) are a striking manifestation of this move towards state capitalism and away from the Washington consensus. The twenty largest SWFs are all based either in major resource exporting countries (including Australia and its growing Future Fund) or in East Asian economies with large stocks of foreign exchange reserves. The IMF estimates that SWFs could grow to control about US\$12 trillion by 2012, four times as much (nominally) as they control now.

That backs up your view that they are increasing. They continue:

SWFs already control more than hedge funds and private equity ones together but are still significantly smaller than pension funds or mutual funds. The global expansion of major state owned enterprises like Malaysia's Petronas and CNOOC, often in response to rising resource prices and resource security concerns, is another new dimension in the global economy.

You have concerns about sovereign wealth funds and state owned entities, but do you have any concerns about pension or mutual funds?

**Prof. Zumbo**—I am not sure if you were on the committee, but I made a submission on private equity investment where I raised those particular concerns last year. Similar concerns that I have raised in this submission, I raised in relation to private equity.

**Senator HURLEY**—National security dangers?

**Prof. Zumbo**—No.

**Senator HURLEY**—Military?

**Prof. Zumbo**—That is because we probably know a little bit more about the pension funds, but at the end of the day they are owned by employees. Some of the biggest ones are from the United States and there is a lot of information that those pension funds voluntarily provide. In fact, the Californian Pension Fund provides an extensive amount of information about all their investments. It is very detailed information on all of those investments. I think you would have to search high and low to find that sort of detail that the Californian Pension Fund provides in relation to sovereign wealth funds providing that level of disclosure.

**Senator HURLEY**—Basically, your view seems to be targeted. You are saying that you have these problems across the board, but you are talking about the dangers of state owned companies in particular. How would you separate them out in terms of foreign direct investment?

**Prof. Zumbo**—My view in terms of competition and consumer law regulation is that you should have a generic framework that applies. I am not ordinarily a fan of industry specific regulation. To answer your question, if you believe that I am suggesting a particular framework for just private equity or a particular framework for just foreign owned enterprises, no I am not, because I do believe that by joining the dots these issues are relevant across the economy. Therefore, we need a national generic framework that applies across the board because if you have industry regulation that may create distortions within that particular industry, so you have to try to apply the framework across the economy to minimise those distortions.

**Senator HURLEY**—Therefore, you are arguing that they should not be treated any differently from any other company or investment, you are arguing in terms of competition policy.

**Prof. Zumbo**—I am suggesting that they all should be treated equally, whether they be private equity, sovereign wealth funds or major Australian corporations.

**Senator HURLEY**—I will leave it there, but that is certainly not the impression I got from your submission.

**Prof. Zumbo**—Can I respond?

**Senator HURLEY**—Yes.

**Prof. Zumbo**—I gave a submission that related to the terms of reference. If you look at my submissions over a period of time, the points I make are common across those submissions. I am very mindful to look at market structures across the economy. I am not about taking a snapshot view of one sector to the exclusion of others, because in my experience I have found that the issues are common across sectors.

**Senator HURLEY**—Thank you.

**Senator HEFFERNAN**—I would like to ask one question. I apologise that I have been in an energy thing all day. There was an announcement the other day on the Foreign Investment Review Board. I am chairing an inquiry looking at the coalmining and the floodplains where Shenhua and those sorts of people paid, it appears to me, three times the price for their exploration rights. When I asked them why they did that they said, ‘Because we wanted to make sure no-one else got it.’ They paid \$300 million for something that they probably could have got for \$100 million. By the way there was acquisition of land involved in that—the farms—for which they are paying three times the price. In view of the remarks by the government the other day on giving an exemption of up to \$200 million from Foreign Investment Review Board scrutiny, does that make a lot of sense? If you were a smart company could you then not say, ‘We can get \$200 million here and we’ll just break this up into several companies’? You could put \$1 billion together through five entities. Shenhua is 68 per cent owned by the sovereign government funds in China. It is not a conspiracy. It is like the Tax Act. You change the law and the accountants get around the new law. Isn’t that just inviting trouble?

**Prof. Zumbo**—Yes. It is something like the anti-avoidance mechanisms. All we have at the moment are public statements by the Treasurer, and they do not provide any level of comfort. I

imagine the Treasurer and the Treasury office have thought about those avoidance type issues in the same way you would worry about anti-avoidance issues in taxation. I would be looking forward to seeing those anti-avoidance structures and mechanisms in place because, yes, you could easily get around it. It is so easy that I would imagine that the Treasurer has got some anti-avoidance mechanisms up his sleeve. Certainly, in terms of the level of scrutiny, it does trouble me, as I said earlier, about allowing 20 per cent of these investments not to be scrutinised at all.

**Senator HEFFERNAN**—Why is that? Do they not have the resources to do it? I can tell you that \$200 million worth of agricultural land is a lot of land, given that in 50 years time 50 per cent of the world's population is going to be poor for water with one billion unable to feed themselves, 30 per cent of the productive land of Asia will go out of production, and the food task will be doubled with 1.6 billion people possibly displaced. If you do not have to have scrutiny on up to \$200 million in one parcel, that buys you a lot of farming land.

**Prof. Zumbo**—Absolutely, and that is what worries me.

**Senator HEFFERNAN**—This is cuckoo.

**Prof. Zumbo**—That does worry me because a lot of the Australian economy, strategic shares of the Australian economy or businesses in the Australian economy, can be purchased and there will not be that level of scrutiny that there currently is in the future. That is troubling, because whether you do anything about it is one thing, but not knowing what is going on is asking for trouble, as you quite rightly say.

**Senator HEFFERNAN**—I would hope that this committee would take that on board and do something about it. Thank you.

**Senator PRATT**—You noted concerns that 20 per cent of Foreign Investment Review Board applications will no longer need review, but I wanted to ask if the screening thresholds are not indexed then surely that is going to become more restrictive over time in any case?

**Prof. Zumbo**—That would be premised on the assumption there is something wrong with that. I think more scrutiny is better than less scrutiny. If it is causing undue burden then obviously we need to review that, but when you knock out 20 per cent, that is a fair chunk in one hit.

**Senator PRATT**—You have outlined a series of concerns in your paper that you have submitted. Surely we need a regulatory system that is able to scrutinise things, irrespective of the source of the funds.

**Prof. Zumbo**—Absolutely.

**Senator PRATT**—What kind of things would you point to so that we can be fair and even-handed in the way we regulate these things?

**Prof. Zumbo**—It becomes more difficult in relation to state owned enterprises because you are dealing with a company from another jurisdiction and imposing corporate regulation on them in another jurisdiction. You could have in Australia that if you invest in Australia there should be

a public register of the ownership of that sovereign wealth fund, the management positions and as much information that you could provide on a public register that anyone can review, and that would be a condition of approval for foreign investment. That may be a way to get that increased transparency.

**Senator PRATT**—We should not necessarily be biased against any particular kind of economy because everybody is different.

**Prof. Zumbo**—No. We have share registers in Australia. I would see having a register of interests of management and links to governments in relation to sovereign wealth or pension funds and that could all be in one place.

**Senator PRATT**—Thank you.

**CHAIR**—Senator Pratt, have you finished?

**Senator HEFFERNAN**—The other day I was in Gunnedah with a coal mining company that shall remain nameless. They said, ‘Senator, we’re the same as BHP.’ I said, ‘Are you?’ I said, ‘I could actually go along to a BHP meeting and get rid of the chairman or the board or make a fuss, but you are 68 per cent owned by the communist regime of China. How do I get rid of you?’ You cannot.

**Prof. Zumbo**—That is not just in China.

**Senator HEFFERNAN**—Having just been to Canada where they fought the wars over the fur trade internationally a couple of hundred years ago, why would we surrender our sovereignty? There is a bloody big difference if it is sovereign money to control. They paid \$300 million for something that the market thought was worth \$100 million just to blow everyone out of the market. Good luck to them.

**Senator PRATT**—These big private monopolies can have an equally substantial impact.

**Senator HEFFERNAN**—You can go along to a board meeting where you can organise a shareholder revolt, but unless you get an army with rockets and cannons you cannot do anything in the case of that sovereignty.

**CHAIR**—That is a good point that you have made.

**Senator PRATT**—I wanted to deal with the question of patent acquisitions which you raised. In your view, how do we deal with the notion of substantial interest in regard to patent acquisitions?

**Prof. Zumbo**—That is where I bring it back to an approach to creeping acquisitions in the earlier inquiry. I think we need to look at the test for creeping acquisitions. I think the proposal that the government has put before the public for discussion looks at substantial market power. I believe that threshold is too high and will only stop a handful, if it ever stopped anything at all. The threshold is just too high. I think we need to put in acquisition laws that are effective in stopping that patent acquisition.

**Senator PRATT**—In that sense, you might have state owned entities that might be quite distinct, but you have to ask yourself whether they have the same controlling interest within a country that would be the equivalent of an acquisition from a very large single commercial interest.

**Prof. Zumbo**—Yes, and you would have to know whether they have coordinated those different interests from so called different ownership positions. They may coordinate. They may give rise to cartel or collusion type issues, which is another area. Once again, we need effective laws against those patent or creeping acquisitions because otherwise they slip under the radar and, before you know it, they have a very strong share of the market.

**Senator PRATT**—Thank you.

**CHAIR**—We thank you for your appearance today, Professor Zumbo.

**Prof. Zumbo**—Thank you.

[4.28 pm]

**COOK, Dr Malcolm, Program Director, East Asia, Lowy Institute for International Policy**

**THIRLWELL, Mr Mark, Director, International Economy Program, Lowy Institute for International Policy**

*Evidence was taken via teleconference—*

**CHAIR**—We now call the Lowy Institute for International Policy who should be on the teleconference line. Are you there, Lowy Institute?

**Dr Cook**—Yes, we are.

**CHAIR**—I welcome you. I am Senator Eggleston, the chair of this committee. We also have Senator Hurley and Senator Pratt. Senator Barnaby Joyce, Senator Xenophon and Senator Heffernan were here and may return, so it is possible they may ask you questions. Would you like to make an opening statement?

**Dr Cook**—Yes, I will start. Then I will ask my colleague, Mr Thirlwell, if he has any additions and then we can move to questions. Thank you for the opportunity to discuss with you foreign investment by state owned entities.

Our opening statement is really quite short, as was our submission, because we think the existing regulatory framework before an investment review board and within that the differentiation made between private sector for an investment into Australia above 15 per cent and foreign investment by state owned entities is justified. Our basic view is that it is not broken so there is no real need to fix it. I guess one of the things that is a bit different to standard economists' presentations which may be more critical of any government role in foreign investment, last year we did some opinion polling asking Australians what they thought about foreign investment into Australian companies and then particularly by state owned enterprises, and the results were quite resounding that the Australians thought that the federal government should have a say in those types of investments and that they were not very favourable towards them, so there is a distinct political dimension seemingly among the Australian electorate in favour of Canberra maintaining some role of investment review. Mr Thirlwell, do you have anything to add?

**Mr Thirlwell**—As Dr Cook said, and I am in complete agreement, we think that the current system actually works pretty well, including to the extent of recognising that state owned investors are different and should be treated as such. We have no problem with that or the review process. A couple of nuances or qualifications to that statement are while we think that ownership matters and the fact that you have a state owner or a state controller matters, that does not necessarily mean that you have to block that investment, it just means that you have to subject it to review and there a whole host of policy measures you can take short of blocking, including adding restrictions or requirements through the process or through using the existing policy regime, whether it is the tax regime or the competition regime, that can address most of

those issues. As I said, the key point is the one that Dr Cook made, that we think the current regime works pretty well and that the criticisms that have come from both sides, those people who say that it is far too tight and needs to be liberalised and those people who say that it is too loose and inadequate to deal with Chinese investment, we think both sets of criticisms are misplaced.

**CHAIR**—Thank you for that comment. One of the things that is a fact of life about foreign investment is that we have had it since the 1800s in the resource industries in Australia and without it we would not have developed, for example, the Pilbara iron ore industry in the seventies and eighties. The arrival of sovereign wealth funds and state owned enterprises is a different kind of investment. The Channar mine in the Pilbara 20 years ago was a joint venture of Sinosteel and Rio. I am told that INPEX, which is talking about the Japanese company developing the Browse Basin is, in effect, a state owned enterprise of the Japanese government. I am not sure of the details there. Certainly sovereign wealth funds and state owned enterprises are now a fact of life. There is concern about them, but what should we do? Should we set up a register of investment by state owned enterprises and sovereign wealth funds, because foreign investment is actually something we have depended on because we simply have not had the capital to undertake many of the great developments which have occurred in the mining industry, especially?

**Mr Thirlwell**—It is right to say that we are dependent on foreign investment. In not quite every year since Federation, but in most, Australia has run a current account deficit which means that we need offsetting foreign capital flows. As you rightly said, if you look at specific sectors, it has been the case that we have tapped foreign investors, both for access for the capital but also for access to expertise as well, and that is something that we do not want to cut off and really no Australian government can afford to cut off, especially with our current balance of domestic savings and investment which means that we have to be mindful of remaining open and attractive to foreign investors.

We have to accept, and there indeed are many benefits from accepting, foreign investment, but is there something that we need to worry about in particular when it is state controlled or state directed? What we have argued in some of the papers that we have forwarded on to the committee is that in most cases you probably do not need to worry that much if it is state controlled. In many cases the sector will either be subject to international competition or the nature of the investment—either its size, where it is going or how it is being used—will mean that, in fact, there is not too much to worry about. There will be a small subset of cases where the destination company may have strategic importance or where it may be a large market player where you will have concerns about the fact that you, in effect, are taking an investor where there is a close link or tie to a government and where, in those circumstances, you think the investor's behaviour might not be the same as a typical private sector investor but may be motivated not by profit or by developing and maximising returns from the investment, but maybe motivated by state concerns. In those cases, which I think would be small, then it would make sense that you would want to monitor what the investor does.

I would argue that we already have the tools that let you do that. We already have, through the FIRB process, a requirement that when you have a state controlled investment coming in it has to be submitted for review through that process. We already get to look at the investment as it is submitted. We already get to make judgements through the FIRB and through the Treasurer as to

whether that investment raises issues for the national interest, and then we have tools that are at our disposal to track it.

It is not clear to me what falls through the gaps of the existing system, what additional tool we would need or what additional review processes we would need that is not already provided for in the existing framework.

**CHAIR**—I have one more question about this. We are told that foreign investment is being driven because of the shallowness of the Australian capital market or resources, but we now have these superannuation funds with billions of dollars in them. Is there a case for seeking to encourage the super funds to invest in the kind of mineral resource developments and other projects which these foreign investors, sovereign wealth funds and state owned enterprises, are getting involved in so that we are less dependent? It seems to me that we now have a great pool of capital looking for something to do? Would you like to comment on that?

**Dr Cook**—I will start and then if Mr Thirlwell has anything further to add, he can. On that idea of using the Future Fund and whatever other sovereign wealth like entities the Australian government has as a substitute—

**CHAIR**—I was talking about superannuation specifically, not the Future Fund.

**Dr Cook**—One of the problems is that would strengthen outside suspicions that the Australian government is intervening even further into what were traditionally seen to be commercial decisions, both for foreign governments who face these Foreign Investment Review Board processes and I would assume the superannuation funds who might not like that, either. I think the politics of that might be quite tricky, even though it is true that there is this huge pool of savings created through government regulation that I support for somebody when they retire, but I would not be too happy if there were government suggestions or anything stronger that the superannuation funds should focus their investments in Australia in particular sectors.

**Mr Thirlwell**—I agree with that. You have to think what the obligations of the various firms are. Obviously super funds have one very clear obligation. While it might be a worthwhile idea, superannuation is not to develop the Australian resource sector, it is to provide funds for the retirement of people who are investing in them. It would be difficult to complicate those objectives by providing requirements with specific targets about where they should invest or how much. You would expect that a large proportion of their holdings are in Australian shares and that the resource sector is an important part of the Australian share market, so already a reasonably large proportion of those funds will be being directed to the sector anyway.

**CHAIR**—Thank you. Senator Heffernan.

**Senator HEFFERNAN**—I would just like to lay down a couple of markers before I ask you a question. I am focused on the global food task. If I was in charge, in a philosophical sense, I would shoot two out of three lawyers and I think the UN is the largest, most corrupt body on the planet at certain levels, not as a total culture. If someone has 60 to 70 per cent of the control of a company, do you think they have control of it?

**Dr Cook**—For very large corporations like the ones that gather, most often if you own even 15 or 18 per cent you are sometimes seen to have control because the share ownership is so widely dispersed and many of the smaller shareholders do not even take a passive role, including some superannuation funds. The shareholders that have an active interest in how the company is run often are a much smaller share than the 100 per cent. So in big corporations you often hear business scholars and so forth talking about if a single entity controls between 15 to 20 per cent, in practical terms they may have a controlling share. A company the size of Rio Tinto, which has been in the news, might fit into that category. With 60 or 70 per cent, without a doubt would be very strong. Many foreign governments have limits on foreign ownership, not a review process. In key sectors—banking in Malaysia and Singapore, for example—they try to ensure that foreign entities are not allowed to own at a much lower level than even 50 per cent plus one because of concerns about foreign ownership.

**Senator HEFFERNAN**—That is a long answer, but is the answer yes?

**Dr Cook**—Yes, much lower than 60 per cent.

**Senator HEFFERNAN**—If Australia is happy with the path that they are going down and the present arrangements and a company which has 60 or 70 per cent control of a certain venture happens to be a communist regime, where does that leave us if we think that company is doing the wrong thing? I can identify. I do not want to name the companies but there are companies investing in Australia, who have been through the Foreign Investment Review Board process and they are going to get an exemption under the present process, that are 70 per cent controlled by a communist regime. How do we deal with the regime? How do you approach the board of a communist nation to do something about the company that you think is not doing the right thing?

**Mr Thirlwell**—The first thing you would do is look at any undertakings that they have given. If they have gone through the FIRB process they would have had to make undertakings. You would first of all check to make sure that they were in compliance with those and, if they were, then you would also want to make sure that they were in compliance with all of the appropriate national requirements: were they meeting their obligations under the Australian tax law, employment law, our competition policy, the trade practices and so on? You would have a whole series of pieces of national legislation that you would check their behaviour against and, if they were failing to meet their obligations under any of those, then you would apply that legislation against them.

If it were something that was not covered by any of those pieces then you would have to ask what it is in particular that we are missing and is that something that our current legislative system does not get. You would assume that it was not too many.

The other risk that you might conceivably have is that you might decide that the bilateral relationship with the country in question is so great or so important that you are loathe to bring these people to task through existing legislation. Again, that is not a problem with the laws as you currently have them, that is a problem with the willingness to enforce them.

**Senator HEFFERNAN**—If a sovereign fund company which is 70 per cent controlled by a foreign nation happens to own 10 million acres in Australia and they want to do one particular thing on it that we do not think is appropriate, but they are entitled to do it if it is freehold, how

do you approach the board of a company that is a nation to do something about it? You can go along to the AGM of BHP or Great Southern Plantations and make a fuss. How do you go along to the board of a multinational that happens to be a communist regime? How do you approach the problem if they have ticked the boxes but they have outsmarted you?

**Dr Cook**—That is where the Foreign Investment Review Board process comes in.

**Senator HEFFERNAN**—With great respect—I am sure you will give me a long answer and I do not have a lot of time—if you can break down your investment into \$200 million parcels and follow the letter of the law, don't you get around that?

**Dr Cook**—Yes. Again, I am skating on thin ice, so I will skate very briefly.

**Senator HEFFERNAN**—You are the think-tank and I am the farmer.

**Dr Cook**—I do not know the details, but it seems the Foreign Investment Review Board process has quite a bit of latitude, so the chance of that happening would be pretty small. Again, I am not a lawyer so I could be wrong there.

**Senator HEFFERNAN**—We are dealing with a couple of those circumstances. I do not know what the answer is. I do know that if you have got a non-market currency—would it be fair to say that China has a non-market currency?

**Mr Thirlwell**—Yes, it would. It definitely is a non-market currency.

**Senator HEFFERNAN**—I have just recently been to Canada and they are still scratching their heads trying to figure out the answer to the questions that I asked them. The United States has a public debt of something like \$13.7 trillion so you could make out an argument, which I am not skilled to do, as to the impact the non-market currency of China has on the American market. The American market has \$2.5 to \$3 trillion worth of toxic debt warehoused and they have got a project going forward that says in 10 years time they will have \$20 trillion worth of public debt. Somewhere like China has non-market currencies, and you are dealing with a government, so the United States are between a rock and a hard place as to whether they want to continue to trade or protect their capital. If you do that, aren't you looking for trouble?

**Mr Thirlwell**—I will respond in two parts. From an Australian perspective, the fact that they have a non-market currency in some ways is actually a good thing for us because basically what they are doing is they are deliberately undervaluing their currency. That is bad news if you are a big manufacturer competing with them, but if you are selling them stuff that means that, in effect, they are paying more than they would have had to.

**Senator HEFFERNAN**—Is that not to make sure they maintain their trading position, rather than their capital position globally?

**Mr Thirlwell**—It is; it is because they care a lot about keeping their manufacturing sector going and keeping all of those Chinese in those coastal factories in work.

**Senator HEFFERNAN**—If the phenomenon of non-market currency which happens to be sovereign grows in the capital markets, at some point they are going to have to address the protection of their capital.

**Mr Thirlwell**—Yes. It is very early days, but they have started off on that process now. The constant refrain that we are hearing, the discussion about the fear of the future of the US dollar, is because they are aware that they have \$2 trillion in foreign exchange reserves, many of which are in US dollar assets. They are worried about the capital value of those and the potential for big losses. We have seen these very early moves towards internationalising their currency, so in effect taking it towards becoming a market currency. They are baby steps so far, but Beijing is now on that road to moving to market currency.

**Senator HEFFERNAN**—If you have non-market currency, you have a sovereign market and somewhere like the US which is, I think, technically insolvent—that might be a pretty bold statement, but I went to the Harvard think-tank two years ago and they thought at that time they probably were—at some stage of the game if the US is not going to have a market correction—and it seems to me that they have gone beyond the point of market correction as a tool to get rid of their debt—they will use inflation. If they use inflation and you have a sovereign investment in a country like Australia with resources such as iron ore, you can stockpile those resources with your non-market currency in the event of becoming an inflationary trigger as a market tool; if that happened to be the scenario, does that not put us at a serious disadvantage in the market?

**Mr Thirlwell**—I think there is quite a bit for the analysis in the sense that certainly if you look at China's investment strategy now, what they are worrying about is inflation risk and US dollar currency risk. Those are concerns that are reflected in this increased interest in real assets, including resource assets.

**Senator HEFFERNAN**—You are dead right about that.

**Mr Thirlwell**—You can certainly see that. If you look at the investment motivations and also the statements that are coming out of Beijing, it is quite clear that is what they are worried about. Is that a disadvantage to us? Not necessarily. It depends on what terms they are willing to buy our assets, in the sense that most of our assets are out there on open markets. They are competing with other investors, so it is not like they are buying at a knock-down price. We are a market economy, so they have to pay a market price when they purchase. That is not necessarily a loss for us. If anything, you could argue that there may be a gain for us because the way the world is at the moment, pretty much large chunks of it are extremely cash short and are struggling to buy stuff. China is actually adding a bit of cash and liquidity to the market and probably it puts prices up to higher than they otherwise would be.

If they are buying this stuff just for economic reasons, as in an inflation hedge or a currency hedge, that is not necessarily something to worry about. The risk is more if some of these purchases are not for economic reasons; they are for non-economic. I think that is why you want a FIRB process and an appropriate check to say, 'We're happy if you're buying this for economic purposes. If you're thinking about using it for non-economic, then we're not happy.'

**CHAIR**—Senator Heffernan, we are going to have to go to Senator Pratt because we are running out of time.

**Senator PRATT**—I wanted to ask about the national interest guidelines and to the extent that you think that we are adequately able to address the risks attached to state owned enterprises. As I understand it, they cover conduct, independence, the impact on competition, national security, community and revenue. Could you comment on that further?

**Dr Cook**—As I said, with the six laid out by Treasurer Swan a couple of years ago, which are the ones that have been holding for a long time, I cannot really see where there are any holes that a major risk could fall through, especially as the definition of national security can be quite broad and, since it is not defined any closer than that, that gives a lot of scope. I do not think the range of concerns addressed by the FIRB is too small or inadequate to deal with perceived risk.

**Senator PRATT**—With respect to the question of the impact on competition, I would imagine that the assessments are being done this way but that it is probably a bit unclear to us as to the extent that state owned enterprises are linked or not linked and whether they represent a substantial mutual common interest or whether that investment is diffused, in the same way that a number of private investors are. Could you comment on that issue?

**Dr Cook**—There are two issues. There is the corporate governance of the foreign investor who is moving in and state owned enterprises, without a doubt, are state controlled—to pick up on Senator Heffernan's point—and are definitely different in nature, especially some of the major ones, but it is also the kind of concentration and control in the industry sectors as well. If it is already a competitive industry it would be hard to see how they could be. Obviously, in some areas like iron ore there are not that many competitors, so there could be an issue there. Again, the Foreign Investment Review Board, given that it allows the government to set out a series of conditions for any process to go through, should be able to deal with that.

**CHAIR**—We thank you for your evidence this afternoon.

**Dr Cook**—I hope it was helpful.

**CHAIR**—Indeed. If you have any documentation that you would like to send through, please do so.

**Dr Cook**—I think we have not strayed beyond the documentation we included with the initial submission, so that should be fine.

**CHAIR**—Thank you.

[4.56 pm]

**MURRAY, Mr David, AO, Chair, Future Fund Board of Guardians**

**CHAIR**—Thank you for appearing here today. Would you like to make an opening statement?

**Mr Murray**—Yes. I would firstly like to emphasise that I am appearing here as the chairman of the Future Fund Board of Guardians. Secondly, I also happen to chair the newly formed International Forum of Sovereign Wealth Funds, but even in that capacity I am not able to speak on behalf of other sovereign wealth funds.

I would like to point to the history of development of that group. When there was first fairly serious concern in the US and Europe about investments from sovereign wealth funds into predominantly western countries the IMF, through its representative ministers, formed an international working group of sovereign wealth funds and set out to form an agreed standard of practices dealing with sovereign wealth funds, which eventually became the Santiago principles. Australia was a supporter of that process through its IMF representative minister, the Treasurer, and the guiding objectives for those principles were to help maintain a stable global financial system and free flow of capital investment to comply with all applicable regulatory and disclosure requirements in the countries in which sovereign wealth funds invest, to invest on the basis of economic and financial risk and return-related considerations, and to have in place transparent and sound governance structures.

They were the objectives. Importantly, in that process and in those Santiago principles there is a definition of sovereign wealth funds that clearly distinguishes them from state owned enterprises. I could go into the nature of that difference if it would help.

Lastly, I would just like to point out that it was very clear in the development of those Santiago principles that sovereign wealth funds and countries are very, very different. For example, with sovereign wealth funds, 75 per cent of the money in sovereign wealth funds, as far as I can assess it, is oil sourced, about 20 per cent export surplus sourced and about five per cent budget surplus sourced. Australia would be in that last category. In Australia's case, we have a very small population and working population relative to our resource base and hence we have been capital dependent on the rest of the world for a long time, but we are different from other sovereign wealth funds in the sense that we are both resource dependent for a very significant proportion of our revenue in terms of trade and foreign capital dependent, but at the same time we are not an influential economy in global markets, either for intermediate goods or consumer goods. Presumably our foreign investment policy has been formulated over the years with those things in mind. Thank you.

**CHAIR**—You said there is an international committee of sovereign wealth funds.

**Mr Murray**—It is an international forum of sovereign wealth funds. It was formed in April this year.

**CHAIR**—Can you tell us who the members are or give us, on notice, a list of who the members are?

**Mr Murray**—There is a published document entitled ‘The generally accepted principles and practices of sovereign wealth funds’ which was published by the international working group I referred to. That document sets out the names of the participating sovereign wealth funds—there were 26 of them—and in the back it has a short description of the operations of each of those sovereign wealth funds. That is the document that also contains a definition of sovereign wealth funds.

**CHAIR**—You also mentioned the Santiago principles. Presumably we can get a copy of them as well.

**Mr Murray**—It is the same document.

**CHAIR**—One of the reasons why we have had such a high degree of foreign investment in Australia historically is that we have had a very shallow capital market. I am a Western Australian. The Western Australian goldmining industry in the 1880s was financed by British and American money, the Pilbara iron ore industry by Japanese, British and American in the sixties, seventies and eighties, and now we have China involved in some projects like that, but we have funds like yours. Is the existence of the Future Fund potentially going to mean that we might see investment in great resource and infrastructure projects in this country by your fund rather than foreign and potentially sovereign wealth funds and state owned enterprises from other countries?

**Mr Murray**—To achieve our objective we need to invest in an array of assets. We do that by building a strategic asset allocation that, in our opinion, is likely to meet the return objective we have been given in our mandate from the government. We, therefore, need to have some diversity of assets but, given the type of return target we have, infrastructure investments will be an important component and Australian equities will be an important component. By investing in Australian equities we would be an important investor in Australian mining companies.

**CHAIR**—That is a sufficient answer. You will be investing in such projects, so perhaps there will not be so much of a demand for foreign investment in many projects in Australia. I suppose that is hypothetical.

**Mr Murray**—It is more likely that the need for foreign capital will continue. The only way that Australia can increase its public and private sector savings is to be competitive and productive so that we generate surplus to ourselves to help reduce that reliance over time.

**CHAIR**—That is a little bit of a counter intuitive answer, but it is interesting. Do you see any need for increased regulation of foreign investment of various kinds from sovereign wealth funds and state owned enterprises, and do you think the regulations of the Foreign Investment Review Board are sufficient to provide adequate protection for our national interest, as it is called?

**Mr Murray**—The response to the pressure, particularly from the US Congress through the IMF, for the Santiago principles was to create a set of principles which, if adhered to by

sovereign wealth funds, would give recipient countries of foreign investment comfort that those sovereign wealth funds acted more from commercial principles than any other principles. The publication of those principles has gone a long way to placate some of the critics of sovereign wealth funds and their investments. It is a very comprehensive framework of principles but, as I said before, sovereign wealth funds are not state owned enterprises.

**CHAIR**—Yes, we understand that difference. Thank you.

**Senator XENOPHON**—Thank you for being here today. In terms of the investment decisions made by the Future Fund, can you explain the mechanisms of that and how different would they be from the investment decisions made in the private sector, for instance? Further to that, how is it determined what the mix is in terms of investments here in Australia and investments overseas?

**Mr Murray**—Our investing is similar in most respects to institutional investors. The differences are that under our legislation and mandate we are required to invest through investment managers. Secondly, we are required to hold no more than 20 per cent of any listed company anywhere in the world and we are required to have regard to the reputation of the Australian government in financial markets when we invest. We are also required to invest in a way in the domestic market that does not cause abnormal volatility in that market because of our size. So there are some differences.

The other difference in our investing is that our mandate gives us a long-term view for which we have a high return requirement and we must take risk, but to achieve that we have the benefit of liquidity in making our investments. Generally, we should be regarded as an investor that can be longer term and more patient even than some pension funds.

**Senator XENOPHON**—I have a question on mutuality. Senator Joyce is not here, but I think it is one of his favourite topics; although far be it for me to speak for Senator Joyce. There is an issue of mutuality. One of the arguments put forward is that we have overseas investors who can invest here, but to undertake the same sort of investment in their country would not be allowed because of the restrictions that apply. In Japan it is quite hard to buy real estate if you are a foreigner. When the Future Fund decides on overseas investments, is that something that has been a problem for you? To what extent are restrictions that are placed in overseas countries that are not placed for those overseas investors coming to Australia an impediment to making good investment decisions?

**Mr Murray**—One thing that was obvious in developing the Santiago principles was the differences in foreign investment rules in various countries. They have all grown up because of the difference in the economies and the difference in cash flows of that economy with the rest of the world, so the starting position everywhere is quite different. In our case, the Future Fund has not had any issues, to date, because frankly we have not been at it very long. Mutuality is something that can probably only be addressed on a unilateral basis, not a bilateral basis. For example, in the case of Australia's capital position, our resource dependency is very important to our long-term future, as is the availability of capital, but with roughly two per cent of the global economy and a small local market, we are unable to influence other countries in manufacturing capacity or the distribution of consumer goods, for example. It is not likely that we could reach a mutual deal very easily with a lot of other countries. It is a bit like dealing with tariffs. That is

probably best dealt with by some unilateral approach that causes everybody to behave in a way that keeps investment free and open generally.

**Senator XENOPHON**—Is it a case of we need them more than they need us?

**Mr Murray**—If we are talking about resources, they need us. If we are talking about capital and access to markets, we need them.

**Senator XENOPHON**—It is the other way around.

**Mr Murray**—That is the issue, yes.

**Senator XENOPHON**—Thank you.

**Senator PRATT**—I wanted to ask about the mutuality or reciprocity issues and how the Future Fund manages those issues. I have an example. If the Australian government commits foreign investment by country A in Australia, country A would welcome investment by the Future Fund. Would the Future Fund be permitted to buy 51 per cent interest in, for example, China or Japan if they are foreign owned companies?

**Mr Murray**—That is, could the Future Fund buy 51 per cent interest in a foreign company. If it were a listed company, we could not. If it were an unlisted company, technically we could, which goes to your question. Whether we would do that would be more a tactical issue than a legal issue.

**Senator PRATT**—There has been a growth in sovereign wealth funds internationally. Is that driven by the need for national savings? I suppose that is linked to the encouragement of domestic consumer savings. Is this, therefore, a trend that both Australia and other nations are going to increasingly have to manage where you have large amounts of equity that are controlled by the national interest?

**Mr Murray**—I mentioned earlier that about 75 per cent of sovereign wealth fund money was oil based. If we are talking resource dependency rather than trade surpluses, then resource dependency is more accidental. It usually happens that a relatively small nation has very significant and valuable resources. The obvious examples are countries like the United Arab Emirates, Abu Dhabi in particular; Kuwait, which has a sovereign wealth fund that goes back to 1953; Saudi Arabia; and in particular Norway. Brunei is another smaller one. In Norway's case, there is a population of about 4.6 million people and, prior to the downturn in the markets, the market value of its fund reached US\$400 billion. Those countries choose to work out how to protect themselves from resource depletion by setting up very significant funds for the long term.

In the case of export surplus countries, they simply arrive at a situation, for various reasons, where their foreign reserves are much larger than could normally be expected to be needed in their central bank for the normal reserve purposes, for example current account prices. They often split their funds into either wealth funds or budget stabilisation funds, in addition to what is held for international purposes in the central bank. There are large funds and small ones. There are very interesting situations, such as an oil fund in Trinidad and Tobago, a fund in Timor which

is oil and gas, and a diamond fund in Botswana. They are not all very big; the majority of that 26 are smaller funds. In Australia's case, we are working off favourable terms of trade over a considerable period in which we had budget surpluses and we have chosen to set those aside in the interests of better public sector savings specifically to deal with the likely budget situation from 2020 and beyond with ageing of the population. Our wealth objective is about demographics more than resources themselves.

**Senator PRATT**—I am sure there are shades of grey between a state owned enterprise and a sovereign wealth fund. What are the distinguishing features?

**Mr Murray**—This is probably some of the hardest work we did with the Santiago principles. There are three distinguishing features of a sovereign wealth fund. The first is that it has a defined special purpose, which is a macroeconomic purpose, not a defined business purpose. The second is that its assets are held for the community at large, not for individual interests. I will come to the third.

In Australia's case, the special purpose is the demographic purpose that I mentioned—the intergenerational purpose—so it is a wealth fund, not an international reserve. What I meant by the second one was that there is a shared economic interest in the assets. The assets of the Future Fund are held beneficially for the Commonwealth. There is no individual superannuant or anybody else that can individually claim an interest in those assets, so there is a special purpose; there is a shared economic interest. In fact, they are the two defining characteristics.

**Senator PRATT**—You could start to deviate from those characteristics, but you still would not necessarily be a state owned enterprise. There would be a range of shades of grey there, particularly if you have got access to resources being something that the community at large is interested in and are not for individual interests, but might be the national interest. Would that be correct?

**Mr Murray**—No. The Santiago principles to which all of these countries have signed up require there to be a general macro purpose. That is quite different from an individual company purpose.

**Senator PRATT**—For example, access to energy has macroeconomic implications, but it is not a macroeconomic issue, it is kind of a sectoral one.

**Mr Murray**—I have forgotten to mention my third point. They invest in financial assets.

**Senator PRATT**—Thank you.

**CHAIR**—Thank you for appearing today.

[5.18 pm]

**MELROSE, Mr Ian, Clerk, Optical Superstore**

**CHAIR**—Welcome to this committee, Mr Melrose. Would you like to make an opening statement?

**Mr Melrose**—My particular concerns are that there is a lack of a long-term view by the Australian parliament in relation to allowing overseas interests, control and ownership of strategic resources within Australia. There is a lack of long-term planning in a lot of political areas. I do not mean to get personal, but part of the nature of the system is that politicians are very concerned about the next opinion poll or the next election; it is not the next 20, 50, 100 or 500 years ahead that politicians tend to plan for. When we were looking, as we were just recently, at Rio Tinto possibly disappearing into the hands of the Chinese government through Chinalco, it was a particular concern. The Chinese government does have long-term views. It is not bound by concerns of opinion polls. The Chinese government is responsible for hundreds of thousands of Tibetans' deaths, possibly as many as a million, and tens of thousands of Falun Gong. There were 2,500 deaths in Tiananmen Square. They operate on a totally different moral system to the system that we are used to.

Similarly, their business conduct will be the same; that is, they do not operate on our principles and it is difficult to understand the difference between those principles until you start looking at what has happened with Stern Hu. The conduct there is unacceptable to us; it is not unacceptable to the Chinese military regime.

I want to highlight the fact that it is not the Chinese people that I have any issue with, it is the Chinese military regime. The Chinese military regime has conducted itself appallingly in relation to its own people and of various minority sectors within China. It is the Chinese military regime, not the Chinese people. That difference needs to be highlighted because there should be no animosity towards the Chinese people. There are millions and millions of good Chinese people.

My concern is the lack of long-term planning by the Australian government when it comes to our strategic mining and energy resources. Many other countries will not allow their strategic resources to be sold. You cannot buy Arabian oilfields; they are just not for sale. You cannot buy interests in Chinese mining firms or energy firms; they are just not for sale. Foreign countries, using Australian democracy effectively against us, may well end up owning strategic mining and energy resources to the long-term detriment of the Australian population. That is the essence of my position.

I think there is a need for some quite substantial changes in Foreign Investment Review Board guidelines. As I noted cynically in my submission, perhaps it should be the Foreign Investment Approval Board, not Review Board; very rarely does it ever knock anything back. There needs to be a review of the review board's parameters, direction and its ability to act in Australia's long-term interests.

There probably needs to be caps put on certain assets that foreign interests can own in Australia. At present, in most cases there are not any, and it would be a fair and reasonable thing to put cappings in a few areas. That is, we need to classify countries into two categories: countries where there is some reciprocity in investment and other countries where there is not, because in countries such as China, who will not allow us to invest in their country, yet they will take our assets, over time their ownership will just increase and we have no opportunity of equalising it with investments in their country. I am not against foreign investment, I am against countries with extremely poor human rights records investing in Australia and countries that may have risk factors to Australia in the long term if they invest in Australia and then there was some dispute with that country. Thank you.

**CHAIR**—The analogies that you draw with the Middle East and oil are quite interesting ones, but there are quite large American countries, are there not, operating in the Middle East?

**Mr Melrose**—In some countries, yes, but in other countries, no. Similarly, Australia can invest to a very limited degree in some Chinese companies in Hong Kong and so on, but not when it comes to the really critical assets. I would like to also highlight the difference between strategic mining resources, energy resources and other businesses. I would have no objection at all if Qantas were taken over by a Chinese company, the reason being you could go out and buy another batch of planes and start another airline. If the mines are sold or the gas fields or coal gas seams are sold, you cannot go and replace those. They are unique. They are limited. Their worth is undervalued currently. In the long term those assets will be worth more and more.

If you have a look at the CommSec website, go to the graph section and have a look at the way, say, Woodside Petroleum has gone up in value over the last 10 years, you are talking about an increase of more than tenfold in value in the last 10 years, whereas you do not get that in non-energy areas. Fortunately, although the Foreign Investment Review Board approved Shell's proposed takeover of Woodside—

**CHAIR**—No, they disapproved it.

**Mr Melrose**—They approved it, but Peter Costello overrode it and rejected it.

**CHAIR**—Yes, you are right. In the final event the Treasurer has the final say.

**Mr Melrose**—On that one I agree with him completely. That was an excellent decision, but the trouble is that there are not enough knockbacks. There has got to be a stronger Australian long-term interest criterion put in the Foreign Investment Review Board assessment policies.

**CHAIR**—I think the concern with Woodside was that Shell planned to mothball it and use gas resources in Africa, so there was a national interest in employment and things like that being maintained. I know that in China, for example, the ANZ Bank has offices in Shanghai and they have sought to invest in banking systems in China. I believe, from what I have been told, that they were advised that they could buy only two banks, so they were very constrained in what they could do with two banking systems. That is a very good point you make.

**Mr Melrose**—You need suggestions. Suggestions would be that there be caps put on overseas interests in strategic resources within Australia for the long-term benefit of Australians. That is

where the Future Fund and other organisations can step in and take some ownership. My view is somewhat different to the prior speaker and that is that I think Australia is now in a position where we can fund almost any project within our own country. We have the resources. When you look at recent capital raisings, it is clear there are huge amounts of money available for solid investments. When I look at CBA, ANZ, Westpac and Wesfarmers, they have all done capital raisings. There has been no shortage of substantial capital for worthwhile investments in Australian companies, no shortage whatsoever.

**Senator PRATT**—With respect to that, those funds are there for nation building and, as we just heard from the earlier witness, they are there for investing in those long-term projects that we need to pursue.

**Mr Melrose**—Yes.

**Senator PRATT**—It is not about preventing or offsetting investment from overseas that does not suit our other strategic goals. I do not necessarily think that the Australian government should say, ‘Let’s go and invest in Australian mining’, when there are plenty of other financial interests prepared to make that investment. We are really trying to solve the other long-term problems, which is what those other long-term funds are for. Could you comment on that?

**Mr Melrose**—Investing in long-term assets is a benefit for the Future Fund. Investing in resources that they do not make any more of is a wise and intelligent thing to do. That is, there is a finite amount of gas and oil. Its value is not going to go down. There will be ups and downs over short-term periods, but when you look at the long-term investment strategy—

**Senator PRATT**—We own those assets, anyway; we do not need to buy them back.

**Mr Melrose**—We do not own all of them.

**Senator PRATT**—That is because we have sold them in order to develop the revenue streams.

**Mr Melrose**—Correct.

**Senator PRATT**—Or we have given title over them so that we have got a royalty stream.

**Mr Melrose**—I was incredibly disappointed to see Wayne Swan a few weeks ago saying that every week he has approved some form of foreign ownership or Chinese ownership of an Australian strategic resource. I think he was talking about the last four or five months. That was in relation to the comments that the Chinese government was unhappy about their failure to get Rio Tinto.

The concept of having to develop everything now and leaving nothing for the future is not a good long-term plan. It seems to be a rush to exhaust resources, not a plan to look at the next 100, 200, 300 or 500 years. The Chinese have a totally different philosophy in relation to business and time. You may well have heard the comments that—

**Senator PRATT**—I am sure they do some things better than us and some things not so well.

**Mr Melrose**—They are not even on the radar when it comes to human rights. Henry Kissinger was at one time discussing issues with the Chinese and in small talk he passed a comment to the President of China, ‘What did you think of the French Revolution?’ The comment that came back from the Chinese President was, ‘I don’t know. It’s too early to say.’

**Senator PRATT**—I agree; there are certainly issues with the human rights record of various countries with state owned enterprises that seek to make overseas investments, but that is not necessarily something that is unique to state owned enterprises or sovereign wealth funds. Your submission raised the concern that if there is a problem with state owned enterprises in relation to extraction, management, pay, staffing, working conditions or environmental controls there is going to be a dispute between two governments. I would like you to explain why you think that would be the case. It may well be the case, but it is not necessarily going to be any different from the same sorts of issues that arise with private investment and the failure of any nation state to regulate those standards held by private interests within their country.

**Mr Melrose**—There is a failure for you to realise that when you are dealing with Chinalco you are not dealing with a board of directors, you are dealing with an overseas country, and so it then becomes a country-to-country dispute, not an Australian government dispute with an overseas company. It is then a country-to-country dispute. The Chinese government does not operate on the same set of morals that you have grown up with or that you live by and that you interpret your life through. It is totally different.

**Senator PRATT**—I accept that. Some things they do worse and some things they do much better, but I would still contend that when we are dealing with a sovereign wealth fund, a state owned enterprise or a private interest you still end up with a country-to-country issue. For example, in a country such as Burma where you might be mining for rubies there are significant problems with what appears to be private interest; but there is a lot of corruption and huge human rights abuses. They are very complex issues and we should not shy away from them, but I would contend that they are not necessarily specific to sovereign wealth enterprises.

**Mr Melrose**—With most other countries I would agree. As was highlighted to me recently when I was talking to some Chinese people, the comment made was that the Chinese republic is the Chinese people. That is the philosophy that has been instilled. It is as if you cannot criticise. If you criticise the Chinese government you are criticising every Chinese person. That does not happen in Australia.

**Senator PRATT**—The government has done a lot of work to instil that notion in the Chinese population.

**Mr Melrose**—Exactly. Once you get a dispute with a Chinese owned company you are not just—

**Senator PRATT**—I am well aware of that.

**Mr Melrose**—It is instilled through them. It is as if you are criticising the whole of the Chinese population. It is a risk factor that is significant, and reprisals may be done on a national basis. You would not get that if it was just a separate independent corporation. It is the reprisal part.

**Senator PRATT**—I understand that. Thank you.

**Senator XENOPHON**—Out of an abundance of caution I will disclose that I did an advertisement along with Senator Joyce that Mr Melrose paid to have broadcast on a number of channels.

**Mr Melrose**—An Australian interest issue.

**Senator XENOPHON**—On the issue of Chinalco and Rio Tinto. Mr Melrose also travelled with me recently to India as part of a group to meet His Holiness the Dalai Lama. Mr Melrose, in terms of sovereign wealth funds, do you have particular concerns about Chinalco because of what goes on in China in terms of the control that the state has?

**Mr Melrose**—If it was Norway or Sweden my concerns would be so much less. They have morals. They will conduct things reasonably. You would not end up with a dispute that would likely escalate.

**Senator XENOPHON**—You distinguish between—

**Mr Melrose**—I think you have to distinguish, but I would still much prefer to see strategic resources owned by Australian companies rather than by overseas interests. We are selling off strategic resources at far below their long-term values.

**Senator XENOPHON**—In terms of the non-binding nature of the Foreign Investment Review Board conditions, your submission draws attention to the conditions placed on Rio Tinto of Australia Limited in 1995 when it acquired CRA, and you suggest that Rio failed to comply.

**Mr Melrose**—That is correct.

**Senator XENOPHON**—How would you like to see the conditions placed on foreign investors become more enforceable?

**Mr Melrose**—The Foreign Investment Review Board needs teeth. It also needs a different set of assessment criteria. There can easily be criteria set up where they forfeit shares in the event they do not comply. Overseas countries or shareholders would forfeit shares if the criteria on which they initially purchased and gave undertakings were not complied with. The assets are in Australia. We should express some better control over those assets.

**Senator XENOPHON**—I think your campaign for East Timor is well known publicly, as is your philanthropic funding of a malnutrition clinic in East Timor. You have a long record of being interested in human rights issues in East Timor. Are you saying that the Foreign Investment Review Board should take into consideration the record on human rights of state owned investors? Are you saying that ought to be a criterion to be considered?

**Mr Melrose**—That would be a superb criterion to add. For example, China invaded Tibet 50 years ago. They have treated the Tibetans appallingly. It does not matter how much requesting is done in relation to improving China's human rights record in dealing with the Tibetans; they will do nothing. However, if Australia implemented some criteria in relation to foreign ownership

and human rights, all of a sudden China would listen. Money is the only thing that will cause them to change their stand. Regrettably that is the case in many military regimes around the world. It is only money that will make a difference. Australia's standing up for human rights could positively affect the disempowered.

**Senator XENOPHON**—You are critical of the way the national interest test operates. Clearly there must be a reasonable test. I think you have acknowledged, and everyone here acknowledges, the important role that foreign investment plays in Australia's economic development and prosperity. How would you like to see the national interest test reformed?

**Mr Melrose**—Firstly, there has to be some recognition that there is not a rush to use up everything we have. The iron ore has been in the ground for millions of years. It is not going to go off. If instead of deciding to extract it all and use it in the next 100 or 200 years we had the philosophy of it lasting 500 or 1,000 years, all we are doing is giving some inheritance to future Australians. It should not be perceived that we must consume it all and we must consume it now. It sounds a bit like Madonna: 'I want it all and I want it now.' We do not have to have it all and we do not have to have it now. Stretching it out or rationing it out is a logical long-term beneficial plan for Australia.

**Senator XENOPHON**—Are you planning to go to China any time soon?

**Mr Melrose**—No, but I do like Chinese food.

**Senator XENOPHON**—Thank you.

**CHAIR**—Thank you for being here today.

**Mr Melrose**—If a view were held by this review committee that Australia should implement some revisions to Foreign Investment Review Board matters would it likely be taken up by government?

**CHAIR**—This committee will attract a certain amount of attention in what it says.

**Mr Melrose**—Attention or tension?

**CHAIR**—The Treasurer has recently made the criteria on foreign investment less stringent. That was in the newspapers yesterday or today. But I do find your views about having a sensible policy and about reservation of resources very good. I think we are a bit too keen to sell off our resources and nobody is thinking about what happens after all the iron ore and gas is gone.

**Mr Melrose**—Thank you.

[5.46 pm]

**FISHER, Dr Brian, Concept Economics**

**CHAIR**—We welcome Dr Fisher from Concept Economics back before the Economics Committee and invite you to make an opening statement.

**Dr Fisher**—I sent the committee a letter at some point in the past when this inquiry was first announced. Subsequent to that I have put together another statement and, with your permission, I would like to table that today.

**CHAIR**—Please do, or read it if you wish to.

**Dr Fisher**—In introduction I would like to make a short statement. Firstly, I note that historically Australia has depended heavily on countries such as the United States and the United Kingdom for its net foreign investment inflows. However, that appears set to change in the future. Most of that change, of course, is a consequence of the changing world economic order. Basically gross savings in emerging developing countries such as China are growing rapidly. The output share of those countries is growing rapidly relative to our traditional development country sources of capital, and those changes are set to continue.

To give you an example of those effects, in 1950 the United States had a share of world output of about 27.3 per cent, according to the statistics from Madison. According to the IMF, by 2014 the share of world output controlled by the United States or produced by the United States will be 18.3 per cent—a decline from 27.3 per cent to 18.3 per cent. Over that same period—1950 to 2014—in 1950 China's share of world output was 4.5 per cent and it is projected to be 15.5 per cent by 2014. In addition, demography is basically moving against everybody, but in particular it is moving against the developed countries. To give you an example of the extent to which developed countries are affected by change in demography and how that will impact on their ability to save, by 2030 it is projected that Japan will have one retired person for every two workers. By 2030 the United States will have one retired person for every three workers. Basically, the effect of that is that any savings that are available in those countries will need to be directed towards supporting those who were effectively dissaving, namely, retired people.

The bottom line is that the distribution of global savings available for foreign investment is changing rapidly. Pretending that the world is otherwise is a luxury that a small trade focused country such as Australia cannot afford. Australia needs an approach to foreign investment that is forward looking. Australia needs to position itself early to capture a large share of low-cost funds so that investment projects that lead to higher standards of living can be initiated. Australia is fortunate in its proximity to the developing countries of Asia, but it cannot afford to distance itself from changes to the world economic order, not least because net investment flows beget new trade flows and because the more integrated the world's economies become the greater the incentive for each nation to promote regional stability and prosperity. I have these documents that I am quite happy to table.

**CHAIR**—Thank you. Senator Pratt.

**Senator PRATT**—In your submission you talk about erecting barriers to foreign investment, believing that raises the cost of investing and encourages fund managers to look elsewhere. Do you believe that Australia's current regime for regulating foreign investment is too restrictive? How would you consider changing it?

**Dr Fisher**—I think there are potential deterrents in the current arrangement. The recent announcements by the Treasurer on lifting some of those thresholds is positive. However, the thing that I am most concerned about is the potential deterrent effect associated with not so much the notion that lots of things pass, but the question is: how many investments are out there that basically do not happen and do not come to Australia? That is a very difficult question to answer, because we do not really know the counterfactual. However, as I said in my earlier submission, managers of investment around the world have many opportunities. It is obvious that Australia is an attractive place to invest and we have been a very attractive place to invest. But the point I really wanted to make to the committee is about our traditional sources of investment. Their ability to invest in this country is less and less, and we need to be aware that the massive growth in savings is in emerging countries. They are in the Middle East and Asia. Many of those countries, such as China, have systems of control that are unfamiliar to us, generally speaking.

**Senator PRATT**—That is a good way of putting it.

**Dr Fisher**—The point I am really making is that we need to think about ways in which we can cope with regimes other than the ones that we are used to, so that we line up with where gross savings in the future will be coming from.

**Senator PRATT**—That is a good philosophy. How do we do that? It would be nice to have a single set of rules for everybody that begins to capture some of those issues, irrespective of what kind of source of fund you have, so that we are asking the right questions. For example, you could have a multiplicity of state owned enterprises that all seem quite distinct but up the top you have what in a sense might start to emerge as links with dominant players. You would not necessarily be judging those entities separately. When you look at those competition issues, for example, you need rules that identify the fact that you are not necessarily looking at separate players. That is a simple example. How do we better develop our understanding of these different ways of doing things?

**Dr Fisher**—If we were to take the debate over the last three or four months, there has been a lot of concern about, say, Nation X Inc. and how a set of state owned enterprises, for example, might get together in some back room somewhere and manipulate a world market to Australia's detriment. The question then arises as to whether that is in fact possible, Whether even a large country could organise itself and organise its agents, say, to manipulate world iron ore prices. I think that is very difficult.

**Senator PRATT**—I would agree.

**Dr Fisher**—In fact, when you look at the companies that actually export the most iron ore from Australia, they are foreign owned. The two companies that currently export iron ore from Australia are majority foreign owned.

**Senator PRATT**—In that sense it comes back to the things that we need to regulate in our own country, irrespective of whatever the source of investment is to a large extent, does it not?

**Dr Fisher**—Absolutely. What this really comes back to is ensuring that our domestic legislation holds everyone to the same playing field. It does not matter who owns the company just as long as the OH&S rules, environment rules and the competition rules—all of those things—apply to those entities equally and we make sure that there is no improper transfer pricing and so on. That really comes down to our domestic arrangements. In my view, this is more about domestic settings than it is about attempted control of the initial investment.

**Senator PRATT**—The best way of learning is from each other so that we get to know other markets and economies that operate differently, and they get to know us.

**Dr Fisher**—Absolutely. As I said both in the document that I have currently tabled and my letter, investment flows beget trade flows, or trade follows investment. When you think about where the centre of world growth is going to be over the next 50 years, it is to our immediate north. It is in our best interest as a nation to ensure that our trade flows are directed in that direction. The easiest and best way to do that, from an economic point of view and in the long run a political stability point of view, is to ensure that those investment and trade flows are as open and as free as possible.

**Senator PRATT**—Notwithstanding that, do you think that state owned enterprises and sovereign wealth funds, because of their different characteristics, will and should affect the way we regulate things domestically?

**Dr Fisher**—One has to be always cautious about the possibility of, for example, a foreign government owning a controlling stake, say, in a major corporation. I cannot imagine that any government of any persuasion would be particularly comfortable with those sorts of arrangements. As I said before, in the final analysis it really comes down to whether those companies can manipulate the prices that we receive as an exporting nation. In the vast majority of markets in which we operate it is very difficult to do that. Clearly, if companies could manipulate those prices they would be out there manipulating them now—Australians as well as foreigners.

**Senator PRATT**—We would all be out there doing it; that is right. I have some more questions, but it depends on whether you would like the call first.

**CHAIR**—I have some thoughts about this. Sovereign wealth funds and state owned enterprises are a financial tool or form that has appeared only in the last 15 to 20 years with the growing wealth of some of these countries. Do you think there is an issue about our adjusting to these sorts of entities, rather than expecting, as we have, private investment, say, from General Motors owning Holden or Ford owning a car plant here, and getting used to the idea that countries such as China, which is not a capitalist country but a communist command economy, will not have what we regard as private companies to invest but will set up other financial mechanisms that become a vehicle for investment? Is this a cultural barrier that we have to cross as things change in China and they evolve?

**Dr Fisher**—Yes, I think that is correct. I was not paying too much attention when GM first invested in the body building company that was Holden, but I imagine there was a bit of disturbance about that at that time, yet that is now seen as having been of great benefit to Australia. The world is evolving. China is an emerging economy. It is developing a market based system. It is not the sort of market based system that we are particularly familiar with, but that is the direction. Because it is going to be so important we need to be able to accommodate that change. We just cannot stand Canute-like against the change that is happening in the world.

**Senator PRATT**—What would happen if that is the case? There are plenty of other developing countries very eager for that investment and that might not care quite so much.

**Dr Fisher**—That is right. The Chinese people have a right to develop. They have a right to a decent standard of living. They will need resources. Australia does not have a monopoly on iron ore, for example. If we end up putting unnecessary barriers in the way to that investment Chinese investors will go to Africa. There are some large well-known iron ore resources—if we are just taking iron ore—or copper resources in Africa, the owners of which, the governments, are very keen to see developed. Those investments are not quite as attractive in terms of geographic proximity as Australia, so the natural place to come for iron ore investment, if you are Asian, is to Australia. It costs you a lot more to ship iron ore from Africa than it does from the Pilbara. But the alternatives are there. We do not have a monopoly and if we are not facilitative of that investment it will go elsewhere and, as a consequence of that, Australian economic welfare will suffer.

**CHAIR**—What you are saying is very interesting. In the 1970s the Japanese, who had invested very heavily in the Pilbara iron ore industry, were quite dismayed by industrial disruption there and they spread their investments. They went to Brazil, where they had an alternative source of supply. As you say, the Chinese are already investing in iron ore and other minerals in Africa. I remember a few years ago at a Pastoralists and Graziers Association annual general meeting in Perth the guest speaker was the Chinese Ambassador, who was then Madam Fu Ying. She expressed great concern about the escalating prices of iron ore and said what China wanted was a cooperative stable win-win relationship with Australia. She saw us as a long-term trading partner. She thought our iron ore companies were not really playing the game she thought they ought to be with a trading partner who was as long-term and reliable as China. I suppose we need at times to think through our relationship with China as a very long-term one and understand that even though they have a different sort of society from ours and a different financial structure, and even if they invest in Australia it does not necessarily mean that it is an investment that is not going to be in both countries' interests. Of course, as far back as 1987 at the Channar mine in the Pilbara Sinosteel was in a joint venture with Rio, which went on for many years quite successfully. I wonder whether we need to adjust to the idea that, while there may be things about the Chinese political system and things that happen there that we are not very happy about and which we would not accept in Australia, nevertheless from the point of view of our economic wellbeing maintaining that relationship is very important.

**Dr Fisher**—Yes, I agree with that entirely. I think the way forward really comes from enhancing income growth by cooperation and trade, and as a consequence of that we will see reform. You cannot force any particular country to go faster or slower than its culture dictates. Basically, our general observation is that as people become wealthier we see ongoing reform. In

my view, the way to promote that is through more open and free trade and more cooperation rather than less.

**CHAIR**—You mentioned our strategic interests. China is becoming a very powerful player not only in this region but on the world stage. They have huge financial resources. It seems the United States is heavily in debt to China. I would have thought it is in our national interests to maintain a sensible relationship with this country.

**Dr Fisher**—Yes, I agree that it is very important.

**CHAIR**—The issue of regulating foreign investment is one that comes up a lot. Do you feel there is any need to expand the national interest test of the Foreign Investment Review Board? It is so vague that it can almost cover any situation, I would have thought.

**Dr Fisher**—It is very difficult for an investor to work out exactly what the national interest test is. It comes back to an earlier point I made that, if we are not careful, we will have a deterrent effect. We do not see it, because we cannot see the counterfactual, but if you cannot understand the arrangements then you end up in a situation where there are probably investments that otherwise would have been made that are made elsewhere. We either have to define that test more carefully or replace it with some other set of statements.

**CHAIR**—What about other countries? Do they have more specific rules that we might copy?

**Dr Fisher**—The world over there is just about every rule you can imagine. If there are more open regimes, in the long term it would be in the interests of Australia to adopt those more open regimes.

**Senator XENOPHON**—I am sorry, I was not here for the beginning of your submission. There is only one of me in my party room and I had to be somewhere else.

**CHAIR**—You have the numbers.

**Senator XENOPHON**—My leadership will not be challenged any time soon. Have you covered the issue of rents from exhaustible resources and intergenerational equity? Has that been raised by any of my colleagues?

**Dr Fisher**—No, only indirectly, I believe.

**Senator XENOPHON**—Your submission refers to arguments about exhaustible resources and intergenerational equity. Can you elaborate on that and how does it apply to the Australian resource sector? Our previous witness, Mr Melrose, had a particular concern. You may have heard the tail end of his submission that, ‘Once it’s gone, it’s gone. We shouldn’t be in any rush to sell it because it should be there for future generations to benefit from.’

**Dr Fisher**—Yes. There is a vast amount of economic literature on this very interesting subject that goes back a long time and, in fact, led the Norwegians to establish their oil investment fund. Basically, their view was that you can either have the oil in the ground and save it up until some point in the future or you can exploit it and put a proportion of the rent into some fund, invest the

money and earn interest on the money. Under reasonable conditions those two things are potentially equivalent. Much of the economic literature talks about what is the optimal trajectory for the exploitation of a non-renewable resource such as oil.

The theory is relatively straightforward, but in the practical world where we have uncertainty about what future demand is for a particular commodity the practice is a little bit more difficult. In the case of iron ore, for example, it is unlikely that there is going to be, in the near term, lots of substitutes for steel, so we are going to end up using lots of iron ore into the future, and it just so happens, luckily, that there is lots of iron ore on the planet as well, so we are unlikely to run out of the stuff in the short term or even the very long term. There is an old saying that the Stone Age did not end because we ran out of flint. Really the point that economists are making when they say that is that there are lots of substitutes in this world, and you cannot know what substitutes are going to turn up in the future.

If, for example, you decide to store a product in the ground like oil and somebody turns up with a nice substitute, all of a sudden you are sitting on some black stuff that five years ago was very valuable and now all of a sudden is not very valuable at all. People will say, 'Fisher's mad again and he's giving us misleading evidence.' I am not trying to do that. I am just making the point that for lots of commodities there are lots of substitutes. It is not the case, as the theory says, that if you look at an optimal trajectory of prices for a non-renewable resource they rise at the rate of interest. That is what the theory says should happen if you are exploiting a resource optimally. But in the real world that does not occur because we have all sorts of other factors happening. It is much more difficult to think about intergenerational equity than just saying that we will save the iron ore for future generations. It might actually be much more efficient to sell to the Chinese, Japanese and the Koreans iron ore today and put the rent in the bank or in your super fund, save it that way and then pass it on to future generations.

**Senator XENOPHON**—In case there is an iron ore substitute around the corner?

**Dr Fisher**—In case there is an iron ore substitute or a copper substitute. Not very long ago people thought that copper pipe would never be substituted out of plumbing. But just try to find a young plumber now who can put in a decent copper joint. You will be lucky, because they are all clamping plastic pipe.

**Senator XENOPHON**—It is not as good though.

**Dr Fisher**—It is possibly not as good, but because it is cheaper people are substituting away from copper into plastics.

**Senator XENOPHON**—This might be outside your expertise, but there is concern with respect to the Foreign Investment Review Board conditions about their non-binding nature or the lack of sanctions. There are concerns about the Rio Tinto acquisition of CRA in 1995 and suggestions that Rio failed to comply with respect to a number of conditions. How does that fit in in terms of economic theory and ensuring that we have effective controls or effective safeguards with respect to foreign investment and the national interest?

**Dr Fisher**—I do not know the full details of what happened in 1995 with CRA and Rio.

**Senator XENOPHON**—Leaving that aside, let us assume there is a failure.

**Dr Fisher**—Leaving that one aside, I think the question really comes down to whether the rules end up reducing the welfare of Australians. Whether a particular company did or did not, for example, end up with the right number—whatever that is—of Australians on the board is really immaterial. What is important is whether the investment in Australia changed as a result of failure to meet that condition. The investment in Australia will be determined, as I was saying previously to your colleague, more by the domestic policy settings, regulations and conditions than it will be by whether there are two or three Australians on a board.

**Senator XENOPHON**—If there is a breach in relation to one thing it makes you wonder whether other matters are being complied with as well.

**Dr Fisher**—Yes. That really comes down to asking questions about whether the behaviour on the ground is meeting Australian law and Australian conditions rather than whether somebody was naughty or not. I do not know whether they were or were not, because we are not talking about a particular case. If a company is complying with Australia's domestic rules, and we have sanctions if they are not, we should be okay just as long as the Australian policy settings are correct. If they are wrong then we should change them.

**Senator XENOPHON**—I publicly was against the Chinalco bid and one of the concerns I had was that it could have affected the marketplace in terms of competition, given there would have been a commercial conflict. In a sense it could have been anticompetitive, and it could have been a price taker or a price setter, if that makes sense. Should that be a factor in terms of determining whether there is foreign investment, that is, that it could have an anticompetitive effect on the market or it could distort the marketplace for Australian resources in particular?

**Dr Fisher**—Yes. If we were faced with a situation where the world price of a commodity could be manipulated to our disadvantage, then it is up to Australians or the government to think hard about that circumstance. It is actually very difficult to imagine a circumstance where even a 48 per cent stake in a particular company is going to move world market prices. In the Chinalco case, Chinalco is not engaged in the iron ore industry, in particular, if we are worried about iron ore. They are an aluminium company so you may wish to ask questions there, but in the case of iron ore then they are not engaged. You have to go one step further with concerns and say that Chinalco is somehow related to some other entities and they may share information, but even then it is very difficult to imagine how, say, a 15 per cent or an 18 per cent stake can influence the world price of iron ore when we have many players in that market.

**Senator XENOPHON**—Arguably it is a foot in the door, though, is it not, for a more significant interest down the track?

**Dr Fisher**—Let us hypothesise, for example, that China owned a majority stake in one of our major iron ore producers. Would that change the direction of iron ore prices in the world? The only way that could occur would be if we saw massive investment in Australia, enough to radically shift world supply, to force down world prices. That means a lot of construction, a lot of mines being built and a lot of railroad track being laid. It is not clear to me at all that that would not be in Australia's interests, even if it did force down world prices, which I have my

doubts about. I do not think you could put in place the scale necessary to have the impact that you are concerned about.

**Senator XENOPHON**—If it is a sovereign wealth fund that is state owned and there is a pretty symbiotic relationship with the government of the day, that would be a consideration—the Chinese companies that we have been dealing with, to put it bluntly. That would be a different factor from one that is at arm's length or that has a number of safeguards in place as our Future Fund does. I do not think anyone would query Mr Murray's independence and robustness in terms of the way that his board would be making decisions.

**Dr Fisher**—Let us ask ourselves another question. The Chinese domestic iron ore is a much lower grade than Australia's. It is not really known what those numbers look like, but at the height of production in 2007-08 they were probably down to a grade of about 24 per cent. We run at a grade somewhere between 55 per cent and 60 per cent. It is probably in China's interest not to mine iron ore in China but to replace that iron ore with higher grade product no matter where it comes from. It would actually be in our interest if we could capture that. Let us imagine we could capture a large share of that, say, an extra 400 million tonnes, and we displace all of that domestic iron ore with our high grade iron ore. That would basically free up labour in China. The Chinese are not particularly interested in freeing up labour, but they are interested in freeing up energy, and their production systems are enormously energy intensive. It would actually make economic sense both to the Chinese people and to Australians if that iron ore was not mined in China but it was mined here. In that case that investment would be in everybody's best interest and we should encourage it.

**Senator XENOPHON**—Thank you.

**Senator JOYCE**—I apologise, I have been going backwards and forwards to meetings all night, which have been compulsory, not optional. Do you see inherently that there is a problem, as manifestly prescribed by the Stern Hu affair, where a nation that invests as a nation, which is what sovereign/state owned entities do, creates immense complications for us?

**Dr Fisher**—We are unused to having lots of investment from those sorts of sources. It is only relatively recently that we have had investments from sovereign wealth funds and some state owned enterprises, so we are adapting effectively to a new world order, in my view. As I said before to the committee, I think we are going to have to adapt to that world because that is where the majority of savings are going to come from in the future. I am in no position to comment on the Stern Hu affair, because I do not know what the background is. I have no evidence and no information about that other than what I read in the newspapers and I imagine that that is highly unreliable.

I think the key point is that the growth in savings around the world has shifted from Europe and the United States into Asia and the Middle East. The economic arrangements in those countries are different from what we are used to, and as a consequence of that we are going to need to adapt to investment from those sources, and in the long term trade is linked to investment flows. As a small open economy we need desperately to trade with those growing nations and, as a consequence of that, we need to adapt our systems to cope with new investors in Australia.

**Senator JOYCE**—I am going to ask a technical question. With respect to China's reserves and capacity to purchase things—I am just speaking about China because there is an inherent lack of transparency with what goes on there—when China goes out and buys something in Australia, for instance, Shenhua's purchase in the Liverpool Plains or Chinalco, with the reserves that they rely on when they purchase those assets what stops China from saying, 'Just write the number down in the book and send them the cheque'? How do we know that it relates to an accounting based certifiable allocation of funds? What stops China from saying, 'They want \$200 billion or \$300 billion. Just send them a cheque'? How are they ever going to know whether this money is real or not? They use it to trade back with us, it stimulates our economy, so who cares?'

**Dr Fisher**—In the final analysis if you are selling something to somebody you are going to need some hard currency, otherwise you are not going to transfer the property.

**Senator JOYCE**—The Chinese are trying to change from dealing in American dollars to Chinese yuan and using that around the globe. I think Argentina and a few other countries are coming on board with that as their term of trade. They are trying to move away from the US dollar. Once they do that they have a printing press and they can do what they like. They then have the vehicle of a 100 per cent owned government entity to be an arm to go out and purchase what they want with their printing press.

**Dr Fisher**—It is going to be some time before we see the Chinese currency accepted around the world as a reserve currency. In the long term that is coming. If we were sitting here in 2050 we will probably be perfectly happy to deal in yuan rather than US dollars.

**CHAIR**—That will not happen until those transparencies are there surely?

**Senator JOYCE**—How do we know that they are not just buying things at that stage with their printing press rather than with any sort of realisable and accountancy based background of wealth?

**Dr Fisher**—We face exactly the same problem with the United States.

**Senator JOYCE**—But the US do just print the money.

**Dr Fisher**—They do, exactly.

**CHAIR**—Where does that leave us?

**Dr Fisher**—In the past when they have done that they have caused enormous surges of inflation in the world. You can go back to the Vietnam War and you can see those effects. No matter who it is that is in control of the reserve currency we are going to have that sort of problem, but we have not invented an international exchange system that is actually better than that.

**Senator JOYCE**—Technically they could just do that. There is nothing really to stop it. It is good to get this on the record. They could purchase something just with the printing presses. They could say, 'Tell them we are buying 195 square kilometres of the Liverpool Plains. Turn on

the printing press', and send over the dough. Or they would just send a cheque. It is the fact that they have control of the mechanism of financing trade, not that they are actually sending you anything; sitting behind it is no more than an intention to print money.

**Dr Fisher**—Except that, if we are talking about the Liverpool Plains today, I imagine the transaction was going to be done in US dollars. You would have to worry about President Obama more than the President of China.

**Senator JOYCE**—When they purchase it with the US dollars what stops the Chinese from saying, 'We'll purchase a heap of US dollars.' Turn on the printing press. 'Here you go. You have our yuan and we'll have your US dollars.' Send the US dollars over to them?

**Dr Fisher**—Anybody with a US dollar is not going to give the Chinese a US dollar unless the Chinese give them some goods in exchange—except you and I. If we go to China you and I are going to exchange US dollars for the local currency because we want to buy things in restaurants and it is easier. If you are making large exchanges in international markets then basically those exchanges are being made in exchange for goods. If the US is importing vast amounts, which they are—or at least until the crash they were importing vast amounts—of Chinese washing machines, TVs, air-conditioners and so on, those goods were being exchanged for US dollars.

**Senator JOYCE**—I suppose in a fashion that is exactly what is happening. The Americans turn on the printing press and they buy the goods. The Chinese get loaded up with a currency which for all intents and purposes they have some serious concerns about. Then they think, 'How do we mitigate our risk? We will buy a substantive asset in Australia with this cash.'

**Dr Fisher**—That sounds like a very wise idea to me.

**Senator JOYCE**—Except if we are in Australia and all of a sudden the sovereignty of our nation is being taken into this maelstrom and we are losing a connection. We are not losing it to a corporate entity. We are losing it to the long-term strategic aspiration of a government.

**Dr Fisher**—This case goes back to the discussion we were having previously about trade following investment and a genuine desire on behalf of the Chinese people to see their economy develop, and the need for resources. When we think about Australia's past, our economic welfare has been enhanced by foreign investment from the United States and the United Kingdom, which was really driven by a need for products produced by Australians. The English did not come here just because they liked the weather. They came here to invest in agriculture, beef and wool so that those products could go back to Europe—in the case of wool—and feed the textile system.

**Senator JOYCE**—With respect to trade development, it might be politically incorrect but we have to say it: when you deal with America, Europe, Japan or India there is also sitting behind it—it might not be at the level that we expect—individual rights and judicial and democratic principles that are comparative. How many of these do we have to compromise when we deal with a country that says, 'For us the democratic principle is irrelevant because we do not have a democracy.' The judicial principle is a function of the government, which is basically by appointment. It is a mechanism of control rather than a mechanism of justice. The individual principle is: 'As long as you don't put your head up too high, you're going to go along all right,

but watch out if you do.' We saw what happened recently with the Uygur lady and also the attack on the arts festival launched from China. Their principle of liberties and how they manifestly search over the horizon to inflict their views on other people is completely and utterly at odds with anything we have experienced in the past.

**Dr Fisher**—The real question it comes down to is: if you perceive that those things are not optimal, how would you go about changing them? In my view, I do not believe that I have any right to dictate to a sovereign government how it should run its country. That is a bridge too far. Even if you go past my bridge too far, from my personal point of view, what facilitates change in an economy and a society seems to me to be economic prosperity, growth, change and openness to the world. I do not think we see many of those changes as a consequence of attempting to beat people into submission. It is far better to trade with people slowly, talk about openness, introduce others to the way we do business and try to do business on some sort of equal footing on a case-by-case basis.

**Senator JOYCE**—Obviously we are talking about guidelines and things that should be brought into guidelines. Is it either naïve or duplicitous that we can moralise about the Sudanese, have trade embargoes with the Burmese and tell the Zimbabweans how terrible they are, but because they are exceptionally powerful we do not dare do those sorts of things with the Chinese? Are we compromising ourselves as a nation and in the process of compromising ourselves making ourselves a lesser place, or is this just the reality of the new world, that all that humanity has tried to build up over such a long period to advance the right of the individual should now, at this point in time, be set aside because the price is right?

**Dr Fisher**—I am not too sure that it is actually about the price being right. There are 1.3 billion Chinese people who have a different view. They have a culture that has grown up pre-Roman times, basically, and they have evolved into a different sort of civilisation. We have evolved for different reasons into a European-style civilisation with different views about individual rights. We have two different systems.

**Senator JOYCE**—Are those rights and beliefs endemic and ubiquitous across all people or is it only a certain group of people who have this aspiration of the liberty of the individual, the free expression of belief, freedom of movement and freedom of religious belief? Are these things just peculiar to us—without trying to be too contentious—because we are of some sort of European genealogy; other areas are different and they do not believe in those sorts of things? Surely these rights are just ubiquitous across all people?

**Senator PRATT**—Maybe they are interpreted in different ways in different places.

**Senator JOYCE**—Therefore, we should be trying to sponsor that and assist that in any way, shape or form, and you are not assisting it if you just hand across a whole mechanism of wealth to support an institution which at this point in time runs completely at odds to those desires.

**Dr Fisher**—There is no doubt that what you are describing is a view of the world that we have inherited from our European roots. The Chinese view of the world is different. It is based on a view that the family and the clan is more important than the individual.

**Senator JOYCE**—Filial piety.

**Senator PRATT**—It is not that different to here.

**Dr Fisher**—Is that right or wrong?

**Senator JOYCE**—It all depends which side of the transaction you are on. If you are on the side that is, for instance, a Tibetan or a Uygur, you are in a camp in North Korea or you are being subjugated to the Janjaweed's extermination of a whole group of people in southern Sudan you would probably say that it is not working out very well for you.

**Dr Fisher**—There are certainly circumstances that I am sure are not optimal for the individual. But if we look at the attempts in the past to impose change on societies by economic sanctions, you cannot think of a single case where that has been a raging success. We have imposed sanctions on the Burmese.

**Senator PRATT**—I think the ban on foreign investment in South Africa was pretty influential.

**Senator JOYCE**—That is an interesting point. I will touch on that, too.

**Senator PRATT**—I take your point, Mr Fisher.

**Senator JOYCE**—There was immense pressure put on South Africa because of their apartheid regime, which people felt was intolerable. There was immense economic pressure and sanctions that eventually brought about the change in the function of government in South Africa.

**Senator PRATT**—China is probably a bit too big for that.

**Senator JOYCE**—Therefore, it is a relative thing; we will insist on our viewpoint on the world unless we feel that you are too big, in which case we will let you get away with whatever you want.

**Senator PRATT**—No. I do not think that is what anyone is arguing.

**Senator JOYCE**—Let us look at another issue. Let's talk about foreign investment. If we go pre-1938 Germany, people dealing with Krups or any of the major investment houses in Germany did so because of commercial expediency. Have we got any right to look back in history at them and say, 'That was immoral', when basically in another form we are doing exactly the same thing now?

**Dr Fisher**—I do not think I can comment on that. In fact, I would not comment in any way on a comparison between Nazi Germany and modern China. It is just not—

**Senator PRATT**—Dr Fisher, you would agree that we need to make progress on human rights issues in China? I do not think that is really in question here.

**Dr Fisher**—Yes, I believe that we should make progress on human rights issues everywhere, no matter where they are. What I am really saying is that trying to do that via foreign investment rules in Australia is, firstly, not in our best interests and, secondly, almost certainly will fail.

**Senator JOYCE**—Where do we draw the line on what we are willing to compromise in Australia? I will be more direct. Is there a line you draw in your Foreign Investment Review Board guidelines in Australia that has any reflection on what many would believe is a manifest desire of so many human beings to live with a certain sense of stability, freedom, democratic principle, right of the individual, or is that not a line you ever countenance in Foreign Investment Review Board guidelines?

**Dr Fisher**—I do not think it is sensible to go there.

**CHAIR**—We are two minutes off an hour now with this segment. Dr Fisher is probably desperate for a cup of coffee.

**Senator PRATT**—Can I just ask a very quick question?

**CHAIR**—Yes.

**Senator PRATT**—To what extent can we influence be they environmental outcomes or labour standards in another country when we are talking really about how we control foreign investment in our own?

**Dr Fisher**—I do not believe we can have other than extremely marginal influences on those things elsewhere.

**Senator PRATT**—Which might be to give some visibility to the issues in public debate.

**Dr Fisher**—Precisely. What we should do is ensure that the behaviour of those entities in Australia is up to Australian standard.

**Senator PRATT**—Can we make a contribution to improving standards overseas by doing that?

**Dr Fisher**—I believe so. If people observe the way our mines operate and they take some of those lessons back with respect to safety, for example, that has to be a good thing.

**Senator JOYCE**—What exactly do we do, though, when that state owned enterprise involved in Australia, which is backed up by a regime so powerful that we dare not make any comment about their people's liberties, rights, aspirations or the way they function in their country, decides to push the envelope in our country? If we cannot stand up to them at the start how on earth do we ever stand up to them later on?

**Dr Fisher**—I am not exactly sure how you are anticipating they might push the envelope.

**Senator JOYCE**—Let us use an instance where they are in Australia and there is a transfer pricing issue. All of a sudden you are saying to this enterprise, 'You are not ever paying any tax.'

You seem to be putting in a return each year that says you are not making any money. We know quite evidently that that is not the case.' They say, 'Stick it up your jumper. I've got no interest in talking to you.' Then we say, 'If you don't do that we're going to ... Hang on, we can't do anything because you're too strong.'

**Dr Fisher**—In the final analysis if there are transfer pricing issues and the Australian Taxation Office cannot deal with them, presumably there are other sanctions against that company. In the final analysis, presumably those assets actually reside in Australia.

**Senator JOYCE**—It is quite self-evident. If they have the capacity to lock up a senior director of a company without really delivering any charge sheet, just saying, 'We think he's broken the law' and that is it, then what are you going to do when they say, 'You'd better not touch any of our assets or watch out'?

**CHAIR**—That is interesting.

**Dr Fisher**—I think those questions are more for the lawyers.

**Senator JOYCE**—Unfortunately it is diplomatic relations. It almost becomes a question for the Defence Force and they might say, 'Don't do anything about it because we don't have any capacity or any influence over them. You just have to live with it.'

**CHAIR**—That is a possibility. Most wars are caused over resources, if you look through history—water and other things. One way of avoiding wars is not to cause problems with resources. Even the Japanese activities in World War II were about looking for resources. With that I think we will close, as we are over time. Thank you very much, Dr Fisher.

**Dr Fisher**—Thank you.

**Committee adjourned at 6.46 pm**