



RESEARCH NOTE

Number 8, 2001-02
ISSN 1328-8016

Foreign Ownership and Corporate Australia

Introduction

The perennial issue of foreign ownership has been raised again by the government's decision to refuse Shell's proposals to increase its stake in Woodside, the merger of BHP and Billiton and the recent national angst over the future of Mitsubishi¹. One interpretation of the press coverage of these events is that foreign multinational corporations are taking over Australia's corporate sector.

This Research Note presents the available statistics on foreign ownership to put these headline mergers and acquisitions into perspective.

Foreign ownership

An important source of information on this is a periodic Australian Bureau of Statistics (ABS) data series.

Using data from the *National Accounts* and its *Survey of International Investment* the ABS attempts to estimate how much of the equity on issue in Australia is held by non-residents. The last time the ABS published data on this topic was in the December quarter 2000 issue of *Balance of Payments and International Investment Position, Australia* in an article entitled *Foreign Ownership of Equity*.

Equity is defined as listed and unlisted shares and units in trusts; ownership of property by non-residents and ownership of branches of foreign companies.

Non-residents (foreign owners) are defined as any individual, enterprise or organisation usually residing in a country other than Australia.

In this report the ABS estimates that, in September 2000, Australian enterprises had equity on issue of \$1 139 billion (exclusive of \$11.1 billion held by the Reserve Bank) and that of this non-resident owned

**Table 1. Ownership of Equity by Enterprise Group—
December 2000**

	Total (\$b)	Foreign owned (\$b)	Percentage in foreign ownership (%)
All sectors	1 139	333	29
Corporate Trading Enterprises	821	277	34
Banks	138	34	24
Non Bank Deposit taking Institutions	17	4	22
Other Financial Sub-sectors	163	19	11

Source: Balance of Payments and International Investment Position, Australia, ABS Cat No. 5302.0, Dec 2000

\$333 billion (29 per cent) (see table 1).

The report goes further and divides the equity on issue into four enterprise groups.

The four groups are:

- corporate trading enterprises (including public non-financial corporations),
- banks,
- non-bank deposit taking institutions,
- other financial sub-sectors.

Corporate trading enterprises had the highest level of foreign ownership, 34 per cent of equity was foreign owned in this group of enterprises. For the other sectors the levels were: banks 24 per cent, non-bank deposit taking institutions 22 per cent and other financial sub-sectors 11 per cent.

The ABS also differentiates between those investments that imply a controlling interest in a business entity and those that don't. Some investors may only have a small interest in an enterprise and others may own enough of an enterprise to give them a degree of managerial control. In order to differentiate between the two, the ABS categorises investment as either:

- direct investment, or
- portfolio investment.

Direct investment is where an investor's interest in an enterprise exceeds 10 per cent. Ten per cent is the level at which an investor is deemed to have acquired a significant influence in an enterprise. This category can be further subdivided into those enterprises where an investor holds 10-50 per cent of the equity and 50-100 per cent of the equity. In terms of control the second sub-category would give an investor a controlling influence in an enterprise.

Portfolio investment is where an investor has less than a 10 per cent stake in an enterprise. This type of investment is regarded as not substantial enough to give an investor a significant influence over the management of an enterprise.

Although only 29 per cent of equity was foreign owned over half, 54 per cent, of this was in the nature of direct investment. Nearly all of this 54 per cent was in the 50-100 per cent category of direct investment.

The data also reveals that the overseas interests most likely to be involved are from the United States of America and the United Kingdom. Between them they hold 70 per cent of all foreign owned equity (see table 2).

From this it can be seen that at present the majority of Australian equity remains locally owned. However, what are the long-term

trends and what is the picture at the firm level?

Table 2. Foreign owned equity by country and region—June 2000

Country	\$b	%
USA	115	35
UK	114	35
Japan	16	5
Other countries	83	25
Total	328	100
Region		
OECD	290	89
APEC	152	46
EU	142	43
ASEAN	6	2

Source: Balance of Payments and International Investment Position, Australia, ABS Cat No. 5302.0, Dec 2000

Time series data reveals that foreigners hold a smaller share of the Australian corporate sector now than they did ten years ago. In 1990–91 33 per cent was in foreign hands. During the 1990's this share declined to as low as 26 per cent in 1992–93. More recently it has fluctuated between 28 and 29 per cent. Currently it stands at 29 per cent.

Ownership of individual firms

There are no definitive statistics on the number of foreign owned businesses in Australia. However, some data on this topic was published in 1995 as part of a longitudinal survey of Australian business. This survey covered employing businesses in most industries.²

This survey found that less than two per cent of firms had any level of foreign ownership.

Foreign ownership was negligible in small businesses. Of those firms employing 1–4 people only about one per cent had any level of foreign ownership.

However, what this data reveals is that the level of foreign ownership increases significantly with firm size. Of those firms employing over 500 people 47 per cent had some degree of foreign ownership. Indeed 32 per cent, of those firms with some degree of foreign ownership, were between 50 and 100 per cent foreign owned.

The manufacturing and wholesale industries had the most foreign involvement. An estimated 3.9 per cent of manufacturing firms and 2.7 per cent wholesale firms had some degree of foreign ownership.

More recently a private sector business information service, IBISWorld, published research on the nature of foreign ownership in Australia³. This research covered the top 500 foreign owned companies where non-residents owned 50 per cent or more of the enterprise.

IBISWorld found that these 500 companies accounted for 16 per cent of all revenue by Australian companies. They employed almost 195 000 people, which is equal to about 2 per cent of total employment.

IBIS research made the following observations about these companies.

- Foreign ownership was most prevalent in the manufacturing and wholesale sectors. In the manufacturing sector 46 per cent of revenue was attributed to foreign owned companies and in the wholesale sector it was 31 per cent.

- Geographically 90 per cent of these companies were located in NSW and Victoria.
- It found the United States, United Kingdom and Japan to be the leading investor countries.

Conclusion

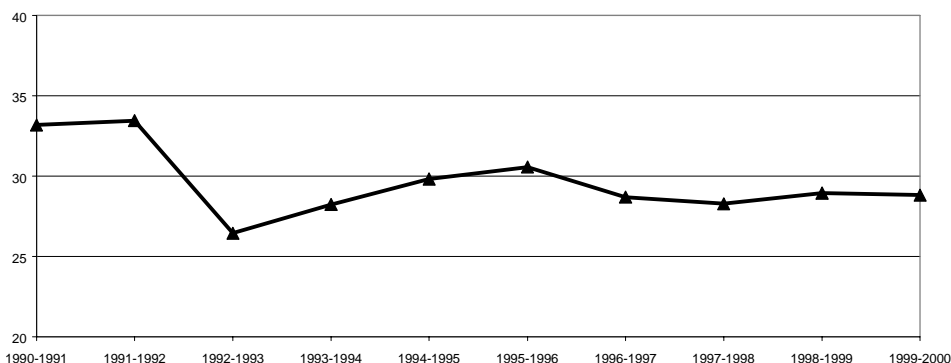
In aggregate terms the majority of corporate Australian is still locally owned.

Very few businesses, about two per cent, have any degree of foreign ownership. However, research into foreign ownership by business reveals that there are significant concentrations of foreign ownership in large businesses, particularly in the manufacturing sector.

Therefore it could be argued that foreign investors play a small but strategically significant role in the Australian economy. The recent saga over the future of Mitsubishi Motors Australia highlights the extent of this foreign influence in some sectors of the economy.

1. Michael Millet, 'Mitsubishi talks tough to Howard', *Sydney Morning Herald*, 4 August 2001.
2. Industry Commission/Department of Industry, Science and Tourism, *A Portrait of Australian Business Results of the 1995 Business Longitudinal Survey*, Canberra, 1997.
3. *The Foreigners are here to stay*, Business Review Weekly, 13 October 2000, pp. 112–133.

Percentage of equity in foreign ownership



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18 September 2001

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