Australian Government
Department of Foreign Affairs and Trade

Australian Government
Australian Trade and Investment Commission

Australia UNLIMITED

SUBMISSION TO THE HOUSE OF REPRESENTATIVES COMMITTEE INQUIRY INTO IMPEDIMENTS TO BUSINESS INVESTMENT

May 2018

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CONTENTS

TERMS OF REFERENCE

The terms of reference asks the House of Representatives Standing Committee on Economics to inquire into and report on:

- the interaction between regulatory frameworks across all levels of Government and how the cumulative regulatory burden can be reduced to support greater business investment;
- the impact of innovation policies, at the Commonwealth and State government levels, on business investment and the role of innovation policies in encouraging greater business investment, having regard to approaches taken in other countries;
- the role that taxation policy, at the Commonwealth and State government levels, can have on the encouragement of new business investment;
- the role that energy policies, at the Commonwealth and State government levels, can have on the encouragement of new business investment; and
- the impact of supplier payment times, including by governments, on business investment for small to medium enterprises.

OVERVIEW

Foreign investment is critical to the Australian economy. It is a significant and long-term contributor to total business investment in Australia. To ensure Australia continues to remain a competitive destination for foreign investment it is important to look at impediments to business investment in Australia. We must maintain our reputation as an open, well-regulated and stable economy that is a welcoming place to invest. Some policy factors apply equally to all investment, be it domestic or foreign, but there are also policy factors unique to foreign investment.

As described in the Government's *Foreign Policy White Paper*[1]*,* our openness is central to our economic prosperity. The White Paper's international agenda is built on domestic and international policies that increase the competitiveness and resilience of our economy and ensure that Australia maximises the gains from openness to the world. The Paper outlines that "openness, of course, is a means to an end, not an end in itself. Nor is it an absolute. We exercise strict sovereign control to protect the cohesion of our society, the integrity of our institutions and the security of our borders and national infrastructure." To this end, foreign investors recognise the important role of government in considering and addressing national security considerations concerning foreign investment. At the same time, foreign investors also emphasise their commercial need for regulatory certainty, which is necessary to enable long-term productive investments in Australia.

Australia is a large, resource-rich country with a high demand for capital. We need foreign direct investment (FDI) to support the development of our economy, drive our growth and create jobs. Total foreign investment contributed around 10 per cent ($42.9 billion) of total investment in Australia in 2017.

The Department of Foreign Affairs and Trade (DFAT) and the Australian Trade and Investment Commission (Austrade) gather insights and feedback on Australia's attractiveness as an investment destination. Our overseas and onshore networks report on perceived advantages, challenges and impediments to investing in Australia. These policy responsibilities, and direct experience and coordination with key stakeholders, provide the context and framework for our Submission. The Submission particularly focuses on impediments to business investment from an FDI perspective. While foreign portfolio investment also benefits the Australian economy, FDI is normally regarded as a more stable form of investment because it typically involves a large, long-term commitment from the investor.

Actual or perceived stability, certainty, transparency and consistency in the regulatory and business environment help maintain Australia's competitiveness and attractiveness as an investment destination. Disproportionate regulatory restrictions and inefficient regulatory regimes, including regulatory differences between different jurisdictions, make Australia a less attractive destination for foreign investment. This affects our long-term economic prosperity.

The portfolio plays a central role in investment promotion and facilitation; trade negotiations and policy; and in advancing national security and strategic interests. Austrade leads the national strategy for promoting,

[1] *2017 Foreign Policy White Paper*, Canberra, 2017, <www.fpwhitepaper.gov.au>.

attracting and facilitating FDI and DFAT is responsible for investment policy as it relates to bilateral and multilateral agreements.

To help sustain an attractive environment for foreign investment, both DFAT and Austrade play an active role in discussions relating to domestic policy reforms to ensure regulatory regimes are appropriate and measured. This protects Australia's national interest while not presenting an unnecessary burden on business.

An important aspect of DFAT's work is conducting trade negotiations to create a set of rules to promote open markets that provide opportunities to increase the prosperity of Australians. To encourage inbound investment many of our Free Trade Agreements (FTAs), including the recently concluded Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11) and the Peru-Australia FTA, liberalised our foreign investment screening thresholds for private investors in non-sensitive sectors. FTA partners that already benefit from preferential thresholds include the United States, New Zealand, Japan, South Korea, China, Singapore and Chile. This is an important contribution to sustaining investor interest in Australia. Liberalising the screening thresholds for foreign investment in non-sensitive sectors encourages investment into Australia.

Austrade's work to attract foreign investment includes promoting Australia as a promising place to invest, targeting and attracting investors to specific projects, coordinating investment facilitation activities for federal, state and territory governments, and maintaining relationships to encourage reinvestment by investors already in Australia. Austrade aims to attract investment in priority sectors that benefits Australia. The priority investment areas, agreed with state and territory governments, are: advanced manufacturing, services and technology; agribusiness and food; resources and energy; major infrastructure; and tourism infrastructure. In recent years, a particular focus has been promoting investment in Northern Australia, as supported by the hosting of the successful Northern Australian Investment Forum in Darwin (2015) and in Cairns (2017).

The Commonwealth and State and Territory governments together set investment priorities, facilitate investment opportunities, and identify and address impediments to investment. This work is overseen by the Trade and Investment Ministers' Meeting (TIMM), which generally meets twice yearly and is chaired by the Commonwealth Government Minister for Trade, Tourism and Investment. TIMM is supported by the Senior Officials Trade and Investment Group (SOTIG), co-chaired by Austrade and DFAT. The more operationally-focused National Investment Advisory Board (NIAB) reports to SOTIG. Both groups include state and territory investment officials.

Taking forward a commitment in the *Foreign Policy White Paper*, Austrade is leading the development of a stronger nation brand, which will project a confident, contemporary and consistent vision of Australia's strengths. Austrade is working closely with states, territories and industry on the development and future operationalisation of the Australian nation brand.

Finally, Austrade employs staff on behalf of a number of state and territory governments to deliver a mutually agreed business plan to support each state or territory's trade, investment and education promotion activities. These staff are employed in a diverse range of markets across Asia, Europe and the Americas. Austrade delivers services to, and works with these state and territory agencies and departments overseas to ensure government investment attraction efforts are coordinated and targeted. In this way, Austrade works with states and territories while promoting a united 'Team Australia' approach to investment attraction.

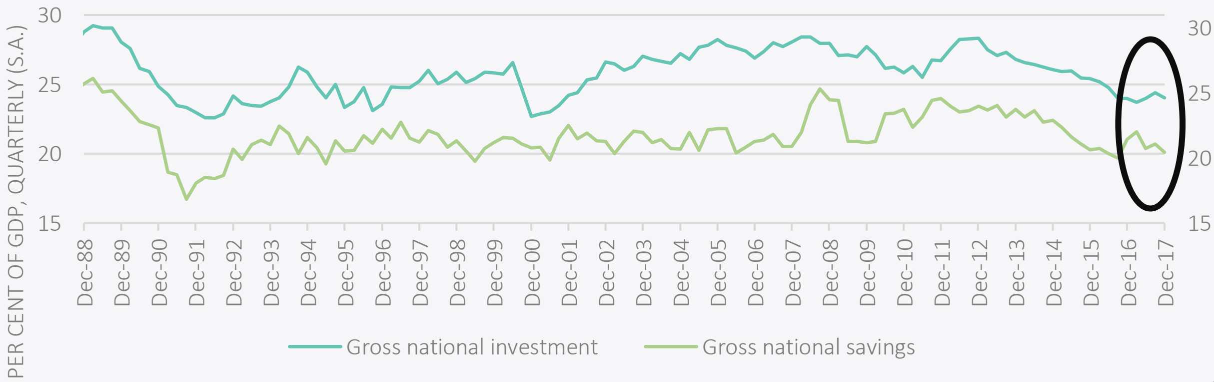
IMPORTANCE OF FOREIGN INVESTMENT

Productive foreign investment, and integration of Australian businesses into the global market, is critical to Australia's economic interests. Openness connects our economy to larger, often faster growing markets. It enables Australia to benefit from the world's best goods, services, people, capital and ideas to grow our economy and create more jobs. Foreign investment is an essential part of Australia's economy, sustaining our regional communities, and helping our small and medium sized businesses access the capital and opportunities they need to grow. A quarter of large businesses in Australia are more than 50 per cent foreign-owned. For example, US-affiliated firms in Australia employ approximately 372,000 locals – around one in 32 Australian jobs[2], with some of these jobs attracting high wages. Through the introduction of new technologies and exposing our businesses to international best practices, foreign investment also supports our productivity and competitiveness. This has helped Australia experience its 27th year of consecutive annual economic growth – which is almost unparalleled by major developed economies.

Productive foreign investment supplements Australia's domestic savings to increase and improve economic opportunities available to Australians. Australia has long been a beneficiary of foreign investment. Since the 1960s, foreign investment from the US, the UK, Japan and elsewhere has provided the capital necessary to take maximum advantage of Australia's mineral resources, which is now our largest export industry[3]. Australia now attracts FDI from a diverse range of countries. The top five sources of FDI (stock) into Australia at the end of 2017 were the United States (22.4 per cent), Japan (10.9 per cent), the United Kingdom (9.8 per cent), Netherlands (6.3 per cent) and China (4.8 per cent).

Australia: Gross national saving and investment rates

Source ABS Cat. No. 5206.0 & 5232.0



[2] U.S. Bureau of Economic Analysis, 2018, viewed 20 March 2018, <www.bea.gov/index.htm>. Proportion of employment based on June 2015 total employed persons, ABS catalogue 6202.0, Labour Force, Australia, viewed 15 March 2018.

[3] The Treasury, *Foreign Investment Policy in Australia — A Brief History and Recent Developments,* Economic Roundup Spring, 1999, <http://archive.treasury.gov.au/documents/195/HTML/docshell.asp?URL=roundup10.asp>.

Total foreign investment contributed around 10 per cent ($42.9 billion) of total investment in Australia in 2017. For the last few decades Australia's national investment and savings gap has been on average four percentage points (see graph above). Foreign investment has been an important contributor to help finance this gap.

Foreign investment also plays an important role in supporting our export industries by providing access to global supply chains and new markets. This allows Australian businesses to pursue enhanced commercial opportunities abroad, innovate their processes to improve their products and efficiency, and access critical new skills. Australia has a significant direct investment presence abroad. Nearly three quarters (73.2 per cent) of Australian goods and services provided to the United States, Canada, New Zealand and the European Union in 2014 were by Australian majority-owned businesses in these countries – almost triple the value of direct exports from Australia to these economies[4].

[4] Department of Foreign Affairs and Trade, *International Investment Australia 2016*, DFAT, Canberra, 2017, <www.dfat.gov.au/about-us/publications/Pages/international-investment-australia.aspx>.

DOMESTIC POLICY REFORM AND REGULATION

PORTFOLIO PERSPECTIVES

The challenge for any government is to deliver effective and efficient regulation and regulatory frameworks to deliver economic and social outcomes that impose the least necessary burden on businesses, community organisations and individuals. Investigation of how the cumulative regulatory burden can be reduced to support greater business investment is a key element to achieving these aims.

Australia continues to be a competitive destination for the international investment dollar. The view of Australia by global investors highlights Australia's strengths in terms of stability, skilled workforce, high quality assets, high incomes, continuous economic growth and interconnectedness with key Asian markets, including through our network of FTAs.

Australia is working to further capitalise on our attractiveness as an investment destination by ensuring we have the right regulatory settings, incentives and economic policies in place to support continued economic growth and foreign investment, including with regard to competition, tax and innovation.

FOREIGN INVESTMENT FRAMEWORK

Foreign investors value certainty, transparency and predictability in policy frameworks.

The Australian Government welcomes foreign investment in accordance with our Foreign Investment Framework. The Framework is underpinned by the *Foreign Acquisitions and Takeovers Act 1975* and the Foreign Investment Policy. The Government will continue to consider the national interest when reviewing foreign investment proposals. If it is ultimately determined that a proposal is contrary to the national interest, it will not be approved, or conditions will be applied to safeguard the national interest. The Foreign Investment Framework is administered by The Treasury.

Over the past two years Australia has streamlined its foreign investment review process by simplifying aspects of the regulations and the fee framework.

TAXATION

Taxes on investments in Australia can affect many of the drivers of economic growth. Taxes affect investment in fixed (including intangible) capital, innovation, allocative efficiency, entrepreneurship, labour productivity and exposure to trade and FDI.

Complexity and compliance costs of the tax system can affect investor sentiment.

Reductions in company tax rates among Organisation for Economic Co-operation and Development (OECD) and neighbouring countries are generally seen as providing countries with a competitive edge in global markets and enhancing their ability to attract global investment.

Currently, Australian companies with an aggregated annual turnover below $10 million are taxed at 27.5 per cent, while companies with an aggregated annual turnover of $10 million or above are taxed at 30 per cent. Australia's company tax rates are now significantly above the average rate of other countries, particularly our Asian neighbours, with whom we compete for foreign investment[5].

DOMESTIC REFORM AGENDA

Our openness to trade, investment, skilled migration and new technologies supports high living standards, creates jobs, and helps push down prices. In turn, policies that strengthen our competitiveness enable Australia to make the most of trade and investment opportunities.

But we cannot assume continued availability of foreign capital. Global direct capital flows remain below pre-GFC levels, and we compete for foreign investment – in 2016 Australia ranked as the world's 14th largest destination for FDI[6].

Over the next decade, the Australian Government aims to enhance the international competitiveness of Australian businesses by substantially increasing infrastructure funding, investing in science and innovation, cutting the company tax rate to 25 per cent and returning the Budget to balance. The Government is also strengthening national competition and consumer legislation to enhance the competitiveness of Australian businesses and give consumers more choice through well-functioning markets.

Continuing to pursue this reform agenda will be key to ensuring Australia remains a competitive destination for productive foreign investment. Any necessary regulatory changes should be clearly communicated, which is central to maintaining investor confidence in the Australian market. As far as possible, our policy settings should provide investors with the certainty they need to support long-term investment.

VISA REFORM

Access to skilled labour is an important factor in global investor decision making.

The visa reform process, including changes to the 457 visa (skilled worker visa), will ensure Australia remains a competitive destination for skilled foreign workers. The reforms will support Australian businesses in addressing skills shortages in their workforce.

The introduction of the Temporary Skill Shortage (TSS) visa, which replaced the 457 visa on 18 March 2018, will provide businesses with access to global skilled talent where it is needed for international competitiveness and economic growth.

[5] OECD tax database Corporate and capital income taxes, OECD, viewed 23 April 2018, <stats.oecd.org/index.aspx?DataSetCode=TABLE_II1#>; KPMG Corporate tax rates table, KPMG, viewed 23 April 2018, <home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html>; PWC Corporate income tax (CIT) rates – Headline rates for WWTS countries, PWC, viewed 23 April 2018, <taxsummaries.pwc.com/ID/Corporate-income-tax-(CIT)-rates>.

[6] Department of Foreign Affairs and Trade, *International Investment Australia 2016*, DFAT, Canberra, 2017, <www.dfat.gov.au/about-us/publications/Pages/international-investment-australia.aspx>.

Investors continue to communicate views that further reforms to the scheme would be beneficial. A nimble and efficient visa regime, which is responsive to the needs of Australia's industries to attract skilled labour, can be an important factor in investment decisions.

ENERGY POLICIES

Energy policies are an integral part of Australia's trade and investment competitiveness. Effective energy policies deliver reliable and affordable energy supply. The stability of energy policy is an important factor that encourages investment in new energy supply infrastructure. Energy supply infrastructure typically has a working life of 40 years or more. Investors in this infrastructure are reluctant to invest in capital-intensive new assets without policy certainty as there are risks they might be left stranded with the wrong technology or infrastructure.

The competitiveness of the Australian economy relies on affordable and reliable energy as it is a significant input into Australia's manufacturing, mining and most other industry sectors. The importance of energy policy will endure as Australian businesses rely on energy for technological solutions, such as automation to lower costs and increase health and safety at work sites. Energy policy can also play an important role in encouraging energy efficiency within businesses, leading to lower costs. Energy policy settings are also important in supporting the emergence of new technologies, such as electric vehicles and battery storage. Without appropriate energy policy settings, the emergence of these industries could stall.

The Government's approach to resource development, production and trade makes Australia a highly attractive investment destination. A key factor is clear separation between ownership and regulation, unlike some other countries, where ownership is a mixture of private and government sector. Further, the Government does not direct or influence which markets energy exports must be sold to.

ENHANCING REGULATORY EFFICIENCY AND LIMITING SOVEREIGN RISK

DFAT and Austrade gather insights and feedback from our overseas and onshore networks on Australia's attractiveness as an investment destination and on perceived advantages, challenges, and impediments to investing in Australia. Some feedback is unique to each investment sector. However, two themes are apparent across all sectors: regulatory efficiencies and harmonisation, and activity that may increase the perception of sovereign risk.

Investors frequently seek enhanced regulatory efficiencies, including by harmonising national, state and territory laws and regulations, reducing duplication, and by speeding up processing and decision-making, and reducing time and costs to business. Increasing regulatory efficiency and harmonisation, while maintaining the policy goal of the regulation would increase Australia's competiveness.

Investors also cite a perception of political uncertainty as an impediment to direct investment in major infrastructure. Investors advise that this perception of risk increases with unexpected changes to, for example, taxation policy impacting foreign investors or uncertainty surrounding the commencement of major infrastructure projects.

ECONOMIC AND COMMERCIAL DIPLOMACY

Through DFAT and Austrade's overseas and domestic networks, we actively engage with businesses to support FDI into Australia. In the *Foreign Policy White Paper*, the Government is committed to revamping the economic diplomacy agenda to better harness commercial insight to support Australia's commercial interests and create new opportunities for growth, including through the Economic and Commercial Diplomacy (ECD) Agenda. A central pillar of the ECD is promoting investment through retaining and growing international investment in Australia; strengthening Australia's international reputation as a destination for and source of foreign investment; championing open investment policy settings abroad; and promoting investment partnership opportunities in global supply chains. A cohesive and strong ECD strategy helps support a greater understanding amongst investors of the sphere of investment opportunities in Australia and reinforces the message that Australia is a strong, stable and well-regulated place to invest.

Domestically, the Minister for Trade, Tourism and Investment makes an Annual Investment Statement to Parliament (2017 Annual Investment Statement to Parliament in **Attachment A**), aimed at highlighting the benefits of foreign investment to Australia and reflecting the critical importance of productive foreign investment to the growth and job creation agenda of the Government.

PRIORITY INVESTMENT SECTORS

The Government has identified five priority sectors for inbound investment: agribusiness and food; major infrastructure; tourism infrastructure; resources and energy; and advanced manufacturing, services and technology.

In these sectors, Austrade focuses on FDI that will contribute to economic prosperity through creating and retaining Australian jobs; developing new industries and infrastructure; introducing new technologies and skills; encouraging innovation and competition; raising productivity; and strengthening Australia's overall economic linkages with the world.

Operating at the confluence of government and business, Austrade's Trade Commissioners — based in 49 markets — regularly liaise with, and receive feedback from current and future investors about Australia's investment attractiveness. This investor feedback is vital for Australia to maintain and fortify its competitiveness as an investment destination, particularly at a time of increasing competition for international funds.

As part of the priority investment sectors below, Austrade is also committed to seeking productive FDI into the industries of the future. Such industries include those in which Australia already has strengths, such as data collection, storage and analytics capabilities (particularly in digital health), research and knowledge capabilities, virtual commerce, education, and advanced manufacturing, among others.

Agribusiness and food

Attracting investment into Australia's agribusiness and food sector requires emphasising Australia's credentials for clean and safe premium food and beverages, as well as promoting investment into sustainable and productive agricultural technologies and services.

In addition to the comments outlined above, investors have indicated that increasing the availability and robustness of data, which highlights Australia's premium conditions, for example data on soil and yield, could help facilitate investment and inform decision-making.

Major infrastructure

Australia's strong economy, increased trade footprint, growing population and pipeline of projects provide ideal conditions to encourage investment in major infrastructure. Investment attraction in this sector includes a focus on investing in smart and resilient cities, urban sustainable development, transport solutions, and rail and road safety.

Building on the regulatory efficiency theme, many investors advise that sector-specific regulatory requirements can factor into investment decisions in major infrastructure. For example, acquiring certification and accreditation can be both time-consuming and costly, and some governments require evidence of previous experience in Australia to help assert their infrastructure credentials. Some investors advise that these requirements — particularly the requirement for experience in local infrastructure — may act as a brake on investment in Australian infrastructure projects.

Some global investors also advise that the process of bidding for major projects can present a barrier when compressed proposal submission times for major infrastructure projects inhibit the ability of bidding firms to make strategic decisions. While companies may be aware of infrastructure proposals in advance of tender processes, this can be difficult without a local presence. Additionally, feedback from investors also indicates that the common requirement for insurance cover greater than $100 million can serve as a potential barrier for firms considering bidding on major engineering projects.

Tourism infrastructure

Australia's tourism industry is a major growth sector due to its proximity to fast growing economies in Asia, unique natural wonders, and food and wine experiences that are among the best in the world. With a transparent commercial real estate market and with strong growth in visitor numbers and trip spend, Australia's tourism sector is attracting strong international investment interest.

As with other sectors, regulatory impediments are raised by investors, with lengthy and sometimes costly approval processes (e.g. planning, environment and heritage, and liquor licensing) noted as potential deterrents. While regulatory requirements reflect important policy objectives, regulatory efficiency, which balances outcomes with costs is important to maintain Australia's investment attractiveness.

For tourism investment, decisions to make an initial investment in Australia are often predicated on governments' willingness to invest in tourism-enabling infrastructure that will drive tourism demand e.g. airports, ports (passenger and freight) and rail projects. Continued investment in tourism-enabling infrastructure is an important consideration for investors, particularly throughout Australia's regions.

Investors cite financial hurdles they sometimes face when considering Australian tourism infrastructure investments. For example, stamp duty on residential real estate can impact investment (and re-investment) decisions when investors considering land zoned for mixed use are relying on the sale of the residential component to fund the hotel component.

Another important determinant in tourism-related investment decision-making is promotional activity, including a host country's ability to attract visitors from diverse source markets. Tourism Australia actively targets visitors from 16 key source markets through activities ranging from advertising, public relations and media programs, to trade shows, industry programs and consumer promotions. It is important that Australia remains internationally competitive in this regard.

There is growing demand for Australia's distinctive and authentic tourism experiences, many of which are located in regional and remote areas. However, many of these regional tourism experiences can encroach on marine or national parks. Investment in those areas may face a higher regulatory burden, such as development complying with the *Environment Protection and Biodiversity Conservation Act 1999*. Investors continue to call for further regulatory efficiencies and certainty of process in these regulatory regimes.

Resources and energy

With abundant and diverse mineral and energy resources, a sophisticated equipment, technology and services industry, and proximity to growth markets in Asia, Australia offers a broad range of investment opportunities in the resources and energy sector.

Despite the strength of the sector, the availability of facilitating infrastructure, such as pipelines, can affect the competitiveness of Australia as an investment destination in this sector. Regulatory reform can support this type of infrastructure. For example, the Northern Territory Government led significant regulatory reform to encourage completion of the Northern Gas Pipeline, linking Northern Territory gas to the eastern states.

Advanced manufacturing, services and technology

The advanced manufacturing sector includes the aerospace, defence, marine and automotive sectors, while the services and technology sectors include services solutions (value-added services and digital delivery), financial services (funds management and FinTech), and cybersecurity, among others.

In this sector, the decision to invest in Australia, such as opening an Australia-based entity of a multinational company, requires significant capital investment. Advanced manufacturing companies may seek additional investment opportunities in the same or related sectors to justify an initial expansion into Australia. However, investors in the sector continue to advise that the unavailability of investment opportunities acts as a brake on that initial investment. As such, global investors in this and other sectors (e.g. tourism infrastructure) have recommended that more be done to consolidate and promote a list of investment opportunities to support the process of encouraging initial investment. Austrade currently works with global investors to identify opportunities in other industry sectors to encourage multisector investment.

Some advanced manufacturing companies also note it can be difficult to obtain relevant information required to support investment decisions, for example, about Australian standards for imported goods. This is important for investors that rely on those goods as part of their manufacturing processes (part of global value chains and global supply chains), or investors that export those products as finished goods. Making information on Australian standards more easily accessible would provide greater clarity to investors reliant on foreign goods in their retail or manufacturing processes.

Similarly, some advanced manufacturing investors advise that while the incentives offered by states and territories for particular investments are often generous, the provision of more information on what incentive packages comprise, and how they are calculated (based on states' assessment of the investment's economic impact), would go some way to improving the transparency and ease of investing in Australia.

OUTWARD FOREIGN INVESTMENT: A SIDE NOTE

Macroeconomic factors in the destination market are key determinants of FDI and portfolio outflows, particularly market size, the interest rate, the exchange rate, and macroeconomic stability, all of which contribute to investors' calculations of risk and return for a particular investment project or transaction.

A recent report from the Committee for Economic Development of Australia (CEDA)[7] showed that Australia tends to invest directly in countries that are open, have a large domestic market and a similar language and culture to Australia. Investment also tends to occur in countries that provide access to surrounding regional markets. For portfolio investment, most assess that governance, market size, cross border capital controls and transaction costs matter most.

Australia's institutional framework for outbound investment has undergone important changes in recent years. Austrade's focus has shifted from established markets to emerging and frontier markets, especially in Asia, recognising the difficulties faced by small and medium-sized enterprises (SMEs) sourcing accurate market information in newer, less-sophisticated markets.

Outbound investment can benefit Australian companies by exposing them to international markets – making them more competitive at home and abroad, creating high skilled jobs in Australia, integrating Australia into global value chains, increasing the nation's engagement with the region and contributing to economic growth[8].

[7] Committee for Economic Development of Australia (CEDA), *Outbound investment*, CEDA, Melbourne, 27 April 2017, <https://www.ceda.com.au/Research-and-policy/All-CEDA-research/Research-catalogue/Outbound-investment>.

[8] Austrade, *Overseas Investment of Australian Companies - Trade and Investment Note*, Austrade, April 2015, <https://www.austrade.gov.au/ArticleDocuments/5720/Trade-investment-note-April-2015-overseas-investment-Australian-companies.pdf.aspx>.

ATTACHMENT A: ANNUAL INVESTMENT STATEMENT TO THE PARLIAMENT 2017

Foreign Investment in Australia 2017: From Strength to Strength

6 December 2017

Mr Speaker, I have the honour to present the Coalition's fourth Investment Statement to the Parliament, reflecting the critical importance of productive foreign investment to the growth and job creation agenda of the Government.

The recently released Foreign Policy White Paper described a more interdependent world in which Australia is actively pursuing its economic interests.

In this world, remaining open and outward-looking are vital for Australia's strength and future prosperity.

The international investment landscape is increasingly competitive, and it is important we maintain Australia's advantage through a dynamic and responsive trade and investment agenda.

Openness connects our economy to larger, often faster growing markets. It enables Australia to benefit from the world's best goods, services, people, capital and ideas to grow our economy and create more jobs.

Foreign investment is critical to this story. Without it, production, employment and incomes would all be lower.

Our modern, comprehensive Free Trade Agreements (FTAs) provide a competitive edge to Australian exporters and lower prices for Australian consumers.

They also promote and facilitate two-way flows of investment by providing certainty about foreign investment policy settings in Australia and FTA partner countries.

Foreign investment is an essential part of Australia's economy, sustaining our regional communities, and helping our small and medium sized businesses access the capital and opportunities they need to grow.

Australia's economy is in a strong position, growing significantly faster than many of our global peers over the last five years - averaging 2.8 per cent real GDP growth, compared with the advanced economy average over the same period of 1.7 per cent.

The Treasury forecasts suggest even better days ahead, with real GDP growth expected to rise to 3 per cent in 2018-19.

Our open, well-regulated and stable economy, underpinned by strong institutions and a talented, highly skilled workforce, ensures Australia remains in an excellent position to continue to attract investment.

Australia's unique advantages, and this Government's economic and policy credentials have seen total foreign investment stocks in Australia rise by $153 billion or 5 per cent to $3.2 trillion at the end of 2016.

In 2016, the quantum of new foreign direct investment (or FDI) into Australia was $112.4 billion, showing Australia remains an attractive and trusted investment destination.

This data is included in the *International Investment Australia 2016* publication, which I am launching today.

Well-regulated, productive foreign investment supplements domestic savings to increase and improve the economic opportunities available to Australians right across the country, from Cairns to Perth, Broome to Hobart.

The Government is determined to secure the benefits of foreign investment for Australia, and ensure those benefits are shared across the community.

This is part of the Government's unwavering focus on the creation of more and better paying jobs, which has seen more than 350,000 Australians find work in the 12 months to October 2017.

An open investment policy, however, is a means to an end, not an end in itself. The Government's trade and investment agenda is delivering economic prosperity while ensuring we maintain the strengths of our traditional Australian society and institutions.

Over the last year, I have continued speaking with Australians across the country to ensure policy continues to reflect community expectations.

We have listened, and this Government has continued to develop its investment framework, which I will address in a moment.

Mr Speaker, my report today comes in three parts.

First, an update on some great examples of the productive foreign investment that is benefitting Australians.

Second, I will outline how we are improving our competitiveness, to remain an attractive destination in an increasingly competitive international investment environment.

And third, I will report on the Government's engagement with the Australian community about foreign investment.

Australia has long been a beneficiary of productive foreign investment, helping us to prosper as a nation and grow our important industries – like manufacturing and mining, which together have received more than 50 per cent of Australia's FDI stock; and our services sector – which employs four out of five Australian workers.

The United States remains Australia's largest direct investor by a significant margin, representing more than 24 per cent of our total FDI stock.

US-affiliated firms in Australia employ more than 335,000 locals - around one in 35 Australian jobs.

US firms like Bechtel, one of the world's largest engineering, construction and project management companies; Costco; ExxonMobil; and Boeing, which has invested over $1 billion in Australia.

Their investments represent a very significant contribution to our economy and society.

For decades, direct investment has been a central pillar of Australia's relations with Japan. Indeed this year we celebrate the 60th Anniversary of the Australia-Japan Agreement on Commerce.

Japanese companies helped to fund our growth as a minerals and energy superpower, developing some of our largest export industries – with long-term export contracts and associated investment opening up the riches of the Pilbara's iron ore, the Bowen Basin's coal and the North West Shelf's LNG.

These investments have driven regional development, creating tens of thousands of local jobs and bringing in export and tax revenue over many decades, which helped fund public services - like schools, hospitals, roads and ports – through which Australians continue to benefit today.

In July this year, I launched the report '*Japanese Investment in Australia – a trusted partnership*'.

The report demonstrates interest from Japanese companies in investing in Australia is growing - and diversifying into areas such as digital technologies, infrastructure and financial services.

In the six years to 2016, Japanese FDI stock increased by 78 per cent to $90.9 billion, making Japan Australia's second largest source of foreign direct investment behind the United States.

After the United States and Japan, our third largest source of FDI is the United Kingdom, whose investment increased in 2016 by 4.9 per cent to reach $67.9 billion, while investment from the Netherlands, our fourth largest source of FDI stock increased 5.3 per cent to $50.4 billion.

Indeed, direct investment stock from the European Union collectively represents $164.8 billion, or around 21 per cent of our FDI stock. European interest in Australia remains strong; investment from Germany, our tenth largest source of FDI, increased 15 per cent in 2016, and as a whole, EU FDI increased 7.1 per cent.

Like US, Japanese and European investment before it, Chinese investment is also delivering jobs and tax revenues, and giving Australian businesses connections to overseas markets.

Direct investment stock from China, while not yet of the same scale as our more established partners, has grown strongly - from negligible levels in 2005 to $41.9 billion in 2016. China now represents 5.3 per cent of our total FDI stock, and is Australia's fifth largest source of FDI.

As China's economy transitions from investment-led to consumption-driven growth, its investment patterns are also changing, including in Australia.

While early Chinese investment was largely centred on minerals and energy – and this remains a dominant sector for Chinese investment – we are now seeing greater diversification into infrastructure, agriculture, tourism and services.

In its 2017 report on Chinese investment in Australia, Deloitte Access Economics found Chinese investment is also contributing significantly to the Australian tourism sector, an industry expected to grow by around 400 per cent by 2033.

Tourism creates a significant downstream economic effect – for every dollar directly earned by tourism, another 82 cents is generated in other parts of the economy.

Continued investment in the tourism sector will be integral to ensuring we build the hotels and infrastructure we need to ensure this very important sector meets its growth potential.

Mr Speaker, our many strengths as a nation have driven the establishment of long-term, mutually beneficial investment relationships.

Consider the far-sighted people from Italian confectionery giant Ferrero, who chose to invest in Lithgow in New South Wales in the 1970s.

Ferrero has been one of the town's largest employers for decades, with around 100 local staff working at the site, producing Tic Tac and Nutella.

In 2013, Ferrero invested a further $70 million in Australia.

Ferrero affiliate Agri Australis is planting more than one million hazelnut trees near Narrandera, in the Riverina region of New South Wales. The goal is to develop a large-scale demonstration farm as a showcase of the potential future of hazelnut cultivation and production in Australia.

The counter-seasonal supply from Australia will provide the Ferrero Group the possibility of accessing fresh hazelnuts all year round. Agri Australis expects to reach full production capability by 2022, creating up to 50 permanent jobs and boosting the economy of regional New South Wales.

As well as creating jobs and more opportunities than we could alone, foreign investment brings to Australia new ideas and technology.

Japan's NEC, one of the world's pioneering electronics companies, has been operating and investing in Australia for almost 50 years, with local staff numbers rising from five when it opened its first office in Mulgrave in Victoria in 1969, to more than 1,800 in 2017.

Since 2014, NEC has been setting up offices, including its service centre for New South Wales Transport, on the University of Wollongong's Innovation Campus.

NEC is already employing Wollongong locals, and expects it will have at least 110 employees in time.

NEC's investment brings further benefits. NEC and the University of Wollongong are now working together to support careers for graduates, and exploring new opportunities for research collaboration.

Foreign investment flows are an endorsement and recognition of the skills of Australians and our culture of innovation.

Google employs 1,300 Australians here, and another 500 Australians overseas, giving Australians the opportunity to be at the forefront in information technology.

Germany's Bosch Group's investment in The Yield, a Tasmanian agritech start-up, is another example of Australian innovation attracting foreign investment.

The Yield measures and predicts real-time weather data at the farm, field and even plant level. It converts this into crop-specific knowledge, helping increase farm productivity, increase shelf life of produce and track food safety, with flow-on environmental benefits.

Investment is also boosting our exports.

One of our major export strengths is medical technologies. The United Kingdom's AstraZeneca has been investing in Australian manufacturing of pharmaceuticals for around 60 years.

Just this year AstraZeneca announced a further investment of around $100 million in its manufacturing facility in Macquarie Park in Sydney, creating new jobs.

From Australia, AstraZeneca is exporting to 15 countries, with exports expected to exceed $2.4 billion over the next four years.

The company's technology is a credit to Australian engineering and a world-class local workforce that is increasing productivity to meet rising demand.

International investment brings large overseas markets within the reach of small and medium sized Australian businesses too. The investment by Chinese e-commerce giant Alibaba in an Australian headquarters in Melbourne this year will provide another gateway for Australian small and medium-sized business exporters.

Investors are attracted by Australia's excellent international market access through our 10 FTAs currently in force, including the China, Korea and Japan FTAs this Government has delivered.

The value of our FTA network is demonstrated through our longstanding investment relationship with the United States, which I spoke about earlier.

Following entry into force of our US FTA in 2005, the stock of direct US investment in Australia rose steeply from $76 billion at the end of 2005 to $195 billion in 2016.

In February 2017, leading US-based Mead Johnson Nutrition Company, with whom I met in the US earlier this year, announced a $200 million acquisition of dairy spray drying, finishing and canning capabilities from Bega Cheese Limited (Bega), one of Australia's leading dairy product companies.

Bega is able to ensure continuity of supply to its own customers through a 10-year service and access agreement.

One of the drivers behind the deal is preferential access afforded by Australia's trifecta of Free Trade Agreements to export Australian dairy to high-growth Asian markets, particularly China.

For Bega, according to CEO Paul van Heerwaarden, the deal is part of an important strategic relationship, and is also about releasing capital which will be used to fund Bega's recent $460 million purchase of the Mondelez's Australian grocery business, including Vegemite.

This deal is a recognition of another important truth about foreign investment. Assets are not 'lost' overseas through foreign investment. Invariably, businesses are built up here in Australia, whether it be improvements to cattle stations, the building of resorts, or the development of brands and businesses.

In time, those assets often return to Australian hands.

Think of how the Vestey cattle empire from Britain has come and gone, or, indeed, the recent return of Vegemite to an Australian-owned company after many years of American ownership. Foreign capital comes and sometimes goes but the improvements it generates remain.

These examples of investment following trade deals shows trade and investment are two sides of the same coin. Together they deliver many benefits: more jobs, new skills and technology, more Australian exports and more Australian business engagement with global value chains.

A strong trading relationship typically supports a strong investment relationship.

Since the first iteration of the Singapore-Australia FTA (SAFTA) was signed in 2003, not only has our bilateral trade relationship grown by more than 80 per cent, our investment relationship has grown by around 350 per cent.

For these many reasons we continue to build on this Government's strong track record of achievement in delivering FTAs, be it the recent entry into force of major revisions to SAFTA, the recent agreement with Peru, ongoing work to conclude bilateral negotiations with Indonesia and Hong Kong, and our pursuit of regional agreements including TPP-11 and the Regional Comprehensive Economic Partnership, as well as deals with the Pacific Alliance group of Latin American countries, and the EU and UK.

Mr Speaker, let me turn now to how the Government is ensuring Australia maintains its strong reputation as an attractive and strong destination for global investors.

Amidst the realities of the global economy, we face intensified international competition for foreign investment and the opportunities it brings.

Global direct capital flows remain below the 2007 peak. We have also seen a marked decrease in the overall level of China's global outbound investments this year.

While the impact of these circumstances on Australia is not yet clear – we cannot take the continued availability of capital for granted.

Mr Speaker, we are getting the settings of our tax system right, which supports our competitiveness and helps to ensure Australia remains an attractive destination for investment.

We are cutting Australia's corporate tax rate – having already secured tax cuts for small and medium businesses, the Government is committed to extending the tax cuts to cover all companies in Australia.

Tax is not the only thing that matters when it comes to attracting investment; it is, however, one of the most important.

Treasury analysis shows the unweighted average company tax rate in advanced economies has fallen from 32 per cent in 2001 to 24 per cent today, and falling further with planned US tax cuts. Furthermore, with France legislating and Belgium announcing corporate tax cuts, this leaves Germany as the only other advanced economy with a higher company tax rate than Australia.

This risks our 30 per cent company tax rate being increasingly out of step with our global competitors. That's why we are urging Labor and the crossbench to help secure Australia's future prosperity by supporting a cut to 25 per cent across the board.

Meanwhile, we are continuing to implement microeconomic reforms across competition, innovation, and infrastructure policy.

These reforms, our pursuit of new high quality FTAs and continued promotion of Australia as a reliable and attractive investment destination will ensure Australia goes from strength to strength.

As Minister for Trade, Tourism and Investment, I am actively promoting Australia's investment opportunities and competitive strengths overseas by engaging with investors, and by forging strengthened bilateral relationships with key investment partners.

Mr Speaker, engaging internationally is important – we are actively pursuing a wide-ranging Economic and Commercial Diplomacy agenda at home and abroad. A key focus is to support Australian businesses making their way in the global market, as well as to promote and facilitate investment relationships around the world.

Around 90 per cent of our work in foreign investment promotion and attraction falls within the five priority sectors agreed by federal and state and territory ministers: agribusiness and food, resources and energy, advanced manufacturing, services and technologies, infrastructure and tourism.

These are sectors of strength for Australia, where we can make excellent use of foreign investment to drive benefits for Australians.

However, the investment landscape and our needs are shifting, and as this shifts, the focus within these priority sectors changes too.

Our agribusiness and food production is booming. As our output responds to the global demand for Australia's clean, green products, we are now looking at technology to drive productivity and enhance innovation and product differentiation.

As a minerals and energy superpower, with growing exports a result of recent and substantial investment – we continue to seek investment in our resources and energy sectors, including the coming surge in demand for materials used in electric vehicles and renewable energy generation and storage, such as lithium, cobalt from socially responsible sources, rare earths and high-purity nickel compounds.

In advanced manufacturing, services and technologies, we seek investment to introduce innovations in digital technology, advanced manufacturing, medical technologies and defence industry activities in naval and aerospace. A key focus is on investment and collaboration in globally competitive areas of commercial R&D, aligned with the National Innovation and Science Agenda (NISA).

In infrastructure, having successfully attracted many of the world's leading constructors and financiers, we are shifting focus to attracting greenfield investment, in rail, operators and intelligent transport systems.

For tourism infrastructure, we're encouraging investment beyond our capital cities to grow the supply of high-quality, unique experiences and iconic regional destinations – this is supporting small businesses in regional communities, with 43 cents in every tourism dollar being spent in our regions.

Just recently, Minister Canavan and I were delighted to co-host the second Northern Australia Investment Forum, in Cairns. The event attracted over 550 delegates, including over 178 executives representing 108 investor companies.

The Forum showcased investment opportunities in some of Australia's best assets: agriculture and food, resources and energy, and tourism infrastructure.

Mr Speaker, I acknowledge there are parts of the community who have concerns about some foreign investment.

Precisely because foreign investment matters so much to Australia, I encourage Australians to continue this conversation.

Through consultations over the last year, I have found Australians don't want investors to leave, but that some have mixed views concerning the sectors in which we should be attracting investment.

Where some Australians are concerned about foreign investment it is primarily in real estate, utilities and some elements of agriculture.

We have listened, Mr Speaker.

We implemented stronger rules for foreign investors owning Australian housing and improved transparency and screening of foreign investment in Australian agricultural land.

We have proposed legislative measures to strengthen the national security of our critical infrastructure. We tightened our tax rules to crack down on multinational tax avoidance and ensure profits made here are taxed here.

But we continue to welcome productive foreign investment for the many tangible benefits it delivers.

Mr Speaker, experience shows the best way to respond to change and challenge is to hold fast to the principles upon which Australia's economic success story is founded.

Openness to investment and trade is a large part of how we have achieved 26 years of uninterrupted annual economic growth.

It is part of how Australian businesses are scaling up and expanding overseas and it is how we are continuing to attract investment to provide opportunities for Australians now and into the future.

Foreign investment has made a long-term contribution to our economy.

We celebrate this through our annual Investment Award, which I presented last night at the 55th Australian Export Awards ceremony in Canberra.

This year's winner was Japan's NEC Australia. The global technology company has been in Australia for half a century and, over the past 15 years, has invested more than $200 million locally in R&D in the ICT sector.

Across the globe, competition for capital is increasing, but Australia's economy remains strong and attractive.

We have made productive use of foreign investment, generating jobs for Australians, building skills, and gaining access into lucrative and growing markets overseas for Australian businesses.

We continue to secure the confidence of foreign investors across the globe, and they will be an important part of Australia's very promising economic future.