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INTRODUCTION

The purpose of the *Asian Infrastructure Investment Bank Bill 2015* (AIIB Bill) is to provide the domestic legislative arrangements that allow Australia to become a member of the Asian Infrastructure Investment Bank (AIIB). Australia signed the Memorandum of Understanding on the Establishment of the Asian Infrastructure Investment Bank on 29 March 2015 and became a Prospective Founding Member (PFM) on 13 April 2015. Australia participated in international negotiations on the AIIB Articles as one of 57 PFMs and the Treasurer signed the AIIB Articles on behalf of Australia in Beijing, China on 29 June 2015.

The (AIIB) will boost economic growth, create jobs and promote trade in our region by financing much needed infrastructure investment. The AIIB will provide trade and economic opportunities for Australian firms and help our commodity exports, using its authorised capital base of US\$100 billion to help address the Asia-Pacific region's acute infrastructure needs – estimated by the Asian Development Bank at US\$8 trillion this decade.

The AIIB is expected to have an early focus on transport, energy and water infrastructure. It is expected to later make investments in other infrastructure, such as ports, logistics, environmental protection, information and communications technology, and agriculture. Australia can benefit both directly and indirectly from such investments.

THE ASIAN INFRASTRUCTURE INVESTMENT BANK BILL 2015

The Asian Infrastructure Investment Bank Bill 2015 (AIIB Bill) will facilitate Australia's membership of the AIIB, including an appropriation for the payment of Australia's capital contribution.

The AIIB Bill:

- authorises payments that Australia must make for subscriptions of shares of the capital stock of the AIIB;
- authorises the issuance of promissory notes on standard terms;
- appropriates the Consolidated Revenue Fund to purchase Australia's share subscription and for redeeming promissory notes issued to the AIIB; and
- provides a regulation-making power to confer the necessary privileges and immunities that Australia is obligated to provide under Chapter IX of the AIIB's Articles of Agreement (the Articles). The AIIB Bill's Explanatory Memorandum provides further details.

The AIIB Bill is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*, and there are no regulatory impacts or compliance costs to businesses or individuals arising from this Bill.

THE ASIAN INFRASTRUCTURE INVESTMENT BANK

The AIIB's Purpose and Mandate

The AIIB will be a new international financial institution designed to assist funding of major infrastructure projects throughout Asia. The Bank will have an initial operating capital of

approximately US\$100 billion, and a mandate to: foster sustainable economic development, create wealth and improve infrastructure connectivity; and to promote regional cooperation and partnership. The AIIB will seek to catalyse private sector investment and will potentially co-finance projects with other development banks and private sector financiers. The AIIB will be established and become operational once 10 countries representing at least 50 per cent of the total capital of signatories have ratified the treaty establishing the Bank.

The AIIB's Governance Structure

The AIIB will largely follow the structure of other international financial institutions. A ministerial-level Board of Governors will be the overall policy-making body and will meet annually. Governors delegate to a Board of Directors, representing all member countries in constituencies, and the Board of Directors will have key operational responsibility for the institution. The Board of Directors will oversee the bank's policies and operations. The President is the chair of the Board of Directors and is the most senior manager of the Bank.

The AIIB will be headquartered in Beijing and will have a 12-person non-resident Board of Directors. The Board will consist of nine seats for regional members and three seats for non-regional members. An Australian-led constituency (currently under negotiation) will have a seat on the Board of Directors. Australia will be the sixth-largest shareholder in the AIIB; China will be the largest shareholder, followed by India, Russia, Germany and Korea.

During negotiations to establish the AIIB, Australia argued strongly for a number of important principles – including that the Board of Directors have authority over key investment decisions, and that no one country control the Bank. Meeting these key governance requirements was a condition of Australia's membership, which have been responded to in the Articles.

The AIIB's Establishment and Australia's Membership

The AIIB will be established once the Articles of Agreement enters into force, which will occur once instruments of ratification, acceptance or approval have been deposited by at least ten signatories whose initial subscriptions in the aggregate comprise not less than 50 per cent of the total subscriptions of signatories. This is expected to occur relatively quickly, likely by the end of 2015.

Although signatories have until 31 December 2016 to deposit their instruments of ratification, acceptance or approval, it is proposed that Australia will lodge its instrument of ratification as soon as possible once all necessary domestic treaty processes are completed. This will ensure that Australia is able to become a member of the AIIB when, or as soon as possible after, it commences operations. This would secure Australia's influence and avoid the risk that Australia is excluded from key decisions made in the formative stages of the AIIB.

Following completion of all necessary ratification processes, Australia will lodge its instrument of ratification with the AIIB's Depository (China). Australia's membership of the AIIB will become effective on the date of lodgement, or on the day on which the Bank is established (whichever is the later).

Australia's Contributions to the AIIB

Australia will be an active member of the AIIB both financially and strategically, particularly through participating in the governance and operations of the AIIB.

The relative shareholding of Founding Member countries was primarily determined through economic weight. Australia's total shareholding will be US\$3.7 billion (approximately A\$4.6 billion based on 22 May 2015 exchange rates), comprising US\$738.3 million (approximately A\$932 million)

in paid-in capital. Paid-in capital will be paid in five equal annual payments starting from when Australia ratifies the AIIB Articles. Australia's paid-in capital will not be provided from the aid budget as the AIIB has not been deemed ODA-eligible.

The remaining US\$2.9 billion (approximately A\$3.7 billion) will be treated as callable capital, which is a contingent liability against the Commonwealth. This is consistent with Australia's membership obligations of other multilateral development banks such as the World Bank and Asian Development Bank. Callable capital would be called on if the AIIB is unable to meet its financial liabilities. Should the AIIB require this extra capital, members will be required to contribute from their callable capital in proportion to their holding of AIIB shares, however, no multilateral development bank has ever called on its callable capital.

Australia will continue to actively participate in the AIIB's establishment, working with China and other members to establish an institution that is effective, accountable and transparent, constructively engages with the private sector, and complements the work of other international financial institutions.

Over the next few months (until about December 2015) operational policies of the AIIB will be drafted. Australia will continue to participate in AIIB Chief Negotiator's meetings and remain closely engaged with the AIIB and other PFMs to influence the future governance and operations of the AIIB.

THE ASIA-PACIFIC REGION'S INFRASTRUCTURE CHALLENGE

In the Asia-Pacific, the Asian Development Bank has estimated that an additional US\$8 trillion in financing between 2010 and 2020 will be required to meet the region's growing infrastructure needs, and the AIIB will be part of the solution to closing this gap.

Australia has held a consistently strong focus on lifting investment in global infrastructure as a critical component to ensuring economic growth and poverty alleviation, as exemplified by Australia's advocacy during its G20 Presidency in 2014. The Global Infrastructure Hub, established under Australia's G20 Presidency, which will work to address data gaps, lower barriers to investment, increase the availability of investment-ready projects and improve policy delivery, will help to improve infrastructure investment in the Asian region and globally.

The AIIB will work closely with the private sector and use a range of financial products to improve infrastructure in Asia, including sovereign and non-sovereign loans, minority stake equity investment, and guarantees. In its start-up phase (2016-2018), the AIIB's infrastructure investments will likely be concentrated in traditional transport, energy, and water sectors.

THE POTENTIAL BENEFITS TO AUSTRALIA

Improved infrastructure and regional interconnectedness in Asia will lead to an increase in productivity and GDP. Stronger economic growth in Asia will directly benefit Australia's economy. Joining the AIIB will promote stronger linkages between Australia and our neighbours, driving economic growth and generating benefits for Australian trade and businesses.

Australian firms will benefit from infrastructure projects in the region. Australian businesses will be able to bid for AIIB-financed projects, as the AIIB will have an open procurement model. As Australia

will be a member of the AIIB, Australian businesses will be well-placed to identify opportunities to work on projects that are funded by the Bank.

AIIB-sponsored infrastructure projects may also directly drive increased demand for Australian commodities and services. Examples of projects that the AIIB could provide loans, equity investments or guarantees for includes: expanding port facilities in India which could provide extra capacity for Australian commodity exporters; or a toll road project in Laos designed and/or co-financed by Australian funds managers.

Australian firms can capitalise on commercial opportunities beyond commodities by meeting increased demand throughout Asia arising from stronger economic growth, driven by new productivity-enhancing infrastructure.

Australian trade with the Asian region is likely to benefit as the quality of infrastructure linkages improves. In 2014, over 75 per cent of Australian merchandise exports went to Asia. New or improved infrastructure such as ports and railways in AIIB member countries means that Australia's exports would be able to reach new markets or expand existing ones.

While it is possible that the AIIB could invest in Australia, it is expected to initially focus its efforts in developing countries in the Asian region with significant infrastructure gaps. The AIIB's Articles do not prevent the AIIB from investing in Australia at some point in the future.

The AIIB also presents an opportunity to further strengthen Australia's engagement with regional countries, including our biggest trading partner, China. We will also deepen our relationships with other member countries including in ASEAN and Europe.

Australia's prosperity and economic growth is tied closely to Asia. The AIIB has the potential to be a major regional institution that will drive economic growth and jobs in our region through enabling the delivery of much needed infrastructure. Early engagement by Australia on the policies and projects of the AIIB will help ensure regional infrastructure investments are of a high quality and adhere to international best practice standards.