A report to the Prime Minister

Winning Investment

Strategy, People and Partnerships

A Review of the Commonwealth's investment promotion and attraction efforts

August 2001

Acknowledgment

The review has been greatly assisted by the willingness of many people, including some at the most senior levels of the Commonwealth Ministry and leaders of industry, to give their time and considered views to the review team. Their opinions, experience and guidance enriched the research conducted by the review team and was invaluable in developing and testing many of the recommendations. A list of people consulted is provided in Appendix B.

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Executive summary

"Overseas direct investment policy will make or break Australia in the 21st Century". "Getting overseas direct investment activities right is the most critical issue facing us". "A review of overseas direct investment in Australia represents the most important thing the Commonwealth could do". Such is the level of interest in overseas direct investment from corporate Australia, the states and territories, industry lobby groups and key financial institutions.

Australia's performance in attracting overseas direct investment

Overseas direct investment (ODI) in Australia has helped to finance Australia's capital needs leading to faster economic growth and higher living standards than would otherwise have been the case. It has also increased employment, stimulated exports, improved consumer welfare and given Australian business access to an improved technological and knowledge base so providing a more diverse economy. **In the light of this, it is recommended that the Commonwealth Government continue actively to encourage overseas direct investment with a view to it sustaining a valuable contribution to Australia's economic wellbeing.**

Over the past two decades, as a proportion of GDP, ODI in Australia has risen from less than 0.5 per cent to 2.5 per cent in 2000. This rise in the volume of ODI has coincided in the past 15 years with an explosion in the volume of global ODI. Competition internationally to secure this form of investment is increasingly intense with countries in Eastern Europe, South America and China adding to the already large list of potential investment locations.

With more than 2 500 international agencies in the market place vying for the investment dollar, it is essential that Australia's investment promotion and attraction efforts be strategic and well focussed to secure results. Indeed the Economist Intelligence Unit in its publication *World Investment Prospects* released earlier this year noted that in the 60 countries it had assessed, including Australia, all but two countries (Hong Kong and Malaysia) were expected to be better places to do business in the period 2001 – 2005 than 1996 – 2000. There is, therefore, no room for Australia to be complacent if it is to continue to attract ODI.

What investors are looking for

Australia needs to be identified immediately by prospective investors as "a good place to invest". Success can be measured when investors don't just *want* to invest in Australia, but *have* to invest in Australia.

Investors are first and foremost looking to ensure sustainable commercial returns on their investment. As such, the factors influencing investors to choose one location over another are access to world-class resources, including skilled labour and raw materials; well-developed infrastructure; political stability; and an efficient public sector. A stable economic environment with sustainable and predictable economic policies in which business requirements can be delivered quickly and reliably is of critical importance. Speed to market was identified as one of the major issues for investors. This necessitates streamlined and transparent regulatory processes.

Australia is a relatively small part of the world's economy, constituting 1.5 per cent of world GDP, and is remote geographically. This means we have to work hard as a nation to ensure we are not peripheral to an investor's interests. At a minimum, the business environment needs to be competitive with alternative locations and dynamic so that we keep pace with our competitors. Investors continue to believe Australia needs to do more to improve the regulatory regime. Certain aspects of tax policy and administration, narrow interpretation of competition law, and environmental standards perceived to be at odds with those of Australia's competitors, were frequently cited as issues impacting on investment attractiveness. In particular, speed of decision making in the Commonwealth is perceived by investors to be our greatest weakness.

Given the critical nature of the economic environment to attract and retain investors and the fact that other countries are working to make themselves more attractive as investment locations, **it is recommended that (i) the Government continue to give ongoing high priority to sound and stable macroeconomic policies and microeconomic reforms in order to attract investment; and (ii) these policies be kept under constant attention to ensure that Australia remains as competitive as possible and places Australia at the forefront as an investment location.**

The importance of promotion

Information is critical to companies making soundly based commercial decisions on investment. Some investors have access to extensive amounts of information while others are not so aware of the opportunities Australia has to offer. Multinational corporations are more likely to be in the former group, while small to medium-sized enterprises are more likely to make up the latter category. Similarly, investors are likely to be generally well informed about some aspects of Australia's comparative advantage such as our expertise in the resources sector, but are less well informed about our expertise in other areas. For example, Australia is not always 'front of mind' for potential investors in the information technology sector yet we are ranked second to the United States in 'e-business readiness rankings' up from sixteenth a year ago[1]. In short, Australia may not immediately be seen as a place to invest by potential investors because of a lack of understanding or outdated knowledge about Australia's perceived advantages.

The private sector, particularly through investment banks, is the custodian of a wide range of information of value to potential investors. However, the private sector is more likely to apply this information in consummating specific deals rather than promoting Australia's generic comparative advantage. If Australia is to be widely known internationally as a place to invest, particularly in newly emerging sectors, government involvement will be required. Indeed, a lack of engagement on the part of government will result in productive investment that might otherwise have flowed to Australia being lost to competitors. **It is recommended that because of information deficiencies in the global marketplace about Australia's comparative advantage, strengths and capabilities, the Commonwealth be focussed in promoting Australia offshore as a place to invest.**

Australia has comparative advantages and these need to be marketed appropriately. We can't afford nor would it be sensible to promote everything we do. A range of initiatives already exist across the Commonwealth and states and territories that are encouraging investment in information and communications technology (ICT), biotechnology, energy resources and light metals. Emphasis on these industries is strongly endorsed. This is not about picking favourites, but rather enabling winners to establish and grow. **Industry specific promotion needs to occur in those sectors in which Australia is assessed as having comparative advantage or excellent potential.**

Need for a strategic framework

Australian governments have used a range of promotion and attraction activities to overcome the market failure associated with inadequate information. However, these efforts have been hampered by the lack of a national strategy to pursue ODI, the involvement of a multiplicity of

[1] Economist Intelligence Unit E-business Forum

Commonwealth and state and territory agencies whose efforts up until now have been largely uncoordinated, some duplication of effort, and the failure to establish an Australian investment brand in offshore markets. That is, there has been an absence of a whole-of-government approach either in terms of the strategy or the delivery. **It is recommended that a national strategic framework for investment promotion and attraction be developed.** This framework needs to specify Australia's broad objectives and encompass all levels of government and the private sector. To deliver this national strategy, a more targetted organisational structure is required.

A culture of investment attraction and promotion as well as the leadership and strategy to guide activities is essential if efficiency and effectiveness of effort are to be enhanced. **It is recommended that a Prime Minister's Investment Council (PMIC) be established, convened and chaired by the Prime Minister.** This Council is seen as complementary to the Prime Minister's Science, Engineering and Innovation Council (PMSEIC). The main purpose of PMIC would be to advise on strategies and policies for increasing ODI. PMIC would also provide a natural progression of initiatives flowing from PMSEIC that should encourage and drive commercialisation of Australia's scientific and technological initiatives. Based on the success of the PMSEIC model, **it is recommended that the membership of the Prime Minister's Investment Council comprise appropriate ministerial and eminent business leaders.** The council would meet six monthly.

The initial work plan for the PMIC should include advising on key sectors on which Australian investment promotion should concentrate; considering ways to improve the commercialisation of R&D to encourage investment in enabling technologies, and the creation of new firms and industries; advising on the international competitiveness of Australia's company and personal taxation rates; and assessing the adequacy of Australia's skill base to leverage and support growth in the target sectors.

Government processes should be streamlined

The process of encouraging investment to Australia is a multi-step one involving promotion, attraction, facilitation, incentives and aftercare. At each step, the process involves relationship building and nurturing. The Commonwealth and the states and territories play complementary but differing roles. It is clear that all activities need to be undertaken in a coordinated way between the states, territories and the Commonwealth to achieve maximum outcomes, but the specific roles of the various players have not been so clearly articulated.

At the most generic promotional level the Commonwealth has the principal role to play. Together with this, the Commonwealth has a role to play in attraction, working alongside those states and territories being considered by the potential investor. The facilitation and aftercare role is a dual one in which the states and territories are likely to play a major role.

David Mortimer's 1997 *Review of Business Programs*, highlighted investment as one of the key ingredients through which Australia can achieve its economic growth targets. In concluding that Australia needed to boost its focus on investment, Mortimer recommended the establishment by the Government of *Invest Australia* within the Department of Industry Science and Resources (ISR). *Invest Australia* was charged with the identification of investment opportunities and with overseas investment promotion, facilitation and attraction.

Four years after the Mortimer Review sought to have a one-stop shop for investment, there are at least six Commonwealth agencies or offices formally involved in ODI attraction and many programmes that involve investment attraction to some extent**.** They are the Department of Industry, Science and Resources (ISR)/*Invest Australia* (IA), Austrade, the Strategic Investment

Coordinator (SIC), the National Office for the Information Economy (NOIE), the Department of Communications, Information Technology and the Arts (DoCITA), Treasury/Axiss and the Department of Foreign Affairs and Trade (DFAT). Excluding DFAT, those agencies had about 131 staff and spent $25.6 million on investment activities in 2000-01[2].

Such complexity and inefficiency needs to be rectified. Boundaries between the Commonwealth and states and territories must be seen as seamless by investors, and Commonwealth resourcing of investment activities needs to add value to the national outcomes, without creating another layer of bureaucracy.

Creating a one-stop shop for investment

Invest Australia operates as a partnership between ISR and Austrade. However, Austrade continues to retain a statutory requirement to promote and facilitate investment. While over half of the Commonwealth's current investment funds are devoted to sustaining offshore operations, the bulk of the staff is employed in Australia. Governance issues surrounding the complex partnership arrangement between *Invest Australia* and Austrade have led to problems of accountability and responsibility. This confusion is compounded by the multiplicity of Australian, state and territory investment agencies in the international market place. To date, no single Australian brand has been able to break through the clutter.

In order to more efficiently and effectively utilise the promotion and attraction resources at Australia's disposal, Mortimer's objective of a one-stop shop for investment attraction needs to be realised. **It is recommended that investment promotion and attraction be delivered through *Invest Australia* as an autonomous, prescribed agency.**

Within the existing Commonwealth portfolio structure, it is recommended that the agency is best placed within the Industry, Science and Resources portfolio reporting to the Minister. Analysis of the total process of investment and an assessment of international best practice showed this to be the case. The process of investment included aspects of policy development, research, establishment of a strategic direction linked to industry policy, development of marketing and promotion strategies, project facilitation, management and after-care. Having the investment agency within the industry portfolio should also facilitate the much needed linkage between investment and industry innovation which was envisaged in the Government's innovation statement, *Backing Australia's Ability* announced in January 2001. However, while *Invest Australia's* relationship with the industry portfolio is important for the reasons discussed above, the new *Invest Australia* should be designed to be portable. That is, *Invest Australia* should be an entity in its own right enabling it to be moved to the most appropriate portfolio in any change of administrative arrangements.

Invest Australia should absorb the current ODI activities of NOIE and Austrade, including its Investment Commissioners and the NIRC. Within the next three years, as per the Harper Review, Axiss Australia's activities should be reviewed and considered for absorption within *Invest Australia* when the latter's capacity to undertake them is proven. Similarly, new investment activities based on strategies identified and endorsed by the PMIC should be undertaken within *Invest Australia. The Review is strongly of the view that the one investment agency should handle all Commonwealth promotion, attraction and facilitation activities regardless of the target sector. Any perceived deficiencies in investment performance are best rectified by getting Invest Australia right rather than by creating new agencies that by-pass it.*

[2] The description of agencies is based on 30 June 2001 statistics and is likely to be an underestimate of the overall effort.

Invest Australia should utilise the expertise of existing agencies on specific investment issues. For example, NOIE would be utilised for information in relation to ICT. There is no intention for *Invest Australia* to duplicate expertise and/or policy arms of other agencies but to be the champion of investment promotion, attraction and facilitation by drawing on their respective strengths.

Invest Australia will need to utilise a number of international channels to spread the promotional message of Australia as a preferred investment location. These channels may include the use of agencies of government such as Austrade, private sector firms, investment banks, and Australian business people operating overseas. *Invest Australia* should employ the most flexible and productive approach on a case by case basis. Development of the Investment 2000 model, a partnership that involved government, Westpac and Telstra, and Australia's participation in BIO 2001, provide useful models of cooperative approaches to investment attraction and promotion.

Singapore, our most vigorous source of competition in the region for ODI, has similar investment representation in Europe and Asia to Australia. However, compared with Singapore we are under-represented in the United States (seven Singapore investment officers for every one Australian officer), which historically has been the greatest single source of overseas investment in Australia. We are also under-represented in North America compared with the United Kingdom (six investment officers to every one Australian officer) and Ireland (more than four officers to one).

In order to gain efficiencies yet develop an effective offshore network, it is recommended that overseas resources including the Investment Commissioners be organised into three key investment teams – North America, Asia and Europe – reporting to *Invest Australia*. This would enable critical mass to be obtained without the need for vast numbers of new resources. Where sensible to do so, these resources should be co-located with Austrade/DFAT, noting however that the centres need not be in the high cost capital cities. For example, in the United States there is no one right location for an investment centre so appropriate regional hubs such as Denver, Atlanta, Chicago or Los Angeles may make sense.

The Investment Commissioners are an expensive resource. A greater presence can be achieved internationally by utilising more junior officers backed with good support from *Invest Australia*. Targetted missions could also be better utilised at the deal making stages to ensure speed to market.

There are definite synergies for *Invest Australia* in utilising additional resources from Austrade to assist investment promotion as long as there are clear objectives and performance measures in place. The relationship between *Invest Australia* and Austrade needs to be on a purchaser-provider basis with *Invest Australia* setting the objectives and outcomes required from Austrade. It is recognised that these changes will alter the role of Austrade in the investment process. However, they are seen as necessary in order to respond better to the needs of clients and provide true accountability and flexibility in the market place**. It is recommended that the Australian Trade Commission Act 1985, Section 8 (a) (v) be amended to clarify the respective roles of Austrade and *Invest Australia* and to enable Austrade to assist *Invest Australia* as a service delivery agent.**

At the Commonwealth level the resources that *Invest Australia* currently has allocated to it and those resources specifically devoted by Austrade and NOIE to investment promotion and attraction activities should be directed to the new *Invest Australia*. This will confirm the new agency as the principal vehicle for Australian offshore investment promotion and attraction activity. While efficiencies will be gained by the creation of an autonomous *Invest Australia*, it is recommended that total funding for investment and promotion should remain intact in order to rectify in part the current deficiencies against competitors. It is recommended that funding provided for *Invest Australia* through ISR and funding allocated by Austrade and NOIE to overseas investment promotion and attraction, plus the necessary administrative funds to establish the organisation, be transferred to the new *Invest Australia*. Further efficiencies have been identified through the reduction in the number of domestic offices in *Invest Australia* from three to no more than two.

Invest Australia must be accountable for its performance and over time, through proving itself and better managing the relationship with the states and territories, the optimal level of funding for *Invest Australia* should emerge. It is noted, however, that even with the amalgamation of funds from all Commonwealth investment promotion and attraction activities, Australia is underspending when compared with its key competitors.

The role of *Invest Australia*

Invest Australia would have responsibility, under the guidance of PMIC for:
- the development of investment policy;
- the formulation of strategy for promoting and attracting ODI into Australia;
- the implementation of the investment promotion and attraction plans; and
- the facilitation of investment in Australia.

Invest Australia would develop a detailed three-year rolling marketing plan and budget to give effect to the agreed investment strategy. The plan should be developed in close partnership with relevant Commonwealth, state and territory agencies, and relevant private sector stakeholders.

The main features of the plan would include: extensive research to underpin all investment activities; actively involving the members of the PMIC and other Commonwealth and state and territory ministers and eminent business persons in addressing key investor audiences overseas; developing an Australian business brand with an associated industry advertising programme; leveraging existing expatriate business networks overseas; undertaking in-bound visit programmes by business and business journalists; developing collaborative arrangements with private sector multiplier organisations overseas; and developing customer relationship management programmes for existing substantial investors in Australia. The plan should reflect a whole-of-life approach to investment, in order to reinforce Australia's commitment to helping overseas investors succeed in Australia. **It is recommended that a rolling three-year marketing plan be developed by *Invest Australia*, in partnership with relevant Commonwealth agencies, state and territory governments, and key business stakeholders.**

The role of *Invest Australia* is diverse – that of a commercially focussed attraction and promotion agency that communicates effectively with business, together with an agency that can bring a whole-of-government perspective to ensure appropriate policy development and rapid facilitation of investment activities. This dual role requires diverse skill sets of senior management. **In line with international best practice, it is recommended that the Chief Executive Officer (CEO) of *Invest Australia* should have the marketing, presentation and leadership skills necessary to facilitate cooperation among the stakeholders and be an ambassador for attracting investment into Australia.** While not limiting this to a private sector individual, it is recognised that these skills may be more likely to come from a high profile person with a private sector background.

The CEO of *Invest Australia* would take on the strategic responsibilities, under the guidance of the PMIC, that currently belong to the Strategic Investment Coordinator. In addition, the CEO would take on responsibility for major project facilitation and, where necessary, be able to report directly to the Prime Minister on issues that required fast tracking to overcome speed to market issues. An option of separating the CEO and Major Project Facilitator was analysed but it was felt that this had the potential to cause unnecessary duplication of effort and confusion. The important issue will be to find the right person for the job.

To overcome the ‘speed to market’ issue, it is critical that the CEO have an appropriately senior public servant as the deputy in *Invest Australia*. This senior public servant needs to have expertise in government processes and the authority and powers of influence to bring together senior government representatives from across the Commonwealth and states and territories to facilitate investment activities.

Relationship with the states and territories

Relationship management is critical to achieving good investment outcomes. This does not just occur at the investor level but requires that relationships work well within the Commonwealth Government and between the Commonwealth and the states and territories. Improvements in the relationships are occurring but much more needs to happen. At the working level, regular investment agency meetings are taking place between the Commonwealth and the states and territories. A major step forward will be to coordinate these meetings formally and involve the overseas investment commissioners as practicable. Similarly, sharing performance indicators or at least jointly developing these performance indicators will go a long way to achieving more of the necessary Team Australia approach. **It is recommended that the states and territories and Commonwealth heads of investment agencies form a ‘National Investment Advisory Board’ (NIAB) to formalise the relationship.**

Industry Ministers meet on a regular basis and investment issues are frequently discussed at these meetings. To formalise this process, **it is recommended that a standing item on investment be included on the Industry ministers’ meeting agenda**. Key issues of importance from the NIAB could be raised under this item. The PMIC would be able to hear the views of the NIAB through the Commonwealth Minister for Industry, Science and Resources, noting that the CEO of *Invest Australia* would also attend PMIC in an ex-officio capacity.

In view of the concerted national focus that will be required if the approach recommended by the Review is to be successful, **it is recommended that the Prime Minister write to state and territory heads of government seeking their support for the initiatives outlined in this report.**

In summary, if Australia is to afford itself the opportunity to attract increased investment in areas of its comparative advantage and greatest potential the macroeconomic framework must be constantly assessed and be dynamic enough to ensure we are at the forefront as an investment location. There is a need for committed national leadership, a strategic approach embracing in a partnership the Commonwealth, the states and territories and business, some rationalisation of the roles and responsibilities between the levels of government, changes in Commonwealth agency responsibilities and close attention to the different phases involved in investment attraction. This includes the maintenance of close ongoing relationships with companies once they have invested here. The vision is one of a dynamic *Invest Australia* able to promote, attract and facilitate new business in Australia to drive economic growth for the future.

Recommendations

General economic conditions

It is recommended that:

- the Commonwealth Government continue actively to encourage overseas direct investment with a view to it sustaining a valuable contribution to Australia's economic well-being (Chapter 1);

- the Government continue to give ongoing high priority to sound and stable macroeconomic policies and microeconomic reforms in order to attract investment (Chapter 2); and

- these (macroeconomic and microeconomic) policies be kept under constant attention to ensure that Australia remains at the forefront as an investment location (Chapter 2).

National strategy

It is recommended that:

- a Prime Minister's Investment Council (PMIC) be established (Chapter 5).

- under the guidance of the PMIC, a national strategic framework for investment promotion and attraction in Australia be developed. This framework should be developed in the context of Australia's overall economic growth and industry and regional development objectives (Chapter 5).
- the membership of the PMIC comprise appropriate ministers, eminent business leaders and *ex-officio* the CEO of *Invest Australia* (Chapter 5).
- the appointment of business leaders to the PMIC be on the basis of their individual capacities, not because of their current corporate positions, and that they not send substitutes to PMIC meetings (Chapter 5).
- the work programme of the PMIC include the major national issues raised in this report (Chapter 5).

- the states and territories be partners in the national overseas investment promotion and attraction strategy (Chapter 6).

- the states and territories and Commonwealth heads of investment agencies form a 'National Investment Advisory Board' to formalise the relationship (Chapter 8) .

- a standing item on investment be included on the Industry ministers' meeting agenda (Chapter 8).

Invest Australia

It is recommended that:

- investment promotion and attraction be delivered through an autonomous, prescribed agency called *Invest Australia* in the industry portfolio (Chapter 6).

- the inwards investment promotion and attraction activities of other Commonwealth agencies be incorporated into *Invest Australia* (Chapter 6).

- the role of *Invest Australia* include the following specific responsibilities:

  - the development of an appropriate, whole-of-nation strategy for promoting and attracting overseas direct investment into Australia;

  - the development of a whole-of-government investment promotion and attraction policy;

  - the effective and efficient implementation of the investment promotion and attraction strategy; and

  - the effective management of all the relationships involved in the processes of promoting and attracting investments into Australia including relationships with states and territories, other Commonwealth agencies, and the private sector (Chapter 6).

- the CEO of *Invest Australia* be expected to have the leadership qualities that will facilitate cooperation among the stakeholders and sharpen the marketing focus of the organisation. These qualities should include in-depth knowledge of the Australian economy, strategic vision and leadership, and understanding of the global investment environment (Chapter 6).

- the roles of the Strategic Investment Coordinator and CEO be combined in the new *Invest Australia* (Chapter 6).

- the CEO report directly to the Prime Minister on matters relating to major projects deemed to be of national importance and to the portfolio minister on all other matters (Chapter 6).

- the use of financial incentives to attract investment be seen as only one of a number of possible initiatives, kept to a minimum and that rigorous criteria be used in their application (Chapter 2).

- the threshold for major project facilitation status be reconsidered to attract contestable investment in enabling or potentially high-growth sectors (Chapter 3).

- *the Australian Trade Commission Act 1985*, Section 8 (a) (v) be amended to clarify the respective roles of Austrade and *Invest Australia* and to enable Austrade to assist *Invest Australia* as a service delivery agent (Chapter 6).

Resources

It is recommended that:

- *Invest Australia* be allocated the Commonwealth's entire appropriation for investment promotion and attraction activities including facilitation. The funding allocated in the ISR portfolio and by Austrade to overseas investment promotion and attraction activities (minimum $20million) be transferred to the revamped *Invest Australia* by no later than 1 July 2002

  - those offshore employees currently funded by *Invest Australia* but employed by Austrade be transferred to *Invest Australia*;

- in this context, discussions also be held between *Invest Australia* and Austrade concerning the extent to which *Invest Australia* may wish to use Austrade staff and facilities offshore;

- the financial resources allocated to NOIE for overseas investment promotion and attraction be transferred to *Invest Australia* by no later than 1 July 2002;

- DFAT continue to lend support in-market to Australia's overseas investment promotion and attraction efforts; and

- resources allocated to Axiss Australia be transferred to *Invest Australia* within three years subject to the review of Axiss Australia (Chapter 6).

- if additional Commonwealth resources are thought to be required by *Invest Australia*, these be sought in the context of the 2002-03 Budget once the proposed PMIC has considered *Invest Australia's* strategic direction, noting the need for some transitional funding for the new entity in 2001-02 (Chapter 6).

- the CEO of *Invest Australia* have responsibility for the deployment of the agency's resources and the extent to which it purchases services from others in fulfilling its charter (Chapter 6).

- a small cross-agency implementation group, including a DOFA official, be assembled to establish and staff the new entity (Chapter 6).

- *Invest Australia* enter into a foreign exchange agreement with DOFA to cover its exchange rate exposure in undertaking offshore activities (Chapter 6).

Marketing

It is recommended that:

- in the light of information deficiencies in the global marketplace about Australia's comparative advantage, strengths and capabilities the Commonwealth be focussed on promoting Australia offshore as a place to invest (Chapter 3);

- government should engage with the private sector in promoting Australia (Chapter 3);

- the promotional activity be both generic and industry-specific in focus (Chapter 3);

- industry-specific promotion should be directed to industry sectors in which Australia is assessed as having a comparative advantage or excellent potential (Chapter 3);
- a rolling three-year marketing plan be developed by *Invest Australia*, in partnership with relevant Commonwealth agencies, state and territory governments and key business stakeholders (Chapter 7);

- *Invest Australia* devote substantial resources to its marketing programme, and that the allocation of these resources be considered in the light of the findings of recent reviews (Chapter 7);

- investment officers have a good understanding of investment opportunities in regional areas of Australia, and that promotional material produced by *Invest Australia* highlight the industry strengths available in the regions (Chapter 7); and

- Commonwealth ministers consult *Invest Australia* in developing their overseas travel programmes to maximise opportunities to address appropriate investor audiences, and be involved in other promotional activities (Chapter 7).

Reporting

It is recommended that:

- *Invest Australia* prepare (i) annually, an *Investment Outcomes and Objectives Statement* which would be tabled in Parliament by the responsible Minister; and (ii) reports on objectives and performance to the PMIC for each meeting of that Council.
- all agencies assisting *Invest Australia* in investment promotion and attraction activities report on their work through these reports (Chapter 9).
- a comprehensive set of performance indicators which will measure the success of the strategies adopted by *Invest Australia* be developed in consultation with stakeholders in investment (Chapter 9).
- satisfactory performance against key performance indicators be required before any funding is provided beyond end-June 2007 for *Invest Australia* (Chapter 9).

Chapter 1 Rationale for overseas investment

This chapter provides an overview of the role of overseas investment in the Australian economy, with particular attention to overseas direct investment. It includes an outline of the dimensions and pattern of overseas investment by source country and sectoral distribution. In addition, an indication is given of the benefits that can accrue to Australia from the location of productive overseas investment in this country.

1.1 Dimensions of overseas direct and portfolio investment in Australia

The Australian economy has undergone a dramatic transformation over the past two decades. It is now more outward looking, tariff barriers have been reduced and the future of the economy is inextricably tied to developments in the global economy although, as has been shown by its response to the Asian crisis, the economy is also adaptable and flexible.

The economy has become more dynamic over this period, with productivity growth in the past decade outstripping that of most other countries in the OECD[3]. However, continuing current account deficits indicate an ongoing requirement for overseas investment[4] in Australia.

The current account deficit reflects an underlying savings/investment imbalance in the economy, although not an unexpected one in a relatively young, developed economy with Australia's resource endowments. While views differ as to the appropriate policy response to this imbalance, what is clear is that overseas investment is able to supplement the national pool of savings.

Overseas investment comprises both direct and portfolio flows. As Chart 1.1 shows, the annual flow of overseas direct investment (ODI) into Australia grew only slowly as a percentage of GDP over the 1960s and 1970s, but in the past 20 years has grown four-fold.

Portfolio investment has grown more rapidly over the period as a whole, but has been more volatile.

Both private and national savings[5] have declined in broad terms over the period.

As at 30 June 2000, over three-fifths of the $A200.5 billion stock[6] of total ODI and over half the $A717.0 billion stock of total overseas investment in Australia had come from the United States and the United Kingdom, with Japan the third largest source country in each case. As Chart 1.2 shows, a number of European countries and New Zealand have the next largest shares of overseas direct investment. However, Singapore and Hong Kong (which together account for less than Switzerland's share of ODI in Australia, but are large portfolio investors) are ranked fourth and fifth respectively and together account for over 6 per cent of total overseas investment in Australia, almost as much as does Japan.

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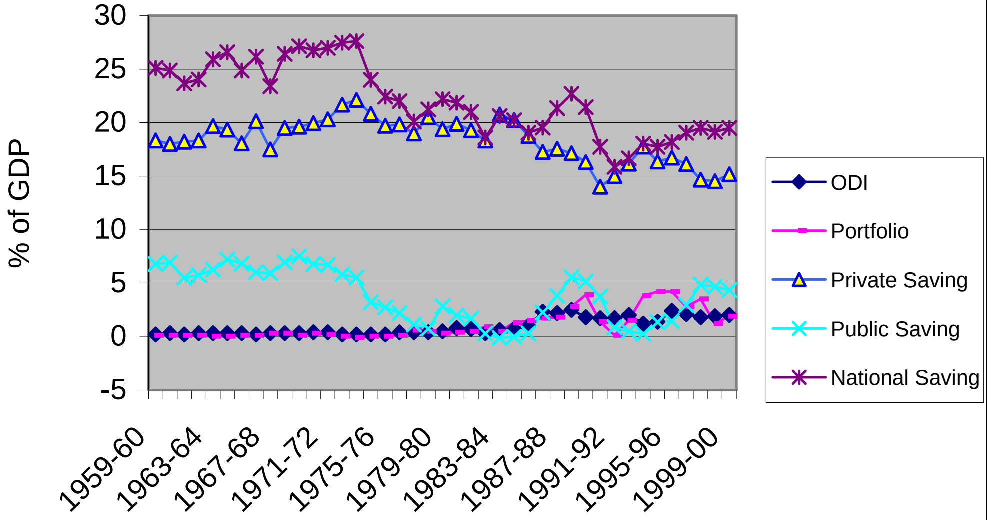
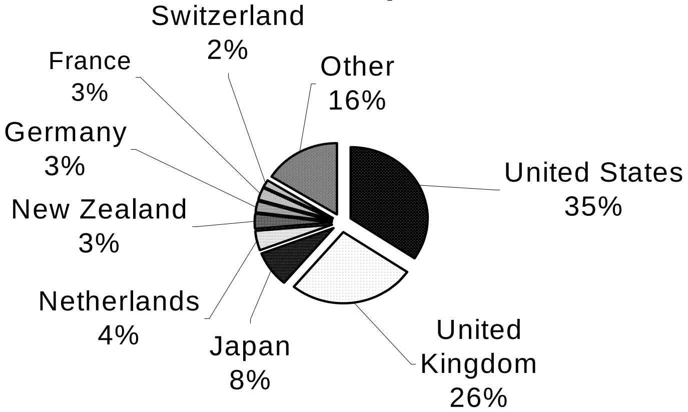
[3] See, for example, *The new economy: Beyond the hype: Final report on the OECD Growth Project* 2001, p 8.
[4] The term "overseas investment" is generally preferred to "foreign investment" to avoid any possible connotation that this form of investment is unwelcome or does not have a legitimate role in the Australian economy.
[5] A number of issues arise in the measurement of saving and care is needed in any interpretation of savings data. A number of these issues are discussed in, for example, Treasury, 1999, "The Measurement of Saving in Australia", Spring, *Economic Roundup*, pp. 21-50.
[6] The stock of overseas direct investment in Australia on 30 June 2000 reflects not only the stock a year earlier adjusted for transactions during the intervening year, but also price changes and other adjustments. Returns to overseas investors will also be affected by exchange rate changes.

Chart 1.1: Direct and Portfolio Investment and Saving in Australia



Source: ABS *Balance of Payments and International Investment Position* 5363.0 1999-2000 and *Australian National Accounts*. Private saving data derived from National Accounts using Treasury estimates.

Chart 1.2: Stock of Overseas Direct Investment in Australia (as at 30 June 2000)

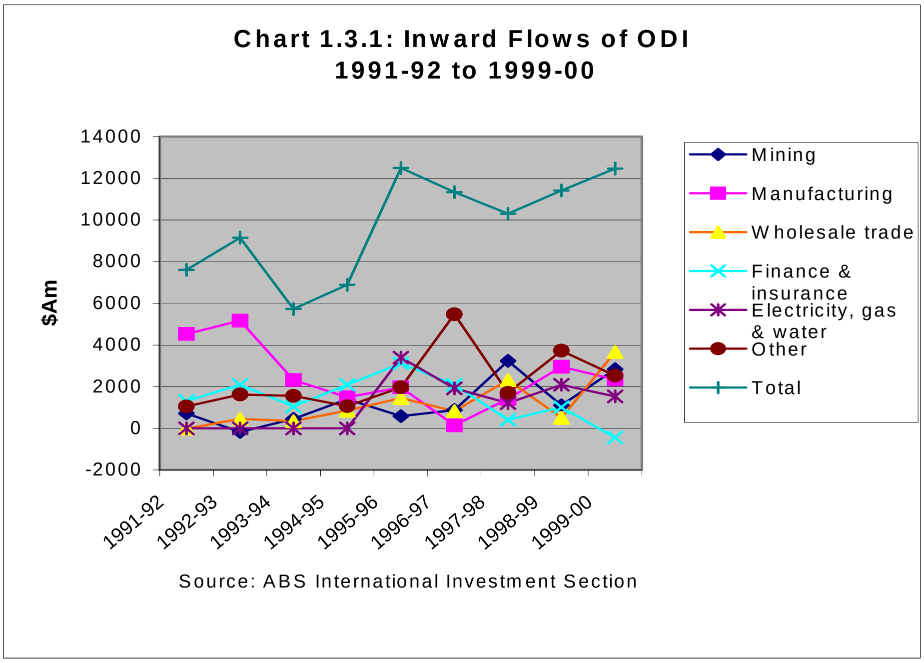


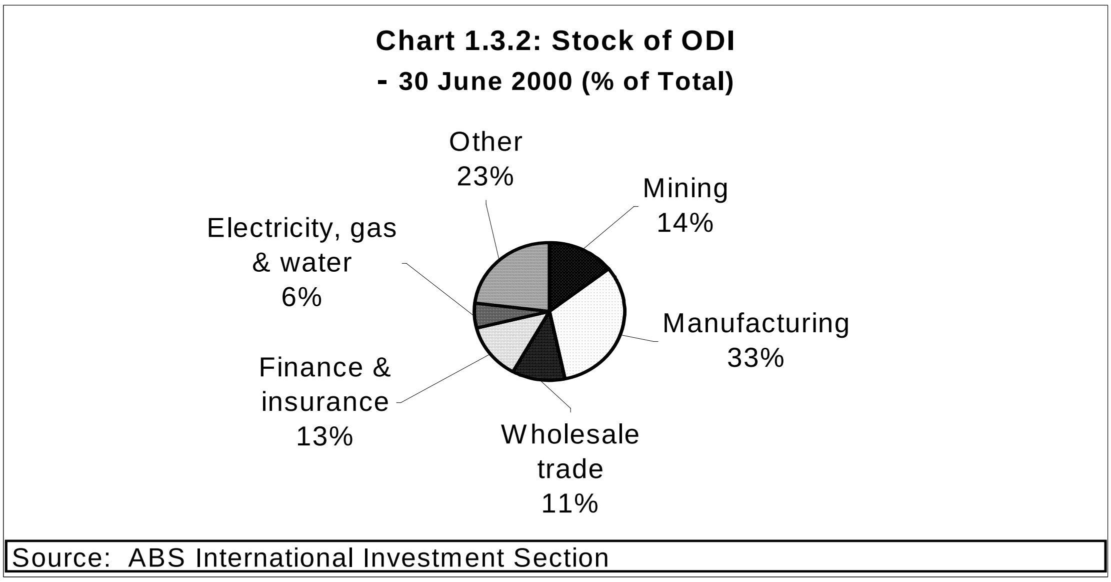
Source: ABS Balance of payments and international investment position 1999-2000, Cat. No. 5363.0 May 2001 and International investment position supplement 1999-2000, Cat. No. 5352.0, July 2001.

1.2 Sectoral distribution of ODI in Australia

Chart 1.3.1 shows the sectoral distribution of the flow of ODI into Australia over the nine years to 1999-2000. The largest share of ODI over the period flowed into the manufacturing sector (although that sector's share declined from the middle of that period), followed by the finance and insurance and mining sectors. After growing steadily over the first half of the 1990s, the flow of ODI into the finance and insurance sector has tended to decline since 1996-97. However, investment into the utility sector (electricity, gas and water), coinciding with the privatisation of a number of government business enterprises, has been more pronounced.

Chart 1.3.2 shows the sectoral distribution of the stock of ODI at 30 June 2000. One third of this stock was in the manufacturing sector, with the mining and finance and insurance sectors accounting for the next largest shares.





Some part of the investment has been used to acquire existing companies. Of the remainder, much has resulted in an expansion of the economy's productive base through "greenfields" investment. Other investment has expanded operations already present in Australia, strengthened the venture capital pool and underpinned Australian research and development.

1.3 Global movements in ODI

As shown in Table 1.1, there has also been an explosive growth in ODI internationally. The Economist Intelligence Unit[7] has reported that, between 1990 and 2000, annual global ODI inflows more than quintupled to over $US1.1 trillion. A fall in merger and acquisition activity

[7] The Economist Intelligence Unit, *World investment prospects: Comparing business environments across the globe*, February 12th, 2001, p 1.

(which has been a major driver of the recent growth in flows) is expected to account for most of an expected significant decline in ODI flows this year, before the upward trend is resumed.

Table 1.1 Overseas Direct Investment (figures for 2001 and later are EIU forecasts)

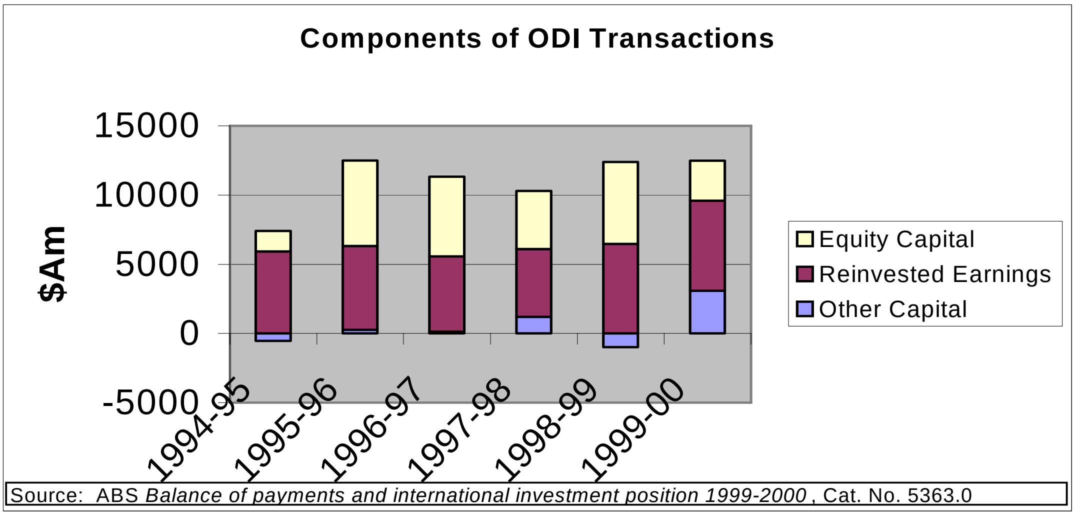
Year	World ODI Flows		World inward ODI Stock	
	($US billion)	% of GDP	($US billion)	% of GDP
1996	383	1.3	3 070	10.2
1997	473	1.6	3 510	11.7
1998	682	2.3	4 110	13.8
1999	924	3.0	4 786	15.5
2000	1 139	3.6	5 732	18.1
2001	771	2.3	6 503	19.8
2002	846	2.4	7 348	20.6
2003	897	2.3	8 246	21.4
2004	940	2.3	9 185	22.2
2005	986	2.2	10 171	23.1

Source: The Economist Intelligence Unit, *World investment prospects: Comparing business environments*, February 2001, page 1.

Australia's share of global ODI has declined in recent years. This partly reflects exchange rate movements and the growth in trans-Atlantic merger and acquisition activity.

However, it needs to be borne in mind that, in addition to "new" flows of ODI to Australia, as shown in Chart 1.4, reinvestment of earnings from earlier investment is substantial. Indeed, reflecting the steady growth in the stock of ODI in Australia over a number of years, earnings from such investment that has been reinvested in Australia rather than repatriated overseas have been both larger and less volatile than new flows of ODI in most recent years.

Chart 1.4 Direct Investment Transactions ($A million)



It is estimated that there are at present some 2 500 agencies and organisations representing nations, states, regions and cities around the world competing for inward investment. Even more significantly, with improved investment conditions and/ or political stability in China and a number of countries in South America and Eastern Europe in recent years, it is undeniable that there is more competition for global investment funds than was the case previously.

1.4 Perceptions of ODI

Notwithstanding the benefits that can flow from ODI, there is a range of views as to its optimal scale and overall desirability from a community viewpoint. Reflecting the country's size and stage of development, Australia's investment requirements and demands are large and, for the foreseeable future, show no sign of abating. The optimal amount of investment from an economic perspective may not always find broader community acceptance.

Indeed, ODI is seen by some as compromising the national interest to global interests, leading to undesirable outcomes in terms of the environment, transfer pricing, working conditions and the distribution of wealth and income. However, consistent with the evidence that ODI generates considerable net economic benefits to Australia, the conclusion is that openness to international trade and investment is very much in the national interest. Further, both government and business share a responsibility to ensure that this is recognised widely in the community.

The Foreign Investment Review Board (FIRB) seeks to give effect to the Government's policy of encouraging overseas investment, while having regard to community interests. When investment proposals would involve the acquisition of, or merger with, existing companies, thresholds apply for FIRB scrutiny. The FIRB process is intended to inform government of the wider national interest aspects of overseas investment proposals.

While recognising community sensitivities, in the light of the benefits that can flow from it, Australia needs to ensure that ODI continues to make a valuable contribution to the nation's economic well-being. The rest of this report is directed to this end.

1.5 Benefits of ODI

ODI benefits Australia if, other things being equal, it increases production above what would otherwise be the case and where the increase is not wholly appropriated by the investor. The benefits of ODI can be retained domestically through higher real wages, lower consumer prices and increased government revenue as well as through benefits external to the project itself, such as the productive employment of otherwise underemployed labour or capital or the development of new marketable skills. Historically, overseas investment has enabled the economy to grow faster and thereby generate higher employment and living standards than otherwise would have been possible.

Both direct and portfolio investment in Australia from overseas play important roles in improving economic growth and living standards in this country. However, such barriers to investment as the need to navigate – or cut – red tape and to access important information quickly and conveniently loom much larger for direct investors than for portfolio investors. As discussed later, apart from establishing a stable, pro-investment economic and regulatory environment, it is in these areas that government intervention can be most effective in encouraging overseas investment. Accordingly, as is the case for existing government programmes relating to overseas investment, the predominant focus of the Review has also been on ODI.

Nevertheless, many of the benefits that can result from ODI in Australia can also derive from overseas portfolio investment and from investment by domestically owned firms drawing on either domestic savings or borrowing from overseas. This suggests that ODI could be regarded as no more valuable or deserving of supportive government action than investment funded from any of these other sources. Indeed, it might be argued that the net benefits to Australia would be greater from a domestically funded project than from an otherwise identical project funded through ODI because the profits would accrue to Australian rather than overseas interests.

Generally, the greatest contribution to Australia's economic welfare will result when investment is driven by commercial economic criteria and not distorted artificially towards particular types of capital flow.

In the light of these observations, and the knowledge that factors attracting ODI generally will be the same as those attracting investment from other sources, the question needs to be asked whether ODI, as distinct from other forms of capital flows, should be promoted specifically and, if so, the extent to which it should be promoted. Again, the conclusion is that such promotion can be justified under certain conditions.

In addition to the benefits identified above as arising from both ODI and other sources of investment, ODI has a number of particular advantages. It traditionally has been regarded as relatively stable, involving a substantial commitment from the investor in acquiring business facilities and hiring staff, whereas debt finance and portfolio investment can be recalled relatively quickly. (Of course, withdrawal of ODI can involve substantial adverse economic consequences, particularly in regions or sectors most directly related to the investment.)

ODI also can be particularly effective in facilitating technology and skill transfer and encouraging Australian business linkages to international networks. Intra-company trade across national borders can also be facilitated through mergers and acquisitions involving multinational companies. In addition, unlike debt finance where the capital and interest generally must be repaid regardless of performance, the return to direct investment is dependent on profitability.

Further, and very importantly, Australian firms can and do invest substantially offshore. Australian investment overseas allows Australians to diversify their investment risks and obtain better returns than may be available domestically. A free flow of funds on a global basis is most likely to achieve the best productive outcomes for all investors and for host countries. Any shortage of capital resulting from outflows offshore may be rectified by encouraging and promoting ODI or other investment sources.

Chapter 3 outlines the role of, and criteria that must be satisfied to justify, government intervention to encourage ODI. Amongst other things, the analysis in that chapter indicates that government can play a valuable role in ensuring that potential direct overseas investors in Australia have an appropriate and timely understanding of Australia's advantages as a location for productive investment.

Recommendation

It is recommended that the Commonwealth Government continue actively to encourage overseas direct investment with a view to it sustaining a valuable contribution to Australia's economic well-being.

Chapter 2 Factors influencing investment

Chapter 1 outlined the dimensions and pattern of overseas investment in Australia and the benefits to the economy that result from overseas investment generally and overseas direct investment (ODI) more specifically. This chapter examines key factors influencing decisions to undertake investment in particular locations, emphasising the critical importance of the underlying commercial returns to the investment.

2.1 The need for commercial returns

The key driver of a decision to invest is the belief that the investment will generate commercial returns and, in particular, that these expected returns will exceed those from the best alternative use of the funds. If a potential investment is not expected to generate a commercial return to the investor then, regardless of what other attractions may be on offer, it should not be undertaken.

It is also normally in Australia's economic interests that any investment is commercially viable without requiring special government assistance. This applies equally whether the investment is sourced from overseas or domestically. While there may be some special cases in which substantial benefits accrue to Australia that are not reflected in the commercial returns to an investment, the cost of any public funds spent in attracting such investment needs to be taken into account in assessing the net benefits of the investment.

The long-term nature of most investment means that net returns over time are considered, together with relatively long-term risks. In the eyes of long-term investors sovereign risk is a major consideration, in particular, perceived stability and predictability in government. It means that not only should there be no risk of revolution in political processes or widespread public resumption of key assets, but confidence is needed that any necessary regulatory or other processes will be efficient, effective and not subject to major, unanticipated, unwelcome changes. Measures by government to reduce risk are often more valuable in encouraging ODI than financial incentives, particularly for the major projects.

A 1996 by the Bureau of Industry Economics publication, *Evaluation of the Investment Promotion and Facilitation Program* [8] noted work by Douglas and Craig suggesting that the factors triggering decisions to undertake ODI change as firms' business strategies evolve through different stages over time. Their work suggested several phases for overseas investment and expansion. The initial foreign entry or 'beachhead stage' is triggered by factors such as saturation of their domestic market, movement of domestic customers overseas, sourcing opportunities overseas, entry of foreign competition into the domestic market, desire to keep abreast of technological changes and diversification of risk. Local market growth, local competition, local management initiative and motivation and the desire to use local resources more effectively drive the 'beachhead expansion stage'. The 'global rationalisation stage' is motivated by cost efficiencies and duplication of effort between countries, learning from transfer of ideas and experience, emergence of global customers and global competition and the development of global marketing infrastructure.

Respondents to this Review noted that the significant factors influencing locational choice in Australia are the quest to take up a stake in regional markets so as to preserve and or expand global market share; access to raw materials; access to a low cost, highly skilled and productive workforce; a well-developed local infrastructure (including transport, communications and financial services, but also health care, housing stock, educational and cultural institutions); an efficient and honest public sector; effective markets, including financial markets, that allow

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[8] Bureau of Industry Economics, *Evaluation of the investment promotion and facilitation program, Report 96/4*, March 1996, p 12, referring to S.P. Douglas and C.S. Craig, 'Evolution of global marketing strategy: Scale, scope and synergy', *Columbia journal of world business*, Fall 1989, 47; and S.P. Douglas and C.S. Craig, *Global marketing strategy*, 1995.

efficient access to these resources; and political stability. All these impact on the attractiveness of an investment.

Four Seasons Healthcare

The chief executive officer of Four Seasons Healthcare had, in a previous job, been involved in exporting to, and importing from, Australia. He therefore sensed that Australia could be a potential investment location for his company. He made contact with the Austrade office in Stockholm for more information. The trade commissioner then sowed the idea of using Australia as a base for manufacture and export into Asia and provided market information from Austrade sources and the *Invest Australia* team in Frankfurt.

A site visit was arranged through *Invest Australia* and the services of the New South Wales Department of State and Regional Development were enlisted to assist with attraction activity in Sydney. The company commenced its Australian operations in December 2000 and initially invested $10 million. This has led to the creation of 50 jobs. The target is to increase the scale of the company's investment to $100 million in the first five years of its operations in Australia and to add a further 50 jobs. The company is working closely with Australia Post on its business to customer concepts.

It is noted that constant customer care both in Sweden and Australia were vital in securing the investment and its successful start. The company is now looking to export to Asia from Australia and intends to work closely with Austrade to this end.

Respondents emphasised the importance of an appropriately skilled, reliable labour force. "Investments are all about projects, which are all about people." The ready availability of (including the ability to retain) scientific, technical or market knowledge or other specialist skills can be critical to maximising the effectiveness of any investment undertaken and even to generating a profitable return at all. Investment in human capital is an essential component of total investment.

2.2 Access to markets

An operation located in Australia will have access to the Australian market and, at least potentially, a much larger export market in Asia and beyond. Companies with access to Asia can achieve greater economies of scale (and thereby lower unit costs) than would be possible if sales were limited to Australia. Australia's status as a developed country in the same or similar time zones as much of Asia has particular advantages for firms considering a base for their Asian operations.

It follows that open export markets are crucial to Australia's economic prosperity and to its attractiveness as a location for ODI. Australia uses the World Trade Organisation (WTO) as the primary vehicle for achieving greater market access and securing better trading conditions for exporters.

The WTO's fundamental principles of equal treatment for all WTO members and non-discrimination against foreign products and services ensure all WTO members, irrespective of the size and composition of their economies, can take advantage of market opening by any other country. Further successful implementation of the WTO principles would increase access to open export markets and, as a result, make Australia more attractive as a location for ODI. Australian support for the work of the WTO, including in relation to investment issues, and the pursuit of any regional and bilateral opportunities (for example, the possibility of a free trade agreement with the United States) to improve market access internationally improve this country's attractiveness as a location for ODI.

2.3 Macroeconomic and microeconomic framework

To succeed in attracting productive investment, Australia's economy must be internationally competitive. A stable economic environment, with sustainable and broadly predictable economic policies in which business requirements for key, highly productive resources can be delivered quickly and reliably, is of critical importance in assessing the likelihood that commercial returns will be forthcoming. Thus, both macroeconomic and microeconomic conditions and policies are significant considerations in firms deciding whether to invest in a country.

In *Investing for Growth*, its response to the 1997 Mortimer Report[9], the Government noted the importance of investment to sustaining strong economic and employment growth and achieving improved living standards. In this context it emphasised its commitment to ensuring Australia's attractiveness as an investment location through maintaining a sound macroeconomic environment and pursuing labour market and other microeconomic reforms to raise productivity and lower cost structures across the economy.

An OECD study[10] found that important contributing factors to growth in member countries during the 1990s were new capital, in particular investment in information and communications technology (ICT); increased use of labour as productivity and employment grew together; rising labour skills, particularly important in obtaining the benefits of new technologies; and greater efficiency in the combination of capital and labour.

The study found[11] that "Policies that engage ICT, human capital, innovation and entrepreneurship in the growth process, alongside policies to mobilise labour and increase investment, are likely to bear the most fruit over the longer term. But to have any chance of succeeding in these areas, governments must ensure that the fundamentals – macroeconomic stability, openness and competition, as well as economic and social institutions – are working."

A number of economic reforms in Australia since the early 1980s have been aimed at helping to create and sustain conditions for maximising sustainable economic growth.

These reforms range from the 1983 floating of the Australian dollar to the establishment during the 1990s of credible inflation targets for monetary policy, to the implementation of a medium-term fiscal strategy aimed principally at achieving budget balance on average over the course of the economic cycle. The fiscal strategy is intended to promote strong and sustainable growth in the Australian economy by removing the Government's call on private savings and the current account deficit over the medium-term and creating the conditions for low interest rates.

As well as a sound macroeconomic environment, it is important that available resources are able to flow efficiently to activities where they produce the most value, thereby lifting the productivity of the economy. The improvement in the way which capital and labour have been combined and managed as a result of various microeconomic reforms in Australia since the 1980s has led to a lift in productivity growth and, in turn, generated higher real incomes and greater job opportunities and encouraged investment.

Labour market and tax reforms have been particularly important in facilitating more efficient investment decisions throughout the economy, with significantly reduced business costs. Further, competition policy reforms have extended pro-competitive laws, reformed regulations that unnecessarily restricted competition, and introduced competition to the provision of services

[9] Department of Industry, Science and Tourism 1997 Review of Business Programs, *Going for growth: Business programs for investment, innovation and export.*
[10] Organisation for Economic Co-operation and Development, *The new economy: Beyond the hype: Final report on the OECD Growth Project*, 2001, pp 6-7.
[11] Ibid, p 8.

traditionally provided through public monopolies. In addition, financial market reform has facilitated the flow of financial resources for investment in new and expanding businesses and the introduction of new financial services and products.

The OECD has noted that the key to benefiting from ICT is to focus on policies to foster its use rather than its production, and that human capital is especially good for growth in the context of rapid technological change. This suggests that, not only can the various microeconomic reforms take much credit for Australia's rapid productivity growth during the 1990s, but they leave it well placed to achieve continued rapid productivity growth over the coming period as a result of the effective adoption of new technologies.

The Economist Intelligence Unit[12] has placed Australia fifteenth out of 60 economies in its business environment rankings. The macroeconomic and microeconomic reforms of recent years, including tax reforms, have made Australia an attractive economy in which to invest. In the context of a dynamic and increasingly competitive global economic environment, ongoing attention to Australia's economic policies and performance is necessary to ensure it continues to attract productive investment.

Given the critical nature of the economic environment to attracting investment and the recognition that other countries are doing their utmost to attract investment, **it is recommended that:**

- **the Government continue to give ongoing high priority to sound and stable macroeconomic policies and microeconomic reforms in order to attract investment; and**

- **these (macroeconomic and microeconomic) policies be kept under constant attention to ensure that Australia remains at the forefront as an investment location.**

The most valuable task government can undertake to attract investment is in establishing and maintaining an appropriate and competitive broad macroeconomic and microeconomic framework. However, putting to one side the place of agencies with a specific mandate to promote Australia's business attractions, the government's role extends beyond these fundamentals. A generally attractive Australian investment environment may not be sufficient to attract investment here if other issues are not adequately addressed, for example, adverse effects on some business operations of particular regulations. The remainder of this chapter examines some of these factors, such as the need to remove unnecessary regulatory barriers.

2.4 Removal of regulatory barriers

Legislation and regulation have an important role in codifying and clarifying the law, enabling contractual arrangements to be made with some certainty. Regulation also has an important and legitimate role in assisting the achievement of public policy objectives.

However, complying with the applicable legal and regulatory requirements imposes costs on business, which can be substantial. Companies considering establishing or expanding their operations in Australia are required to satisfy a range of requirements in relation to corporate governance, trade practices, conditions of employment, consumer information, the environment, health, product safety, various licensing arrangements and a host of other legal and regulatory requirements. Furthermore, these requirements operate in Australia at Commonwealth, state/territory and local government levels.

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[12]The Economist Intelligence Unit, *Research report: World investment prospects: Comparing business environments across the globe*, 2001, p198.

Excessively burdensome regulatory requirements can be a barrier to ODI in Australia as well as a problem for business more generally.

Any ambiguity, uncertainty or delays in establishing the nature of or compliance with regulatory requirements, frequent or significant changes to regulations and significant differences between Australian and overseas rules that may be more familiar to potential investors can all discourage overseas investment. Even differences in accounting requirements/conventions can complicate transactions. A number of parties have indicated the time taken to obtain critical information or necessary approvals is a significant barrier to investment in Australia. They emphasise that speed to market is increasingly important and can be particularly so for ‘new economy’ investment. Similarly, changes to government rules after the commitment of significant time and or resources towards satisfying old requirements can have a significant adverse impact on Australia’s reputation as an attractive investment location.

Investors are also concerned to ensure that their understanding of relevant law matches the interpretation of those authorities responsible for administering and enforcing that law. Mismatches between the perceived intention of legislation and its enforcement in practice will not assist Australia’s reputation as an attractive investment location.

A number of respondents indicated that these issues were greatest where legislation provides significant discretion or latitude on the part of the relevant enforcement agency; for example, the Australian Taxation Office or the Australian Competition and Consumer Commission (ACCC). More specifically, some representatives of large companies have argued that the ACCC’s focus on the degree of competition in the domestic market discourages them from investing in operations in Australia and stands in the way of the emergence of ‘national champions’ that can be competitive in world markets.

Under the *Foreign Acquisitions and Takeovers Act 1975*, the Treasurer can reject an overseas investment proposal considered to be contrary to the national interest. However, some respondents commented that, as this test is not defined precisely, it is not always clear to a potential investor whether or not a proposed investment will be considered contrary to the national interest.

These factors can have implications for Australia’s ability to attract future greenfields investment as well as the willingness of companies to retain an Australian domicile. Delays or other difficulties encountered in satisfying rules and regulations in a takeover context can contribute to the impression that Australia is not ‘open for business’ and make it less likely to be viewed favourably when the location of future investment is being considered.

2.5 Building on existing relationships

While difficulties encountered in business dealings in Australia can adversely, and disproportionately, affect the country’s image when future investment decisions are considered, positive experiences can enhance that image. Initial direct investment in Australia is likely to develop from an existing business relationship and further large direct investment decisions may follow smaller ‘toe in the water’ investments intended in part to test how easy the firm finds it to do business in Australia. Invest•UK reports that typically 40 per cent of new ODI comes from existing investors and that managing the relationship between governments and those investors is one of the single most critical factors to ensuring continuing investment.

The nature of this process and the large volume of reinvested earnings from ODI in Australia emphasise the importance of giving sufficient attention to ‘aftercare’ in Australia’s efforts to attract investment. In addition, it reinforces the importance of wide recognition within the Australian community of the potential and actual benefits of overseas investment. Similarly, potential investors learning of positive experiences of Australia from business associates can contribute to strengthening the country's reputation.

Coloplast Pty Ltd

Coloplast is a Danish company specialising in the development and manufacture of quality of life products and services for a range of disabling conditions. At the time it came to the notice of *Invest Australia* it had distribution operations in Melbourne and Japan and was giving consideration to which country its presence should be upgraded to become its Asia Pacific headquarters.

The Victorian Government's investment agency, Business Victoria, sought the assistance of *Invest Australia* in securing the regional headquarters and associated investment and jobs for Australia. *Invest Australia* worked with the management of the Australian subsidiary for over a year, providing comparative data and information, as well as assisting in the development of a business case and investment proposal to convince the Danish parent that Australia would be the most suitable location for its investment.

Success in convincing the Danish parent of Australia's credentials has resulted in additional investment of $6.5 million, 30 specialist jobs and exports of $3.7 million annually.

2.6 Positive incentives

Incentives will normally be accepted by an investor, but are frequently ranked well below other factors affecting the investor's decision to invest. They are much less important than a sound macroeconomic and microeconomic environment, political stability, stable economic and social infrastructure, a reliable and well-educated work force and a well-developed financial sector. Removing any existing impediments such as unnecessary red tape or arrangements that protect existing market players against potential new entrants generally can be expected to be more effective than offering special incentives. Financial incentives to new investors may disadvantage incumbents in a market.

It is recommended that the use of financial incentives to attract investment be seen as only one of a number of possible initiatives, kept to a minimum, and that rigorous criteria be used in their application.

Nevertheless, there can be a legitimate role for well targetted and transparent incentives in persuading firms to undertake productive investments in Australia that would not otherwise have taken place here. Indeed, some incentives are available in the Australian context. There may be a case for such incentives normally being employed only to create new industries and provided other strict criteria are satisfied. Where incentives are offered, strict criteria are necessary to ensure, amongst other things, that all potential applicants for assistance are treated consistently, that the incentives are consistent with Australia's WTO obligations and that the net benefits to Australia arising from the investment exceed the cost of the relevant incentives. In assessing these net benefits, it is important that account be taken not only of whether the potential investment in the relevant sector would generate indisputable net spin-off benefits to the rest of the economy, but also of whether the investment would have taken place in the absence of the incentive and whether another investor may otherwise have undertaken it.

This issue is discussed further in Chapter 3.

Summary of recommendations

It is recommended that:

- **the Government continue to give ongoing high priority to sound and stable macroeconomic policies and microeconomic reforms in order to attract investment;**

- **these (macroeconomic and microeconomic) policies be kept under constant attention to ensure that Australia remains at the forefront as an investment location; and**

- **the use of financial incentives to attract investment be seen as only one of a number of possible initiatives, kept to a minimum, and that rigorous criteria be used in their application.**

Chapter 3 Role of government in overseas direct investment - capitalising on Australia's strengths

While the private sector has an important role to play in promoting Australia's investment credentials offshore, only government is able to bring a whole-of-nation perspective to offshore investment promotion and attraction activities. This chapter considers the respective roles of the private and public sectors in investment promotion, the importance of drawing to the attention of potential investors Australia's competitive strengths and comparative advantage, the current approach to the provision of incentives and the particular role of the states and territories in highlighting the advantages and strengths of investing in regional Australia.

3.1 Background

As discussed in Chapter 2, ODI will make its maximum contribution to Australia's economic welfare when driven by commercial imperatives. The quality of information is critical to companies making soundly-based commercial decisions. However, the case study work undertaken by the Review has confirmed that there is less than full knowledge of Australia's comparative advantage, strengths and capacities on the part of many investors.

Multinational companies are more likely than small to medium-sized firms to be generally well informed about Australia's business environment. Our comparative advantage in traditional areas such as the resources sector is likely to be better known than our more recently developed areas of expertise. Moreover, even where companies are already operating in Australia it has sometimes been the case that their business unit management has been unaware of Australia's diverse credentials, leaving global headquarters unaware of opportunities for further investment in Australia. Without the efforts of *Invest Australia*, Austrade, and the states and territories in offshore markets some commercially driven investment that has flowed into Australia would have been lost, with consequential effects for the level of economic and export activity and employment.

Lincoln Electric Holdings

Lincoln was established in 1895 and its first venture outside the United States was to establish a plant in Australia in the 1930s to manufacture welding equipment.

During the 1980s and 1990s, Lincoln invested in manufacturing plants in Asia. Singapore was selected as its regional headquarters. Due to head office focus on Asia there had been minimal capital investment in its Australian operation for over 20 years. The Australian plant produced outdated products and in 1998 was considered to be at the crossroads. Lincoln could either rundown the operation and harvest the cashflows for up to 10 years, eventually switching production to its Asian plants, or upgrade and make Australia the product development and technical support base for the Asian region.

Australia only came into view as a site for a major change in the company's operations when an officer from the *Invest Australia* network in Chicago 'cold called' the strategic planning section of the company's head office in Cleveland. "The company thought it knew Australia" but through work undertaken in Chicago, Singapore and Sydney the company was encouraged to have a fresh look. The combined efforts of *Invest Australia* and the New South Wales Government revealed Australia's current strengths and not only did Lincoln upgrade its manufacturing capacity but it made Sydney its regional base both for technical support/research and development and administration.

The New South Wales Government provided a financial incentive package, while the Minister for Industry, Science and Resources bestowed regional headquarters status on the project. This assisted with the relocation of the regional president to Sydney.

In July 1998 the Senate Economics References Committee on Promoting Australian Industry concluded in its report *Creating Opportunities* that Australia appeared to be an unmarketed investment destination, with the Committee hearing much evidence stressing the need to address this weakness. However as this finding was a by-product of the main focus of the report, the Committee made no recommendations on ways to overcome the deficiency. Senior Austrade executives in North America have said that Australia is still disinclined more generally to sing its own praises. "Other countries are actively promoting themselves and securing investment outcomes as a consequence."[13]

3.2 Whose responsibility?

Australian business is promoted collectively by governments, the private sector and individuals. Investment banks, for example, have access to much detailed analysis about the Australian economy and industry opportunities, and they operate a substantial offshore network of offices. They frequently have existing relationships with international parent companies with the potential to become investors in Australia. However, because the benefits of promotional activity are often not able to be captured by individual firms, there is a limit to the extent the private sector will involve itself heavily in generic promotion of Australia. Consequently, there is no sensible alternative to government being involved in promotional activity if a country is to be widely known as a place to invest. Indeed, a lack of engagement on the part of government will result in investment that might otherwise have flowed to Australia being lost to competitor nations.

It is recommended that in the light of the information deficiencies in the global marketplace about Australia's comparative advantage, strengths and capabilities the Commonwealth be focussed on promoting Australia offshore as a place to invest.

Realistically government is more able to take a whole-of-nation perspective and to assess for the economy as a whole comparative and competitive advantage than an individual firm. In turn, government is better placed to harness the resources required to demonstrate and to promote the nation's credentials to potential investors. This can be seen in the results of the regional headquarters initiative that successive governments have supported. Since it commenced in December 1994 some 140 companies have decided to establish their regional headquarters in Australia. Similar success has been achieved in attracting global customer call centres. Nevertheless, the private sector remains a valuable resource for promoting Australia.

It is therefore recommended that government should engage with the private sector in promoting Australia.

In seeking to address what is seen as an information gap or market failure, a dual approach by government, combining both generic and specific approaches to information dissemination, is likely to be most successful. Generic promotion will include information about Australia's macroeconomic strengths, our comparative advantage and high quality of infrastructure. It can also be used to dispel misconceptions about unit labour costs and perceived problems such as industrial relations, scale and distance. More specific or targetted promotion should be directed to sectors where Australia has developed particular comparative advantages and where opportunities or needs are seen to exist.

It is therefore recommended that promotional activity be both generic and industry-specific in focus.

[13] Teleconference between Review representatives and Austrade officials on 6 July 2001

Deutsche Lufthansa – Global Tele Sales

Global Tele Sales, which is a wholly-owned subsidiary of Deutsche Lufthansa, opened a customer contact centre in Melbourne in October 1998. It employs 90 multilingual staff providing telephone, facsimile and email support to Lufthansa's operations in Europe and Asia as well as the European company Sixt Rent-a-car and the Indian information technology group Servion. Due to Australia's time zone and its abundance of European and Asian linguists, the company is able to offer 24 hour "follow the sun" multilingual customer support from Australia. The project was won despite the fact that Lufthansa does not fly directly to Australia.

The first substantive lead for the investment came when the investment commissioner in Frankfurt, who at the time was undertaking research on Lufthansa as a potential investment target, was informed by Austrade in the United States and the National Investment Response Centre that representatives of the airline had attended a customer contact centre conference in the United States. The investment commissioner in Frankfurt as a result made contact in September 1996 with the Lufthansa executives responsible for customer contact centres. This eventually led to a number of site visits to Australia which resulted in Melbourne being selected as the preferred location in Australia in competition with Hong Kong, Singapore and New Zealand for the investment in the Asia Pacific region. Despite differences within the company over the optimal location, Melbourne was eventually selected for its Asia Pacific location.

The general manager, *Invest Australia*, has commented that the Lufthansa project typifies the marketing focus and activities of its offshore team with the support of its industry specialists in Sydney and Melbourne. Once a new industry trend is identified (in this case multi-lingual customer support centres) in which Australia has competitive advantages, it is incumbent on the marketing team to leverage those advantages for Australia by addressing information failure globally.

3.3 What should Australia promote?

National and global economic welfare will be enhanced if resources are channelled into fields where Australia is seen as having a comparative advantage. Work undertaken by Professor Peter Drysdale from the Australian National University suggests that Australia is internationally competitive in agricultural goods and minerals and fuels and has been able to compete in Asia in elaborately transformed manufactures.[14]

Based on an assessment of market opportunities and known Australian capability, *Invest Australia* is currently channelling resources into facilitating investment in the information and communications technology (ICT) sector, regional service centres, agribusiness, pharmaceuticals and biotechnology, resource processing, light metals, segments of the motor industry and regional opportunities in other manufacturing sectors.

While domestic research and development (R&D) already underpins a number of these activities, R&D more generally is emerging as another area of investment interest. This stems from the high quality of Australian scientists and engineers and the relatively low costs of undertaking R&D work in Australia vis a vis the United States and a number of European countries. R&D investment has occurred more recently in the information, communications and technology, aerospace and manufacturing sectors by Cisco, GKN Engage and Lincoln Electric Holdings respectively.

[14] Peter Drysdale and Weiguo Lu, *Australia's Export Performance in East Asia*, Pacific Economic Papers, No. 259, September 1996

Some have argued that simply following a laissez-faire model of investment flows is the answer. In an increasingly competitive global economy where the playing field is far from level, the intervention by government that is being suggested here is, however, considered to be vital if Australia is to continue to attract a reasonable share of global ODI. The key is to focus efforts and to be strategic in interventions, the more so where any incentives are concerned. An example of the wider strategic role that government is able to play can be seen in the "*Building on IT Strengths*" programme which aims to encourage enhanced links between research and development organisations and the creation of clusters of innovative information technology businesses which overseas companies may wish to invest in. This broader strategic role is discussed in greater detail in Chapter 5.

It is therefore recommended that industry-specific promotion should be directed to industry sectors in which Australia is assessed as having a comparative advantage or excellent potential.

3.4 Incentives

In the previous chapter it was noted that incentives will normally be attractive to investors, but frequently rank below other factors affecting a firm's decision to invest. The overwhelming majority of people interviewed in the Review process believe that where government provides incentive funding it should be open and transparent, carefully applied and not disadvantage incumbent firms and that a complete cost-benefit analysis should be conducted. In addition, any incentives must be consistent with Australia's WTO obligations. It was further noted that the tendency for the government to provide incentives in the form of common-use infrastructure meant that the wider community benefited from improved infrastructure and not just the company making the investment.

The current method for examining the need for incentives is considered to be reasonably transparent and sound. Some concerns have, however, been expressed about the length of time it takes to secure Cabinet approval for any incentives and the fact that all other avenues of potential assistance have to be examined before the Commonwealth will consider incentives. In order to compete more successfully for overseas investment Australia should aim to speed up its decision processes significantly, particularly at the Commonwealth level. Faster decision making would be an enormous comparative advantage for Australia in a business world where time to market is increasingly critical. 'Turbo-charging' decision making applies not only to the provision of incentives but to all regulatory processes impacting on investment, including the Foreign Investment Review Board, the Australian Competition and Consumer Commission, environmental and state, territory and local government decisions.

The current incentives process is frequently perceived to serve the resources sector better than enabling industries such as the ICT sector. Such a bias, if it exists, is reinforced by the criteria for major project facilitation status - for projects to qualify for consideration they must be valued at $50 million or more. While this investment threshold is appropriate for many traditional industries, the vast majority of ICT and biotechnology projects are in their earlier stages, for example, R&D, seed or venture capital, and are excluded from the possibility of assistance.

The future potential of creating new firms and new industries is as important a consideration in the provision of incentives as the immediate size of the project. The threshold for major project facilitation status needs to be reconsidered and incentives not be excluded in attracting contestable investment to Australia in enabling or potentially high growth sectors.

It is therefore recommended that the threshold for major project facilitation status be reconsidered to attract contestable investment in enabling or potentially high-growth sectors.

3.5 Relationship management

There is no doubt that competitiveness and comparative advantage can change over time. Case studies show that regular contact with potential overseas investors is a fruitful way of keeping knowledge up to date. Moreover, it has been shown that facilitated visits from potential investors can go a long way to dispelling misconceptions.

GKN Engage

The company approached the *Invest Australia* senior investment manager in London to ascertain whether, notwithstanding Australia's significant aerospace industry, it had the quality and quantity of aerospace engineers to support a new engineering and design operation. GKN Engage had experienced significant recruitment difficulties in the United Kingdom and the United States and was keen to overcome these problems by establishing a new operation here. *Invest Australia* worked with the New South Wales, Victorian and South Australian Governments to gather data on the supply of aerospace engineers.

Initially GKN Engage thought the easiest way to set up in Australia would be to enter into a joint venture with a local company in order to establish a business employing about 40 staff. Having completed a site visit and gained an understanding of the requirements for greenfield investment, the company realised that Australia had the capability to support a larger operation than originally envisaged. It has now established a design and analysis operation for major segments of American and European civil and military aircraft rather than an analysis-only operation. It has also decided to establish a strategic alliance with Sinclair, Knight and Merz, which is expected to lead to additional business and employment. GKN Engage chose Melbourne as the principal site for its Australian operations but has also established a second facility in Sydney based in the facilities of Sinclair, Knight and Merz.

When both its Melbourne and Sydney facilities are fully operational later this year it is expected that more than 100 new jobs will have been created. The company hopes to increase its overall Australian workforce to 250 during 2002.

3.6 Investment in regional Australia

The Regional Australia Summit held in October 1999 identified an inability to attract investment as one of the critical challenges facing regional Australia. Lack of knowledge of Australia on the part of potential investors internationally applies particularly where the relative advantages and strengths of regions within Australia are concerned. As is the case more generally, overseas investment in regional Australia can lead to increased output, greater employment, higher real wages and a strengthened technological and knowledge base. From an economic perspective, resource allocation within Australia will be less than optimal if investors are not fully apprised of the strengths and capabilities of particular areas or regions. While the Commonwealth has provided, and still does provide, assistance in this regard, the states and territories are better placed, and indeed are geared up, to inform intending investors of the detailed advantages of individual locations as well as their lifestyle virtues as compared to metropolitan centres.

There is a need for Australia's overseas investment promotion and investment attraction activities to be based on detailed assessments of Australia's strengths and opportunities and for information deficiencies to be addressed. There is an important role for government to ensure that the processes of engaging potential investors are well coordinated, and that policy development and responses are timely.

Summary of recommendations

It is recommended that:

- **in the light of information deficiencies in the global marketplace about Australia's comparative advantage, strengths and capabilities the Commonwealth be focussed on promoting Australia offshore as a place to invest;**

- **government should engage with the private sector in promoting Australia;**

- **the promotional activity be both generic and industry-specific in focus;**

- **industry-specific promotion should be directed to industry sectors in which Australia is assessed as having a comparative advantage or excellent potential; and**

- **the threshold for major project facilitation status be reconsidered to attract contestable investment in enabling or potentially high-growth sectors.**

Chapter 4 Existing government activities

Chapter 3 explored the role of Government in investment promotion and attraction activity. This chapter describes the activities of major Commonwealth Government agencies or offices involved in such activity. It relates state and territory views and efforts on overseas investment promotion and concludes with a review of the activities of eight overseas investment promotion agencies.

The Commonwealth Government currently supports overseas investment promotion and attraction activities through the Department of Industry, Science and Resources (ISR)/*Invest Australia*, Austrade, the Strategic Investment Coordinator (SIC), the National Office for the Information Economy (NOIE), Treasury/Axiss Australia, and the Department of Foreign Affairs and Trade (DFAT). Other Commonwealth Departments or agencies also indirectly support investment efforts (for example, the Department of Education, Training and Youth Affairs (DETYA). In addition, the states and territories mount independent efforts to attract investment. All these efforts take place in an international market place for investment characterised by intense competition, particularly in our region.

4.1 Commonwealth investment attraction

4.1.1 Background

The 1997 Review of Business Programs, headed by David Mortimer, found that Australia's level of investment was insufficient to its achieve desired economic growth targets.[15] In addition, Australia was seen to be doing less to encourage and attract ODI in comparison to some of our Asian neighbours, and Australia's share of regional ODI had fallen from 37 per cent in 1980 to less than half that figure by 1996.[16] Mortimer concluded that Australia needed to boost its focus on investment. As a result the Government established a new agency, *Invest Australia*, within the then Department of Industry, Science and Tourism. *Invest Australia* was charged with the identification of investment opportunities and with overseas investment promotion, facilitation and attraction.

Now, four years after the Review of Business Programs recommended the establishment of a one-stop shop for investment, there are at least six Commonwealth agencies or offices involved in ODI attraction formally and many programmes that involve investment attraction to some extent. They are – the Department of Industry, Science and Resources (ISR)/*Invest Australia*, Austrade, the Strategic Investment Coordinator (SIC), the National Office for the Information Economy (NOIE), Treasury/Axiss and the Department of Foreign Affairs and Trade (DFAT). Excluding DFAT, they had about 131 staff and spent $25.6 million on investment activities in 2000-01.[17]

4.1.2 Department of Industry, Science and Resources and Invest Australia

The Administrative Arrangements Order (21 October 1998) requires ISR to handle, inter alia, investment promotion and facilitation. The Minister for Industry, Science and Resources, has been asked to accord high priority to investment promotion.

Invest Australia was formed in 1997 and operates as a Division within ISR. While located within ISR, it exists as a partnership between ISR and Austrade.

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[15] *Going for Growth – Business programs for Investment, Innovation and Export.* Mortimer, David, for the Department of Industry, Science and Tourism (DIST), June 1997
[16] See UNCTAD, (1996) *World Investment Report*, United Nations, New York.
[17] The summary of agencies' staffing and expenditure is based on 30 June 2001 statistics and is likely to be an underestimate of the overall effort.

The partnership arrangement between ISR and Austrade is defined by a complex agreement which establishes a Steering Committee of the relevant Deputy Chief Executive Officer from ISR and the Executive General Manager, Australian Operations, from Austrade. The Steering Committee provides strategic leadership to *Invest Australia*. A Business Management Group reports to the Steering Committee on the delivery of *Invest Australia* products and services, including by evaluating the performance of *Invest Australia* and reporting against key performance measures. The Business Management Group meets once a month.

ISR provides the funding for *Invest Australia* ($11.2 million in 2000-01) with about half of the funding ($5.4 million) going directly to Austrade to provide overseas investment services. These overseas services include the provision and management of 22 specialist investment staff in 11 locations. Domestically, *Invest Australia* has offices in Canberra, Sydney and Melbourne. The Sydney and Melbourne offices of *Invest Australia* operate as a National Investment Response Centre (NIRC). On 30 June 2001, *Invest Australia* had a total of 106 staff (ISR provided 69, Austrade 35, 22 of whom were overseas and 13 in Australia, Australia Post, 1, and the Western Australian Government, 1). ISR absorbs $2.2 million to cover corporate overheads.

Invest Australia is designated as Australia's national investment agency, the principal objectives of which are to provide effective policy and analytical advice to support government decision-making on investment issues and provide a national strategic approach to investment promotion, attraction and facilitation. Its services include: identifying and promoting investment opportunities in Australia; providing market information and advice on establishment costs; identifying potential joint venture partners or strategic allies; providing advice on, and connecting investors with, the relevant Federal, state and territory or local government contacts; and assisting with grants to undertake pre-feasibility studies for major investments. It also provides a Major Projects Facilitation service to assist qualifying large investors through government processes quickly and efficiently.

In 2000-01, *Invest Australia* claimed success in attracting $0.8 billion in investment from 55 projects and in creating over 5 000 jobs. Since December 1997, *Invest Australia* claims to have attracted $9 billion in investment creating around 20 000 jobs.

4.1.3 Strategic Investment Coordinator

Recognising the global mobility of overseas direct investment capital, in 1997 the Prime Minister announced the position of Major Projects Facilitator (MPF), to assist into Australia major strategic investment that would have otherwise been located offshore. Bob Mansfield was appointed to the role. In 1999 the role was renamed Strategic Investment Coordinator (SIC) and in December of that year Fergus Ryan took over from Bob Mansfield.

The SIC advises Cabinet through the Prime Minister on investment incentives for strategic proposals having regard to net economic and employment benefits; works closely with potential investors and key Commonwealth Departments to ensure that government approval processes are coordinated and streamlined; and provides leadership in investment promotion and attraction.

Invest Australia funds and provides support staff for the SIC.

The SIC has had dealings with more than 50 potential projects since 1997. The Government has announced the provision of support to eight of these projects, entailing a total capital investment of more than $5.7 billion. These investments are expected to generate more than 3 000 new jobs. In addition to other support, specific financial incentives of $300.7 million were provided under the SIC process to six of the projects.

4.1.4 Austrade

Austrade, formed in 1986, is the Commonwealth Government's export promotion agency focused on the internationalisation of Australian business. It is a statutory authority within the

Foreign Affairs and Trade portfolio, reporting to the Minister for Trade. The agency operates with an independent board that comprises eight Australian business leaders from the private sector and four from government.

Austrade has been formally involved in investment attraction since 1987. Under its Act, Austrade is required to support and facilitate investment in Australia, particularly where that investment is likely to enhance opportunities for Australian export trade. Consequently, when *Invest Australia* was launched in July 1998, Austrade was included as a partner.

Austrade concentrates on trade matters, including export promotion. Investment promotion has a relatively small budget within the Austrade appropriation. Austrade provided $8.2 million to fund investment activities in 2000-01, and in addition received $5.4 million from ISR for *Invest Australia* activities. It devoted three full-time and nine part-time staff to investment attraction to complement its efforts in partnership with *Invest Australia*.

Austrade claims, independent of arrangements with *Invest Australia,* investment successes of 13 projects involving a total investment value of $75 million and 445 jobs in 2000-01.

4.1.5 National Office for the Information Economy

Attracting investment into the information and communications technology (ICT) sector is one stream of work for NOIE in what is a very wide charter. In 1998, NOIE was brought within the ambit of the Department of Communications, Information Technology and the Arts (DoCITA), while retaining its separate identity. The then chief executive officer (CEO) was appointed Special Adviser for the Information Economy and Technology, reporting directly to the Minister. A major part of this role was to facilitate investment in the information industries. When NOIE separated from DoCITA and became an Executive Agency in November 2000, the then CEO did not retain the role of Special Adviser to the Minister, although he continues to provide high-level policy advice to the Minister on the range of issues covered by NOIE, including investment attraction.

NOIE allocates one section of six staff to investment with funding of approximately $446 000. The investment function was recently moved from Canberra to Sydney.

Reflecting its investment attraction function, NOIE's objectives include: encouraging increased investment in Australia's information industries; enhancing the global profile of Australia's information industries; and gathering and maintaining appropriate data for policy and other analysis.

NOIE has passed six investment leads to *Invest Australia* since the beginning of 2000, one of which has come to fruition.

Indus International

The world's leading provider of asset management software – Indus International – has cited Queensland's reputation as a high technology hub as the major reason for locating its Asia-Pacific operations in the state's capital city.

Indus International's Brisbane-based regional headquarters play a key role in servicing the company's worldwide customers. With operations in the United States and Europe, the addition in 1999 of an Asia-Pacific headquarters gave Indus International a global presence.

Indus International Managing Director, Peter Wirth, said the company's expansion into the Asia-Pacific region has enabled it to strengthen its global market share in its stronghold sectors and better address customer requirements.

As specialists in the provision of asset management solutions for the utilities, energy and manufacturing sectors, Indus International's solutions enable its customers to achieve competitive advantage through the optimised use of their critical assets.

The company has been impressed by the skills of its Queensland workforce and has completed a number of diverse international projects in Brisbane, such as the European Monetary Unit modules; and the Double-Byte Technology Project, which allows the acceptance, storage and display of character-based languages such as Japanese, traditional Chinese and Korean.

4.1.6 Axiss Australia

In August 1999 the Australian Centre for Global Finance was established in Sydney. In June 2000, it was renamed Axiss Australia. It is a division of Treasury and has a private sector board that provides strategic guidance. The board includes no public sector representative. Axiss differs from the other agencies reviewed in that its establishment was driven by the private sector. Its central objective is to position Australia as a global financial centre, with particular emphasis on the Asia-Pacific timezone, as well as providing a one-stop shop for financial organisations considering Australia as their Asia-Pacific business location.

Axiss works closely with the Minister for Financial Services and Regulation and, during 1999-2000, both the Minister and the CEO of Axiss visited Europe, North America and Asia to establish and build on existing relationships with major financial service organisations. This complemented extensive bilateral contact by the Minister and Axiss with the financial services industry domestically.

Professor Ian Harper reviewed the operations of Axiss Australia in 2000.[18] His key conclusions were: the link between Axiss and the Minister for Financial Services and Regulation is a key factor in its effectiveness; the role of Axiss is to promote Australia's advantages as a centre for global financial services and it should not undertake any activities other than marketing and facilitation; the public good nature of this function in which the benefits accrue to Australians generally, justifies Government funding; it should be funded to June 2004 but any funding beyond that time should depend on satisfactory achievement against key performance indicators; and whatever administrative structure is chosen, there should be a clear reporting line from the CEO to the Minister for Financial Services and Regulation.

In 2000-01, Axiss had a budget of $3.8 million a year. It has 13 staff, all located in Sydney. Some international services are purchased through agreement with *Invest Australia* on an as-needs basis.

More than 40 companies have established a presence or increased operations in the Australian financial sector since Axiss was established in August 1999. Axiss does not provide figures for dollars of investment or employment generated because of difficulties in separating the impact of Axiss' work from other factors influencing relevant decisions in the financial sector. For this reason, this approach is not seen as a reliable measure of success.

Axiss is investigating the feasibility of developing outcome measures relating specifically to Axiss activity. Its performance can be helped to be assessed through the quality and distribution of information it produces on the Australian environment for the financial services sector, and the facilitation and other assistance it provides to relevant financial services companies.

[18] Harper, Ian R. *Australia as a Centre for Global Financial Services*. Independent Review, August 2000

4.1.7 Department of Foreign Affairs and Trade

DFAT currently undertakes a number of activities directly in support of investment attraction. In particular it highlights Australia's economic credentials through public diplomacy efforts at overseas posts; negotiates bilateral investment protection and double taxation agreements; encourages investment facilitation and appropriate policy arrangement in bodies such as APEC; provides support for major international economic events, such as the World Economic Forum meeting in Melbourne in September 2000; provides advice on whether investment attraction policies proposed by the Commonwealth, states or territories would be WTO-consistent; and undertakes analytical work on investment issues.

A current project due to report by the end of 2001 is examining the global outlook for outward and inward overseas direct investment over the next decade and its implications for Australia's trade and investment. DFAT is also researching the trading and investment interests of Australia's large companies and their significance for Australia.

DFAT manages a network of overseas posts including embassies, high commissions, consulates and multilateral missions. A key objective for heads of mission is the promotion of trade and investment opportunities.

The Administrative Arrangements Order of 21 October 1998 requires the Department of Foreign Affairs and Trade to deal with, inter alia, trade promotion. There is no mention of investment promotion even though the Minister for Trade is to administer the *Austrade Act, 1985* to support and facilitate investment in Australia where that investment is likely to enhance opportunities for Australian export trade.

4.1.8 Other Commonwealth agencies and programmes

The Review team found other Commonwealth agencies, such as the Department of Education, Training and Youth Affairs (DETYA) and the Australian Film Commission (AFC), had roles in investment attraction and there were a myriad of other programmes ranging from industry programmes, such as the Partnership for Development (PfD) managed by DoCITA and the Pharmaceutical Industry Investment Program, through R&D tax concessions and the Cooperative Research Centres initiative, to immigration and defence programmes that could be involved to varying degrees in the investment promotion and attraction effort. In addition, some Action Agendas identify investment as key issues, as explained below.

4.1.8.1 Department of Education, Training and Youth Affairs

Education services have been identified as a key strength for Australia and an increasingly important investment opportunity. The Government's Innovation Statement *Backing Australia's Ability* contains initiatives that aim to bring together the skills of those in business, universities and government to ensure that the best Australian ideas are transformed into products and jobs.[19] DETYA identifies itself as having an important role in developing and encouraging appropriate policies to support industry clusters and centres of excellence which often include the creation of new universities or the strengthening and specialisation of existing institutions.

Defence Procurement

The Defence White Paper, Defence 2000: Our Future Defence Force, states "We must take a strategic approach to the defence industry base, and not regard its capabilities as simply a by-product of procurement decisions." The Government has committed

[19] *Backing Australia's Ability* was launched by the Prime Minister on 29 January 2001 and provides $3 billion of initiatives over five years.

an additional $23 billion to Defence over the next ten years to deliver on its vision for national security with the majority of the funds earmarked for new equipment. There is a clear relationship between these acquisitions and the national interest's being promoted through the development of industries of strategic value.

A group of officers from a number of agencies undertaking an Executive Leadership Development Program (ELDP) were sponsored by the Department of Defence to develop criteria to define nationally strategic industries, identify such industries and propose mechanisms to develop those industries for the national good. The ELDP group suggested a number of criteria to determine whether a particular industry qualifies as a strategic industry, including whether it is economically and environmentally sustainable, creates employment opportunities and builds the capability of the workforce, complements Australia's competitive advantage, and is capable of attracting foreign and domestic venture capital.

The ELDP group found that the Defence approach to developing strategic national industries was based almost wholly on defence needs and on how others could contribute to meeting these needs. There was wide criticism by stakeholders that they were consulted so late in the investment decision-making process that they were only able to be reactive. The ELDP group proposed a whole-of-government approach, noting existing mechanisms such as interdepartmental committees and six-monthly round table discussions held by Invest Australia involving the Industry minister and heads of Commonwealth agencies to discuss issues of strategic industries and specific projects. To complement this, the group recommended additional measures, including a Standing Defence Capability Investment Council to consider proposed defence acquisitions against the national interest criteria. The Council members would be drawn from agencies including Defence, PM&C, ISR, Treasury, DFAT and DoCITA as well as the SIC. The CEOs of major defence contractors and relevant industry associations would be invited to select Council meetings.

While these recommendations would go some of the way towards improving national outcomes, the ELDP group noted that a significant cultural change in Defence outlook was necessary to recognise the contribution that other stakeholders could make to Defence decision-making.

4.1.8.2 Australian Film Commission/AusFILM

In recent years there has been a significant increase in the level of foreign involvement in the domestic film and television industry. Involvement has occurred in four areas: foreign film and television being produced in Australia; investment by foreign companies in infrastructure; international co-productions; and foreign investment in the production of Australian films. Investment by major US studios in the construction of film production infrastructure in Australia, and in the production of big-budget films made at those studios, has led to significant development of the Australian film industry, through increased employment opportunities, skills development, and technological development opportunities for the local industry.

The states and territories compete against each other to attract foreign film production. AusFILM was established by Austrade in 1994 to unite the efforts of the Australian film industry in promoting Australia's facilities, locations and personnel to the international market. AusFILM comprises four state film agencies, and 19 private sector companies which service the film industry and is represented by two personnel, one of whom is located in Los Angeles.

While AusFILM was initiated by the Commonwealth, it does not currently receive any funding from the Commonwealth and is not currently affiliated within any Commonwealth film agencies.

The AFC’s international presence and profile occurs through its relations with, and presence at, a network of international festivals, its international network of equivalent national Government film agencies and its ability to work with Austrade on a government agency to agency basis.

There has been little Commonwealth involvement in promoting Australia’s film production services to attract foreign investment apart from the activities of Austrade, through AusFILM and, until recently, the AFC. Whereas foreign producers of bigger budget productions view the lack of consistently applied financial inducement as a major disincentive, producers of commercials and low- to mid-budget productions have difficulties with what they see as a lack of a clear Government message on regulations (visa requirements, local taxes, fees for location shooting, police presence, etc). See AFC case study in Chapter 6 for more details.

4.1.8.3 Partnerships for Development

Under the PfD programme, DoCITA and companies with significant levels of ICT sales to the Commonwealth Government establish an agreement under which the companies are encouraged to expand their strategic activities in Australia and to seek out and develop Australian products, services and skills with international prospects. This involves the companies making a strategic commitment to long-term value added activities with broad regional and global orientation in Australia which are intended to assist in the development of the Australian ICT industry. Companies have committed to a range of activities that expand their Australian operations, including R&D, exports and strategic investments. Some companies harness Australia's competitive strengths in the ICT industry by working closely with local firms and research institutions for mutual and commercial benefit, and building an industry infrastructure that will support future growth.

The equivalent of five people are devoted to the PfD Program with an annual expenditure in 2000-01, including salaries of about $434 000.

For the financial year to 30 June 1999, companies reported more than $2.1 billion in direct and facilitated exports, $400 million in R&D and $600 million in strategic, venture capital and Regional Head Quarters investments.

A new Strategic Industry Development Agreement program is expected to replace PfD in September 2001.

4.1.8.4 Action Agendas

Since their announcement in December 1997, Action Agendas have evolved to become a cornerstone of the Government’s industry policy. Through Action Agendas, industry and government work together to develop a strategic framework for boosting industry competitiveness and performance. Improved industry cohesion, increased productivity and export competitiveness are some of the tangible results of the process.

There are currently 27 Action Agendas in varying stages of development and implementation, including those for the Spatial Information, Light Metals, Processed Food, Aquaculture, Freight Transport Logistics, Pharmaceuticals, Aerospace, Heavy Engineering and Infrastructure, Sport and Leisure, and Printing Industries.

A Strategic Leaders Group is established, in consultation with the sponsoring Minister, for each new Action Agenda. The group identifies key challenges, opportunities and impediments in relation to the industry and works with Government to develop an agenda that will improve the industry's competitive position. Cabinet endorsement of the Action Agenda reaffirms the Government's commitment to work with the industry to implement the agreed actions.

Issues may vary across industries, but sustained growth is always likely to be linked to export growth. Market access, export readiness and other issues affecting an industry's ability to achieve its export potential, including its investment needs, are addressed during the development of each Action Agenda. For example, the Aquaculture Industry Action Agenda Strategic Leaders Group is currently working with *Invest Australia* to develop a strategy to attract investment to this regional industry. Increased investment will enable the industry to maximise its export potential through better promotion and targetting of markets.

Action Agendas are proactive in nature and focus on positioning individual industry sectors to capture existing and future opportunities. Industry drives the process with Government acting as a catalyst for change. The development of an Action Agenda is an intensive process requiring the on-going commitment of industry and government.

4.1.9 Resourcing

Table 4.1 below sets out the resourcing that has been allocated by each of the agencies (with the exception of DFAT), including the distribution of staff and the location of offices within Australia and offshore. No attempt has been made to determine DFAT's offshore costs component for investment-related activity, although based on discussions with DFAT and others the work at posts in supporting investment attraction and trade is significant. DFAT's role in this regard is not dissimilar from that of the British Foreign and Commonwealth Office which supports Invest•UK's promotion and attraction activities in relevant markets. Similarly, some Austrade Trade Commissioners, in discharging their other responsibilities, may from time to time be involved in investment attraction activities where leads come to their attention and are passed on to *Invest Australia*. The Austrade estimates make no allowance for this incidental investment attraction activity but do place a dollar value on investment attraction work undertaken by posts where this was included in their annual operating plans.

Table 4.1 Involvement of Commonwealth agencies in overseas investment promotion and attraction

	Funding			Staff		Offices
	1999-00 $m	2000-01 $m	2001-02 $m	Australia	Overseas	
DISR/*Invest Australia*	11.1, not including corporate overheads	11.2, plus 2.24 in corporate overheads	11.4, not including corporate overheads	65 in Canberra; 1 *Invest Australia* employee in Perth; 18 in NIRC, including 13 Austrade employees, 12 paid for by *Invest Australia* and 1 by Austrade; 1 WA govt and 1 Australia Post employee	22, Austrade employees paid for by *Invest Australia*	Canberra, Sydney, Melbourne, New York, Chicago, San Francisco, London, Frankfurt, Tokyo, Hong Kong, Beijing, Shanghai, Taipei and Singapore
Austrade	-	8.2	-	-	2 full-time and 9 part-time (4.5FTE)	Stockholm, Milan, Paris and Madrid
AXISS	3.5	3.5	3.8	13	-	Sydney
NOIE	-	0.446	-	6		Canberra and Sydney
DFAT	-	-	-	-	-	81 international posts
TOTAL	-	25.586	-	103	28.5	-

In aggregate, the table shows that, not including resources devoted by DFAT, the Commonwealth in 2000-01 spent around $25.6 million on offshore investment promotion and attraction and related activities and employed about 131 people on this task.

4.2 State and territory investment promotion

Investment manifests in relation to specific projects, undertaken by firms in specific locations. Therefore it is the states and territories which are the ultimate hosts of investment projects. They therefore constitute a critical element of any national promotion and attraction strategy. All the states and territories devote resources to investment attraction and promotion and most have an overseas network of offices to assist them to attract investment. As a group, the states and territories had the equivalent of about 140 staff and spent approximately $41.5 million in Australia on investment attraction and promotion activities in the year 2000-01.[20] The state and

[20] It was possible to obtain only an approximate figure in terms of human and financial resources for the investment attraction promotion efforts of the states and territories, due to the very close functional relationship that investment attraction shares with industry (state and regional) and trade development in these instances.

territory overseas network complements the Commonwealth effort. Although the state and territory overseas offices have primarily a trade focus, investment attraction is an increasingly important element of their work. Their overseas network comprised 47 offices and employed 21 Australia-based staff and 124 staff who were locally-engaged overseas.[21]

The investment attraction function in each state or territory typically reports to the minister responsible for state and/or regional development, although investment in some cases is the responsibility of a separate agency. All states and territories emphasise appropriate coordination in investment attraction across agencies but they recognise that in practice this is often difficult to achieve. The objective is to align investment policy with other goals across departments. The Investment Leads Protocols signed by state, territory and Commonwealth Industry ministers in April 2001 has been seen as a positive step towards ensuring appropriate coordination of the investment promotion effort by the states and territories and Commonwealth.

Investment Protocols – a step in the right direction

A set of protocols governing the generation, distribution and management of investment leads was developed as part of a more united approach across *Invest Australia* and state and territory investment attraction agencies. The protocols were submitted to, and endorsed by, Industry ministers at their meeting in Adelaide on 27 April 2001. The protocols have since been incorporated into *The Operating Guidelines for Commonwealth, States and Territories on Investment Promotion, Attraction and Facilitation*.

As part of the implementation of the protocols a new set of Foreign Investment Lead Procedures for the Commonwealth, states and territories was developed and distributed to states and territories and the overseas network. Under the protocols, Foreign Investment Lead summaries were introduced to give states and territories early notice of potential investment projects and opportunities to provide information to assist in the marketing of Australia as an investment site. At 13 June 2001, 31 lead summaries had been distributed, of which 26 went to all states and territories and five had limited circulation at the wish of the client.

In addition to the need for standardised inquiry procedures, it was also recognised that there was a need for a systematic process and database for the recording, reporting and management of investment inquiries within the *Invest Australia* network.

To address that need, *Invest Australia* has completed a specification for the design and implementation of a client management database and is in the process of going to tender.

The states and territories report that their investment promotion strength lies in their ability to do a deal and to obtain the support of the Premier/Chief Minister, other ministers or Cabinet. The high-level political support drives the process from then on. They seek to create a competitive business environment that will of itself attract new business and repeat business. They claimed they were able to make decisions quickly, often within days, and were critical that the Commonwealth would often take months. A key criterion for the states and territories was the number of net new jobs a project would deliver.

Facilitation, incentives and after-care were key elements of their efforts. Facilitation ranged from meeting people at the airport to coordinating relevant administrative and regulatory arrangements amongst agencies at the state/territory/Commonwealth/local government levels. Incentives ranged from exemption from state and territory taxes, assistance with feasibility studies and availability of land, to specific incentives for regional or sector-specific investments. Liaison and cooperation with local government bodies, where appropriate, was an integral

[21] See appendices D and E on overseas networks and funding arrangements.

component of their investment attraction. In relation to after-care, Queensland reports that it has dedicated a work unit to managing investor relations, and that it is working well. Where incentives are considered and made available, the states and territories work to ensure they are compliant with Australia's WTO obligations.

Medium Density Fibreboard Plant – Starwood Australia Pty Ltd

In 1993, the Tasmanian Department of State Development (DSD) regarded Medium Density Fibreboard (MDF) production as a strategic opportunity for Tasmania following pre-feasibility work undertaken by French Enterprises, a local softwood sawmiller. DSD and Invest Australia then commissioned a pre-feasibility study into the production of MDF in Tasmania in partnership with French Enterprises.

In 1993-94, a firm was engaged to produce an investment memorandum for a full feasibility study, and a number of credible organisations expressed interest.

Hokushin Co. Ltd of Osaka, Japan was impressed by the opportunities offered, and developed an independent MDF proposal. Hokushin's credentials for developing the project were excellent because it was the largest supplier of MDF in Japan. DSD and Invest Australia worked with Hokushin to investigate the potential for the project. Senior representatives visited Tasmania and negotiations proceeded to a successful result, albeit a partnership with French Enterprises did not eventuate.

The project obtained Major Project Facilitation Status with the Commonwealth Government and the plant began producing MDF in 1997.

The project created 120 jobs at its Bell Bay plant from a capital investment in excess of $120 million. The facility utilises 260 000 tonnes of plantation grown hardwood and softwood to produce 120 000 tonnes of MDF. It contributes over $70 million to the state in export revenues.

The states and territories generally believe that competition between them, in attracting investments, is healthy. They argue that the concept of competitive neutrality is a moot point because if governments are not prepared to discuss incentives with potential investors, the investors walk away from the table. However, any incentive has to be defensible. They also emphasise the need for the Commonwealth to act in an investment attraction partnership with the states and territories, arguing that it is important to coordinate Commonwealth, state and territory offers on incentives rather than presenting potential investors with a fragmented approach.

Other reviews, such as the Industry Commission's 1996 Report on State, Territory and Local Government Assistance to Industry found that:

> "much of the considerable selective assistance provided to industry by state and local governments has little or no positive effect on the economic welfare of Australians as a whole. Most selective assistance is part of harmful state and local government rivalry for economic development and jobs, which at best shuffles jobs between regions and at worst reduces overall activity. Some of the most wasteful elements of this rivalry could be avoided or reduced by an agreement among states to make provisions of assistance more transparent and to limit its extent".[22]

The New South Wales (NSW) Parliament's Public Accounts Committee's Report No. 130 on Industry Assistance in NSW makes similar observations.[23] The recent agreement between NSW

[22] *State, Territory and Local Government Assistance to Industry*, Report no.55, 29 October 1996, Industry Commission, Commonwealth of Australia, 1996, pxxv

[23] Industry Assistance, NSW Parliament Public Accounts Committee, Report No. 130 No.12/52 June 2001, Sydney, NSW, esp pp 23-25

and Victoria not to enter into bidding wars for major infrastructure developments recognises this potential.

The states and territories report that their investment attraction strategies are customised to build on their respective comparative advantages. All identify specific sectors in their strategic objectives that reflected those sectors and regions they seek to develop. They see a role for the Commonwealth to incorporate into its research and analysis work programme those strengths and state and territory priorities.

Jerambak Holdings Pty Ltd

The securing of investment in the Northern Territory by Jerambak Holdings is directly attributable to the Northern Territory Government's overall policy of economic and cultural engagement with South East Asia and the specific investment attraction strategy within that policy.

As a result of this strategy, Jerambak Holdings Pty Ltd has become a significant investor in the Northern Territory, particularly investing in the pastoral industry and the export of live cattle and processed meat to South East Asia. Jerambak Holdings Pty Ltd is wholly-owned by the Government of Brunei.

Since the award of self government in 1978, the Northern Territory Government, through its development agencies, has pursued a policy of engagement with member countries of ASEAN. Within this policy the government has developed a close relationship with Brunei Darussalam. More particularly this has come about through the government's involvement in the formation in 1994 of the Brunei Indonesia Malaysia Philippines East ASEAN Growth Area (BIMP-EAGA), participation in business expositions in Brunei and a willingness to cooperate in, and originate initiatives aimed at, the mutual development of the economies of the two jurisdictions.

The states and territories report on their investment attraction outcomes on an annual basis and often in terms of value and employment created or retained. The implementation and strategy adopted to attract and promote investment in each of the states and territories is unique and reflects each locality's strengths.

It is essential that the Commonwealth agencies operate in a way that adds value to state and territory initiatives. All states and territories indicate that they liaise closely with *Invest Australia* in identifying opportunities for investors from key overseas markets. Other Commonwealth agencies are often less familiar to the states and territories. Some state and territory investment agency representatives claimed they had not heard of Axiss or NOIE. They saw an agreed role for the Commonwealth in: developing of the overall strategy, promoting Australia, facilitating projects through Federal regulatory mechanisms, and managing relationships in conjunction with the states and territories.

4.2.1 Resourcing

The resources and staff devoted by the states and territories to overseas investment promotion and attraction, and the locations of their offices overseas, are set out in Table 4.2. Their overseas networks have primarily a trade focus. The financial information does not include expenditure incurred by the states and territories in relation to incentives for investment attraction.

Table 4.2 Involvement of the states and territories in overseas investment promotion and attraction

	2000-01	Staff	Staff	Offices
	$m	Australia	Overseas	
Australian Capital Territory	0.2	1.5	Nil	Nil
New South Wales	13.7	25	6	2: London and Tokyo
Northern Territory	Not available	30	7, it tends offshore to contract Austrade to support its activities	5: Lubuan (Sabah/Malaysia), Jakarta, Manila, Timor Loro Sa'e and Bangkok
Queensland	3.0	34	54	10: London, Los Angeles, Tokyo, Osaka, Shanghai, Hong Kong, Seoul, Taipei, Jakarta and Semarang
South Australia	3.0	23	34	10: London, Tokyo, Shanghai, Jinuan, Hong Kong, Kuala Lumpur, Singapore, Jakarta, Bandung (sub-office) and Dubai
Tasmania	0.5	None specifically allocated	Nil	Nil
Victoria	12.7	6	25	8: London, Frankfurt, Chicago, Tokyo, Hong Kong, Seoul, Jakarta and Dubai
Western Australia	8.36	21	19	12: London, Tokyo, Shanghai, Zhejiang, Hong Kong, Seoul, Taipei, Kuala Lumpur, Jakarta, Manila, Bangkok and New Delhi
TOTAL	**41.46**	**140.5**	**145**	**-**

In aggregate, the table shows that the states and territories spent $41.5 million and employed about 140 staff in relation to overseas investment attraction and promotion.

4.3 Competitor nations' investment promotion

As previously mentioned, there are currently an estimated 2 500 investment promotion agencies (IPAs) at national, state and local levels across the world, all in competitive pursuit of ODI. The review undertook a comparative study of eight overseas IPAs, which were chosen because they were either internationally recognised or potentially in direct competition with Australia. The eight were:

- Singapore's Economic Development Board;
- Malaysia's Ministry of Trade and Industry;
- Thailand's Board of Investment;
- New Zealand's Investment New Zealand ;
- the United Kingdom's Invest•UK;
- Ireland's Industrial Development Agency;
- Israel's Investment Promotion Center; and
- Canada's Trade Commissioner Service.

Details on these agencies, and their structures, strategies and resourcing, are provided at Appendix F.

Mention is often made of Singapore's success in investment attraction and promotion. It is therefore useful to understand the following facts about Singapore, compared with Australia.

- Australia's GDP in 2000 was more than four times that of Singapore.
    - Singapore's GDP was US$ 92.2 billion, Australia's was US$ 381.9 billion
- Singapore attracted four times as much ODI as did Australia.
    - Singapore, as a share of GDP, attracted four times as much ODI as Australia in the period 1996-2000. (Source: *Economist Intelligence Unit* World Investment Prospects)
- Singapore has twice as many people doing investment promotion work overseas as does Australia. Singapore has more than half its overseas-based Singapore staff in North America.
    - Singapore has 44 Singapore-based, *Invest Australia* has 22, and Singapore has more than half its overseas Singapore-based staff located in Nth America.
- During the period 1994-2000, Singapore's per capita GDP grew at more than twice the rate of Australia's.
    - Singapore's per capita GDP grew 11.2 per cent (up US$ 3 018) while Australia's grew 4.8 per cent (up US$ 961).

The main observation of the key agencies which are relevant to Australia are discussed below.

4.3.1 Ministerial and board involvement

The most widely recognised IPAs operate with the imprimatur of theor government. This involves the direct engagement of senior economic ministers, or higher, and/or a government-appointed board structure including private sector representation. In the United Kingdom, the board is chaired jointly by the industry and foreign ministers. In Singapore, the board is supported by an International Advisory Council, chaired by the Deputy Prime Minister. The investment agencies in Israel and Canada report to a minister but have no board.

Private sector involvement in broad investment strategy guidance is sought, although it does not necessarily follow that a deliberative board structure is the sole way to achieve such involvement.

4.3.2 National coordination

No one overseas model stands out as offering a solution to Australia's need for national coordination across a federal system. The two countries considered that have federal systems of government, that is Canada and Malaysia, both have their investment promotion function in the form of an agency within a ministry - the Ministry of Industry and Trade in Malaysia, and the Ministry of Foreign Affairs and International Trade in Canada.

The Canadian foreign and trade ministry plans and coordinates a national promotion programme under the 'Team Canada' banner, which is then publicised through the provinces. Operationally, the Team Canada concept, whereby the Canadian Prime Minister leads large business missions abroad, accompanied by provincial premiers and captains of industry, certainly contributes to international recognition and profile abroad. However, the quality of outcomes achieved through such large-scale promotions has recently been questioned, and it appears that future Canadian promotions will be far more targetted.

4.3.3 Strategy and industry focus

All eight countries reviewed have target sectors for ODI, with most including ICT and biotechnology among the targets. All are keen for new technologies and leading-edge R&D, which are seen as enablers for continued economic development, employment growth and skills acquisition in areas which could sustain higher living standards, which will in-turn attract further investment. Singapore and Ireland have been particularly successful in targetting knowledge-based industries. (See Appendix F, Table 3 for a full list of industry sector targets by country).

Some of the broad strategies used to promote ODI include:

- business support - Ireland claims it offers one of the most generous incentive packages in Europe; Israel, one of the most attractive investment packages of any country; and Singapore, a one-stop shop for business;

- independent sources to add credibility - the United Kingdom uses successful foreign investors telling their own stories; Canada uses independent cost comparisons and international competitiveness rankings; and

- favourable geography - Canada claims to be the gateway to North America and thereby provide greater access to this large market.

4.3.4 Delivering the message internationally

The overseas IPAs use dedicated staff to handle their international promotional effort and project management for ODI, and may also use staff who are part of their official commercial or diplomatic presence abroad.

4.3.5 Incentives

All overseas agencies studied, with the exception of New Zealand's, use incentives to varying degrees. These range from the extensive (for example, in Ireland the average cost per job supported through incentives from 1992 - 99 was $15 470, and Singapore), to the conservative (for example, the United Kingdom claims to offer the lowest incentives of any European country). Most offer corporate tax exemptions or holidays. Many countries (for example, Malaysia and Canada) target R&D through concessional tax treatment, while some offer grants (Ireland) or co-funding (Israel and Singapore).

The availability of incentives in some countries, and the flexibility to package them to win a particular investment, are clearly seen by them as an important element in winning increased ODI.

4.3.6 Resourcing

Tables 4.3.1 and 4.3.2 set out the resources the United Kingdom, Ireland and Singapore are devoting to investment attraction.

Table 4.3.1 Overseas investment and promotion and attraction by selected countries

	$Am	Staff		Offices
		Home-based	Overseas[24]	
United Kingdom – Invest•UK	49.9	60	100	Europe, 12 in 10 countries; Asia-Pacific, 20 in 12 countries; and, North America, eight in two countries. Or 40 in all.
Ireland – Irish Industrial Development Agency	80.0	195	50	15 offices in three regions: Europe, Asia and USA
Singapore – Economic Development Board	288.0	556	44	Europe, 5 in 5 countries; Asia, 5 in 4 countries; and, 6 in the United States. Or 16 in all.

All of these countries employ more resources than Australia in the key North American market.

Table 4.3.2 Selected investment agencies in North America

Agency	Offices	Locations	Staff	Staff Breakdown
Invest Australia	3	New York, Chicago and San Francisco	6	1 Management, 3 Marketing and 2 Support
Invest•UK	8	New York, Atlanta, Boston, Chicago, Houston, Los Angeles, San Francisco and Toronto	35	1 Management, 16 Marketing and 18 Support
Irish Industrial Development Agency	6	New York, Chicago, Atlanta, Boston, Los Angeles and San	27	1 Management, 19 Marketing and 7 Support

[24] Nationals posted overseas.

		Francisco		
Singapore Economic Development Board	6	New York, Boston, Chicago, San Francisco, Los Angeles and Washington DC	40 (including 24 from Singapore)	4 Management, 21 Marketing and 15 Support

4.4 Conclusion

As analysed in 4.3, other countries clearly compete vigorously for ODI. These countries seek to build industries and take a strategic approach to investment attraction. Australian governments have traditionally used a range of programmes and agencies to deliver inwards investment promotion and attraction activities. The complexity and inefficiency resulting from the investment promotion and attraction arrangements of the Commonwealth agencies examined in 4.1 needs to be addressed.

A culture of investment attraction and promotion as well as the leadership and strategy to guide activities and focus on where most value can be added is essential if efficiency and effectiveness of effort is to be enhanced. Australia also has to be marketed on its competitive strengths. There are wider national benefits to be gained by adopting a more strategic approach. The objectives of this exercise are for the approach to promoting, attracting and facilitating investment to be seamless to the potential investor and to be carried out in the most efficient and cost-effective manner. This will involve working more closely with the states and territories in partnership to deliver investment attraction and promotion outcomes, to reduce duplication and to allocate resources appropriately.

The remainder of the report advocates what this strategy and leadership will involve.

Chapter 5 A national strategy: the Prime Minister's Investment Council

Chapter 4 presented the activities of the various Commonwealth and State and Territory agencies that are involved in overseas direct investment (ODI) promotion and attraction. The Review has concluded that it is possible to do this more efficiently and effectively and furthermore, that there are wider national benefits to be gained by adopting a more strategic approach. This chapter discusses the benefits of such an approach and how this approach may be achieved.

Mortimer[25] observed that, "A strategic framework encompassing all levels of government and involving the private sector is required to coordinate Australia's efforts to attract investment." He came to this conclusion against a background of Australia's declining share, in US dollar terms, of ODI, particularly in relation to some of Australia's Asian neighbours who were devoting substantial funds to investment promotion and attraction.

5.1 Why a national strategy?

Australia has been successful to date in attracting a reasonable share of global ODI but in the light of increasing competition from the rest of the world, continued success is not guaranteed. The recent tightening of investment in the high technology sector will add to pressure on the available investment particularly in the short to medium term. A national strategy is needed to ensure that:

- ODI is considered in the context of overall economic growth and industry development;

- Australia maximises the benefits from ODI particularly in terms of the quality of investment attracted to Australia, the sectors into which it is attracted and the sustainable benefits achieved;

- messages received by potential investors about Australia are clear and consistent with overall economic policies; and

- the approach to promoting, attracting and facilitating investment is seamless to the potential investor and is carried out in the most efficient and cost-effective manner.

Australia needs to develop a more determined approach to volume and mix of investment, including where it wishes to encourage investment in order to secure those benefits that it values most highly. Thus the industries and types of firms to be encouraged, the enabling technologies and the clustering of investment activities are all issues that would benefit from clearer national goals. This is not about picking winners but it is about creating an environment in which Australia leverages and nurtures its comparative advantage and new firms are encouraged to emerge, adding to economic growth.

Australia will naturally attract investment in resource industries because it possesses world-class mineral deposits and world scale productive farming. However, initiatives are being taken, through action agendas, including for Light Metals to move the resources sector up the value chain. Opportunities for growth in both the upstream and downstream sectors are being driven by increased global interest in light metals. The car industry, in particular, presents the major opportunity for greater use of light metals. Through the action agenda process, strategies will be identified to enable Australian firms to capture these opportunities. Technological innovation and the attractiveness of Australia as an investment location are important factors in the

[25] D. Mortimer, *Going for growth*, Canberra, June 1997.

development of the magnesium industry in Australia. Challenges include moving from project status to metal production, attracting investment funds, obtaining reliable, competitively priced energy supplies and encouraging increased magnesium usage by end users.

There are new and emerging industry sectors that are considered to be of significant value because of their contribution to economic growth. They are also significant because of their impact on other sectors. The information and communications technology (ICT) sector is one such sector which is enabling growth and development in other sectors, including the so-called 'old economy'.

ICT in the Resources Sector

Australia is the world's largest exporter of black coal, bauxite, lead and mineral sands. It is the second largest exporter of alumina, iron ore and uranium and the third largest exporter of aluminium and gold. Its estimated sales of $48.7 billion contributed $26.6 billion to the gross domestic product (GDP) or about 4.2 per cent of GDP in 1999-2000[26].

The Australian resources sector is not just in the business of extracting raw materials. It is also world leader in extraction technologies involving the latest in computer aided design. For example, the Australian company Fractal Graphics uses geological mapping coupled with extensive analysis of pre-existing data, including exploration drill hole data, and geophysical data to provide a rigorous framework for mine design, exploration, and resource estimation.

Twenty per cent of Australia's R&D is by mining and mining-related sectors.

The industry operates in a global, knowledge-based environment - mining technology, services and equipment is one of the country's fastest growing export industries, exporting around $1.5 billion in 2000. Australian companies have developed more than 60 per cent of the world's mining software.

Much of this technology spills over to other sectors such as agriculture and waste management. Tempest, a recently developed airborne minerals exploration system, maps conductivity below ground level, indicating salinity levels which can assist agricultural and rural communities gauge the impact of salinity on their regions.

It is logical that we encourage and support R&D and ODI in new technologies. However, global competition for investment in the information and communications technology sector is fierce, and careful strategy is required. The ICT sector is large and complex, ranging from the manufacture of hardware to the higher value software and applications development. It is unlikely that Australia possesses the preconditions to be successful in all these areas but should focus on those in which it has specific strengths and those where for strategic reasons the development of Australian capability is considered to be important.

Another high-growth sector is the biotechnology sector. This sector is expected to revolutionise global agricultural production and medical science in this century. Australia has a strong heritage in both areas and possesses world-class institutions such as the CSIRO, 24 Cooperative Research Centres with significant biotechnology programmes and a number of medical research institutes such as, the Walter and Eliza Hall Institute of Medical Research and the Garvan Institute of Medical Research. Investment in biotechnology projects and industries clustering around them should be aimed at ensuring that Australia retains or enhances its position.

[26] *IBIS Business Information Pty Ltd. February 2001, X1100 Mining Vol. 8.*

ODI is increasingly linked to the availability of underlying skills that are essential to its success, and in seeking to encourage ODI, there needs to be a simultaneous development of the skills necessary to meet industry needs. The benefit to Australians of skills-driven ODI is the higher value, higher paying and more sustainable jobs that will be generated as industry development moves up the value chain. Australia is recognised as providing excellent education and training, but it continues to be a priority that skills training is considered in the same context as that of industry development, and ODI promotion and attraction.

Australia's Skills Base

Reflecting its sophisticated education, training and immigration systems, Australia's workforce is highly qualified, multicultural and flexible – Australia was ranked second in the *World Competitiveness Yearbook* for the availability of its skilled labour. Around 42 per cent of the working age population have university, diploma or trade qualifications.

Australia offers the familiarity of a western business culture with a workforce skilled at operating in both Asian and Western business environments. Australian executives often have 10 to 15 years more commercial experience than their Asian counterparts and we have a large number of qualified employees available, especially in the finance and information technology sectors. Australia has around eight times the number of experienced managers of Singapore and four times that of Hong Kong.

The diversity of language skills, both European and Asian, is reflected in the number of Australians who speak English and another language (around 2.5 million Australians speak a language other than English at home and 800,000 Australians speak an Asian language).

When IBM chose Sydney over Singapore for its e-Innovation Centre the *Singapore Straits Times* stated, "it is understood that Singapore offered a better incentive package in dollar terms but IBM was swayed by the large pool of experienced IT professionals in Australia.[27]"

The development of clusters can accelerate growth in specific industry sectors and geographic locations, and ODI has the potential to play a significant role in their development. Clusters provide the opportunity for companies to benefit from each other because of the critical mass that is created for suppliers of skills, parts and other services. High-technology clusters are known to develop around research and development centres such as Oxford and Cambridge in the United Kingdom. The motor vehicle industry forms such a cluster in Australia, with more than 200 component firms supplying core vehicle assemblers. Analysis conducted by the Department of Industry, Science and Resources indicates that for every $1 million invested in motor vehicle and parts manufacturing, 17 jobs are generated plus an additional $2.65 million in economic output. The identification and support of other core firms or industries that would support new clusters, and investment in them, should be a high priority for national strategy.

The Chief Scientist, Dr Robin Batterham, in his discussion paper *The Chance to Change*,[28] emphasised the importance of generating new ideas and assisting researchers to make the most of the knowledge they create by transferring this knowledge to business and society. Through this process of commercialisation of technology, new firms are created. There are benefits in seeking to attract and develop firms that are in the early stages of their growth cycle in order to maximise the spin-off benefits received from them. However, venture capital is often critical to these new, young firms. Australia's strategy for ODI must take account of how to maximise the

[27] *Singapore Straits Times, Business Supplement*, 25 July 2000, p.10
[28] R. Batterham, *A Chance to Change*, Canberra, August 2000.

availability of capital to these new firms as well as attract more of them to generate a new wave of growth in Australian companies replacing those that are globalising offshore.

The foregoing discusses some current priorities for ODI. New opportunities will emerge and these should be assessed and added to the national strategic framework as appropriate.

5.1.1 Policy consistency

It is important that a whole-of-government delivery of supporting policies and regulations is achieved.

Representations to the Review revealed that there are areas of public policy where business believes the messages are mixed. For example, some business people consulted in the course of the Review, considered areas of personal taxation policy to be impediments to the immigration of the skills and the business leadership that will support investment projects. The administration of depreciation policy by the ATO was alos seen as an impediment by some respondents. Another area of concern is some aspects of environmental policy which are seen as potentially unfriendly to investors. Similarly, some areas of competition policy are seen to be stifling investment by inhibiting the emergence of ‘standard bearer’ companies of world scale.

The perception is that on the one hand, investment is being encouraged but on the other, there are policies that are contrary to the investment attraction messages. While these issues are beyond the terms of reference of the Review, there needs to be a whole-of-government framework where they may be addressed and where investment promotion and attraction is integrated into national economic policy development.

5.2 Creating the Prime Minister’s Investment Council

During the course of the Review, extensive consultations were held with leaders of corporate Australia, as well as federal ministers, departmental and agency heads and state and territory representatives. The overwhelming message coming through was the need to place Australia’s investment activities into a national strategic context to lift our performance in attracting and exploiting ODI.

It was felt that investment promotion and attraction frequently does not get the attention and status it deserves, and that an improved national leadership process is needed. Such a process should provide focus and guidance for the national effort and it would also assist in bringing together the various disparate groups that are essential to seamless facilitation for investors.

This need is not unique to Australia. Singapore - an economy about the size of Victoria’s - is widely recognised as a world leader in attracting overseas investment. Its national investment promotion body, the Economic Development Board, is supported by an international advisory council that provides strategic guidance tot he Board. That council is chaired by the Deputy Prime Minister and comprises the chairmen or presidents of leading multinational corporations from the sectors Singapore is targeting for ODI. Companies represented on the council include, for example, GlaxoSmithKline and Sumitomo Chemicals (biotechnology/chemicals), Sony and Philips (electronics), and BASF and Kodak (manufacturing).

Many countries have their investment promotion agency reporting to a senior minister. For example, in the United Kingdom, Invest.UK reports through a junior minister to two cabinet ministers (that is, for trade and industry and foreign affairs). Thailand’s Board of Investment reports to its Prime Minister.

Given the important contribution ODI makes to economic growth and living standards in Australia, and the increasing competition internationally to attract it, efforts to promote this country as an attractive investment location must be driven at the highest political level. Senior ministers and eminent business leaders need to be involved in the strategy development, implementation and outcomes of Australia's investment promotion and attraction programme.

The Prime Minister, senior government ministers and private sector representatives, through a Prime Minister's Investment Council (PMIC), could provide the leadership necessary for a national approach to investment promotion and attraction. It is envisaged that the PMIC would be convened by the Prime Minister and would be complementary to the Prime Minister's Science, Engineering and Innovation Council. Thus the PMIC would not only advise on overseas investment into Australia but on other matters impacting on investment. The highly complementary roles would be reinforced by the participation of key ministers (that is, the Prime Minister, the Minister for Industry, Science and Resources and the Minister for Communications, Information Technology and the Arts) on both councils.

It is recommended that:

- **A Prime Minister's Investment Council (PMIC) be established**

- **Under the guidance of the PMIC, a national strategic framework for investment promotion and attraction in Australia be developed. This framework should be developed in the context of Australia's overall economic growth and industry and regional development objectives.**

5.3 Role of the Council

The role of the Council, which would generally meet twice a year, would be to advise the Prime Minister in relation to:

- strategies for increasing ODI into Australia;
- policy approaches to deliver ODI through the recommended strategies;
- promotional initiatives to boost Australia's international business image;
- the role of the revamped *Invest Australia*;
- impediments to investment as seen by business and industry;
- operational programmes to achieve the desired level and spread of ODI;
- measures needed to provide industry/sectoral emphases; and
- educational and cultural issues within Australia regarding 'foreign' investment;

The PMIC would also review regularly Australia's performance against all the above matters.

The work programme for the PMIC should include addressing the following major national issues which were raised during consultations in the course of the Review:

- advise on the use of an Australian business brand and associated promotional campaign to develop internationally a business image for Australia, as well as the core strategies of the marketing plan of *Invest Australia;*
- identify the key domestic sectors on which Australia should concentrate its investment promotion and attraction efforts to maximise its international competitive advantages, as well as those sectors Australia wants to develop;

- highlight future industry sectors that could provide for Australia's continued economic growth, especially industries that will enhance living standards, develop new skills and boost employment opportunities;

- discuss business and industry impediments to investment, and how these might be overcome;

- advise on tax issues seen as an impediment to business;

- assess the adequacy of Australia's skills base, and skills development programmes and facilities, to leverage and support growth in target sectors;

- suggest ways to improve the commercialisation of R&D in Australia, to complement the work of PMSEIC, particularly publicly funded R&D, including the role ODI could play in this process;

- consider ways to encourage further venture capital involvement, both domestic and international, to invest in Australia's growth;

- develop a strategy to raise public awareness of the benefits to Australia of globalisation and foreign investment, and to develop an 'investment culture' in Australia; and

- discuss a forward overseas visit programme based on the plans of individual members of the PMIC, in order to maximise the potential investment promotion benefits of these visits.

It is recommended that the work programme of the PMIC include the major national issues raised in this report.

5.4 Membership

Given the importance of the role of the Council, it should comprise senior ministers with a direct interest in investment promotion, and economic and industry development, and carefully selected eminent business leaders with experience and international networks broadly covering the target sectors for ODI attraction. The CEO of *Invest Australia* should be a member *ex-officio*. The suggested membership is:

Chairman

- Prime Minister

<u>*Members*</u>

- Minister for Transport and Regional Services

- Treasurer / Minister for Financial Services and Regulation

- Minister for Trade

- Minister for Communications, Information Technology and the Arts

- Minister for Industry, Science and Resources

- Six eminent persons from the private sector, with knowledge of sectors in which Australia has competitive advantages internationally – for example:

  - ICT

  - banking/finance

- agribusiness
- resource development
- biotechnology
- manufacturing

Ex-officio Member

- CEO, *Invest Australia*.

It is recommended that the membership of the Prime Minister's Investment Council comprise appropriate ministers, eminent business leaders and ex-officio the CEO of *Invest Australia*.

Business leaders on the Council should be appointed in their private capacities because of the potential contribution they can make, rather than as representatives of their companies. It is not appropriate that participation be seen as a way of promoting a company's interests.

It is recommended that the appointment of business leaders to the PMIC be on the basis of their individual capacities, not because of their current corporate positions, and that they not send substitutes to PMIC meetings.

It is expected members of the Council would be active investment ambassadors for 'Australia's business case'. Business leaders appointed to the Council would be encouraged to promote actively Australia within their industries globally, using their business networks abroad for the benefit of Australia. More than a whole-of-government approach, the Council should represent a whole-of-nation approach. It is proposed Council be serviced by a secretariat from within *Invest Australia*.

In addition, members of the Council could be encouraged to foster and leverage the networks of senior Australian business people already resident in target markets overseas, so that these expatriates feel encouraged to pursue speaking engagements and lobby other companies, with a view to influencing investment decisions in Australia's favour.

While members of the PMIC have a clear role to play in overseas investment promotion, all relevant Commonwealth ministers should consult with *Invest Australia* in developing their overseas travel programmes to maximise opportunities to address appropriate investor audiences, and be involved in other promotional activities.

It is envisaged that the CEO of *Invest Australia* would establish close and regular contact with members of the PMIC, particularly the business members, and with the heads of other relevant Commonwealth agencies and their state and territory government counterparts. At an operational level, the CEO, where necessary, might represent the interests of the states and territories in the PMIC.

Summary of recommendations.

- **A Prime Minister's Investment Council (PMIC) be established.**
- **Under the guidance of the PMIC, a national strategic framework for investment promotion and attraction in Australia be developed. This framework should be developed in the context of Australia's overall economic growth and industry and regional development objectives.**
- **The work programme of the PMIC include the major national issues raised in this report.**

- **The membership of the PMIC comprises appropriate ministers, eminent business leaders and ex-officio the CEO of a revamped *Invest Australia*.**
- **The appointment of business leaders to the PMIC be on the basis of their individual capacities, not because of their current corporate positions, and that they not send substitutes to PMIC meetings.**

6. A national strategy: a reinvigorated *Invest Australia*

Chapter 5 discussed the formation of a Prime Minister's Investment Council (PMIC) comprising senior ministers and industry representatives, providing a framework for a national strategy. This chapter outlines the changes to existing administrative arrangements that are needed to implement that strategy.

6.1 Existing operating framework

Australia does not currently have a government agency empowered to be the champion of investment. *Invest Australia* was intended to fulfil that role but in its design as a partnership of ISR and Austrade, it was not fully empowered to do so.

The investment promotion process is managed by *Invest Australia* domestically but is delivered internationally by Austrade on behalf of *Invest Australia.* Austrade also delivers its own investment promotion and attraction service. The move by other individual agencies towards developing their own investment promotion and attraction activities has further complicated coordination and action. The interface between the states, territories and Commonwealth is neither clear nor seamless. The agencies are not well coordinated and therefore run the risk of confusing the market with different messages and diminishing the potency of Australia's facilitation effort. In a very competitive ODI environment, time can and does make the difference between winning and losing an investment. A 'one stop shop' model has been adopted by many countries overseas, however to date this has not been achieved in Australia (see Chapter 4).

The efficiency of investment promotion and attraction processes must also be addressed. This must be looked at in terms of the total amount of resources committed by Australia to the process, including the states, territories and the Commonwealth. The present arrangements suggest that Australia is unlikely to be obtaining "the biggest bang for the buck". The introduction of greater accountability into Australia's investment promotion and attraction effort will highlight those areas where greater efficiencies may be achieved and where more emphasis should be placed.

Australia needs to change its current approach to attracting overseas investment. The decline in Australia's comparative effectiveness in winning international investment appears to be, at least in part, linked to the fact that we have been both "out-marketed" and insufficiently aggressive in the pursuit of opportunities. There is now an urgent need for Australia to adopt a better-coordinated and more coherent approach to investment promotion and attraction if it is to compete effectively in this very competitive marketplace.

The Review came to the conclusion that many of the difficulties in developing and implementing a whole-of-government approach to the inwards investment effort were related to:

- the management and coordination of the overseas network;
- the amount of resources available and its deployment internationally and domestically; and
- the ability to coordinate the efforts of other Commonwealth agencies and the state and territories into one effective and efficient strategy.

6.1.1 Overseas network

Australia has a widespread overseas network as a resource at its disposal, including both DFAT and Austrade offices. The network houses many other Commonwealth agencies.[29] The overseas network should be viewed as an important, but not exclusive, distribution channel for investment promotion.

The formal overseas component of the investment promotion and attraction effort is currently managed by Austrade which is responsible for the four Investment Commissioners (IC), eight Senior/Investment Managers (S/IMs) and four Investment Development Directors (IDDs) across eight countries. The ICs, S/IMs and IDDs are all locally-engaged staff. Austrade's management of this element of the effort, in theory, ensures that there is no duplication of administrative arrangements and that any synergies between the trade and investment promotion efforts have the potential to be realised. This is its strength. Its weakness is that these arrangements remove the overseas staff from the whole-of-process investment effort by separating the overseas implementation effort from the domestic policy development and facilitation components of investment. Accountabilities have become confused.

6.1.2 Deployment of resources

The resourcing data discussed in Chapter 4 show that the Commonwealth is spending less on investment promotion and attraction activities than many competitor countries, which are seen as international leaders in the field.

Duplication of Australian resources is also an issue. State and territory staffing patterns would appear to be similar to the Commonwealth's, with similar numbers of people engaged offshore as onshore.[30] There are 11 instances where the Commonwealth and at least two of the States have a presence in the same city overseas for investment promotion and attraction (and trade) purposes. Some rationalisation in presence has been attempted in Tokyo, with all of the States and Territories that are represented in the city, apart from Queensland, co-located with Austrade.

Internationally, Australia has a disproportionate number of its investment officers in Asia relative to the volume of direct (as opposed to portfolio) investment attracted from this region. While such on-the-ground presence can be justified on trade and tourism grounds, this is not the case where ODI is concerned either currently or for the foreseeable future.[31] There is a case for some rationalisation of *Invest Australia's* promotion and attraction staff in Asia in favour of other regions. Indeed, there is a question whether others might be contracted to pursue investment leads in places such as China, Singapore, Hong Kong and Taiwan rather than have *Invest Australia* employees specifically located there.

The United States, the United Kingdom and Europe provide large amounts of ODI for Australia. The Economist Intelligence Unit projections indicate the United States, the United Kingdom, Germany, France, the Netherlands, Spain and Switzerland will continue to be significant overseas investors through to 2005. Currently, relatively few of *Invest Australia's* human resources are devoted to these source countries. *Invest Australia* has a presence in the United States, the United Kingdom and Germany. Through the complementary efforts of Austrade, Australia has a permanent investment promotion and attraction presence in France, Spain, Italy and Sweden. There is a case for maintaining or even enhancing Australia's presence in these

[29] Agriculture, Fisheries and Forestry Australia; Australian Defence Force; Australian Centre for International Agricultural Research; AusAID; Australian Federal Police; Industry Science, and Resources; Department of Education, Training and Youth Affairs; Treasury; and Immigration and Multicultural Affairs.

[30] Based on consultations with the states and territories, investment attraction is only one of a number of the functions of offshore offices. For the purposes of this exercise, a figure of a notional 20 per cent has been allocated to the investment function, that is 24 out of 124 staff are dedicated to investment attraction and promotion.

[31] . Based on projections contained in the Economist Intelligence Unit study *"World Investment Prospects"* [31] Asia is not expected to be a major source of ODI through to 2005.

markets. The private sector such as investment banks could assist to promote Australia and targeted missions should be used to assist in-situ personnel. Either way, it is essential that resources be deployed in the areas where the greatest outcomes can be expected.

Domestically, *Invest Australia* is located in three cities, Canberra, Sydney and Melbourne. Relatively few resources are devoted to strategy development and marketing, while around one-third of its onshore workforce is channelled into areas covered by the Strategic Investment Coordinator. Notwithstanding the Coordinator's facilitation responsibilities and the role of the NIRC in disseminating, in a timely way, information on investment leads, the states and territories have indicated that lead information comes to them currently far too slowly.

6.1.3 Coordination

The current multiplicity of players, as highlighted in Chapter 4, is partly a result of the inability of the existing delivery framework to meet the needs of the stakeholders. *Invest Australia* is unable effectively to coordinate its own international and domestic activities because of the complex arrangements with Austrade. Resources do not appear to be optimally allocated. There is also an issue of skills. There is the view that the skills required by *Axiss Australia* to promote Australia's financial services sector, are not presently available within *Invest Australia*.

Successful models of investment promotion and attraction are based on a whole-of-government approach that involves pulling together all the relevant players behind the development and implementation of a well-coordinated investment promotion and attraction strategy. Australia's participation in BIO 2001 is an example of how a national coordinated approach was successful in lifting Australia's profile as a biotechnology investment destination. The states and territories and several Commonwealth agencies cooperated under one united banner to represent Australia.

The PMIC will provide leadership at the highest level but the implementation of the investment promotion and attraction programme requires a rejuvenated agency that will act as the investment champion.

San Francisco-based Australian Business Centre proposal

In 1999, given the increasing success of Silicon Valley and the many Australian ICT companies and state/territory government representatives that were regularly visiting the region for trade and investment development purposes, Austrade developed a proposal for an Australian Business Centre (ABC). This was modelled on Austrade Tokyo, where most state trade and investment development agencies co-locate to achieve economies of scale and synergy. The proposal allowed for a custom-designed and professionally managed complex, co-located with Austrade, with a dedicated office manager/receptionist and with each participant state and territory to have individual offices, computers and faxes (for confidentiality) and shared amenities to save cost. Despite an initial positive response from the states and territories, the proposal collapsed.

Against this backdrop it should be noted that:

- **Victoria had a one-person trade and investment office in San Francisco (SF) for six months over 1998–99 and then opened an office in Chicago, with their representative making many ICT-related trade and investment visits to San Francisco;**
- **Queensland has an office in Los Angeles with one officer spending eight out of ten days in SF focussing on ICT trade and investment; and**
- South Australia has an occasional project-based contractor on call and has announced plans to open an East Coast office.

6.2 An effective framework – Creating a One stop shop

Theoretically, there are two options for addressing the issue of coordination. The first is to bring all the disparate groups together into one organisation such as a mega department that is responsible for commerce, trade, financial services and industry, including the new economy, under a single minister. This option has major drawbacks. It requires substantial changes in existing administrative orders and is expensive to implement. It also ignores an essential group of major players; the states and territories.

The second and more realistic option is to assign the investment promotion and attraction responsibilities of the Commonwealth into a single lead agency, a revamped *Invest Australia*, and develop appropriate whole-of-government coordination mechanisms to allow the multiple stakeholders in investment activities to work together cooperatively within their functional organisations as they currently exist. This would be effected by bringing together all parts of the existing investment activities of ISR, the NIRC, and the overseas investment commissioner network of Austrade into one organisation, *Invest Australia*. It has the advantage of bringing together the currently-separated policy and programme delivery arms of *Invest Australia*, streamlining and simplifying the relationship with the overseas networks and giving accountability to *Invest Australia* to allocate and manage its resources, as appropriate, to achieve the government's goals.

The investment promotion and attraction activities of other Commonwealth agencies such as NOIE, DOCITA and the independent activities of Austrade should also be brought into *Invest Australia*. Within the next three years, as per the Harper Review, Axiss Australia's activities should be reviewed. As part of that review, consideration should be given to absorption within *Invest Australia* when the latter's capacity to undertake them is proven. New investment promotion activities such as the film industry's promotion and attraction of investment in infrastructure and film production,(see case study) and activities based on strategies identified and endorsed by the PMIC, should be undertaken within *Invest Australia*.

Consideration should also be given to seconding state and territory representatives to *Invest Australia.*

The Australian Film Industry

While a comparatively small industry, the Australian film industry is, by its nature, a very visible one that continues to be prized by the Australian community and recognised throughout the world for its quality and innovation. Other areas of government also acknowledge the positive impact on Australia's international image and tourism.

Its contributions cannot be fully quantified but the Australian film and television industry contributes income averaging $1.6 billion annually to the Australian economy. It also employs more than 29 000 people and earns considerable revenues from export – $145 million in 1998–99. The Australian Film Commission's (AFC) *National Production Survey,* released in November 2000, indicates an increase in the total value of film production in Australia from $426 million in 1996–97 to $570 million in 1999–2000. The value of foreign productions made in Australia has increased markedly from $144 million in 199697 to $325 million in 1999-2000 although only $115 million of this amount was actually expended in Australia.

Overseas investment has contributed significantly to the growth of the industry. Major American studios have invested in the construction of film production infrastructure in Australia: Fox Studios in Sydney and Warners Roadshow on the Gold Coast. Fox and Warners studios are already working at full capacity, Fox being fully booked for several years. The construction of a new studio complex at Melbourne's Docklands in 2002 should facilitate space for more studio-based production activity. However there are other infrastructure limitations. Australia has only a handful of post-production firms capable of undertaking work on a Hollywood scale, and needs more sound stage facilities if it is to attract a higher proportion of contestable American production. These are areas where further investment could help to develop the industry.

The Commonwealth does not offer any specific incentives to foreign producers and there has been no formal government consideration of the issue of offshore production to date. This has largely been a state government concern. Incentives offered in Australia's states largely reflect the type of infrastructure available locally. For example, the payroll tax rebates applicable in Queensland and New South Wales are aimed at encouraging production in the Warner and Fox studios. This type of rebate is attractive to foreign producers working at these larger studios which are able to cater for a range of productions, from television drama to medium and big budget features. In South Australia, only feature films attract a payroll tax concession. While Western Australia, Tasmania and the Northern Territory do not have incentives aimed specifically at attracting foreign film and television production, these regions do offer production location assistance and consider production investment on an ad hoc basis.

Several factors, however, combine to act as a disincentive on overseas investment in film production in Australia including the lack of coordination between agencies.The film industry provides an example of where a greater level of coordination and cooperation among a number of government agencies and industry bodies could lead to a better outcome. The AFC believes that internationally there is some confusion caused by having two national film agencies. The AFC works with the Australian Film Finance Corporation to, as far as possible, present a single presence for the Australian industry. At times, Austrade, on behalf of AusFILM, pursues the promotion of Australia as a destination for foreign production independently of the AFC but in association with the industry body AusFILM. Furthermore, AusFILM itself, quite independently of any government agency, engages in its own international promotional activities.

In 1994, Austrade in conjunction with the industry, established AusFILM (then Export Film Services Australia) to unite the efforts of the Australian film industry in promoting Australia's facilities, locations and personnel to the international market. It responds to overseas enquiries concerning all aspects of film production in Australia, including advice about locations; details about studios, crews and production facilities; and assistance in relation to government and industry incentives. Although AusFILM claims to have access to Austrade's network of 80 overseas offices to promote Australia's facilities, locations and personnel to the international market, their ability to deliver against these objectives is constrained by their current level of resources. AusFILM has an office in Sydney and one in Los Angeles, but is not affiliated with any Commonwealth film agency, is not connected to a broader Commonwealth policy mechanism, and receives its funding principally from private sector subscription and in-kind support. AusFILM's cash budget is $280 000 annually, with a further $200 000 contributed as in-kind funding and time given by its members, and unspecified assistance in accommodation and airfares.

While the AFC and AusFILM have complemented each other in their representational activities at international markets, to date there has been little coordination between them and some blurring of responsibilities in relation to what is essentially one industry. This has been compounded by the AFC reducing its international promotional activity due to funding pressures.

The Australian film and television industry is seeking from government a whole-of-industry policy and strategic approach. As with many industries, the Australian film and television production industry is increasingly interconnected with overseas production arrangements and entities. Australian services and facilities providers increasingly rely on foreign production as an important source of business. The need for our producers to seek funds overseas and to engage in various co-production arrangements engenders a complex set of relationships.

Like its major competitors, the Australian film industry would benefit from strategic industry planning which adopts a coordinated, whole-of-government approach. Canada, the United Kingdom and Ireland all have a whole-of-industry policy and strategic approach which includes an integrated approach to funding and regulation for the local production sector, alongside tax measures and international promotion of the overseas production sector.

6.2.1 Autonomy

The new *Invest Australia* should be autonomous so it can make decisions that best meet the objectives of the inward investment programme and make these decisions in a time sensitive manner. It should also be a prescribed agency, that is, having its own budget and able to allocate resources as appropriate. *Invest Australia* should report directly to the responsible portfolio minister . Among the options, an executive agency appears to be the most appropriate administrative structure, though other types of agencies such as an “office” that deliver autonomy to *Invest Australia* may be considered. An “office” of a department offers the advantage of potentially being more cost-effective in terms of corporate overheads. That is, such an agency can utilise the corporate facilities of the department to which it belongs.

Within the existing Commonwealth portfolio structure, there are two potential options for the new *Invest Australia* – Foreign Affairs and Trade or Industry, Science and Resources. Having regard to all of the elements that are essential for successful investment into Australia, it is recommended that the Industry portfolio is the more appropriate environment for the new agency than Foreign Affairs and Trade. Such a portfolio relationship should facilitate the substantial amount of support activity for *Invest Australia* in terms of policy development, research, establishing a strategic direction linked to industry policy, development of marketing and promotion strategies, project facilitation, management and after-care that happen as a part of most successful investment processes. It should also facilitate the much needed linkage between investment and industry innovation which was envisaged in the Government's innovation statement, *Backing Australia's Ability* announced in January 2001.

While *Invest Australia's* relationship with the industry portfolio is important for the reasons discussed above, the new *Invest Australia* should be designed so that it is able to be moved as one entity into another portfolio, as may be appropriate.

It is recommended that:

- **investment promotion and attraction be delivered through an autonomous, prescribed, executive agency called *Invest Australia* in the industry portfolio;**

- the investment promotion and attraction activities of other Commonwealth agencies be incorporated into *Invest Australia*; and

- the states and territories be partners in the national overseas investment promotion and attraction strategy.

6.2.2 Role of Invest Australia

Invest Australia should develop a coherent policy on ODI, and prepare and implement a well-coordinated national strategy that seeks to achieve Australia's ODI objectives. More specifically, *Invest Australia's* role would cover the following activities.

- Providing support for the PMIC and ensuring that a whole-of-government approach is given to matters put before it for consideration.

- In line with the Government's investment promotion and attraction policy, developing and fully implementing an investment promotion and attraction strategy with support from the PMIC.

- Developing the Government's policy on investment promotion and attraction in line with the Government's broader economic agenda. This should be done with reference to the advice of the PMIC and the involvement of all other stakeholders. The policy should address issues such as the volume and mix of investment being sought, target markets and sectors and the impact of broader economic polices on ODI.

- Promoting Australia in overseas markets in line with the objectives set by the PMIC, including managing the activities of the investment commissioners and Australian delegations visiting overseas.

- Facilitating major projects by fast-tracking investment proposals through the approval system and helping to determine those cases which may satisfy eligibility criteria for a financial incentive that require Cabinet consideration.

- Conducting or commissioning ongoing research to ensure that Australia is up to date on global investment flows to inform Australia's investment policy development and programme implementation.

- Reporting to the PMIC and the portfolio minister, the performance of the organisation against its objectives.

These responsibilities of the new organisation have been generally endorsed by states and territories and the wider business community.

In its operations, *Invest Australia* should also prepare information on issues that will potentially support and influence investor decisions. This should include information on:

- operating in Australia (that is, costs of labour, energy, transport, communications, raw materials, tariffs, construction, existing industry concentrations, skills availability, immigration, company and personal taxation rates, export assistance measures, local investment incentives, and so on); and

- R&D in Australia (such as costs and availability of skilled labour, existing R&D clusters, university expertise, R&D incentives and assistance programs, taxation treatment including of expatriates, immigration).

As far as possible, such research should benchmark Australia against potential competitor markets for key types of investment.

It will be important that *Invest Australia* be able to present Australia's capabilities to potential investors. For example, in delivering major infrastructure projects, *Invest Australia* should direct potential investors to sources of information on the credentials and capacity of local firms to deliver products and services.

It is recommended that the role of *Invest Australia* include the following specific responsibilities:

- **the development of an appropriate, whole-of-nation strategy for promoting and attracting ODI into Australia;**

- **the development of a whole-of-government investment promotion and attraction policy;**

- **the effective and efficient implementation of the investment promotion and attraction strategy; and**

- **the effective management of all the relationships involved in the processes of promoting and attracting investment into Australia including relationships with states and territories, other Commonwealth agencies, and the private sector.**

6.3 The Austrade Act

To date, the effectiveness of *Invest Australia* and its ability to coordinate Australia's investment promotion activities has been diluted by the existence of provisions in the *Australian Trade Commission 1985* Act requiring Austrade to:

"Facilitate and encourage trade between Australia and foreign countries by supporting and facilitating investments in foreign countries, and facilitating investments in Australia, where that investment is likely to enhance opportunities for Australia export trade."[32]

This ambiguity has created uncertainty as to who is really responsible for inward investment. The 1985 Act also requires Austrade to "facilitate investments in Australia." This may involve a range of services including helping companies through various government approvals, or assisting companies to access government programmes or finding the right business contacts here in Australia. During the consultation process, the view was expressed by several private sector and industry groups that this role is best performed by agencies whose core business is onshore activities. Currently, other Commonwealth, state, territory and local government agencies as well as the private sector are providing these services.

Invest Australia should be clearly accountable as the Commonwealth's lead agency for investment and should have the option of using the Austrade network to assist its overseas activities. However, it should be made clear that *Invest Australia* is purchasing a service from Austrade and there should be no confusion in the roles and responsibilities of the respective

[32] *Australian Trade Commission Act 1985,* Section 8 (a) (v)

agencies. To assist in this clarification of roles, there needs to be a minor amendment to the Austrade Act which removes any ambiguity from its role which should be one of assisting *Invest Australia* rather than promoting investment in its own right.

It is recommended that the *Australian Trade Commission Act 1985*, Section 8 (a) (v) be amended to clarify the respective roles of Austrade and *Invest Australia* and to enable Austrade to assist *Invest Australia* as a service delivery agent.

6.4 Leadership

The leadership qualities brought by the CEO to *Invest Australia* will be crucial to its success in taking on its new role and delivering on its responsibilities. A number of critical issues will immediately confront the new agency, first among which will be its ability to galvanise the support of all the stakeholders. It will therefore need leadership that has credibility with both the public and private sectors and state and territory and Commonwealth governments. It will also need leadership that has vision and the ability to inspire confidence in the directions being taken.

The CEO will also be required to facilitate the development and implementation of the national investment promotion and attraction strategy, setting clear directions and goals and the standards by which achievements will be measured. An ability to see the wider picture, while understanding and, where appropriate, accommodating the concerns of various groups, will be essential if effective coordination is to be achieved. The CEO must be comfortable with both business and government, understanding the processes of government and the imperatives of business.

Creation of a successful investment promotion and attraction agency will require the development of a marketing and client service culture in *Invest Australia* attuned to the needs of investors. Thus versatility is essential. The CEO must have a strong business and market orientation and the ability to pursue Australia's interests at the highest levels of international business, including communication, relationship development and marketing initiatives.

Leading international examples suggest that a CEO appointed from the private sector is a popular model. While not being prescriptive, on balance, it appears more likely that the leadership qualities required for the CEO of *Invest Australia* will be found in the private sector.

Investment facilitation also requires effective knowledge of government and regulatory processes. It is likely that a private sector sourced CEO would benefit from the support of a deputy with extensive government experience.

It is recommended that the CEO of Invest Australia should have the leadership qualities that will facilitate cooperation among the stakeholders and sharpen the marketing focus of the organisation. These qualities should include in-depth knowledge of the Australian economy, strategic vision and leadership, and understanding of the global investment environment.

6.5 Absorb Strategic Investment Coordinator / Major Projects Facilitator

The concept of the Strategic Investment Coordinator (SIC) found wide support, particularly in the area of facilitating government approvals for major projects in the resources sector (see Chapter 4). Access to the Prime Minister has given the position status and clout with the public and private sectors and, most importantly, with potential investors. A high level of confidence has been expressed in the SIC process because of its independence. However, there are concerns about issues of resourcing, unresponsiveness of government processes to the time-sensitive nature of much investment, and constraints upon the range of projects able to be considered.

There is an argument for the SIC to be integrated into *Invest Australia* as part of the autonomous national strategic approach but there are a number of issues that need to be dealth with if this is to be achieved. The SIC enjoys a "direct line" to the Prime Minister to facilitate projects of national importance and the SIC's decisions on whether or not projects should be considered for incentives are independent of government. If both roles were not integrated, there would be a potential for confusion between the roles of the CEO and the SIC and a significant aspect of the investment process would be left outside of the activities of *Invest Australia*.

It is proposed that these issues be resolved by:

- merging the role of the SIC into the role of CEO of *Invest Australia*, which is responsible to the Minister for Industry, Science and Resources; and
- providing the CEO with a direct reporting relationship to the Prime Minister on projects deemed of national importance which require the "turbo charging of approvals, or incentives.

It is recommended that:

- **the roles of Strategic Investment Coordinator and CEO be combined in the new *Invest Australia;* and**
- **the CEO report directly to the Prime Minister on matters relating to major projects deemed to be of national importance and to the portfolio minister on all other matters.**

6.6 Resourcing *Invest Australia*

Apart from those resources currently allocated to *Axiss Australia*, *Invest Australia* should be allocated the Commonwealth's entire appropriation for investment promotion, attraction and facilitation activities. This should be guaranteed initially on a five-year programme basis. This will ensure that budget appropriation for investment promotion and attraction is fully accounted for, making it easier to track and assess the effectiveness of the agency.

This Review found that there is widespread acceptance in the private sector of the activities of *Axiss Australia* and of those who commented, most found that it was performing effectively. The recent Harper Review concluded that Axiss Australia should be funded for a further three years after which it would again be reviewed. It is important that the momentum of *Axiss Australia* not be lost while *Invest Australia* is establishing itself. However, resources allocated to Axiss Australia should be transferred to *Invest Australia* within three years subject to the review of *Axiss Australia*.

Invest Australia should be allowed flexibility to conduct its activities in the most commercially responsive manner and consideration should be given to locating the commercial side of the organisation in Sydney. To further this commercial approach, staff recruitment should give consideration to this aspect of the organisation's activities. A proportion of staff in *Invest Australia* should have private sector experience in marketing, investment banking and analysis and specific industry knowledge.

Invest Australia should be actively encouraged to employ research, policy and programme delivery activities where these are able to be satisfactorily provided by existing Commonwealth functions including using Austrade as a service provider for part of its offshore delivery process. However, *Invest Australia* must have the option of using the most cost-effective means of delivery in the marketplace and this will likely also include contracts with the private sector to promote and attract investors, or any other means such as targeted missions from Australia direct to potential investors.

A number of Departments and agencies have allocated to them, or are devoting, resources to investment promotion and attraction activities. In 2000–01 the Commonwealth expended some $25.6 million on overseas investment promotion and attraction and related activities. The majority of this should transfer to *Invest Australia*, excluding Axiss Australia funding. The new agency should commence its operations with minimum funding of $20 million.

Once the proposed CEO is recruited, a cross-agency implementation team (including an officer from the Department of Finance and Administration (DOFA)) may assist in developing and implementing the structure for the revamped organisation.

Invest Australia personnel currently employed by Austrade at overseas posts will, in the first instance, transfer to the new organisation. It is not expected that there will be any diminution in the level of support that DFAT might lend at post to the overseas investment promotion and attraction effort. Indeed, this is seen as a critical underpinning to the arrangements proposed elsewhere in this report.

It is important that while the new CEO is appointed, and the management team for *Invest Australia* is assembled, the current momentum, particularly the momentum generated offshore, is not lost. The need for some transitional funding in 2001–02 to cover the costs of establishing the agency, putting in place a new team and phasing-out the existing team will need to be addressed by the CEO and implementation team as a matter of some priority. It is envisaged that that the new entity should be up and running by no later than 1 July 2002.

In allocating overseas resources, *Invest Australia* will need to look at the cost of investment commissioners against lower paid officers who are able to carry out the same duties. This will free up resources so that more officers may be employed in overseas markets.

Invest Australia should seek to rationalise its resources and activities with the states and territories. It is a particular priority that offshore national marketing and promotional needs are adequately met and, wherever possible, that personnel be released to increase capacity for this activity. The states and territories, may also wish to second people to *Invest Australia* to facilitate the handling and distribution of investment leads. As well, the possibility of the states and territories contributing to the Commonwealth's proposed generic and specific offshore promotional activities should be thoroughly explored. This would build on the work that *Invest Australia* has recently initiated with the states and territories to consider the viability of the Australian Tourist Commission's "Destination Australia Marketing Alliance" approach to offshore investment promotion.

Priority should be given by the implementation group for the new agency to resolve the organisational and financial issues discussed above. If it is considered that additional resources are justified, these should be sought in the context of the 2002–03 Budget, against the background of the PMIC having considered the agency's strategic direction.

It has come to the notice of the Review during the course of its deliberations that, while Austrade is currently supplemented for falls in the exchange rate, the same does not apply to the funding which Austrade currently receives from *Invest Australia*. This has caused difficulties for Austrade, in particular, as it has sought to deliver the *Invest Australia* programme offshore. Indeed, during 2000–01 Austrade had to divert $357,000 from its programmes simply to meet the unavoidable additional costs occasioned by the decline in the exchange rate to maintain the investment commissioner network offshore. If the new investment promotion agency is to be securely resourced for its offshore activities, there will be a need for it to have in place a foreign exchange agreement with DOFA to cover its exchange rate exposure in undertaking its responsibilities.

It is recommended that:

- **the CEO of *Invest Australia* have responsibility for the deployment of the agency's resources and the extent to which it purchases services from others in fulfilling its charter;**

- **a small cross-agency implementation group (including a DOFA official) be assembled to establish and staff the new entity;**

- ***Invest Australia* be allocated the Commonwealth's entire appropriation for investment promotion and attraction activities, including facilitation. The funding allocated in the ISR portfolio and by Austrade to overseas investment promotion and attraction activities (minimum $20 million) be transferred to the revamped *Invest Australia* by no later than 1 July 2002;**

    - **those offshore employees currently funded by *Invest Australia* but employed by Austrade be transferred to *Invest Australia;***

    - **in this context, discussions also be held between *Invest Australia* and Austrade concerning the extent to which *Invest Australia* may wish to use Austrade staff and facilities offshore;**

    - **the financial resources allocated to NOIE for overseas investment promotion and attraction be transferred to *Invest Australia* by no later than 1 July 2002;**

    - **DFAT continue to lend support in-market to Australia's overseas investment promotion and attraction efforts;**

    - **resources allocated to Axiss Australia be transferred to *Invest Australia* within three years subject to the review of Axiss Australia**

- **if additional Commonwealth resources are thought to be required by *Invest Australia*, these be sought in the context of the 2002–03 Budget once the proposed PMIC has considered *Invest Australia's* strategic direction, noting the potential need for some transitional funding for the new entity in 2001–02; and**

- ***Invest Australia* enter into a foreign exchange agreement with DOFA to cover its exchange rate exposure in undertaking offshore activities.**

Summary of Recommendations

- **Investment promotion and attraction be delivered through an autonomous, prescribed, executive agency called *Invest Australia* in the industry portfolio.**

- **The investment promotion and attraction activities of other Commonwealth agencies be incorporated into *Invest Australia*.**

- **The states and territories be partners in the national overseas investment promotion and attraction strategy.**

- **The role of *Invest Australia* include the following specific responsibilities:**
  - **the development of an appropriate, whole-of-nation strategy for promoting and attracting ODI into Australia;**
  - **the development of a whole-of-government investment promotion and attraction policy;**
  - **the effective and efficient implementation of the investment promotion and attraction strategy; and**
  - **the effective management of all the relationships involved in the processes of promoting and attracting investment into Australia including relationships with states and territories, other Commonwealth agencies, and the private sector.**
- **The *Australian Trade Commission Act 1985*, section 8 (a) (v) be amended to clarify the respective roles of Austrade and *Invest Australia* and to enable Austrade to assist *Invest Australia* as a service delivery agent.**
- **The CEO of *Invest Australia* be expected to have the leadership qualities that will facilitate cooperation among the stakeholders and sharpen the marketing focus of the organisation. These qualities should include in-depth knowledge of the Australian economy, strategic vision and leadership, and understanding of the global investment environment.**
- **The roles of Strategic Investment Coordinator and CEO be combined in the new *Invest Australia*.**
- **The CEO report directly to the Prime Minister on matters relating to major projects deemed to be of national importance and to the portfolio minister on all other matters.**
- **The CEO of *Invest Australia* have responsibility for the deployment of the agency's resources and the extent to which it purchases services from others in fulfilling its charter.**
- **A small cross-agency implementation group, including a DOFA official, be assembled to establish and staff the new entity.**
- ***Invest Australia* be allocated the Commonwealth's entire appropriation for investment promotion and attraction activities including facilitation. The funding allocated in the ISR portfolio and by Austrade to overseas investment promotion and attraction activities (minimum $20 million) be transferred to the revamped *Invest Australia* by no later than 1 July 2002:**
  - **those offshore employees currently funded by *Invest Australia* but employed by Austrade be transferred to *Invest Australia*;**
  - **in this context, discussions also be held between *Invest Australia* and Austrade concerning the extent to which *Invest Australia* may wish to use Austrade staff and facilities offshore;**
  - **the financial resources allocated to NOIE for overseas investment promotion and attraction be transferred to *Invest Australia* by no later than 1 July 2002;**
  - **DFAT continue to lend support in-market to Australia's overseas investment promotion and attraction efforts; and**

- **resources allocated to Axiss Australia be transferred to *Invest Australia* within three years subject to the review of Axiss Australia.**

- **If additional Commonwealth resources are thought to be required by *Invest Australia*, these be sought in the context of the 2002–03 Budget once the proposed PMIC has considered *Invest Australia's* strategic direction, noting the potential need for some transitional funding for the new entity in 2001–02; and**

- ***Invest Australia* enter into a foreign exchange agreement with DOFA to cover its exchange rate exposure in undertaking offshore activities.**

Chapter 7 A comprehensive marketing and promotional programme

In Chapter 6, the case was made for implementing a national strategy by establishing an autonomous entity to overcome the confusion over roles and responsibilities, improve coordination, better use the Commonwealth's total resource allocation to investment promotion and attraction, and actively involve the states and territories in the process. This chapter outlines the importance of a comprehensive marketing and promotional programme, and identifies a broad range of initiatives that could be used to lift Australia's investment image and outcomes.

7.1 Australia's business image abroad

Australia has a positive image abroad with top-of-mind images commonly associated with tourism, due to the excellent work of the Australian Tourist Commission (ATC), and sport, highlighted most recently by the Sydney 2000 Olympic Games. But this has not spilled over into the successful positioning of Australia as a business and investment destination.

Multinational firms are typically better informed about Australian business opportunities than are small and medium sized investors overseas, but even then some Australian sectors such as resources are much better understood than others, such as our new economy opportunities. The existence of world class 'flag-bearer' corporations has much to do with the level of awareness of our industries. Australia has a limited number of flag-bearers, for example News Corporation, Fosters, Westfield, National Australia Bank, BHPBilliton, and Telstra. Many of these are in traditional sectors while internationally recognised firms are under-represented in the biotech and ICT sectors. From the standpoint of many potential international investors, Australia's many business successes and considerable investment advantages are a story still waiting to be told.

Internationally, Australia's on-the-ground sales force consists of heads of missions, trade commissioners and investment commissioners. Heads of mission promote Australia's investment credentials when it is appropriate for the market and when the occasion permits, but it is not central to their role. Trade commissioners, in the process of promoting Australian exports, generally also promote investment in Australia, depending upon the potential of the host market. As noted previously, the network of 22 dedicated investment commissioners and staff in overseas locations is the principal resource that Australia has offshore consistently selling our investment message.

Senior Commonwealth and state and territory ministers are regular travellers offshore and are proponents of new investment in Australia. Their visits abroad add substantially to having Australia's message heard. However, the message often lacks consistency, state and territory government messages are not always put into a national context, the visits are seldom part of a broader coordinated approach to a market, and the total story is rarely well packaged. This is particularly the case in markets such as North America, where the competition for investor attention is aggressive, very slick and professionally packaged, often as a result of using public relations or marketing consultants.

One Austrade executive observed in relation to North America that:

- there are 72 consulates in San Francisco alone, all chasing investment, all targetting the same companies – so Australia needs to develop and leverage its image, and achieve better break-through;
- 'Australia' is the most important message to leverage, as many Americans have visited here and are aware of us, but our business message is not known;

- Australia is not good at ‘singing its own praises’, such as by profiling business success stories ahead of key ministerial visits, which other competitors - notably Singapore - are doing to good effect; and

- almost every week across America major industry conferences are held, but speakers from Australia are noticeably absent.

7.2 Marketing plan

In order to achieve better outcomes, Australia needs a well-orchestrated and clearly focused marketing plan developed by *Invest Australia* that complements and delivers on the national strategy for overseas investment. The plan should seek to address the main stages of the investment continuum, that is promotion, attraction, facilitation and aftercare. It needs to enlist key people in the investment promotion effort, including Commonwealth and state and territory ministers, corporate leaders and industry specialists.

The marketing plan will need to give due emphasis to the industry sectors identified in the national investment strategy if an increase in ODI into these sectors is to be achieved. This will particularly apply to those sectors that need ‘enabling’ to foster and accelerate their growth (for example, ICT and biotechnology), and for which there is the highest level of competition internationally (see Appendix F, Table F.3: Industry Sector Targets for Foreign Investment).

The marketing plan should be developed and implemented in close partnership with the states and territories, and relevant industry participants. The plan should reflect a whole-of-life approach to reinforcing Australia’s commitment to helping overseas investors succeed here.

It is recommended that a rolling three-year marketing plan be developed by Invest Australia*, in partnership with relevant Commonwealth agencies, state and territory governments and key business stakeholders.*

The marketing plan should consider all of the initiatives below and be kept under constant review to ensure they contribute to delivering the desired outcomes.

7.2.1 Global ODI market segmentation

Invest Australia should undertake or commission global ODI market segmentation, identifying where the greatest potential lies for Australia to attract investment, as a prerequisite to preparing specific target industry marketing plans.

Senior Austrade executives should be consulted in preparing this segmentation, along with the state and territory governments and the private sector (for example, Australian investment banks).

7.2.2 In-depth industry research

In-depth industry analysis should form a basis for the marketing plan in order to identify target sectors overseas that complement the strategic sectors identified by the PMIC, and that warrant pro-active marketing activity.

7.2.3 An Australian business brand

There is a need for a clear message that positions Australia internationally, and serves as an umbrella under which other Commonwealth agencies (for example, Austrade and Axiss Australia) and the states and territories can actively pursue complementary business and investment marketing initiatives. It should also help to position Australia in particular sectors, such as ICT. The brand campaign should be supported by a substantial portfolio of success stories of overseas investors from different countries and different industries that can provide credible, third-party testimonials on the advantages of investing in Australia.

A non-retail, targetted industry advertising programme should be implemented by *Invest Australia* to deliver in key investment markets the approved Australian business brand campaign. This could include placements in well-respected business journals, in-flight magazines, industry-specific trade events and information booths at appropriate business conventions, and on all occasions maximise the use of relevant success stories.

A comprehensive, world-class website should be developed under the Australian business brand, to serve as an umbrella to host or hot-link all relevant Commonwealth, state and territory government business and investment websites, and include success stories. This site should incorporate the findings of the Parker & Partners and Taylor Nelson Sofres[33] reports into the *Invest Australia* website. It should provide for direct referrals to all the states and territories, as well as capture inquiries that could then be followed-up by the closest investment officer or by *Invest Australia*.

7.2.4 Contact programme

The marketing plan should ensure that contact programmes receive high priority. Australia should use all of its key people in the front-line to encourage international companies to invest here. This includes the PMIC members, other ministers, expatriates, networks of Australian business people operating overseas and successful investors.

Members of the PMIC should be involved in efforts to attract investment

This applies to both ministerial and private sector members, and particularly in relation to multinational corporations and other potential investors in the target sectors. Speaking opportunities to address potential investor audiences should be actively sought. Activities commissioned from Austrade, particularly with small- and medium-sized target investors, should complement these high-level programmes. The CEO of *Invest Australia* and the investment commissioners should have responsibility for facilitating contact programmes.

The right approach will depend upon the business culture in different markets. For example, in Japan it might be more appropriate for the investment commissioner to develop the relationship to the point where Australia is short-listed as a destination option, then bring in a senior minister or other appropriate person to encourage a visit. In other markets, for example North America, it might be appropriate for direct minister to CEO-level contact to explore interest in investing in Australia.

Senior ministers to address overseas investor audiences

There should be planned and programmed involvement of the Prime Minister and key Commonwealth, state and territory ministers in actively seeking to address potential investor audiences on every possible occasion when they travel overseas.

It is recommended that Commonwealth ministers consult *Invest Australia* in developing their overseas travel programmes to maximise opportunities to address appropriate investor audiences, and be involved in other promotional activities.

Similarly, all state and territory governments should be encouraged to consult *Invest Australia* to work together on opportunities for their senior ministers to make presentations to potential investor audiences overseas.

Use of expatriates

There is potentially a large untapped resource among the Australian expatriate business community in key source and emerging markets overseas, and business leaders at home whose

[33] Parker & Partners, *Review of Invest Australia's Website*, Report to Invest Australia, 2001; Taylor Nelson Sofres, *Interim Report for Invest Australia*, August 2001.

efforts could be harnessed to help promote Australia's investment objectives. They are all potentially investment ambassadors. Effective relationships should be developed by the investment commissioners and fostered through contact with members of the PMIC whenever they visit.

In-bound investor visit programmes

These should be actively developed with the states and territories, and for very major investors, the active participation should be sought from relevant members of the PMIC.

7.2.5 Customer relationship management and client service

A customer relationship management and client service strategy should be part of the marketing plan for both new and existing investors, and include the setting of standards for client service. Members of the PMIC should be involved in developing close and supportive relationships with existing major overseas investors in Australia, as a way of both leveraging investment expansion and having such investors become investment ambassadors for Australia. Case managers from *Invest Australia* should be tasked to undertake the on-going and aftercare relationship role with existing substantial investors.

Members of the PMIC should have a prominent role in encouraging multinational companies in the target sectors Australia is seeking to grow or expand, because these potential investors are likely to be highly sought after by many of Australia's competitors.

7.2.6 Promoting regional Australia

All investment officers should understand the issues facing regional development in Australia, and the investment opportunities that regional areas present. In addition, promotional material produced by *Invest Australia* should clearly highlight the industry strengths of regional areas across Australia in order to promote these as potential locations for investment, as well as to emphasise Australia's considerable industrial and economic diversity.

It is recommended that investment officers have a good understanding of investment opportunities in regional areas of Australia, and that promotional material produced by *Invest Australia* highlight the industry strengths available in the regions.

7.2.7 Other marketing initiatives

In addition the following should be considered:

- Use marketing/public relations consultants, particularly in the highly competitive investment markets of the United States and Europe.
- Encourage relevant professional and industry bodies to hold conferences in Australia.
- Leverage major international trade events, including for gathering investor intelligence and networking.
- Develop an in-bound business journalists visit programme, in consultation with both the ATC's and DFAT's International Media Visits programmes.
- Organise an in-bound business visitors programme for target sectors.
- Leverage out-bound business missions, to benefit from the media and business interest in Australia that these promotions attract.
- Develop collaborative arrangements with private sector multiplier organisations overseas, for example with major international accounting firms or investment banks with a presence in

key markets, to assist with the targetted marketing of specific investment opportunities from Australia to their clients.

- Prepare an education programme in consultation with state and territory education authorities, to explain the benefits of ODI so that Australians are better informed. (This could be developed along the lines of the current Exporting for the Future programme, jointly being delivered by Austrade and DFAT.)

- Establish an ODI company-alumni in Australia

- Create an international speakers' fund to assist financially, on a co-funding basis, significant Australian business or research people to participate in relevant international conferences.

- Produce and disseminate high-quality promotional materials for sectors identified in the strategy. All such material should include quantitative information contrasting Australia's business conditions and environment with those in comparable countries, and address the improvements suggested in recent reviews.[34]

It is recommended that the new *Invest Australia* devote substantial resources to its marketing programme, and that the allocation of these resources be considered in the light of the findings of recent reviews.

[34] These are: Coopers & Lybrand, *International Benchmarking Appraisal of Inwards Investment Programmes, September 1995;* Bureau of Industry Economics, *Evaluation of the Investment Promotion and Facilitation Program,* March 1996; PriceWaterhouseCoopers, *International Benchmarking of Investment Promotion Agencies,* a study prepared for Invest Australia, July 1998; and Taylor Nelson Sofres, op-cit.

International Conventions

International conventions and business meetings provide the opportunity to showcase a country's assets and capabilities to a captive audience and dispel outdated perceptions about a country. They play an important role in shaping the views of visiting international business and industry participants. The Australian Tourist Commission (ATC) promotes Australia in this market.

In 2001 Australia will play host to over 100 conventions ranging from the 8th World Congress for Intelligent Transport Systems and the International Conference on Real Estate to Undersea Defence Technology 2002. International Congress and Convention Association data just released for 2000 showed that Australia hosted a record 152 meetings ranking it fourth in the world ahead of countries such as Canada (91 meetings/10th), Singapore (40/22nd), Thailand (39/23rd) and Israel (36/24th)[35]

The states and territories recognise the opportunities arising from hosting events and actively seek them out. The Northern Territory, for example, strongly promotes the Northern Territory Expo within the Asia/Pacific region to maintain and develop its profile, and Victoria hosted the World Economic Forum's 2000 Summit.

Australian business and government participation in international conferences offshore plays an equally important role. Australians presenting papers, whether at academic conferences or at business conventions, all contribute to increasing Australia's visibility and front-of-mind status in overseas markets.

For example, the Minister for Foreign Affairs' presentations at the World Economic Forum's annual meetings in Davos; Austrade's stands at major international trade forums such as the European Seafood Exhibition or the major European IT show, Cebit; and an 'Australia Inc' participation in international sector-specific events such as biotechnology's recent Bio2001 in the United States. All increase the visibility of Australia and provide opportunities to reinforce the message of Australia as a place to do business.

Invest Australia needs to be alert to the opportunities presented to Australia by hosting conventions and events, and work with partners to secure those opportunities and convey key messages. The Commonwealth should also work with partners to maximise Australian presence at key events overseas (such as Bio2001). Australian business and industry representatives should be encouraged to seek out speaking engagements or panel involvement when travelling overseas.

Summary of recommendations

It is recommended that:

- **a rolling three-year marketing plan be developed by *Invest Australia*, in partnership with relevant Commonwealth agencies, state and territory governments and key business stakeholders;**

- **Commonwealth ministers consult *Invest Australia* in developing their overseas travel programmes to maximise opportunities to address appropriate investor audiences, and be involved in other promotional activities;**

[35] Statistics obtained from the International Congress and Convention Association website in July 2001. The website was cited by the Australian Tourist Commission in its 21 June 2001 media release.

- **investment officers have a good understanding of investment opportunities in regional areas of Australia, and that promotional material produced by *Invest Australia* highlight the industry strengths available in the regions; and**

- ***Invest Australia* devote substantial resources to its marketing programme, and that the allocation of these resources be considered in the light of the findings of recent reviews.**

Chapter 8 Managing Relationships

Chapter 6 outlined implementation of the national strategy, including the establishment of an autonomous investment agency. Chapter 7 underscored the importance of a comprehensive marketing and promotional campaign by the new agency. This chapter provides details on how the new relationships between the various agencies, from the Commonwealth and the states and territories, might be managed.

8.1 Relationships with the Commonwealth

Invest Australia, as the Commonwealth's premier investment attraction and promotion agency, needs to ensure that it can report and evaluate the investment promotion effort across the Commonwealth. In practical terms, this requires *Invest Australia* to spell out its objectives clearly and develop appropriate performance indicators related to those objectives. The benefits accruing to competitors from the development of medium- to long-term investment strategies are clear.

Relationship management is critical to achieving good investment outcomes. This does not only apply to relationships with investors; it also requires that relationships work well within the Commonwealth government and between the Commonwealth and the states and territories. In order to carry out its operations efficiently and effectively where there are limited resources, *Invest Australia* will need to source expertise and outcomes from the various agencies which can assist the investment promotion effort. This approach requires excellence in coordination between *Invest Australia* and other agencies, and that arrangements be based on outcomes sought. Clearly articulated key performance indicators should be set in place for the term of the activity, or in the case of agencies such as Austrade which are used on a recurring basis over a medium-term period, ideally at least for three years.

Austrade is a key partner in the overseas investment promotion effort and could be engaged by the new *Invest Australia* to provide services - such as accommodation and business support offshore, representation at international events, and promotion of specific investment opportunities in specific markets to specific clients on a fee-for-service basis. Such an approach would ensure that the synergies arising from Austrade's trade-related activities and intelligence were available to *Invest Australia* and not lost to the national effort. A services-level agreement with Austrade against specified outcomes along the lines of the recent agreement reached between Austrade and Australian Education International in relation to the provision of overseas services provides a useful model.

Other agencies *Invest Australia* should liaise with to provide expertise and clarify and resolve issues pertinent to the achievement of better investment outcomes include:

- Axiss Australia in relation to inwards investment outcomes in the financial services sector;
- the full range of Government departments, including the Department of Industry, Science and Resources, Agriculture, Fisheries and Forestry – Australia, the National Office of the Information Economy, the Australian Film Commission, to access the specialist expertise that *Invest Australia* requires;
- The Australian Tourist Commission (ATC) in relation to the brand and market positioning of Australia; and
- The Foreign Investment Review Board for advice on policy matters related to overseas investment attraction.

National Co-ordination of Tourism Marketing: Australian Tourist Commission

The ATC sets a high standard in coordinating its planning and promotional activities with state and territory governments and industry, to the benefit of Australia's image abroad.

The success of the ATC's overseas activities relies on cultural; structural; and planning, marketing and operational factors.

Cultural factors

The pervasive culture within the ATC is the concept of 'partners', based on the belief that their success in harnessing the trilateral efforts and resources of the Commonwealth, states and territories and industry is not optional but essential if they are to successfully build and promote internationally a strong 'Australia' brand.

Structural factors

The *ATC Act, 1987* states as one of its principal objectives that it will 'work with other relevant agencies'.

The Board is structured to include industry representatives, who in practice are often serving state or territory tourism directors.

The ATC's organisational structure includes a unit responsible for industry liaison, which includes liaison with the state and territory tourism bodies, as well as with industry bodies.

Planning, marketing and operational factors

The ATC works closely with state, territory and industry stakeholders to develop and implement cohesive offshore marketing programs. Their consultation and coordination is conducted under an umbrella called the 'Destination Australia Marketing Alliance' (formerly 'Partnership Australia'). The main body under this alliance is the Chief Executive Officer (CEO) Forum, which comprises the heads of the ATC and state and territory tourism bodies, and meets quarterly to develop a strategic agenda. Recent issues addressed by the forum include efficiencies and process management; destination promotion; market prioritisation; market intelligence delivery; tourism policy; product and service development; and trade activities. These strategic issues are worked on by an Operations Forum, comprising officers from within each of the tourism bodies, which reports to the CEO Forum. Also, the ATC and states and territories' International Marketing Managers meet quarterly under this alliance to coordinate their overseas activities.

8.2 Relationships with the states and territories

The states and territories are looking to the Commonwealth to take a whole-of-government perspective. They recognise that Australia as a location has more resonance than any individual jurisdiction or region, and that there are misconceptions about Australia which are hindering our investment efforts. Sustainably changing images of Australia requires a concerted and coordinated effort.

Improvements are needed in managing the relationships between the various levels of government and improvements are occurring, but much more needs to happen. At the working level, regular investment agencies meetings are taking place between the Commonwealth and the states and territories. A major step forward will be to coordinate these meetings formally and involve the overseas investment commissioners as practicable. Similarly, sharing performance indicators or at least jointly developing performance indicators will go a long way to achieving more of the necessary whole-of-nation approach**.** As recommended earlier in Chapter 6, the new *Invest Australia* should have responsibility for the effective management of all relationships involved in the processes of promoting and attracting investments into Australia, including relationships with the states and territories, other Commonwealth agencies and the private sector. In addition, **it is recommended that the states and territories and Commonwealth heads of investment agencies form a 'National Investment Advisory Board' (NIAB) to formalise the relationship.**

State, territory and Commonwealth Industry ministers meet on a regular basis and investment issues are frequently discussed at their meetings. Recent displays of Commonwealth, state and territory cooperation on investment, such as the Investment Leads Protocol signed by all Industry ministers in April 2001 (see Chapter 4 for a full discussion), augur well. All relevant stakeholders assess this protocol as having been a successful initiative.

To formalise further this process, **it is recommended that a standing item on investment be included on the Industry ministers' meeting agenda.** Key issues of importance from the NIAB could be raised under this item. The PMIC would be able to hear the views of the NIAB through the Commonwealth Minister for Industry, Science and Resources, noting that the CEO of *Invest Australia* would also attend PMIC in an ex-officio capacity.

Australian biotechnology captures investors' imagination

Over 340 delegates, 21 companies, 10 government agencies, 8 research organisations and 6 universities represented Australian biotechnology at the world's largest biotech fair, Bio2001, which took place in June 2001 in the United States.

Given that almost 120 investment enquiries arose from the Australian presence, there can be no doubting the delegation's success. In a first for Australian investment promotion, Invest Australia came together with agencies of the states and territories and other Commonwealth agencies under one banner, Destination Australia. This approach was coordinated by a National Steering Committee, convened by Invest Australia and comprising representatives from Austrade, Biotechnology Australia, Invest Australia, CSIRO, the states and territories and AusBiotech. Forty-one booths were integrated under the Destination Australia logo and banner, which could be seen from anywhere in the pavilion – and drew attention from around the globe.

The collaborative approach was so successful that it is to be adopted at all future international events.

Summary of recommendations.

It is recommended that:

- **the states and territories and Commonwealth heads of investment agencies form a 'National Investment Advisory Board' to formalise the relationship; and**

- **a standing item on investment be included on the Industry ministers' meeting agenda.**

Chapter 9 Reporting, Evaluation and Key Performance Indicators

Chapter 5 discusses the benefits of adopting a more strategic approach to overseas direct investment (ODI) promotion and attraction, while Chapters 6 to 8 detail a number of specific measures for implementing such an approach. However, the critical test is how well the proposals that are adopted work in practice. This chapter outlines how the success of the proposed reforms should be assessed and reported.

As is the case for other Commonwealth programmes, the investment promotion and attraction programme needs to be evaluated regularly to ensure that its objectives remain relevant and are being addressed effectively and efficiently. If evaluations conclude that its objectives are no longer current or that the programme is not assisting their achievement, the programme should be reconsidered and either modified or discontinued.

9.1 Reporting and evaluation

To evaluate the success of the programme, its objectives need to be clearly specified and understood. In practical terms, performance indicators that relate closely to those objectives are required.

There should be continuous monitoring of performance and periodic rigorous reviews. The timing of major formal evaluations needs to strike a balance between the need to allow the programme sufficient time to bear fruit (and those responsible for its implementation a reasonable planning horizon) and the need to correct as early as possible any waste of resources through their inefficient use or misdirection.

Reporting against performance should not impose costly requirements that risk diverting resources from the principal task of encouraging the attraction of productive investment to Australia.

Invest Australia should report regularly to Parliament and to the PMIC. In particular, *Invest Australia* should be required to coordinate with other agencies to prepare an Annual Report (called an *Investment Outcomes and Objectives Statement*) which would be provided to the PMIC and then tabled in Parliament by the responsible Minister. This report should outline the Commonwealth's investment promotion performance over the preceding 12 months against the agreed objectives and strategies, and provide a forward looking analysis and statement of objectives for the coming triennium.

It is expected that the process would be similar to that undertaken in the Trade Outcomes and Objectives Statement (TOOS) by the Market Development Task Force, which has been presented to Parliament annually since 1997. More information on the TOOS is outlined in Table 9.1.

Table 9.1 Market Development Task Force and Trade Outcomes and Objectives Statement

Market Development Task Force (MDTF)	**Trade Outcomes and Objectives Statement (TOOS)**
The Market Development Task Force (MDTF) represents a whole-of-government approach to securing improved market access for Australian exports of goods and services. It includes representatives from the Departments of Foreign Affairs and Trade (DFAT) and Industry, Science and Resources (DISR) and Austrade and Agriculture, Fisheries and Forestry -Australia (AFFA). The Secretary of DFAT chairs the MDTF and reports to the Minister for Trade. The MDTF focuses on achieving outcomes within 12 months on 10 short-term priorities identified in two groups: either Asian or non-Asian markets. In 1996, the MDTF was established to focus bilateral market access efforts, reflecting the importance attached to bilateral trade activity. The MDTF aims to secure effective coordination and prioritisation in market access, market development and trade and investment promotion efforts, both in Australia and by Australian posts overseas. The MDTF process was reviewed in late 1999, leading to the current arrangements. A network of case officers from the above agencies pursues relevant priorities, working with Australian posts overseas, other government agencies and the private sector. The MDTF receives an interim report on developments against priorities at six months, prior to a final report at 12 months.	The Minister for Trade tables the TOOS in Parliament annually (around March/April). The first TOOS in 1997 reflected a commitment to strengthen Australia's trade and investment performance through well focussed policy objectives and strategies. It was also designed to be a tool for business and the states and territories to assist them in their planning. The TOOS works on a two-year cycle of analysis of key major and emerging markets in which it sets itself key market access/development/promotion objectives. Progress against these objectives is reported on annually in the TOOS. MDTF priorities feed into the TOOS process. TOOS also includes a sectoral focus.

In addition to the Annual Report, *Invest Australia* should provide reports to the PMIC prior to each meeting of the council, approximately every six months. These would report interim progress against the outlook and objectives specified in the Annual Report and would not normally be tabled in Parliament or otherwise published.

Each agency undertaking a role in relation to investment promotion and attraction, for example Axiss Australia and Austrade, would be required to provide to *Invest Australia* for consolidation in both the Annual Report and the six-monthly reports to the PMIC a report on its performance and objectives. For meaningful comparisons between agencies and sectors *Invest Australia* should develop a common set of key performance indicators for each agency or programme to report against (after allowing for sectoral and operational differences).

It is recommended that *Invest Australia* be required to prepare (i) annually, an *Investment Outcomes and Objectives Statement* which would be tabled in Parliament by the responsible Minister; and (ii) reports on objectives and performance to the PMIC for each meeting of that Council. It is also recommended that all agencies assisting *Invest Australia* in investment promotion and attraction work be required to report on their work through these reports.

With a view to minimising the resource cost of reporting requirements, *Invest Australia* and other agencies would need to establish appropriate mechanisms for the continuous collection of relevant data to assist in performance monitoring.

9.2 Key performance indicators

Overseas direct investment (ODI) is the outcome of a wide range of activities and factors. Performance measures must be specific to that part of the process that they most directly influence. Thus factors measuring success in promotion will be different from those measuring success in facilitation. Both may be well executed, but the investment attraction process still fail because other determinants of investment are not working effectively; for example, broader economic factors. Intentionally, Australia's investment promotion programmes operate only at the margin, in particular to attract productive investment that would not otherwise have been undertaken in Australia.

9.2.1 Indicators of investment related outcomes

Performance indicators that measure the *difference* in investment attributable to the programme, preferably using capital inflow data, are required.

The underlying objective is not to *maximise* aggregate ODI, aggregate investment or some subset of either, but to encourage investment towards optimal levels.

Ex post evaluations should compare actual net benefits generated as a result of particular investment projects attracted to Australia with those anticipated at the time of a decision to locate here, recognising that it is difficult to establish whether the projects would have been undertaken by the same firms in the absence of the attraction/ promotion/ facilitation activity. Does the fact that an investor met with a representative of *Invest Australia* or another investment promotion agency mean that that agency had a significant impact on the investment decision? Did the investment crowd out other investment and what would have happened in the labour market in the absence of the relevant project? Such issues are a matter for measured judgement.

9.2.2 Indicators of success in selling the message about Australia

The main purpose of the overseas investment promotion programme is to provide information about Australia, its economy, its industries, the business opportunities, resources, skills and their comparative advantages sufficiently quickly and easily to attract investors. Greater recognition of Australia and its advantages as an investment location is a central objective, and performance indicators must aim to assess the impact of the programme on this recognition.

Typical performance indicators used by market oriented organisations are market awareness, recall of messages and leads generated. They include such things as the number and nature of hits on Australia in a selection of major overseas publications considered to influence international decision-makers; surveys evaluating whether messages are positive, negative or neutral (and changes over time in these results); and the number of contacts by relevant representatives with target investors at the most influential level, for example, the CEOs of major companies as opposed to contacts with more junior officers.

9.2.3 Efficiency indicators

Efficiency of delivery of the programme is also important. If the cost of the investment promotion programme is a relatively large proportion of the net economic benefits estimated to derive from it, the funds could be better spent.

It is recommended that a comprehensive set of performance indicators which will measure the success of the strategies adopted by *Invest Australia* be developed in consultation with stakeholders in investment. Appendix G lists indicators for consideration.

It is recommended that satisfactory performance against key performance indicators be required before any funding is provided beyond end-June 2007 for *Invest Australia*.

Summary of recommendations

It is recommended that:

- ***Invest Australia* prepare (i) annually, an *Investment Outcomes and Objectives Statement* which would be tabled in Parliament by the responsible Minister; and (ii) reports on objectives and performance to the PMIC for each meeting of that council;**
- **all agencies assisting *Invest Australia* in investment promotion and attraction work be required to report on their work through these reports;**
- **a comprehensive set of performance indicators which will measure the success of the strategies adopted by *Invest Australia* be developed in consultation with stakeholders in investment; and**
- **satisfactory performance against key performance indicators be required before any funding is provided beyond end-June 2007 for *Invest Australia*.**

APPENDICES

APPENDIX A

Terms of Reference

1. Assess the full size, scope, effectiveness and efficiency of Australia’s inward investment attraction and promotion efforts, taking into account the likely volume and the mix of investment opportunities.

2. Consider the appropriateness of the current strategy and operational arrangements for inward investment promotion and attraction including:

- analysing the current roles of *Invest Australia*, Austrade, National Office for the Information Economy, Axiss, the Department of Foreign Affairs and Trade and any other relevant Commonwealth Departments and agencies, the changes canvassed in submissions to Cabinet as part of its consideration of the Innovation Action Plan, and the extent of overlap/scope for rationalisation between the various agencies;

- the various means by which foreign investment in Australia can be promoted and differing types of resources required; and

- taking into account:-

  - the efforts of the states and territories,
  - the actual/potential role of the Strategic Investment Coordinator,
  - the potential for private sector involvement, and
  - other factors involved in successful investment attraction.

3. Make recommendations regarding the most effective strategy and operational arrangements, including the level of resources necessary to deliver effective Commonwealth inward investment promotion and attraction activities, taking into account:

- conclusions in relation to 1 and 2 above;

- the efforts and promotional strategies of competitor nations, particularly those in our region; and

- the fact that promotion/attraction activity is only one of a number of factors in decisions companies make about investment location.

APPENDIX B

Consultations

A number of people were consulted during the course of the Review. In addition, while the Review did not seek written submissions, a number of organisations made informal submissions. A list of those consulted is set out below.

Ross Adler, Chairman, Australian Trade Commission (Austrade)

Senator the Hon Richard Alston, Minister for Communications, Information Technology and the Arts

The Hon John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services

Nixon Apple, former Board Member, Austrade and Research Officer, Australian Manufacturing Workers Union

Rod Badger, Deputy Chief Executive Officer, National Office for the Information Economy (NOIE)

Robin Batterham, Commonwealth Chief Scientist

Allen Beasley, Executive Director, Australian Pipeline Industry Association

Keith Besgrove, Chief General Manager, Business and Community, NOIE

Mark Bethwaite, Executive Director, Australian Business Ltd

Robert Boylan, Investment Commissioner, Tokyo, *Invest Australia*

Alan Broome, Chief Executive Officer, National Infrastructure and Engineering Forum

Ashton Calvert, Secretary, Department of Foreign Affairs and Trade

Alan Carroll, Executive Chairman, Pacific Rim Forum

John Carroll, Chief Executive Officer, Northern Territory Department of Industries and Business

The Hon Peter Costello MP, Treasurer

David Coutts, Chief Executive Officer, Australian Aluminium Association

Kim Dalton, Chief Executive, Australian Film Commission

Maurice Downing, Business Manager, Office of Business Development, Australian Capital Territory

Rob Durie, Executive Director, Australian Information Industry Association

Neil Edwards, Secretary, Department of State and Regional Development, Victoria.

Bill Evans, General Manager and Global Head of Economics, Westpac Banking Corporation

Rod Evans, Director, Business Development, Department of Resources Development, Western Australia

Duncan Fairweather, Executive Director, International Banks and Securities Association of Australia (IBSA)

David Lynch, Director of Policy, IBSA

Pam Fayle, Deputy Secretary, Department of Foreign Affairs and Trade

Allan Fels, Chairperson, Australian Competition and Consumer Commission

Barry Ferguson, Executive Director (Investment), Department of State and Regional Development, Victoria.

James Galloway, Director, Technical, Policy and Regulatory, Australian Electrical and Electronics Manufacturers' Association of Australia

Andrew Gilkes, former Executive Director, Investment 2000

Warwick Glenn, Executive Director, Investment Division, New South Wales Department of State and Regional Development

Charles Goode, Chairman, Woodside Petroleum and Chairman, ANZ Bank

Alex Gosman, General Manager, Government and Regulatory, Ericsson Australia

Ian Harper, author of *Australia as a Centre for Global Financial Services* (an independent review of Axiss Australia).

Loftus Harris, Director-General, New South Wales Department of State and Regional Development

Ulrich Hartig, Investment Commissioner, Frankfurt, *Invest Australia*

John Harvey, Executive Director, Corporate Affairs, IBM Australia

Allan Hawke, Secretary, Department of Defence

Ken Henry, Secretary, Department of the Treasury

Bob Herbert, Chief Executive, Australian Industry Group

Russell Higgins, Secretary and Chief Executive Officer, Department of Industry Science and Resources

Simon Himson, Director, Investment Promotion, Department of State Development, Tasmania

The Hon Joe Hockey MP, Minister for Financial Services and Regulation

Philip Holt, Executive Director, Australian Business Ltd

Mike Holthuyzen, Deputy Chief Executive Officer, Department of Industry, Science and Resources

Les Hosking, Chief Executive, Axiss Australia

Margaret Hudson, Manager, Corporate Strategy, Australian Tourist Commission

Richard Humphry, Managing Director, Australian Stock Exchange

Alan Jackson, former Chairman, Austrade

Charles Jamieson, Managing Director, Austrade

Mark Johnson, Deputy Chairman, Macquarie Bank and Chairman, Axiss Australia, Advisory Board

Barry Jones, Acting Executive General Manager, *Invest Australia*

Barry Jones, Executive Director, Australian Petroleum Producers and Exporters Association

Martin Jones, Chief Executive, Plastics and Chemicals Industries Association

Jeff Kelly, Chief Executive of Trade and Development, Department of State Development, Tasmania

David Kennedy, General Manager, Strategy and Analysis, NOIE

Graeme King, Specialist, Regulation and Policy, Nortel Networks

Gerard Lanzarone, Executive General Manager, Americas, Austrade

Peter Lewis, Senior Trade Commissioner, San Francisco, Austrade

Lawrie Lyons

Chris Mackay, Joint Chief Executive (Australia and New Zealand), UBS Warburg

Rodney Maddock, Chief Economist, Business Council of Australia

Bob Mansfield, Chairman, Telstra and former Prime Minister's Major Projects Facilitator

Julie Martinsen, Assistant Manager, Partnerships for Development, DoCITA

Shalini Mathur, New South Wales State Manager, NOIE

Helen McLaren, Manager, Skills and Awareness, NOIE

Barbara Menzies, Manager, Investor Relations, Investment Division, Department of State Development, Queensland

The Hon Nick Minchin MP, Minister for Industry, Science and Resources

Max Moore-Wilton, Secretary, Department of the Prime Minister and Cabinet

Megan Morris, General Manager, Film and New Media, DoCITA

John Morschel, Chairman, CSR Limited

David Morgan, Chief Executive Officer, Westpac Banking Corporation

David Mortimer, author of *Going for Growth, Business Programs for Investment, Innovation and Export.*

Bob Mounic, Government Relations Consultant, Sun Microsystems

Rob Muir, Investment Commissioner, New York, *Invest Australia*

Jill Murphy, Senior Adviser, Industry and Regional Policy, Department of State and Regional Development, Victoria.

Bernd Neubauer, General Manager, Investment Attraction, *Invest Australia*

Charles O'Hanlon, Executive General Manager-Europe, Austrade

Keith Orchison, Executive Director, Electricity Supply Association of Australia

Mark Paterson, Chief Executive, Australian Chamber of Commerce and Industry

John Phillips, Chairman, Foreign Investment Review Board

The Hon Geoff Prosser MP, Chairman, Joint Standing Committee on Foreign Affairs, Defence and Trade – Trade Sub-Committee

David Purcell, former Executive General Manager, *Invest Australia*

John Ralph, Chairman, Pacific Dunlop, and author of *Review of Business Taxation: A Tax System Redesigned*, Report, July 1999.

John Rimmer, Chief Executive Officer, NOIE

Bruce Robins; Team Leader, Information and Communications Development, Western Australian Department of Commerce and Trade

Angus Robinson, Chief Executive Officer, Australian Electrical and Electronic Manufacturers' Association Limited

Belinda Robinson, Executive Director, Pulp and Paper Manufacturers Federation of Australia

Stan Roche, Investment Promotion Manager, Invest•UK

Peter Rowland, Chief Executive, Invest South Australia

Walter Russo, Managing Director, Stihl (Australia) Pty Ltd and Austrade's first Investment Commissioner for Europe (1988-92)

John Rutherford, Regional Director, Invest•UK

Fergus Ryan, Prime Minister’s Strategic Investment Coordinator

John Schubert, Chairman, Business Council of Australia

Julia Selby, Acting Deputy Managing Director, Austrade

Arthur Sinodinos, Chief of Staff, Office of the Prime Minister.

John Strano, Executive Director, Investment Division, Department of State Development, Queensland

Michael Sutton, General Manager, Information and Communications Industries Development, DoCITA

Ray Swann, Director, International Projects, Department of Asian Relations and Trade, Northern Territory

HE Michael Thawley, Australian Ambassador to the United States of America

Kyrsten Thomson, Industry and Regional Policy, Department of State and Regional Development, Victoria

John Tilley, Chief Executive, Cement Industry Federation

Allen Treanor, Senior Manager, Policy, Policy and Resources Division, New South Wales Department of State and Regional Development

Judy Tyers, Acting Executive Director, Business Council of Australia

The Hon Mark Vaile MP, Minister for Trade

Dick Warburton, Chairman, Australian Taxation Board

Ian Watt, Secretary, Department of Communications, Information Technology and the Arts

Brian Wickstead, Research Assistant, University of Western Sydney at MacArthur

Roland Williams, Chairman, Australian Magnesium Corporation and former Chairman and CEO, Shell Australia

A member of the secretariat attended a forum convened by Senator the Hon Richard Alston on Australian ICT companies with an international presence that was attended by 22 participants.

APPENDIX C

Acronyms

AFC	Australia Film Commission
AFFA	Agriculture, Fisheries and Forestry, Australia
ATC	Australian Tourist Commission
CEO	Chief Executive Officer
COAG	Council of Australian Governments
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DoCITA	Department of Communications, Information Technology and the Arts
DETYA	Department of Education, Training and Youth Affairs
DoFA	Department of Finance and Administration
DFAT	Department of Foreign Affairs and Trade
FILs	Foreign Investment Leads
FIRB	Foreign Investment Review Board
FTE	full time equivalent
GDP	gross domestic product
IA	*Invest Australia*
IC	investment commissioner
ICCA	International Congress and Convention Association
ICT	Information and Communications Technology
IDD	investment development director
IPA	investment promotion agency
ISR	Department of Industry, Science and Resources
IT	information technology
KPI	key performance indicator
MNC	multinational corporation
MPF	Major Projects Facilitator
NIAB	National Investment Advisory Board
NIRC	National Investment Response Centre
NOIE	National Office for the Information Economy
ODI	overseas direct investment
OECD	Organisation for Economic Cooperation and Development
PfD	Partnerships for Development
PMIC	Prime Minister’s Investment Council
PMSEIC	Prime Minister’s Science, Engineering and Innovation Council
PM&C	Department of the Prime Minister and Cabinet
R&D	research and development
SEDB	Singapore Economic Development Board
SIC	Strategic Investment Coordinator
S/IM	senior/investment manager
SME	small- and medium-sized enterprise
WEF	World Economic Forum
WTO	World Trade Organization

APPENDIX D

Overseas Network - Austrade/*Invest Australia* and the states and territories

Region	IA	Austrade	ACT[36]	NSW	NT[37]	QLD	SA[38]	TAS	VIC	WA	ASVN[39]
Europe	Frankfurt	Frankfurt							Frankfurt		
	London	London		London		London	London		London	London	
		Paris									
		Madrid									
		Milan									
		Stockholm									
North America	New York	New York									
	San Francisco	San Francisco									San Francisco
	Chicago	Chicago							Chicago		
		Los Angeles				Los Angeles					
North Asia	Tokyo	Tokyo		Tokyo		Tokyo	Tokyo		Tokyo	Tokyo	
		Osaka				Osaka					
	Beijing	Beijing									
	Shanghai	Shanghai				Shanghai	Shanghai			Shanghai	

[36] The Australian Capital Territory maintains no offices overseas.
[37] The Northern Territory purchases Austrade services at other overseas locations, for example Guangzhou and Singapore were used in 2000-01 and Kuala Lumpur, Hong Kong and Brunei are planned to be used in 2001-02. In relation to these five offices, Three offices are engaged under contract arrangement where services are purchased. In a fourth arrangement, the Northern Territory engages a representative and four other staff members. The fifth has a nominated outplaced (A-based) staff member. This office also engages one local staff member.
[38] Tasmania maintains no offices overseas.
[39] ASVN - Australia Silicon Valley Network

		Guangzhou					Jinuan			Zhejiang	
	Hong Kong	Hong Kong				Hong Kong	Hong Kong		Hong Kong	Hong Kong	
		Seoul				Seoul			Seoul	Seoul	
	Taipei	Taipei				Taipei				Taipei	
South East Asia		Kuala Lumpur			Lubuan (Sabah)		Kuala Lumpur			Kuala Lumpur	
	Singapore	Singapore					Singapore				
		Jakarta			Jakarta	Jakarta	Jakarta		Jakarta	Jakarta	
						Semarang	Bandung[40] (West Java)				
		Manila			Manila					Manila	
					Timor Loro Sa’e						
		Bangkok			Bangkok					Bangkok	
South Asia		New Delhi								New Delhi	
Middle East		Dubai					Dubai		Dubai		

[40] Sub-office

APPENDIX E

States and territories
Funding of overseas inwards investment promotion and attraction activities[41]

State/ territory	Budget 1999-00 ($m)	Budget 2000-01 ($m)	Budget 2001-02 ($m)	Staff[42] *Australia* (No.)	Offices[43] Overseas (No.)	Staff[44] Overseas A-based (No.)	Staff[45] Overseas Local (No.)
ACT	N/A	0.2	0.2	1.5	nil	nil	nil
NSW	5.2	13.7	13.0	25	2	2	4
NT	N/A	N/A[46]	1.1[47]	30	5[48]	1	6
QLD	3.0	3.0	3.0	34	10	9	45
SA[49]	N/A	3.0	3.0	23	10	nil	34[50]
TAS[51]	0.5	0.5	0.5	nil	nil	nil	nil
VIC	12.7	12.7	12.7	6	8	4	21
WA	6.0	8.4[52]	N/A	21	12	5	14
TOTAL	**27.4**	**41.5**	**33.5**	**140.5**	**47**	**21**	**124**

[41] Budget figures do not include funds allocated for incentives.
[42] As at 30 June 2001.
[43] As at 30 June 2001. Investment attraction is just one of their functions.
[44] As at 30 June 2001. Investment attraction is just one of their functions.
[45] As at 30 June 2001. Investment attraction is just one of their functions.
[46] N/A – not available - No breakdown kept previously.
[47] This figure is 20 per cent of $5.3 million budget.
[48] Three of the offices are engaged under purchase services contract arrangement. In a fourth arrangement, a representative is engaged along with four other staff members. The fifth arrangement includes an outplaced (A-based) staff member. This office also engages one local staff member.
[49] Figures do not separate out budget/staff numbers devoted solely to attracting overseas direct investment.
[50] Staff employed on contract; includes the Agent-General in London who has a broader role than just trade and investment, and two persons in the Tokyo office who spend 50 per cent of their time on behalf of the SA Tourism Corporation.
[51] Tasmanian expenditures are an estimate of the percentage of project activities that relate to overseas companies apportioned over Tasmanian operating costs. As such, it is a very rough estimate and fairly arbitrary in nature.
[52] Investment attraction activity of the Department of Resources Development (now known as Department of Mineral and Petroleum Resources) did not start until June 2000. The former Department of Commerce and Trade is also involved in investment attraction.

APPENDIX F

Structure, strategies and resourcing in competitor countries

The following overseas agencies were chosen for comparative study because they were either internationally recognised as having been successful in inwards investment promotion and attraction, or were well regarded and active in the Asia-Pacific region and are potential competitors for Australia in attracting ODI:

- Singapore's Economic Development Board;
- Malaysia's Ministry of Trade and Industry;
- Thailand's Board of Investment;
- New Zealand's Investment New Zealand;
- United Kingdom's Invest UK;
- Ireland's Industrial Development Agency;
- Israel's Investment Promotion Center; and
- Canada's Trade Commissioner Service.

F.1 Structure and organisation

Under **Singapore**'s Ministry of Trade and Industry umbrella sits its statutory investment promotion agency, the Economic Development Board (EDB), along with similar boards for Trade Development and Tourism. The EDB is run by a government-appointed 12-member board, whose chairman is the chief executive of the EDB. The board is assisted with strategy development by an International Advisory Council, which is chaired by the Deputy Prime Minister and comprises senior executives of some of the world's major multinational companies.

The EDB has a staff of 600, an annual budget of $US150 million (approximately $A288m) which is believed to be both operational and incentives, and operates from 16 overseas locations across the United States of America (six offices), Europe (five offices) and Asia (five offices). It was created as a statutory board, and benefits from strategic and operational advice from the International Advisory Council.

Malaysia's investment facilitation agency (MIDA) and its trade facilitation agency (MATRADE) both come under the umbrella of the Ministry of International Trade and Industry.

Its investment arm, MIDA - the Malaysian Industrial Development Authority - is responsible or promoting foreign and local investment, promoting and co-ordinating industrial development, and is the first point of contact for investors. MIDA operates 15 offices overseas, and where it is not represented, MATRADE handles the provision of investment information, including details of domestic investors looking to invest abroad.

MIDA is run by a 12-member board, with seven private sector appointees and five from the government sector. The board reports to the Minister for International Trade and Industry.

Thailand's Board of Investment (BOI) comes under the Office of the Prime Minister, and reports to the Prime Minister. The BOI provides Thai and foreign investors with advice, assistance and incentives. It has its own offices in Frankfurt, Paris, New York and Tokyo (two staff in each), and works with Thailand's Ministry of Commerce elsewhere overseas. The Ministry of Commerce has a blend of domestic industry development and regulatory functions, as well as responsibility for international trade policy, international trade agreements and export promotion. It also has 55 overseas offices in 55 countries.

Investment promotion and facilitation in **New Zealand** is the responsibility of Investment New Zealand (INZ), a part of the New Zealand Trade Development Board, which in turn comes under the Ministry of Foreign Affairs and Trade. (Trade facilitation also comes under the same ministry, and is delivered by Trade New Zealand.) INZ has engaged two private companies to assist with generating investment leads offshore – one in Sydney and one in North America. The latter, a company with offices across the United States and in Canada, reports to the INZ director in New York.

INZ underwent significant restructuring during 1999-2000, with a new strategy approved and additional funding provided. (Another review of INZ is due to be completed by August 2001.)

In the **United Kingdom**, British Trade International - a joint operation involving the Foreign and Commonwealth Office and the Department of Trade and Industry - has lead responsibility within government for investment promotion and trade development. It had two operational arms:

- Invest UK, which is the national investment agency tasked to assist overseas companies set-up and expand from the United Kingdom; and

- Trade Partners UK, which was set up in May 1999 to take lead responsibility within government for trade development and promotion, and coordinates activities nationally across government departments, the devolved administrations and the English regions.

The BTI board is chaired jointly by the Minister for Trade and Industry and the Foreign Minister, and the majority of the board's members are from the private sector.

Established in 1998, **Ireland**'s Industrial Development Agency brings under a single umbrella its industry development policies and initiatives, export promotion and inwards investment. There have been three key strategies in internationalising Irish industry:

- an integration of both industry and export development initiatives, with a single dedicated adviser providing streamlined government contact with business;
- a solution-based approach to the internationalisation of business, rather than product-driven approach; and
- financial support to establish in the United States two IT incubators for Irish exporters looking to invest and grow in that market. Each incubator accommodates 10-15 companies, and helps market Ireland's IT capabilities.

The IDA is run by a managing director who reports to a 13-member board, largely from the private sector. The board reports to the Minister for Enterprise, Trade and Employment. Overseas, the IDA operates in 15 offices across Europe, the United States (where it has six offices) and Asia, all of which are comparatively well staffed. For example, the IDA office in New York has 27 staff, including a managing director, 19 marketing staff and seven support personnel.

Israel's Investment Promotion Center, the national investment marketing agency, is part of the Ministry for Industry and Trade. It reports through the director-general of the ministry to the minister. All of its staff are located in Israel. Overseas investment promotion is provided by Israel's trade commissioners.

Canada's Trade Commissioner Service, a part of that country's Department of Foreign Affairs and International Trade, is the main agency promoting Canada's investment credentials abroad.

Industry Canada, the federal government's industry department, provides a range of domestic industry development and regulatory services, including Investment Partnerships Canada, which is the agency within Industry Canada providing specific foreign investor services within Canada.

F.2 Comparative resourcing for investment promotion

Resourcing for staff and operational expenditure of the eight countries compared to Australia is as follows:

Table F.1 : Resource commitment of overseas countries to investment promotion and attraction

	Staffing			No. of Overseas Offices	Operational Budget ($Am)
	Home base	Overseas	Total		
Singapore (1)	556	44	600	16	288
Malaysia (2)	423	79	502	15	29.5
Thailand	292	8	300	4	10
New Zealand	14	1	15	2	3
United Kingdom (3)	60	100	160	40	49.9
Ireland	195	50	245	15	80
Israel (4)	10	25	35	25	0. 5
Canada **(5)**	55	30-35	85-90	21	9.5
Australia *(6)*	*103*	*28.5*	*131.5*	*15*	*25.6*

(1) Over half of Singapore's EDB staff based overseas are located in the United States (24 out of 44). The $A288m budget is deemed to include incentives, and separate budget figures for EDB operations and incentives are not publicly available.
(2) Malaysia's operational budget (which amounts to $US15.34m) is for 2001.
(3) Of the 40 overseas offices, only a few are substantially involved in investment promotion, with the others devoting only a portion of their time to this activity. Some of the budget, which amounted to £18.3m for 2000-01, goes in grants to regional development agencies, and is used for their operational expenditure.
(4) There are 35 commercial attaches in Israeli embassies and overseas chambers of commerce who provide overseas representation. Of these, 25 are involved in investment promotion. The operational budget does not include costs associated with this overseas representation. In previous years, IPC's budget has been around $US2 million, but has been reduced to $US250 000, in line with other government budget cuts.
(5) Canada's 30-35 overseas staff who work on investment promotion are generally embassy staff assigned to investment work. Canada has 21 missions actively doing investment work, and another 48 that devote some resources to investment work.
(6) Figures include the *Invest Australia* program ($11.2m) and Austrade's specific investment initiatives and funding in addition to its role in the *Invest Australia* partnership (that is $8.2m in 2000- 01), as well as NOIE and Axiss Australia staff and budgets. *Invest Australia* operates in 11 offices overseas (with 22 staff), and Austrade's specific investment initiatives add four more offices (that is Paris, Milan, Stockholm and Madrid and 7.5 additional staff – comprising two full time and nine part-time overseas, and one full-time in Sydney).

F.3 Coordination with other national agencies

Singapore coordinates its trade development, investment attraction and tourism programmes through a single Ministry of Trade and Industry. Of its 16 overseas offices, only three (Tokyo, Osaka and Jakarta) are co-located with its foreign missions. There is no Singapore foreign affairs ministry representative on the EDB board.

Malaysia runs its overseas activities investment promotion directly through MIDA, and its overseas offices report to MIDA. The Malaysian Ministry of Foreign Affairs is briefed on MIDA activities offshore, but is not directly involved in its programme delivery or coordination.

In **Thailand**, the BOI comes under the Office of the Prime Minister, while the Ministry of Commerce is responsible for both the Department of Foreign Trade (whose role is mainly export promotion) and the Department of Business Economics (which is responsible for trade policy issues). In overseas locations where there is no BOI presence, occasionally private consultants are used. They do not use their overseas embassies for investment promotion work.

Investment **New Zealand** and Trade NZ plan their overseas promotions jointly. INZ negotiates the purchase of time from trade commissioners in target markets (typically 5-10 per cent of their time) to assist with investment promotion work overseas, and specific KPIs are assigned. Also, the NZ Ministry of Foreign Affairs and Trade (MFAT) has a liaison person who works closely with INZ to brief them on overseas events and in-bound visits. In markets where both INZ and TradeNZ are not present, investment promotion and facilitation is provided by MFAT or through specialist staff visits from New Zealand.

In the **United Kingdom**, most of the people who work for Invest UK are on secondment from the FCO, DTI or from the private sector. Overseas, the commercial office of the British embassy often represents IUK, if it does not have its own dedicated officer in that location.

While **Ireland**'s IDA is an independent agency, it works closely with other government agencies, local authorities and tertiary institutions.

In **Israel**, neither the Investment Promotion Center nor the Israeli Export Institute has a dedicated overseas presence. (Its export institute operates as a centralised organisation of about 100 staff.) For both agencies, Israel's commercial attaches and chambers of commerce abroad provide investment and export promotion and facilitation.

Canada's Trade Commissioner Service provides the generic investment promotion overseas for Canada, through the official missions of the Department of Foreign Affairs and International Trade. Industry Canada (similar to Department of Industry, Science and Resources in Australia) provides industry policy and regulation. Investment Partnerships Canada (similar to *Invest Australia*) is a unit with Industry Canada.

F.4 Measuring performance and claimed successes

Performance measures vary across agencies, although jobs created and the value of ODI are the most frequently used measures.

Singapore's main KPIs are:
- value of fixed asset investment;
- value of business spending;
- number of (skilled) jobs created;
- value of output from target sectors; and
- value-add from target sectors.

Malaysia's MIDA uses the following performance measures:
- value of foreign investment (current target is RM25 billion); and
- number of projects approved.

Thailand does not have formal KPIs, although it is understood that the BOI is looking to introduce such performance measures shortly.

New Zealand's investment KPIs include:
- value of ODI;
- number of jobs created;
- foreign exchange earned;
- number of Special Investment Program visits; and
- customer satisfaction rating (%).

The **United Kingdom** uses the following measures:
- number of successes IUK is involved in;
- number of active projects;
- number of company visits; and
- number of tailored presentations.

Job creation figures are no longer used by IUK as a measure of investment success, and the value of investments as a result of IUK work, while still measured, is of much less importance than the other indicators listed above.

Ireland's IDA uses the following as key measures of performance:
- number of new jobs;
- number of IDA supported companies;
- projects fully agreed; and
- total IDA grants.

Israel does not have clearly defined KPIs, but judges its success by measures such as:
- number of foreign company visits; and
- number of seminars and missions organised by Israeli trade commissioners.

Canada measures performance using the following indicators:
- number of investment calls made;
- number of leads generated;
- number of visits to Canada by potential investors;
- actual investments (number and $ value);
- number of inquiries received by IPC's website;
- number of inquiries received by IPC's telephone answering service; and
- number of companies to which detailed information has been provided.

Based on these measures, the comparative performance for each country is shown in the table below:

Table F.2: Size and source of ODI							
	2000		**1999**		**Top three sources**		
	ODI inflows as % of GDP (1)	**No. of claimed ODI successes**	**ODI inflows as % of GDP**	**No. of claimed ODI successes**	**No. 1**	**No. 2**	**No. 3**
Ireland (2)	16.4	96	20.4	186	USA	UK	Germany
Canada (3)	9.3	na	3.9	na	USA	France	UK
Singapore (4)	9.0	na	8.2	na	USA	Japan	Europe
UK	8.7	757	5.9	652	USA	Germany	Japan
Malaysia	5.8	283	2.0	725	Singapore	Japan	USA
Israel (5)	4.0	na	2.3	na	USA	Europe	Japan
NZ (6)	3.9	11	3.9	na	Australia	USA	UK
Thailand (7)	2.9	na	5.0	554	Japan	Europe	Taiwan
Australia (8)	*2.5*	*81*	*1.4*	*83*	*USA*	*UK*	*Japan*

(1) EIU *World Investment Prospects*, London 2001.
(2) Ireland's 96 successes in 2000 comprise 64 greenfield developments and 32 expansions of manufacturing and international services.
(3) Canada's IPC only measures results in its key priority sectors. Over the four years to end 2000, Canada recorded C$5 billion into its key sectors. Total ODI in 1999 was C$969 billion and in 2000 C$1,023 billion. In terms of its top three source markets, the USA provides 70 per cent of inwards investment, with France providing seven per cent and the UK four per cent.
(4) Singapore's EDB claims to have generated S$ 9.6bn in 1999 and S$11.1 in 2000 in inwards investment in manufacturing and services, and that there are over 6,000 international companies with investments in Singapore. In terms of sources, the order shown in the above table is for manufacturing, but for services investment, Europe is ahead of Japan.
(5) Israel's IPC does not have clearly defined KPIs, and therefore has no clear method of measuring successes.
(6) Investment New Zealand's first full year of operation was 2000-2001.
(7) Thailand lumps domestic and overseas statistics together and a disaggregation is not currently available. The value of ODI in 2000 is for the period January-Sept 2000.
(8) ISR Submission to the Review of Australia's Inwards Investment Promotion and Attraction Efforts, June 2001.

F.5 Incentives

Singapore's key financial incentives include concessionary corporate tax rates, cash grants and provision of infrastructure. For major strategic projects, the EDB will consider investing alongside multinational companies, as a way of reducing both capital outlay and risk for the investing company.

The EDB also owns a corporate entity called EDB Investments that has over $US2 billion invested in major projects, including a semi-conductor plant and petrochemical projects. This private arm of the EDB has responsibility for co-investment.

In **Malaysia**, MIDA administers incentives under their Promotion of Incentives Act 1986, which targets manufacturing, tourism, R&D, training institutions and software development. Its main incentives include partial exemption from income tax (called 'Pioneer Status', which allows for tax to be levied on only 30 per cent of income), and an investment/reinvestment tax allowance (which allows for 60-70 per cent of capital expenditure to be offset against assessable income for tax purposes). Similar incentives apply for small-scale companies, and companies investing in the manufacture of targetted products, high-tech, R&D and export.

Thailand's BOI is empowered to grant financial and other incentives to overseas investors who undertake projects in line with government objectives. Thai government now places considerable emphasis on the BOI's ability to grant 'privileges' to achieve policy targets related to the type of industries being targeted, as well as to industrial decentralisation into regional locations. Its two main types of incentives are:

- corporate tax exemptions (up to eight years) or tariff exemptions; and
- non-tax privileges such as financial guarantees, investment protection, and other 'permissions'.

Further incentives are available for companies locating in Special Investment Promotion Zones, producing for export, or engaging in industries identified as 'Priority Activities'.

New Zealand does not have a formal incentives programme to attract overseas investment, but there are ancillary government-funded programmes to underwrite the costs of training, and R&D. These programmes are contestable by NZ companies as well as potential overseas investors.

The **United Kingdom** claims to offer the lowest incentives of any European country. There is a regional selective assistance allowance to encourage companies to look at different regional locations. In addition, there is a range of local incentives not administered by IUK.

Ireland offers one of the most generous incentive packages in the EU, and has been highly successful in attracting ODI over the past two decades. Ireland's budget for incentives in 2000 was the equivalent of $A258 million. While their incentives have played their part, Ireland also offers a very pro-business policy environment in terms of legislated provisions and in the design of state structures to support business.[53] The main incentives offered are:

- low corporate tax rate (10 per cent to 15 per cent);
- low capital gains tax (20 per cent); and
- per capita grants for new facilities located outside Dublin.

It also offers interest subsidies, loan guarantees, as well as grants for employment, training and R&D. (Ireland also receives substantial EU subsidies for regional, structural and agricultural adjustment.)

An additional part of Ireland's competitiveness is to have business parks and buildings available for client companies/prospective investors. In 1999, the IDA spent over 23 million Irish pounds in the acquisition and development of business parks, with the aim of having high quality business parks in all the major towns. The private sector has also spent substantial sums (35 million Irish pounds in 1999) in providing advanced buildings on IDA sites in readiness for incoming clients. This programme has been a prime ingredient in attracting overseas companies. However, the IDA's role as a landlord is now diminishing, with the IDA properties being progressively sold off, and being replaced by an increased focus on marketing of available property for foreign investors.

The average cost per job sustained by IDA assistance for the period 1992-99 was $A15,470 [54],'less than half the cost of a job 10 years ago'.[55] While its achievements in attracting foreign investment have been widely acknowledged, at this level of job support the sustainability of on-going high levels of financial incentives has to be questioned. It has also been suggested that the IDA's activities have resulted in significant sectoral distortions towards manufacturing, as well as that selected foreign investors have been subsidised at the expense of the rest of Ireland's economy. The IDA had an estimated $A258 million incentives budget in 2000. Ireland plans to

[53] Industrial Development Authority, Ireland, Annual Report 1999.

[54] Submission by the Department of Foreign Affairs and Trade to the Trade Sub-Committee of the Joint Committee of Foreign Affairs, Defence and Trade, on 'Enterprising Australia – Planning, Preparing and Profiting from Trade and Investment'. February 2001.

[55] IDA Annual Report, op cit.

invest $US1 billion over the next seven years (to 2006) in its foreign investment programme on initiatives, including developing underdeveloped parts of Ireland, as well as fostering R&D in biotechnology industries.[56]

The **Israeli** Government in 1999 allocated a budget of $US400 million to support investment activities through:

- significant funding of R&D projects;
- grants for foreign investment in fixed assets; and
- tax holidays of up to 10 years.

Canada's main claim is to offer the most generous R&D tax write-offs in the G-7. Depending upon the province involved, any one dollar invested in R&D will actually cost the investor between 34 cents and 50 cents, with immediate and full write-offs for most current and capital R&D expenditures.

F.6 Promotional strategies – generic and sectoral

Singapore's key selling messages include the claim that it will keep reinventing itself as it develops into a vibrant and robust knowledge-based economy. The EDB also promotes itself as a one-stop-shop. The EDB uses ministers and business leaders to get its messages heard.

The Chairman and CEO of Caltex is on the board of the EDB. In early 1999, Caltex announced that it would relocate its worldwide headquarters to the Asia Pacific region, and had selected Singapore after also considering Hong Kong, Manila and Sydney. Caltex is the first multinational company to base its worldwide headquarters in Singapore.

Singapore's current blueprint for development in the twenty-first century (called 'Industry 21'), focusses efforts and resources on developing industry clusters in target sectors for inwards investment – that is electronics, chemicals, biological sciences, engineering, education, health-care, logistics and communications and media. It is also targeting business headquarters and developing domestic industries. The EDB's aim is for total manufacturing investments to comprise: 40 per cent electronics, 20 per cent chemicals, 20 per cent engineering and 20 per cent biomedical sciences.

Malaysia runs generic investment missions twice annually to Europe and the United States, which are led by the Trade Minister. MIDA also runs industry-specific missions twice annually. Key marketing messages include: political and economic stability, transparency of policies, cooperation and support of the state governments, productive workforce, and a track-record with over 3 000 multinational companies already in Malaysia.

MIDA also actively targets potential investor countries to identify companies with appropriate technologies or products, then seeks to encourage their interest in investing, including through visiting Malaysia.

Thailand's main message is that foreign investment is welcome (but there are no clear guidelines from the government on strategy to attract foreign investment). Normally, the Prime Minister would lead large BOI-organised business and investment missions abroad.

New Zealand uses ministers and senior business leaders to market New Zealand as an investment destination. Its main investment initiative, the Special Investment Program, has been funded by the government to generically profile New Zealand as a competitive destination for new investment and to leverage off major events such as APEC and the America's Cup. Also

[56] Ibid.

known as the ‘Red Carpet’ programme, this initiative uses ambassadors to gain access to key investor targets, with an official invitation to visit New Zealand as a guest of government. Thirty of these visits occurred last year. Ministers and senior New Zealand business people are actively involved in visits organised under the SIP.

The **United Kingdom**’s main marketing messages include: it’s a business friendly environment; the second largest destination for ODI globally; low taxation; economic stability; availability of skilled staff; and flexible labour laws. In promoting the United Kingdom as an investment destination, they use ministers, including the Prime Minister, to profile Britain and for direct company contact. They also use companies that have invested in Britain to tell their story to potential investors, particularly those from the same country of origin.

IUK is very active in running in-bound missions, mostly from Asian countries (particularly from Taiwan, China and Korea) where Britain as an investment destination is less well known. These missions are very targetted, and participants are carefully pre-qualified. It also targets major multinational companies at international trade exhibitions (for example, CEBIT) as a source of market intelligence, without necessarily having a physical IUK stand at the exhibition.

In **Ireland**, many of the IDA’s sectoral promotional publications are titled ‘Achieve European Competitive Advantage in [sector]’, which clearly positions Ireland against other potential European destinations. Its promotional messages include:

- ‘One of the most beneficial corporate tax environments in the world’ [currently 10 per cent, and increases to12.5 per cent in December 2002];
- ‘Quality people – one of the youngest populations in Europe …’; and
- ‘Competitive operating costs (lower than most of Europe)’.[57]

Private sector testimonials are a key promotional tool in its marketing.

Israel’s key promotional message to allure foreign investors is that it offers ‘…one of the most attractive investment benefit packages of any country in the world’.[58] This is supported by additional claims of:

- one of the most highly educated workforces in the world (20 per cent have university degrees);
- more scientists and technicians than any other developed country (135 per 10 000 workers);
- world class educational institutions;
- over 100 companies publicly traded on Wall Street, more than any other country outside the United States;
- government supported technological and industrial incubators focussed on advanced product research; and
- a well-established presence of multinational companies (Microsoft and Cisco have their only R&D facilities outside the United States in Israel, and Motorola’s largest development facility worldwide is in Israel).[59]

Among **Canada**’s main promotional claims in attracting foreign investment, the key one is that ‘NAFTA has turned Canada into the best place to service all North American markets’, and that increasing United States investment into Canada provides confirmation.[60] (Some 70 per cent of inbound investment into Canada comes from the United States.) Other promotional claims used include a well-educated workforce, reasonable wage rates, great universities, high-quality health system and lower business operating costs than the United States.

[57] IDA web-site.
[58] Israeli Government IPC web-site.
[59] Ibid.
[60] Canadian Trade Commissioner Service website.

In addition to using business success stories to support its claims, Canada also uses references to third-party sources to add credibility. Some examples:

- the *Global Competitiveness Report 2000*, which ranks Canada first in the world at developing knowledge workers;
- the *World Competitiveness Yearbook 1999*, which ranked Canada fourth in availability of skilled labour (the United States ranked twenty-fourth);
- a 1999 KPMG study, which showed that the cost of professional and technical workers in Canada is about 65 per cent of those in the United States, and overall labour costs in Canada were the lowest of eight of the major developed countries, including the United States; and
- Canada ranks first in the world in 'Technological Potential', per the *World Economic Forum.*[61]

Canada's key selling messages are used by the Prime Minister and cabinet ministers. Its most popular promotional vehicle has been large trade and investment missions badged 'Team Canada', which the Prime Minister leads. On these missions, the Prime Minister is usually accompanied by provincial premiers and captains of Canadian industry. (Canada is now moving towards more targetted promotional activities.) In addition, Canada uses deputy ministers (equivalent to departmental heads in Australia) who are each allocated to a key market, and when a 'hot prospect' is identified, they take on responsibility for CEO-level contact with that potential investor.

F.7 Target sectors for ODI attraction

As evident from the table below many countries, including Australia, are targetting the knowledge-based industries of biotechnology, ICT /information, R&D and software development, as well as manufacturing.

[61] Ibid.

Table F.3: Industry sector targets for foreign investment

Target sectors	**Singapore**	**Malaysia**	**Thailand**	**NZ**	**UK**	**Ireland**	**Israel**	**Canada**
Aerospace								4
Agriculture			4				4	4
Automotive			4		4			4
Biotechnology / Biomedical Sciences	4	4	4	4	4	4	4	
Chemicals	4				4			4
Communications and media	4			4	4			
Consumer Products						4		
Defence								
Electronics	4		4		4		4	
Engineering	4				4	4		
Environmental Protection/Conservation			4					
Film	4			4	4			
Financial Services	4				4	4		
Healthcare	4					4		
ICT / Information industries		4	4	4	4	4	4	4
Infrastructure			4					
Manufacturing		4	4	4				
Marine				4				
Medical							4	4
Multimedia						4	4	
Pharmaceutical						4		
Public utilities			4					
R&D / Electronics/Technology	4	4	4		4	4	4	
Regional HQ	4							
Scientific Laboratories			4		4			
Shared Services (ie Call Centres, Back Office Ops)				4		4		
Software development		4	4		4		4	
Training institutions		4						

Notes:

Except where otherwise indicated, much of the information in this appendix has been sourced from agency websites and/or annual reports, and supplemented where necessary by questionnaires through Austrade's trade commissioners responsible for the various countries.

Possible Performance Indicators

Given the importance of assessing separately each stage of the process of encouraging overseas investment, the following table lists, both generically and on a sectoral basis, a number of quantitative and qualitative indicators that might be used in assessing performance in each of the various stages of the investment process from promotion to aftercare.

Particular care needs to be exercised in using indicators that are driven by factors outside the control of the programme.

Issues of data collection and the need to minimise the diversion of resources from key task in the process of encouraging the location of productive investment in Australia need to be given due attention.

Table G1: Performance Indicators for the Five Stages of the Investment Attraction and Promotion Process

Activity	Generic Measures		Sectoral Measures	
	Quantitative	Qualitative	Quantitative	Qualitative
Promotion	• Market studies completed • Marketing strategies developed • Elements of strategies delivered • Participation in trade fairs and exhibitions • Hits on the web site • Number of visiting journalists • Direct cost of promotion activities	• Feedback from Investment Commissioners and other representatives in the markets • Number and nature (positive, negative, neutral) of references to Australia in magazines, journals, reports etc and to the quality of material provided	• Sector strategies developed • Markets identified • Companies visited • Tailored presentations given • Inward missions • Visits from potential investors • Sectoral capital inflows • Number and value of projects	• Number and nature (positive, negative, neutral) of references to Australia's reputation in each targetted sector and to the quality of material provided • Feedback from investors and potential investors about Australia's reputation in the selected sector

Activity	Generic Measures		Sectoral Measures	
	Quantitative	Qualitative	Quantitative	Qualitative
Attraction	• Number of companies expressing interest in Regional Headquarter status • Number of companies setting up Regional Headquarters • Number of companies expressing interest in the Feasibility Study Fund (FSF) • Number of companies accessing the Feasibility Study Fund • Number of relevant 1:1 contacts by Australian representatives with CEOs of major companies as opposed to contacts with more junior officers • Direct cost of attraction activities	• Assessment by Investment Commissioners of importance of particular programmes as means of attracting investor interests • Comparison of trends in overseas investment in Australia from various locations with location of Investment Commissioners and other investment promotion activities	• Number of projects attracted by programmes such as Regional Headquarters and Feasibility Study Fund in targetted sectors	• Importance of the attraction programs in the decision to set up in Australia

Activity	Generic Measures		Sectoral Measures	
	Quantitative	Qualitative	Quantitative	Qualitative
Facilitation	• Number of project inquiries • Number of projects actually assisted* • Number of projects that convert to investments • Value of projects and jobs created • Technology transfer and exports generated • Direct cost of facilitation activities	• Satisfaction of clients with the level of service provided, including views on what has been done well or poorly or could have been done better or made more effective • Identification of flow-on benefits (for example, development of skilled labour) to the Australian economy as a result of investment attracted	• Number of project inquiries in targetted sectors • Number of projects assisted in targetted sectors • Number of projects in targetted sectors that become investments • Number of jobs created and value of investments • Technology transfer and exports generated in target sectors	• Client satisfaction with service provided, including views on what has been done well or poorly or could have been done better or made more effective

Activity	Generic Measures		Sectoral Measures	
	Quantitative	Qualitative	Quantitative	Qualitative
Incentives	• Number of incentive requests processed • Balance between number of decisions to grant incentives and number of applications that were not successful or did not proceed • Time taken to process incentive requests and make a decision • Costs to firms of applying for incentives • Fiscal cost of incentives	• Quality of information given to clients • Importance of incentives to client's decision • Response of client to decision on incentive • Impact on competitors and potential competitors • Any independent analytical work assessing whether the incentive was needed for investment to occur and whether it provided good value for money for Australia	• Number of incentive requests in targetted sectors • Balance between number of incentives granted in sectors and number of applications that were not successful or did not proceed • Time taken to make decision • Costs to firms of applying for incentives • Fiscal cost of incentives	• Client satisfaction with service provided, including views on what has been done well or poorly or could have been done better or made more effective • Impact on competitors and potential competitors • Any independent analytical work assessing whether the incentive was needed for investment to occur and whether it provided good value for money for Australia

Activity	Generic Measures		Sectoral Measures	
	Quantitative	Qualitative	Quantitative	Qualitative
Aftercare	• Number of companies provided with aftercare services • Number of aftercare visits • Other types of aftercare services • Number and value of re-investments or expansions from companies in the programme	• Response of companies to the aftercare services provided • Interest by other parties such as local council, states etc in participating in after-care • Interest of investor in Australia and any role played in attracting other investors to Australia	• Number of companies in target sectors that are provided with aftercare • Number of companies in the target sectors that reinvest or expand • Companies attracted to invest in Australia because they are suppliers to major investor	• Client satisfaction, including views on what has been done well or poorly or could have been done better or made more effective

* To have provided assistance to a potential investor should be defined to mean to provide at least <u>three</u> of the following services:

1. General and / or tailored information on Australia or a specific industry sector or state, territory or region sector.
2. Arrange a site visit.
3. Assist with immigration matters.
4. Provide assistance with meeting key people that are instrumental to the business

5. Provide assistance with finding a site.
6. Provide assistance with applying for incentives or other forms of assistance.
7. Provide assistance with feasibility study.
8. Provide assistance with getting government approvals.
9. Provide information on possible suppliers.

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