

European Union Investment in Australia

SUMMARY

Foreign investment is becoming increasingly important in a globalised world and brings with it significant benefits to recipient countries. The European Union (EU) is the largest overall investor in Australia, providing 34% of its total foreign investment and its largest direct investor with 35%. To gain a better understanding of the impact of this investment, the EU diplomatic missions in Australia undertook a survey of EU companies within Australia during the first half of 2006.

The survey confirmed that the EU makes a significant positive contribution to the Australian economy:

- There are approximately 2,300 EU companies with a presence in Australia which have a total estimated turnover approaching \$A180bn or just over 12% of total sales in Australia.
- EU companies in Australia have directly created an estimated 400,000 jobs. When account is taken of the flow-on (multiplier) effects, EU company activities are possibly responsible for a further 775,000 jobs, making the total direct and indirect employment generated by EU investment at over 1.2 million or around 12% of the workforce.
- EU companies' predominance in manufacturing means the EU makes an important contribution towards providing locally manufactured products which may otherwise have been imported. Further, a number of EU companies are key exporters (e.g. one is the largest single exporter from New South Wales, whilst another is the largest exporter of Australian wines). A conservative estimate suggests that exports from Australia by EU companies significantly exceed \$A8bn a year.
- EU companies make a particular contribution to the NSW economy, with over 60% of total EU company turnover and 75% of total EU employment generated by companies having their head offices based in this State. Victoria is the second most important location for EU companies, accounting for over 30% of total

EU turnover and 15% of EU employment, followed by Queensland with 5% of EU turnover and 8% of EU employment.

- A range of other secondary benefits from EU investment were also highlighted in the survey including: introduction of knowledge know-how; technology transfer/spill-over; research and development; training; improved products and services; productivity improvements and cost savings; development of new industries; enhanced rural development; facilitation of Australian companies wanting to export; tax revenue; corporate social responsibility and charity contributions.

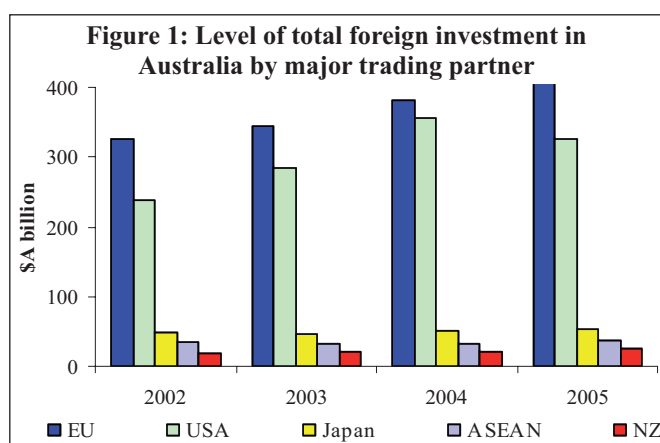


The survey also explored whether EU companies were experiencing problems in entering and/or operating in the Australian market. A wide range of problems were raised but no particular issues dominated. The problems faced included: visa problems for short-term EU staff; quarantine problems either due to overly restrictive requirements or changing requirements; problems with customs regulations; lack of transparency on requirements for imports; difficulties in meeting different technical requirements for the Australian market; union power, notably in the construction industry; inadequate protection provided by Australia's intellectual property regime; regulated monopolies in some sectors; foreign investment restrictions or conditions in some sectors; issues over tax, royalty and other government fees; and problems with the requirements for the recognition of professional qualifications.

EU INVESTMENT IN AUSTRALIA

The EU is Australia's leading foreign investor. Australian Bureau of Statistics (ABS) data indicates that the EU's total stock of investment at the end of 2005 had reached \$A412bn, some 34% of total foreign investment and 8% more than in 2004. By comparison the US accounted for just under 27% (-9% on 2004), Japan 4% (+7%) and New Zealand 2% (+15%) of foreign investment in Australia.

Within the EU, the United Kingdom was the leading investor in 2005 accounting for 72% of the total stock of EU investment and 24% of all foreign investment in that year. The next largest EU investors in Australia were the Netherlands (7% of total EU), Belgium and Luxembourg (7%), Germany (5%) and France (4%). Together these six countries accounted for 94% of all EU investment in Australia. (see Appendix 1 and Figure 1 for detail).



Source: ABS (2006), 5352.0

For foreign direct investment (ie. investment that actively involves the investor in the management of local Australian companies), the EU was also the largest investor in 2005, with a total stock of \$A98bn, some 35% of total foreign direct investment in Australia and 15% higher than in 2004. Within this total, the UK accounted for \$A51bn (52% of total EU direct investment), the Netherlands for \$A19bn (13%), Germany for \$A10bn (10%) and France for \$A8bn (8%), with these four countries accounting for 84% of total EU direct investment in Australia (see Appendix 2 for detail).

The ABS also undertook a survey of industrial performance for foreign owned companies in 2000-01. This survey estimated that there were over 1500 companies from the EU (19% of total foreign companies) employing just under 270,000 people (34% of the total by foreign companies and 6% of total employment). These EU companies earned a total operating income of \$A110bn (36% of all

foreign and 13% of total) and accounted for an operating profit before tax of \$A12bn (over 50% of all foreign and 13% of total). By number of companies, the EU companies were mainly in wholesale (31%); property and business services (22%); manufacturing (15%) and finance and insurance (12%). In terms of employment and operating income, manufacturing was the most important industry (29% and 34% respectively); with finance and insurance (39%); mining (25%) and manufacturing (23%) being the most important in terms of profit (see Appendix 3 for detail).

The results of this 2000-01 survey are dated, with EU direct investment increasing by nearly one-third since June 2001. Detailed knowledge of EU Member State missions also suggested that for some countries the ABS data may be understating the presence of their companies in Australia. For these and other reasons it was decided that EU diplomatic missions in Australia would conduct their own survey of EU companies in Australia during the first half of 2006¹.

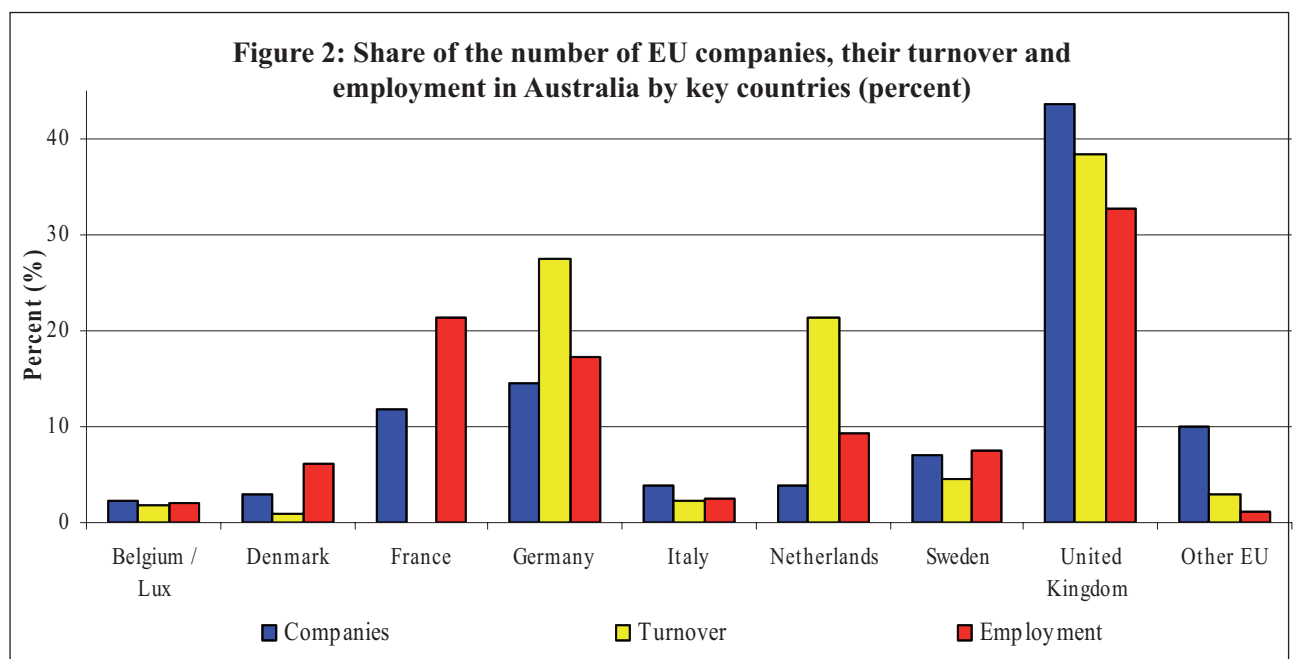
BENEFITS OF INVESTMENT

The results of the survey confirmed that the investment by EU companies has had a very positive effect on the Australian economy. The estimated 2,300 companies from the EU have directly increased the size of the economy, created employment, improved the trade balance and had a range of other secondary positive benefits.

TURNOVER

The aggregated survey results suggests that total turnover or sales for EU companies in Australia are approaching \$A180bn or just over 12% of total sales in Australia in 2005. Within the EU total, the UK is the largest contributor accounting for an estimated 38% (\$A68bn), followed by Germany with 27% (\$A49bn), the Netherlands with 22% (\$A38bn) and Sweden with 5% (\$A8bn) (see Appendix 4 and Figure 2 for detail).

Underscoring the positive contribution of EU investment, the survey suggests that approximately 42% of the total turnover by EU companies is in manufacturing, with a further 17% in the finance and insurance sector. Mining and wholesale trade activities both account for just under 10% each, while construction accounts for a further 9% of EU company turnover. Together these five sectors account for some 87% of the total turnover of EU companies (see Appendix 5 and Figure 3 for detail).



Source: European Commission (2006), Survey of EU companies in Australia

Information by State was only collected in the survey by location of the companies' head office, which means that data by State has to be used with caution, particularly for those companies whose activities are spread throughout Australia, such as those in the retail and hospitality sectors. With this caveat, turnover by State is very much concentrated in New South Wales, which accounts for an estimated 62% of total EU company turnover in Australia. Victoria accounts for around 31% of turnover, Queensland for 5% and the other States for less than 1% each (see Appendix 5 for detail).

EMPLOYMENT

Direct employment generated by EU companies, as estimated by the survey, is some 400,000 persons. When account is taken of the flow-on (multiplier) effects of EU company activities, perhaps a further 775,000 jobs could have been createdⁱⁱ, giving the total direct and indirect employment generated at over 1.2 million or just under 12% of the workforce.

By Member State, the UK was the largest employer with an estimated 131,000 persons or 33% of the total engaged by EU companies. France was the second largest employer (due in part to its importance in the labour intensive transport and hospitality sectors) with 85,000 direct jobs created (21%). Germany was the next most important employer with an estimated 69,000 jobs (17%), followed by the Netherlands with 37,000 (9%), Sweden with 30,000 (8%) and Denmark

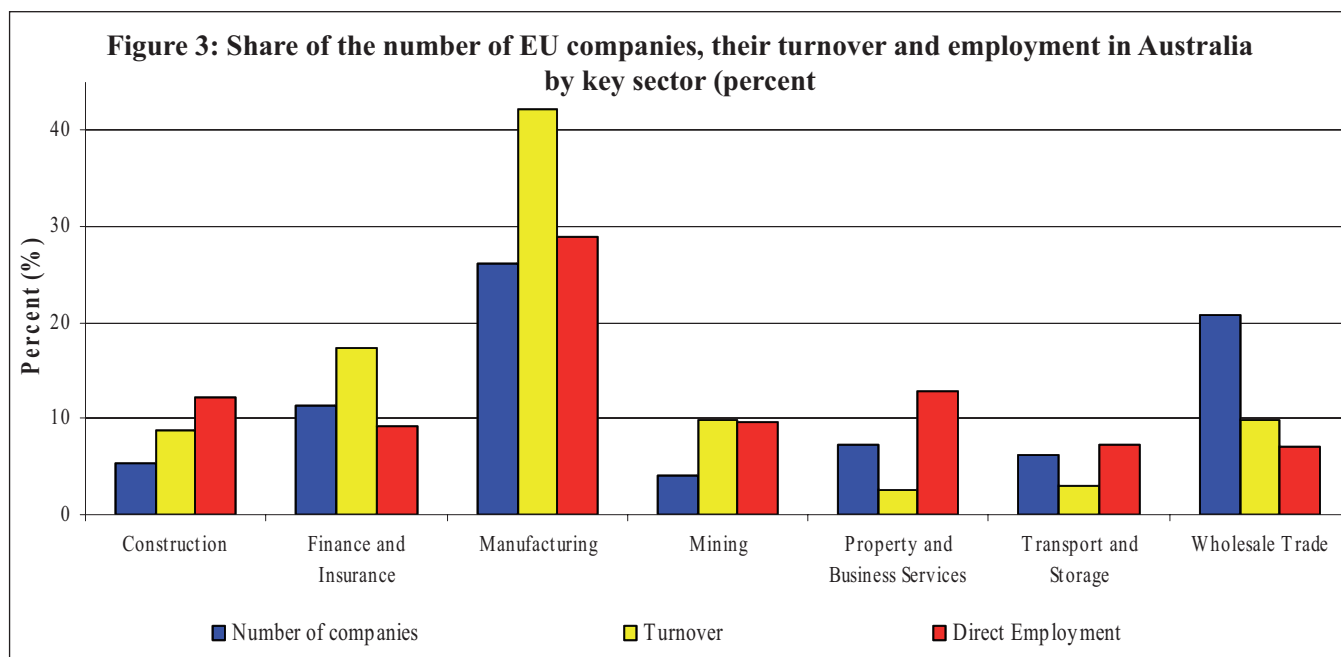
with around 25,000 (6%) jobs created (see Appendix 4 and Figure 2 for detail).

The survey revealed that by sector around 29% of employment by EU companies was in manufacturing, 13% in business services and 12% in construction. The mining sector accounted for 10%, finance and insurance for 9%, transport and storage and wholesale trade activities for 7% each and the hospitality industry for 5%. Overall, these eight sectors accounted for an estimated 92% of total employment by EU companies (see Appendix 5 and Figure 3 for detail).

By State, the survey suggested that New South Wales accounted for an estimated three-quarters of employment by EU companies, Victoria for 15%, Queensland for 8%, South Australia for 2% and the other states for less than 1% in total (see Appendix 5 for detail).

TRADE BALANCE

The predominance of EU investment in manufacturing means that it makes an important contribution towards providing locally manufactured products which may otherwise have been imported. Further, a number of EU companies were key Australian exporters (eg. one is the largest single exporter from NSW, while another was the largest exporter of Australian wines). A conservative estimate suggests that exports from Australia by EU companies significantly exceed \$A8bn a year see Appendix 4).



Source: European Commission (2006), Survey of EU companies in Australia

OTHER BENEFITS FROM EU INVESTMENT

Some 41% of respondents highlighted benefits to Australia from EU foreign investment other than the direct economic benefits of greater employment, greater income and exports/imports displacement resulting from their capital investment. These additional benefits included:

- Introduction of knowledge know-how, professional skills and 'brain gain';
- Technology transfer/spill-over;
- Research and development activities in Australia;
- Training of Australian staff, increasing their skills, safety and wages;
- Improved range of products and services on the Australian market, with high consumer acceptance of brands;
- Improvements to productivity and cost savings for customers, both in the private and public sectors;
- Assistance in the development of new industries in Australia;
- Enhanced rural development arising from companies located in rural areas;
- Facilitating Australian companies to export and in cross cultural communication;
- Important source of tax and royalty revenues; and
- Corporate social responsibility and charity contributions.

MARKET ACCESS ISSUES

Some 16% of respondents indicated that they found some form of difficulty in entering and/or operating in the Australian market. These were over a wide range of areas with no particular issues dominating the problems faced, and included:

- Visa problems for short-term EU staff (less than one year);
- Quarantine problem either due to overly restrictive requirements or changing requirements;
- Problems with customs regulations;
- Lack of transparency on requirements for imports, with problems in accessing appropriate legislation and regulation;
- Problems in meeting different technical requirements for the Australian market;
- Need for better market information on opportunities in Australia;
- Union power, notably in the construction industry;
- Regulated monopolies in some sectors, notably mail delivery and pay-TV;
- Inadequate protection provided by Australia's intellectual property regime;
- Foreign investment restrictions in the property sector and investment in the mining sector being subject to a number of conditions;
- Tax issues, including a lack of harmonisation of Australian and New Zealand dividend imputation systems;

- Substantial increases in royalty rates on minerals with minimal notice or explanation;
- High cost of international banking, specifically bank fees;
- Problems with requirements for the recognition of professional qualifications; and
- Distance from the EU market and cost of transport.

i SURVEY METHODOLOGY

The survey was a cooperative effort between the diplomatic missions of EU Member States in Australia and the Delegation of the European Commission. Some Member States (Germany, France, and Sweden) already collected the same or similar information and so their existing data has been used rather than unnecessarily burdening their companies. Other Member States (Austria, Belgium, Greece and Spain) undertook the survey themselves, while the Delegation of the European Commission undertook the survey on behalf of the remaining Member States.

The approach followed in the survey was to use the contact details of all companies registered with the Australian Investment and Securities Commission which had an association with an EU Member State. Questionnaires were then sent to all foreign companies in Australia with a place of origin in the EU and all Australian companies which declared their Ultimate Holding Companies to be in the EU, together with any other EU companies for which Member State missions knew of their presence in Australia and held their contact details. For those countries participating in the survey a little over 1,200 questionnaires were sent out in total, with an overall response rate of 13%.

To supplement the survey, and ensure coverage of all the larger companies, comparable information was used from the *IBISWorld* database of the top 2000 companies in Australia which includes 167 EU companies.

The resulting information was then aggregated up to national levels using the best estimate by each Member State mission of the total number of companies in Australia from their country. In grossing up the survey results the conservative assumption was used that all companies not covered by the survey or *IBISWorld* data have activities in Australia equivalent to a small or medium sized enterprise (i.e. for companies not covered, the survey average for each Member State excluding the data for the larger companies was used).

ii EMPLOYMENT MULTIPLIER EFFECT

This takes into account the flow-on effects that additional investment in one sector has on employment in all other sectors. This includes the backwards linkages of the additional labour required to produce the extra goods and services demanded by the investing companies and their employees; the additional employment created by the suppliers of these goods and services and their employees; and so on for their suppliers. Multiplier effects vary significantly by sector, with each additional job created in the food, beverage & tobacco sector estimated at creating 3.75 extra jobs in the Australian economy; while for the community, social & personal services sector only 1.23 extra jobs are created by each additional job. The survey results were therefore weighted against the sectoral multipliers to give an overall weighted multiplier of 1.94 extra jobs for every job directly created. The multipliers used were those calculated by Valadkhani (*Applied Economics Letters*, 12(14), p.867).

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Appendix 1: Stock of total investment by major partners and EU Member States into Australia

	Value (\$A mn)				Share of total (%)				% change 2005 on			
	2002	2003	2004	2005	2002	2003	2004	2005	2004	2002 ¹	2002 ²	
	By major partner											
	EU	325,497	344,377	380,482	411,782	35.9	34.9	33.4	34.0	8.2	8.4	26.5
	Japan	49,494	46,401	49,768	53,329	5.5	4.7	4.4	4.4	7.2	3.0	7.7
	USA	238,687	285,388	356,985	325,294	26.3	28.9	31.3	26.9	-8.9	12.2	36.3
	ASEAN	34,513	32,561	33,233	37,270	3.8	3.3	2.9	3.1	12.1	2.5	8.0
	NZ	18,487	19,931	21,068	24,280	2.0	2.0	1.8	2.0	15.2	9.1	31.3
	Other	239,746	258,341	297,436	358,087	26.4	26.2	26.1	29.6	20.4	14.4	49.4
	World	906,424	986,999	1,138,972	1,210,042	100.0	100.0	100.0	100.0	6.2	10.6	33.5
	By EU Member State											
	Austria	944	1,466	1,439	n.p.	0.3	0.4	0.4	n.p.	n.p.	n.p.	n.p.
	Belgium / Lux	9,192	13,655	20,407	28,019	2.8	4.0	5.4	6.8	37.3	45.4	204.8
	Denmark	n.p.	n.p.	733	772	n.p.	n.p.	0.2	0.2	5.3	n.p.	n.p.
	Finland	376	114	264	370	0.1	0.0	n.p.	n.p.	40.2	8.2	-1.6
	France	8,209	11,150	15,784	15,155	2.5	3.2	4.1	3.7	-4.0	24.4	84.6
	Germany	14,275	15,737	17,243	21,099	4.4	4.6	4.5	5.1	22.4	13.5	47.8
	Greece	14	13	20	26	0.0	0.0	0.0	0.0	30.0	25.7	85.7
	Ireland	1,353	1,354	1,243	2,234	0.4	0.4	0.3	0.5	79.7	15.2	65.1
	Italy	2,186	3,050	996	634	0.7	0.9	0.3	0.2	-36.3	-38.3	-71.0
	Netherlands	19,037	22,163	26,176	29,837	5.8	6.4	6.9	7.2	14.0	16.4	56.7
	Spain	n.p.	n.p.	705	687	n.p.	n.p.	n.p.	n.p.	-2.6	n.p.	n.p.
	Sweden	756	1,968	1,849	1,904	0.2	0.6	0.5	0.5	3.0	31.1	151.9
	United Kingdom	253,439	260,733	277,656	294,693	77.9	75.7	73.0	71.6	6.1	5.3	16.3
	Other EU	15,716	12,974	15,967	16,352	4.8	3.8	4.2	4.0	2.4	3.3	4.0
	EU	325,497	344,377	380,482	411,782	100.0	100.0	100.0	100.0	8.2	8.4	26.5

Appendix 2: Stock of direct investment by major partners and EU Member States into Australia

	Value (\$A mn)				Share of total (%)				% change 2005 on			
	2002	2003	2004	2005	2002	2003	2004	2005	2004	2002 ¹	2002 ²	
	By major partner											
	EU	93,635	87,056	85,750	98,313	37.6	32.9	25.8	35.0	14.7	1.3	5.0
	Japan	16,659	18,371	18,678	23,805	6.7	6.9	5.6	8.5	27.4	11.5	42.9
	USA	70,646	82,955	141,411	69,065	28.3	31.4	42.5	24.6	-51.2	4.8	-2.2
	ASEAN	7,004	7,382	7,771	9,321	2.8	2.8	2.3	3.3	19.9	9.5	33.1
	NZ	4,158	5,512	6,382	5,889	1.7	2.1	1.9	2.1	-7.7	12.6	41.6
	Other	57,167	63,284	72,672	74,728	22.9	23.9	21.8	26.6	2.8	9.9	30.7
	World	249,269	264,560	332,664	281,121	100.0	100.0	100.0	100.0	-15.5	6.1	12.8
	By EU Member State											
	Austria	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.
Belgium / Lux	3,815	5,647	n.p.	n.p.	4.1	6.5	n.p.	n.p.	n.p.	n.p.	-38.3	
Denmark	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	
Finland	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	
France	5,258	6,078	7,727	8,287	5.6	7.0	9.0	8.4	7.2	17.4	57.6	
Germany	7,550	7,669	8,413	9,891	8.1	8.8	9.8	10.1	17.6	9.4	31.0	
Greece	-	-	-	-	-	-	-	-	n.m.	n.m.	n.m.	
Ireland	614	623	596	902	0.7	0.7	0.7	0.9	51.3	11.7	46.9	
Italy	n.p.	2,910	n.p.	491	n.p.	3.3	n.p.	0.1	n.p.	n.p.	n.p.	
Netherlands	11,953	11,922	16,416	19,137	12.8	13.7	19.1	13.3	16.6	18.9	60.1	
Spain	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	
Sweden	683	910	1,082	1,249	0.7	1.0	1.3	1.3	15.4	21.9	82.9	
United Kingdom	55,423	45,608	43,124	51,314	59.2	52.4	50.3	52.2	19.0	-2.8	-7.4	
Other EU	8,339	5,689	8,392	7,042	8.9	6.5	9.8	7.2	-16.1	-1.2	-15.6	
EU	93,635	87,056	85,750	98,313	100.0	100.0	100.0	100.0	14.7	1.3	5.0	

Source: Australian Bureau of Statistics (2006), *Australia's international investment position*, 5352.0

¹ Trend change; ² Total Change; n.p. not published; n.m. not meaningful

Appendix 3: Industrial performance of EU companies in Australia in 2000-01 by country and sector¹

Country / Sector	Operating Businesses No.	Employment '000	Total Operating Income \$mn	Total Operating Expenses \$mn	Operating Profit before Tax \$mn	Total Assets \$mn	Total Liabilities \$mn	Gross Fixed Capital Formation \$mn	Industry Value Added \$mn	
	By Country									
	Austria	7	1.9	248	287	-26	258	161	-5	78
	Belgium	8	3.6	956	1,003	-37	818	611	34	110
	Finland	36	5.4	1,873	1,773	96	1,569	861	60	523
	France	113	23.9	9,383	8,028	1,503	59,759	50,617	-1,152	1,837
	Germany	378	28.3	14,898	13,622	1,406	32,632	22,299	1,152	3,557
	Italy	8	3.7	1,254	1,300	-46	948	739	75	211
	Netherlands	45	43.3	18,750	19,615	-648	39,866	32,993	979	1,208
	Sweden	101	14.6	6,716	6,378	365	4,389	2,856	np	1,396
	United Kingdom	792	140.5	56,221	46,910	9,602	148,967	102,094	3,685	17,119
	Other EU	24	3.3	1,110	974	113	1,521	27,786	74	276
	Total EU	1,512	268.5	111,409	99,990	12,328	290,727	241,017	4,902	26,315
	Total Foreign	7,864	783.3	310,752	289,132	24,144	660,429	463,813	12,566	78,056
	Australia	400,277	4,457.4	870,092	781,319	93,861	2,156,732	1,573,398	33,391	241,202
	By Sector									
	Mining	32	6.5	7,644	4,531	3,053	12,371	6,875	969	4,964
	Manufacturing	219	76	37,249	35,193	2,773	36,346	20,233	1,439	9,037
	Construction	15	6.5	2,203	2,197	49	835	633	31	438
	Wholesale	466	32.9	22,638	21,487	1,302	13,635	9,013	180	3,562
	Retail	42	30.8	7,933	7,948	-114	2,916	1,646	131	565
Accommodation, Cafes & Restaurants	16	14.6	866	830	37	1,124	637	14	404	
Transport, Storage & Communication	96	29	9,869	9,557	428	13,681	7,748	2,423	3,293	
Finance & insurance	185	25.5	15,537	10,804	4,733	182,387	154,591	-776	n.a.	
Property & Business Services	327	32.2	5,643	5,066	597	20,987	7,567	-102	2,527	
Private Community Services	68	6.3	400	348	52	640	126	8	79	
Cultural, Recreational, Personal & other Services	41	6.6	804	1,432	-601	2,794	np	np	88	

Source: Australian Bureau of Statistics (2004), *Economic Activity of Foreign Owned Businesses in Australia*, 5494.0

¹ For all industries excluding agriculture, forestry and fishing; n.a. not applicable

Appendix 4: Number of EU companies in Australia, their turnover, employment and exports by major EU Member States

Country	Number of companies		Estimate of turnover		Estimate of employment		Estimate of exports	
	(No)	%	(\$Amn)	%	('000)	%	(\$Amn)	%
Austria	60	2.6	500	0.3	1.1	0.3
Belgium	40	1.7	2,300	1.3	5.8	1.5	300	3.9
Denmark	70	3.1	1,700	1.0	24.5	6.1
Finland	45	2.0	3,400	1.9	1.8	0.5	200	2.6
France ¹	270	11.8	n.a.	n.a.	85.0	21.3	n.a.	n.a.
Germany ¹	335	14.6	48,500	27.4	69.0	17.3	n.r.	n.r.
Ireland	55	2.4	300	0.2	0.9	0.2	0	0.0
Italy	90	3.9	4,200	2.4	9.9	2.5	700	9.2
Luxembourg	10	0.4	1,100	0.6	2.2	0.5
Netherlands	90	3.9	38,000	21.5	37.2	9.3	n.r.	n.r.
Spain	50	2.2	600	0.3	0.7	0.2	400	5.3
Sweden ¹	160	7.0	8,000	4.5	30.0	7.5	n.a.	n.a.
United Kingdom	1,000	43.6	68,000	38.4	131.2	32.8	6,000	78.9
Other EU	20	0.9	400	0.2	0.3	0.1
<i>EU25 Total</i>	<i>2,295</i>	<i>100.0</i>	<i>177,000</i>	<i>100.0</i>	<i>399.6</i>	<i>100.0</i>	<i>7,600</i>	<i>100.0</i>

Appendix 5: Share of the number of EU companies, their turnover and employment in Australia by sector and State (percent)

Sector / State	Number of companies	Turnover	Direct Employment
By Sector			
Accommodation, Cafes and Restaurants	2.2	1.1	4.8
Agriculture, Forestry and Fishing	3.3	1.1	1.9
Communication Services	1.5	1.7	1.2
Construction	5.5	8.8	12.1
Cultural and Recreational Services	1.1	0.1	0.2
Education	1.5	0.1	0.2
Electricity, Gas and Water Supply	0.7	0.1	0.1
Finance and Insurance	11.3	17.4	9.2
Government Administration and Defence	1.5	0.3	0.4
Health and Community Services	2.2	0.7	1.9
Manufacturing	26.2	42.2	28.8
Mining	4.0	9.8	9.6
Personal and Other Services	0.7	0.1	0.2
Property and Business Services	7.3	2.5	12.8
Retail Trade	4.4	1.2	2.3
Transport and Storage	6.2	3.0	7.3
Wholesale Trade	20.7	9.8	7.1
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
By State			
New South Wales	75.8	62.2	74.5
Queensland	4.4	5.0	8.4
South Australia	3.6	0.9	1.7
Tasmania	0.4	0.1	0.1
Victoria	12.1	31.1	14.8
Western Australia	3.6	0.8	0.6
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: European Commission (2006), Survey of EU companies in Australia

¹ Not part of the survey, Member State estimates; n.a. not available; n.r. not reliable; ... negligible