

NEW ZEALAND BUSINESS: ENTERING THE AUSTRALIAN MARKET

INTRODUCTION

NEW ZEALAND BUSINESS PRESENCE IN AUSTRALIA

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Despite geographical proximity and the close ties between the two countries there has not developed a significant New Zealand business presence in Australia. New Zealand has exported considerable quantities of goods and even a large number of people to Australia but until recently has failed to establish a noticeable business presence. New Zealand exporters have, by and large, been content to sell their goods to Australian importers and distributors rather than to establish their own Australian distribution systems. The limited number of New Zealand businesses which have established office and warehousing facilities in Australia appear to have confined their Australian activities to distributing their exports from New Zealand and have not supplemented the New Zealand sourced range with trade in goods sourced from other countries. Apart from a limited number of exceptions, such as the NZI Group, Broadlands and Marae and the NZ trade supportive activities of the Bank of New Zealand, there has not been, until recently, any conspicuous presence of New Zealand owned service industries. This is despite the fact that the anticipated New Zealand investment in the service/finance/insurance sector during 1980-1984 was greater than for any other industry group. (Refer Table 3 of Appendix I.) Brierley's Australian affiliate Industrial Equity Limited aside, there is little visible sign of New Zealand ownership of Australian manufacturing businesses.

This unusual state of affairs, when contrasted to the inter-State activities of Australian business, is attributable more to the restrictive exchange control policies applied by successive New Zealand Governments than to the foreign investment controls which have applied in Australia. The next speaker, Mr Howard, will outline

Australia's current foreign investment policies. A summary of the statistical records maintained by the Treasury on trans-Tasman investment for the period from July 1978 to June 1984 is appended as Appendix I. Although these statistics do not present the full picture, as some investment proposals do not require notification to the Foreign Investment Review Board ("FIRB"), they do put the level of New Zealand investment into perspective. You will observe that the direct investment inflow from New Zealand to Australia recorded during the fiscal years in this period ranged from a mere A\$6 million to A\$72 million. When the figures are adjusted for retained and repatriated profits the resultant total for those years ranged from a negative flow of A\$13 million to a maximum inflow of A\$94 million. This peak amounted to only 1% of the total foreign investment in Australia for the relevant year. This low figure is not because Australian approval could not be obtained. Table 3 in Appendix I discloses that of the 313 applications made by New Zealand applicants to FIRB during the four fiscal years to June 1984 only 7 were rejected and 14 withdrawn. Some of the other applications were approved conditionally but I am unable to determine whether or not the conditions made the proposals unacceptable.

The removal of New Zealand exchange control restrictions should see the position change dramatically. Whilst the Closer Economic Relations Treaty ("CER") caused New Zealand business to become far more conscious of opportunities in the Australian market the removal of exchange control restrictions is the real catalyst for a dynamic expansion of trans-Tasman investment. CER was perceived by New Zealand as having a significant economic importance and as a stimulus to trans-Tasman trade. New Zealand exports to Australia have increased by an annual average of 31% per annum over the last 3 years. In contrast, Australian business has been slower to react and many Australians are barely aware of the existence of CER let alone its purpose or potential effects. Each country is a major market for the other. Australia is now New Zealand's largest export market. New Zealand is Australia's third largest export market and its largest market for manufactured goods. Australia still enjoys a trade

surplus with New Zealand (A\$403 million in 1982, A\$481 million in 1983, and A\$598 million in 1984) but half of this surplus can be accounted for by refined petroleum products. A brief summary of the trade figures is appended as Appendix II. New Zealand's cheaper production costs and, until recently, lower currency have allowed New Zealand manufacturers to underprice many Australian manufacturers. The phasing out of tariff barriers under CER should present greater opportunities notwithstanding the loss of export incentives. Although trans-Tasman freight rates are high, so are Australia's inter-State rates. The present value of the NZ\$ and the new volatility of exchange rates do not, however, make an exporters life easy.

I believe that when we look back in 10 or 20 years time we will see quite clearly that the recent deregulatory action in relation to the New Zealand economy signalled the commencement of a new phase in New Zealand's development. It should certainly herald the internationalisation of New Zealand business. There are a number of factors which make Australia the natural starting point for most New Zealand businesses wishing to expand beyond the confines of the New Zealand market. These include:

- . proximity
- . ability to use New Zealand personnel for the Australian operation without immigration restrictions
- . similarity of the market in cultural, political and legal aspects
- . concentration of population (there are in excess of 12 million people in NSW, Victoria and Queensland with 3.3 million in Sydney, 2.8 million in Melbourne and 1.15 million in Brisbane)
- . reasonably high per capita GDP
- . tariff and related benefits under CER

access to a larger capital market (e.g. the total market capitalisation of listed shares in Australia is in excess of A\$96,000 million compared to the New Zealand share market capitalisation of NZ\$14,200 million).

One of the objectives of CER is to rationalise and strengthen manufacturing in both countries so that manufacturers are able to compete more effectively in world markets. This rationalisation requires trans-Tasman investment flow. The abolition of exchange control restrictions will allow this to happen on a far greater scale.

A number of New Zealand companies have been quick to take advantage of the new opportunities which have been presented. The following developments have occurred within the last year:

1. Australian Listing

Fletcher Challenge, Feltex and Watties have obtained listing on Australian Stock Exchanges and some other New Zealand public companies including Brierley Investments and Chase Corporation are seeking listing. NZ Forest Products and NZI had previously listed.

Obtaining Australian listing is reasonably straightforward and compliance with the Australian Associated Stock Exchanges Listing Requirements is not onerous. Australian listing gives access to the Australian capital markets, assists in developing the Company's image in Australia and may provide price support for the shares by increasing demand. It also facilitates partial Australian ownership which should assist the company to obtain any necessary FIRB approvals for the expansion of its business activities within Australia.

2. Listed Acquisitions

In addition to full takeovers of some small listed companies by New Zealand interests, significant equity stakes have been obtained by Goodman in Elders IXL, by Chase Corporation in Jonray Holdings and by McConnell Dowell in Acrow.

There has been an appreciable increase in New Zealand investment in the Australian share market, including quite large scale share trading (e.g. Chase Corporation's 15% stake in Hooker Corporation).

3. Trans-Tasman Mergers

Although there are some cross shareholdings between New Zealand and Australian listed companies the recent announcement of the merger between Fielders Gillespie, Allied Mills and Goodman heralds a new stage in the integration of businesses in the two countries.

4. Business Acquisitions

There has been an increase in the number of acquisitions of non-listed companies and businesses (e.g. the acquisitions by NZI of Armco Leasing and a 50% stake in Brick Securities).

5. Floatation

Equiticorp, through its Australian subsidiary, has established a new company, the shares of which are listed on the Australian Stock Exchanges.

6. Merchant Banks

Some New Zealand financiers have taken advantage of the deregulation of the finance industry in Australia, which included a relaxation of controls on new merchant bank entry, to establish a merchant banking operation in Australia or to expand the range of their services in Australia. FIRB approval has been given to BNZ, NZI, Marac, Equiticorp, DFC and Fay Richwhite. The Australian merchant banking activities of these organisations should provide a bridge between New Zealand business and the Australian market. The merchant banks can be expected to refer Australian investment opportunities to their New Zealand clients.

7. Branch/Subsidiary Formation

We have seen a significant increase in the number of New Zealand businesses establishing a new presence in Australia

either to assist in the importation of goods into Australia or in order to provide services within Australia.

8. Shift in Asset Base

Major Groups such as NZI and Goodman now have a majority of their assets in Australia and others have announced their intention to achieve a similar position within the next year or two.

9. Australian Residence

A number of New Zealand entrepreneurs have adopted Australian residence while retaining their New Zealand business interests. Once a person becomes ordinarily resident in Australia, and there is no minimum residency period requirement, it is not necessary for him to obtain FIRB approval for any Australian business activities. It seems possible for the person to prevent his New Zealand business interests becoming regarded as overseas controlled, despite his Australian resident status, by retaining his New Zealand domicile.

These are but conspicuous examples of the wave of investment following the opening of the exchange control floodgates. For reasons of confidentiality, I have limited the examples to those transactions which are a matter of public record. The ability of New Zealand business to move capital and resources to exploit opportunities in Australia and the relative strengthening of the New Zealand dollar against the Australian dollar should see a continuation of the trend. Those who regard the New Zealand dollar as overvalued may wish to take the opportunity to purchase Australian assets at present exchange rates. Historically there has been a strong capital flow from Australia into New Zealand both from Australian businesses and by way of expansion of the Australian subsidiaries of USA and UK companies. This appears to be continuing with some Australian companies relocating their manufacturing activities to New Zealand to take advantage of lower costs.

The rationalisation and integration of business between the two countries should continue strongly. CER set the political framework for an Australasian common market by freeing up trade. The abolition of exchange control by both countries has provided the means whereby this can be more effectively achieved by allowing a flow of capital between the two countries. Although foreign investment controls still apply in each country the opportunities are there. The subsequent speakers will explain the legal framework and practical means by which a business presence in Australia can be achieved and will also address that ubiquitous modern blight - taxation.

APPENDIX I

TRANS-TASMAN INVESTMENT STATISTICS

TABLE 1: NEW ZEALAND INVESTMENT IN AUSTRALIA, 1978-79 TO 1983-84 - ABS DATA

YEAR	NEW ZEALAND							ALL COUNTRIES				
	DIRECT INVESTMENT INFLOW		OTHER INVESTMENT INFLOW		TOTAL INVESTMENT INFLOW		STOCK OF INVESTMENT AT END OF PERIOD		DIRECT INVESTMENT INFLOW	OTHER INVESTMENT INFLOW	TOTAL INVESTMENT INFLOW	STOCK OF INVESTMENT AT END OF PERIOD
	\$m	% of Total	\$m	% of Total	\$m	% of Total	\$m	\$ of Total	(\$m)	(\$m)	(\$m)	(\$m)
1978-79	22	1.6	-35	-	-13	-	216	1.4	1,356	620	1,976	15,080
1979-80	16	1.0	1	0.1	17	0.6	224	1.3	1,567	1,476	3,043	17,003
1980-81	6	0.2	30	0.8	36	0.6	233	1.1	2,404	3,644	6,048	22,138
1981-82	6	0.3	-25	-	-18	-	258	0.8	2,185	7,198	9,383	32,038
1982-83	55	6.0	30	0.4	85	1.0	281	0.7	905	7,642	8,547	43,060
1983-84	72	3.3	22	0.3	94	1.1	(b)		2,213	6,461	8,674	(b)

(a) Because of definitional differences between "investment inflows" and "investment levels", the change in levels between the beginning and end of a period cannot usually be taken as equivalent to the flow of investment during that period.

(b) Not available.

APPENDIX I (contd)

TABLE 2: FOREIGN INVESTMENT PROPOSALS INVOLVING NEW ZEALAND: NUMBER AND TOTAL EXPECTED EXPENDITURE, 1980-81 TO 1983-84 - FIRB DATA*

DECISION	1980-81		1981-81		1982-83		1983-84	
	No	\$m	No	\$m	No	\$m	No	\$m
Approved without conditions	33	9.3	44	10.8	38	43.2	33	19.3
Conditionally Approved	18	85.9	21	35.2	16	37.8	30	85.9
Total Approved	51	95.2	65	46.0	54	81.0	63	105.2
Rejected	0	-	1	0	2	6.1	4	6.9
Total Decided	51	104.7	66	46.0	56	87.1	67	112.1
Not Requiring Approval								
Under Act or Policy	39		9		6		5	
Withdrawn	3		2		6		3	

*Note: Considerable caution should be exercised in interpreting the FIRB case statistics quoted above. The estimates record the intentions of foreign investors, as indicated in their submissions to the FIRB, regarding direct investment in Australia at the time their proposals are decided by the Government. The amount of expenditure ultimately realised in respect of particular proposals may be spread over several years and may be dependent upon the completion of feasibility studies.

APPENDIX I (contd)

TABLE 3: EXPECTED EXPENDITURE ASSOCIATED WITH APPROVED FOREIGN INVESTMENT PROPOSALS INVOLVING NEW ZEALAND INTERESTS, BY INDUSTRY, 1980-81 TO 1983-84 - FIRB DATA

INDUSTRY	1980-81		1981-81		1982-83		1983-84	
	\$m	%	\$m	%	\$m	%	\$m	%
Service	23.7	24.9	24.6	53.7	16.4	20.3	30.4	28.9
Finance Insurance	7.0	7.4	-	-	3.5	4.3	26.7	25.3
Real Estate	61.2	64.3	8.7	19.4	20.6	25.5	28.4	27.0
Manufacturing	3.2	3.4	8.3	18.1	40.00	49.4	9.9	9.4
Agriculture, Forestry & Fishing	-	-	-	-	-	-	9.9	9.4
Mining	0.1	0.1	4.0	8.7	0.4	0.5	-	-
Total	95.2	100.0	45.8	100.0	80.9	100.0	105.2	100.0

APPENDIX II

AUSTRALIAN TRADE WITH NEW ZEALAND
\$'000

	<u>1982</u>	<u>1983</u>	<u>1984p</u>
Exports	1,123,542	1,241,159	1,594,470
Imports	<u>720,281</u>	<u>761,352</u>	<u>996,192</u>
Excess of Exports	403,261	481,807	598,278