

## AUSTRALIAN INDUSTRY DEVELOPMENT CORPORATION:

## ITS PRESENT AND FUTURE ROLE

By Sir Alan Westerman

(This address was delivered to a luncheon meeting of the Institute in Sydney on 26 June 1973. Sir Alan Westerman is the Executive Chairman of the Corporation.)

I am asked to talk about two things, A.I.D.C.'s present and future role. My time being limited, the only way I can effectively respond to your request is to talk about both things at the same time. Whether this means putting on your bifocals or developing an occupational squint for half an hour is really up to you.

A.I.D.C. was established by the previous Government as a new kind of financial investment vehicle to perform specific tasks that were considered of national importance and outside the scope of existing institutions.

Putting it briefly, at a time when domestic investment finance was under extreme pressure and overseas funds on competitive terms were only available to the local subsidiaries of large overseas enterprises and perhaps two or three of the largest Australian companies, A.I.D.C. was equipped - by statute and substance - to borrow principally overseas at its own risk and against its own capital and thus pass on an access to finance to locally-owned companies that most would not otherwise possess.

The Corporation is structured so that we can assist Australian interests in ways for which other financial institutions are not designed. A.I.D.C. does not function as a bank - we don't walk or talk like a bank. Essentially, we provide venture capital raised against our own good name and resources. When we assess a proposal, the Board is more interested in looking at entrepreneurial potential than the extent of collateral available. Not that we don't take security when we can and in so doing cut down the degree of risk and thereby the cost of finance to the project.

However, it is often impossible to determine with any precision the degree of risk involved especially with small companies other than to say it can be considerable. To charge a rate of interest on a loan commensurate with the risk would be unrealistic, leaving the company uncompetitive. But by taking equity, if the company does well, A.I.D.C. stands to share fully in its success and in this way the Corporation can hedge its bets to some degree by offsetting the downside risk against the upside opportunity created by an equity holding. Again, and equally important, by providing equity as well as loan finance, A.I.D.C. can help contribute stability to a company through ensuring a reasonable balance between shareholders' equity funds and creditors' loan funds. Of course the total equity A.I.D.C. can take at any time, using borrowed money, as we must, is governed by how long our equities will take to come on stream with dividends and our ability to "wait out" this time. Our projects on capital are in part designed to help us in this.

So far as the funds A.I.D.C. raises are concerned the legislation includes certain directions as to their use. They are not to be frittered away in uneconomic ventures nor could they be used in any way which may have been considered intrusive. In all of its activities, A.I.D.C. was also asked to do what it could to assist in the retention and expansion

of Australian ownership and control, and protection of Australian industry from foreign ownership although this was not listed as one of its prime objectives but rather as a policy.

There is one observation I should make straight away so far as ownership and control are concerned. It is not enough that there be a general increase in the propensity of Australians to put their money into equity investments. Clearly, widely scattered equity participation may increase general levels of ownership without increasing Australian control one iota.

To create real and effective Australian participation in control as well as ownership, large broadly-based Australian entrepreneurial vehicles are required with the capacity to operate major new enterprises, raise sufficient funds and retain at least an equal partnership in large-scale ventures with foreign companies. Unfortunately the number of such Australian companies able to play such a role off their own bat is few.

It is in this context that A.I.D.C. has a special role to play as both a supporter of Australian companies and I believe as a vehicle in its own right.

But enough of this, now would you please put on your bifocals or try and bring on a case of induced double vision and examine the A.I.D.C. vehicle. Of course in examining a vehicle you can put it on a hoist and take it apart bolt by bolt and carefully formulate plans for improving the new model. I don't think we have enough time to do that, although I would not be averse to that kind of examination. So my examination of the vehicle will be directed to looking at its shortcomings, both those seen by me and those apparently seen by the present Government, and perhaps venturing some short observations on the proposals the Government has indicated for the rectification of anomalies - I think that's the right term in talking about vehicles - in the design and specifications for the next model.

A.I.D.C. has been on the road a couple of years now, and already we have done a fair mileage. In our first year ending June 30, 1972 this amounted to over \$50 million of travel on various roads and in various directions. That is, we undertook financial commitments to the tune of \$54m. in respect of more than 30 industrial projects. In this our second full year, I am sure our annual report will show that we have gone a little faster and a little further.

But now for some observations on the vehicle based on the pronouncement of the new Government and presumably based on its observations of A.I.D.C.'s performance. First of all, Dr. Cairns and others have made it clear that the track of this vehicle is far too narrow. By law as expressed in the A.I.D.C. legislation the Corporation is confined to driving only on the roads of manufacturing, mining and processing. We have not been able to cover the whole road network of industrial capacity quite as well as some think we should. For instance, we could not participate in what is purely a coal-loading venture, nor could we be concerned in a pipeline project or the distribution of industrial products each of which may be an integral part of an industry and can add materially to industrial capacity.

Accordingly, the new Government has made it clear that the track of the new model A.I.D.C. is to be broadened to cover related and ancillary industries important and indeed essential for industry and mining but not of themselves, in the legal

sense, capable of being included within the definition in our present charter.

Also, Dr. Cairns has indicated that the new legislation will improve road-handling by equipping the Corporation to play a more positive role in securing Australian ownership and control. Presumably this will mean that A.I.D.C. will be able to participate to help acquire or maintain Australian equity in an enterprise even if such action is not directly connected to furthering a new development or expanding an existing venture. For example, an A.I.D.C.-backed counter-bid opposing a foreign takeover, or the buying up of a share of the equity offered by any of the large foreign subsidiaries operating successfully in Australia, is impossible under A.I.D.C.'s present charter. It will be possible in the future even although it is not connected with an industrial or mining expansion. The objective in itself of maximising local ownership and control of our resources will become, in the new model A.I.D.C., one of our several prime objectives, not merely a policy.

Government observations make it clear that the Government feels that the wheel base of A.I.D.C. is just a bit short for the kind of job to be done. For instance, with the laudable intention of ensuring that A.I.D.C. should not become a permanent and unwanted equity holder in Australian enterprises and thereby occupy too much room on the highway, our present Act established quite clearly that we were not to take the initiative, but should wait for companies to come to our door with proposals. Similarly, we are obliged to avoid majority equity holdings and must seek to disinvest at the earliest opportunity. But to many who have approached us and apparently to the Labor Government, these limitations on our wheel base are not seen to be in the national interest and should be rectified.

I recall Mr. Whitlam speaking on the A.I.D.C. Bill when it was introduced said: "This Corporation must not simply be another financial institution, another passive investor. It must be willing to take firm steps in the development of our resources to ensure that they are controlled by Australians". And certainly in A.I.D.C.'s experience there emerged a number of cases where this limitation on the wheel base I have just referred to has been a very significant limitation on the sort of load we can carry. For instance, there have been cases where someone has come up with a proposal for our participation in a highly innovative industry; perhaps something proceeding from a new invention or innovation in the electronics field. Almost invariably these kind of people have such a shortage of funds and lack the appeal to attract funds that our participation would unavoidably consist of more than a minority interest and possibly a very major equity interest in the undertaking for such time as it took for the venture to reach maturity. Of course under those circumstances we have had to say sorry but we can't participate.

A similar limitation has often shown up when a group of powerful foreign companies wish to set up a joint venture or a consortium to develop, say, a major resource or a refining operation here in Australia. We have had cases where such a group has looked around without finding an Australian participant of sufficient size and financial muscle and has come to A.I.D.C. to ask if we could act as a nucleus for such an Australian entity or even be such an Australian entity for the time being until such time as the Australian investment market is willing to participate under our present circumstances. We have had to say "no" because so far as that entity is concerned

we would loom far too large and would need to participate for far too long for the job to be carried within the wheel base limitations as exist under the present A.I.D.C. Act. In such circumstances our efforts have been seriously circumscribed by the "invitation and consent and don't-be-too-big requirements" of the Act.

And so Dr. Cairns has said publicly that the Government proposes to expand the scope of A.I.D.C. in a number of ways. From now on, he has said A.I.D.C. will not merely have to wait until it is invited by companies and corporations to act. It will be authorised to act on its own initiative and judgment. Similarly A.I.D.C. participation in a developmental venture will not be prevented by the new charter just because under the circumstances existing, A.I.D.C. would find itself in a majority position.

In a number of cases, given A.I.D.C.'s basic horsepower derived from its \$100 million capital base and given its borrowing gearing of 5 to 1 in respect of this capital, there are some hills that the existing vehicle just can't take. Sometimes because the project is so large it cannot be accommodated in the A.I.D.C. book without throwing it out of balance, sometimes because lead time to profitability is so long A.I.D.C. could not carry the interest payments itself without upsetting the book. Thus a project that might be very much in the national interest is not necessarily something that could be embraced within the Corporation's normal commercial capacity. So this Government is going to put in an extra gear. This is a gear to tackle particular kinds of situations, which can be described as National Interest cases.

I assume this "national interest" provision will be somewhat akin to a clause in the Export Payments Insurance Corporation legislation which permits EPIC to take aboard certain insurance business with government last-resort backing. It does this only where the risk is beyond normal commercial considerations, but Cabinet has decided that nevertheless it is worth insuring because it is in the national interest for the particular export transaction to proceed. Thus I understand provision will be made - presumably in new legislation - for A.I.D.C. to take aboard certain projects with Government last-resort backing where they, for one reason or another, are beyond the normal commercial criteria and capacity of A.I.D.C. and yet considered by the Government to be in the national interest.

Of course this vehicle like all other vehicles requires fuel. A.I.D.C. was given fuel in the form of its borrowing powers, based on a substantial capital. Moreover, it had to rely on imported fuel - borrowings - for most of its operations. This fuel source has proved adequate to date for most of the kinds of enterprise we have been concerned with and for the speed and kind of driving originally envisaged. Of course our driving speed has been limited by our borrowing ceiling and all that flows from it. But the new Government is a Government in a hurry as regards foreign ownership. It is a Government in rather more of a hurry as regards increasing or preventing erosion of Australian control over our industrial assets and giving an opportunity for ordinary Australians to participate in a sound investment with the real opportunity of sharing in the fruits of Australia's undoubted development future. Dr. Cairns has indicated it is going to give the Corporation an additional or supplementary source of local Australian fuel. Not a fuel that the A.I.D.C. vehicle pulls from the Government bowser at Budget time but a much more effective fuel which the Government believes can be attracted from the public. A fuel

which has just the right octane rating required by the risk-venture type of operations which lie along A.I.D.C.'s road.

Reverting for a moment to my former origins, no farm nor country can grow without putting aside seed corn - (savings to people such as you in the investment industry). There has to be efficient machinery for collecting this, for storing it, for selling it, for making it available where it is wanted and for optimising its use in the national interest. That is what you people being brokers and merchant bankers and so forth are dealing in. I am not saying you are just seed merchants but there is a lot in the analogy.

Accordingly the Government has said it will set up a fund. A new device to attract fuel (or seed corn to you) for national purposes. It is important to emphasise that this is to be a different kind of fuel from Government Budget fuel. Equity or risk fuel not just fixed loan fuel. The people that will subscribe to this fund have to be different kind of people from tax payers via a Government Budget. They have to be people who are investors, big or small, prepared to take a chance and attracted to the idea of participating in the earnings and growth of nationally important industrial projects. And you are the people gathering, storing and dispensing much of this fuel.

Of course there is no inexhaustible supply of this fuel. Like the vices of a man of my age, the quantity cannot be expanded. The only choice is how one can take one's change out. Savings are at any point of time pretty much a constant, especially in a country like Australia where the per capita rate of savings is high. So the availability of this fuel depends largely on a capacity, in the national interest, to divert some of the capital at present going into less nationally important tasks (like the hole or two I passed coming up Pitt Street) into a nickel smelter, a copper concentrator, or a paper pulp manufacture, etc.

The Government has indicated that it plans to assist in this diversion by providing tax incentives. Now tax incentives in respect to savings are not anything very new. Insurance companies are given tax incentives to carry out their functions of encouraging savings and providing policy holders their retirement requirements, death cover benefits or one thing or another. Government has granted tax incentives to assist that purpose and similarly Government has used tax incentives to encourage the policy holder as well through the \$1,200 premiums deduction. As far as the National Investment Fund is concerned, the Government has not yet made it clear what form any tax incentives might take but I do know that a carrot in front of the horse has worked before and it can work again.

And so the picture emerging from what the Government has said as far back as Launceston up until the present suggests that A.I.D.C. will draw fuel from a new "bowser". It will look - I can only assume - like a large-scale Trust Fund with institutional and private investors each subscribing to take unit shares in the form of N.I.B.'s in investment projects transmitted to the Fund by A.I.D.C. from its successful projects. This Fund (or Funds) - judged by overseas performance - should be capable of attracting those interested in capital growth and retirement, those interested in income, those interested in a mix of both interest earnings and capital growth. Of course, for the protection of subscribers, such a Fund in its purchases of stocks from A.I.D.C. would need to be looked after by an independent body representing subscriber interests. However, this new "bowser" takes

precise shapes. I have no doubt it will be regarded as an imaginative and novel piece of machinery capable of attracting considerable supplies of risk fuel - both from within Australia and even perhaps from overseas - and dispensing it for the purpose of important national undertakings with maximum Australian ownership.

In the process A.I.D.C. has a means of re-cycling its borrowings and hence of carrying much greater loads in its national task.

### Conclusion

I have briefly described the performance of the vehicle in its first couple of years, and the apparent Government's intentions to remedy certain deficiencies, remove certain restrictions and add on an extra or two. Now I suppose you can be excused just for standing back and kicking the tyres. For my part I am reminded of the awful forebodings which some people had when A.I.D.C. was set up. I am not aware of many of those criticisms now. So far as financial institutions are concerned there is no doubt that A.I.D.C. works in the closest co-operation with them. Our activities complement the services of the financial institutions. We have worked in harness together and we have added to business rather than subtracting from it. In so doing we have contributed to the range of financial facilities available to Australian business enterprises in manufacturing and mining.

I have noticed from accounts in the press and from conversations "in-club" and elsewhere that there is a certain amount of apprehension in the air. Until Government introduces the specific legislation some fear and foreboding remains. The A.I.D.C. vehicle is sometimes represented as being the only vehicle that can run on the road; the only vehicle that will meet all the passengers' requirements on the industrial and mining highways; a vehicle that drives at such speed that it is a menace to other people who wish and need to use the same road; a vehicle which will use so much fuel that it will create shortages for others.

All I can say is that we will have to await the Government's details for the final proof on this. I have listened to all that has been said. I have read all that has been written on the subject of the new model from the A.L.P. Conference at Launceston, from the Prime Minister's Policy Speech pre-election, to post-election announcements. I have had conversations with Dr. Cairns on A.I.D.C. and other members of the Ministry have had some things to say. From all these sources it has become increasingly clear that the modifications will not make it a fearsome vehicle, but rather a useful vehicle; a vehicle compatible with other traffic; a vehicle with a wider track, longer wheel base, and a larger engine, specifically re-designed to meet nationally important objectives.

Moreover, in a world where engines everywhere are growing larger, the new engine would have a capacity not out of kilter with other vehicles travelling the sort of industrial highway before us. If Australian investors and entrepreneurs are to make a decisive contribution to the development of the nation's undoubted mining and manufacturing future, there is a strong argument for an A.I.D.C. vehicle equipped with the capabilities to materially assist both broadening our industrial capacity and maximising Australian ownership and control. This is a much more positive contribution than an alternative which may be further restrictions on foreign investment and a slow-down in terms of economic expansion.

And for you here the new model A.I.D.C. should have important attractions. It will enlarge your custom, and widen your "seed corn" role. Fund unit-shares will be an addition to what you buy and sell. But to me, based on what at this time can only be the "shadow of things to come", the concept is an exciting new sea I am looking forward to travelling. A sea leading to a more highly developed Australia and with more of the development in Australian hands.

#### BOOK REVIEW

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#### CREDIT AND SECURITY IN INDONESIA

University of Queensland Press, 1973

This book is one of a series on the legal aspects in various Asian countries of development financing through loans. The three general editors, who hold academic appointments in Australia, have in this volume been joined by a Professor of Law at the University of Indonesia.

The result is a practical exposition of many aspects of law of interest to businessmen, bankers and others who need to know something of the Indonesian legal system and its relationship to their trading and lending activities. The position is certainly one of confusion to those brought-up under a relatively simple system of English common law and specific statutes, and at least will emphasize the need for qualified local legal advice on all matters affecting securities and remedies.

Apart from written law, their original autochthonous customary law (known as adat law) is still in force for the majority of the Indonesian people. The written laws of the Netherlands Indies have been affected and superceded by the Japanese occupation, the 1945 Constitution and many laws and interpretations of law-making bodies under the Republic. The administration of justice and private law was, and is, heterogenous and the population is divided into three main groups - the Europeans (which interalia includes Japanese and Siamese), Foreign Orientals (sub-divided into Chinese and non-Chinese) and Natives - each with its own private law. The adat law is largely unwritten and is differentiated among 19 law areas with many variations depending upon religious affiliations and methods of family organisation.

The overall picture is one of striking diversity, of many laws which vary according to population groups and religious beliefs. So far as investment in Indonesia is concerned, effective security is difficult or impossible to achieve and financing by means of medium and long term loans is expensive and inefficient. There is simply no effective legal and economic infrastructure appropriate for a developing economy - there is uncertainty in substantive law, inordinate delay in procedural law and an economic nationalism that constrains development.

The new volume is most timely and should be of assistance to many Australians, not only those concerned with business relationships with Indonesia and its citizens but also those who wish to know more about our close neighbour and its social organisation.