

Macquarie Group Services Australia Pty Limited (UK Branch)

A Member of the Macquarie Group

Joint Standing Committee on Foreign Affairs, Defence and Trade
Parliament House
Canberra ACT 2600
AUSTRALIA



Inquiry into Australia's trade and investment relationship with the United Kingdom

Thank you for the opportunity to provide a submission to the above inquiry.

Macquarie Group is a global financial services provider with expertise across advisory and capital markets, trading and hedging, funds management, asset finance, financing, research and retail financial services. The diversity of operations, combined with a strong capital position and robust risk management framework, has contributed to a 47-year record of unbroken profitability.

Macquarie was established as the Australian arm of British merchant bank Hill Samuel in 1969, with an office in Sydney and three employees specialising in corporate advisory services. Macquarie has since grown into a diverse global business and as at 31 December 2016, employed more than 13,600 people in 27 countries. More than 1,400 of these employees work in the Group's European, Middle Eastern and African (EMEA) operations, the vast majority of whom are based in the UK.

Macquarie's UK operations

Australia's trade, investment and cultural links with the United Kingdom are well established and longstanding, underscored by commonalities in systems of law and governance and a shared heritage as members of the Commonwealth.

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Macquarie, and its managed funds, is one of the largest investors in the UK, and consequently it is a significant global investment destination for Macquarie. The Group opened its London office in 1989 and it is the headquarters for Macquarie's EMEA operations. Four out of Macquarie's five operating groups have substantial presences in the UK, with infrastructure, energy including renewable energy, and commodities as sectors of particular focus. The Group's global infrastructure funds management division (Macquarie Infrastructure and Real Assets) and the renewable energy activities of its corporate advisory division (Macquarie Capital) are both led from London.

Macquarie's diverse UK businesses serve a primarily corporate and institutional client base and the Group holds market-leading positions in each of its core businesses, for example:

- The top-ranked UK infrastructure and project finance advisory firm
- UK's largest independent owner of gas and electricity assets
- UK's largest independent provider of smart meters
- The world's leading commodities research team is based in London
- One of the largest financial institutions in the European wholesale gas markets
- #1 in Agricultural & Softs commodities trading markets

Investing and facilitating infrastructure investment in the UK

Since 1999, Macquarie and its managed funds have invested in infrastructure businesses and projects that provide services to people living in the UK. Current investments include airports, energy, utilities, roads and transportation services.

Macquarie and its managed funds are direct investors in infrastructure and facilitators of investment in infrastructure. With regard to the latter, this investment is primarily by UK-domiciled and international institutions such as private and public sector pension funds.

Since 2005 Macquarie Group and Macquarie-managed funds have led over £35 billion of investments into businesses and projects located in the UK.

Like Macquarie, infrastructure investors generally have a long-term investment horizon and this is reflected through Macquarie funds typically having an investment life of 10 to 15 years. In the UK these managed funds are called Macquarie European Infrastructure Funds, of which there are five, with pan-European investment mandates.

There continues to be strong interest by global investors in UK infrastructure. By way of example, Macquarie and its managed funds have been instrumental in bringing more than £10 billion of investment to into the UK over the past six months.

Macquarie's managed funds currently have more than £10 billion of funds for available investment into infrastructure assets around the world, including the UK. The Group anticipates maintaining its commitment to UK infrastructure investment through its access to substantial capital through managed funds, private capital and the Macquarie Group balance sheet.

The UK as a centre of excellence for low-carbon investment

The UK has policies in place that support the transition to a low-carbon economy and this has underpinned the opportunities for investment in renewable energy and clean technology.

As part of its broader commitment to infrastructure, Macquarie has substantial and longstanding expertise in the renewable energy and clean technology sectors. Roles that Macquarie plays in these sectors include fund and project manager, adviser, financier, and participant in environmental markets. Macquarie also actively invests in these sectors alongside clients.

Macquarie, and its managed funds, is one of the world's largest investors in renewable energy having invested or arranged more than £8.5 billion of investment into renewable energy projects since 2010. Much of this capital has been invested in the UK. Some recent examples of Macquarie's contribution to the sector are:

- arranging and investing £1.6 billion in Race Bank, a 573MW wind farm being built off the north Norfolk coast;
- arranging financing for the construction of and co-investing in the Teesside Renewable Energy Plant in the north-east of England, the world's largest new build biomass plant;
- providing equity capital for the 336MW Galloper offshore wind farm near the Suffolk coast;
- leading investment in Offshore Wind Transmission Owner (OFTOs) licences, valued at over £1 billion, which help connect and transmit electricity from offshore wind farms to the UK power grid; and
- acting as financial adviser on the Swansea Bay Tidal Lagoon, the world's first tidal lagoon power plant that harnesses the natural flow of tides to generate consistent renewable power helping UK's decarbonisation goals by meeting 11% of annual Welsh domestic electricity demand.

Macquarie is committed to four key low-carbon energy growth sectors: offshore wind, onshore renewables, waste and bioenergy, and energy efficiency. The Group has identified the UK as a centre of excellence for its global renewable energy business. In doing so, Macquarie is committed to making an investment in growing its team of green energy specialists. Many of these people will be employed in the UK.

Opportunities in the UK's Devolved Administrations

Macquarie sees opportunities to broaden its investment across the UK, including in the Devolved Administrations in Scotland, Wales and Northern Ireland. To that end, the Group is supportive of measures that encourage and facilitate dialogue with the Devolved Administrations, to support its efforts in that regard.

By way of example, we see notable opportunity in Scotland as a future destination for investment. As an investor in Scotland, Macquarie recognises the depth of expertise that exists in its renewable energy and financial services sectors.

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As noted above, the Group is also supporting the development of Swansea Bay Tidal Lagoon in Wales by acting as financial adviser to this project. This is a world-first renewable energy project that, when completed, will harness tidal energy to generate electricity sufficient to power approximately 155,000 homes.

Trade agreements

Macquarie Group believes in the merits of free trade agreements and the importance of including financial services in such agreements. We believe mutual recognition should be a guiding principle underpinning any free trade agreement, to allow for recognition of qualifications and licenses obtained in one country to be recognised in the other. This principle would be of benefit across a range of industries.

Macquarie is also supportive of the role played by Australian governments, the Department of Foreign Affairs and Trade and Austrade. These organisations play an important role in assisting Australian exporters in the UK and elsewhere internationally, and Macquarie has confidence in their ability to represent the interests of Australian exporters as the UK progresses its exit from the European Union.

Macquarie Group does not anticipate any immediate impact to its business consequent to the UK's exit from the European Union and we will continue to have a significant business presence in both the UK and Europe. By way of example, we have invested more than £10 billion in the last seven months, making us one of the largest investors in UK infrastructure post Brexit.

Macquarie continues to monitor the progress of the Brexit negotiations and welcomes any initiatives the Department of Foreign Affairs and Trade may undertake to help Australian businesses in the UK remain informed.

More broadly, we note recent comments by Australia's High Commissioner to the UK about the scope to further build a trade relationship between Australia and the UK that sustains and supports growth for the economies of both countries. We also note the Australian Government's desire to commence negotiations on an Australia – UK free trade agreement at the appropriate time. Macquarie shares the view that there are opportunities to build stronger trade links with the UK and considers there are benefits in greater diversification of Australia's trading relationships.

Thank you once again for the opportunity to comment on the inquiry to examine Australia's trade and investment relationship with the UK.

Yours sincerely

Macquarie Group