



Australian Government

Department of Infrastructure,
Regional Development and Cities

Submission to the Joint Standing Committee on Trade and Investment Growth

Inquiry into Austrade's Role in Attracting Investment in Australia

Opening Remarks

Thank you for inviting the Department of Infrastructure, Regional Development and Cities (the Department) to provide input to the Inquiry into the Australian Trade and Investment Commission's (Austrade) Role in Attracting Investment in Australia (the Inquiry).

In consideration with the Inquiry's terms of reference, the Department has prepared this submission to provide the Committee with information on the importance of investment in infrastructure to the Australian economy.

Why Investment in Australia's Infrastructure Market is Important

The Australian Government is a major funder of the critical transport infrastructure that Australia needs to support economic growth and sustainability in our cities and regions. The delivery of this infrastructure requires active partnerships with state and local governments, private sector investors and construction contractors.

Transport infrastructure connects people to jobs, their homes and their communities, and allows Australian businesses to connect to domestic and global markets. The efficient movement of people and products helps grow the economy and improves the liveability of both cities and regions.

Current investments in infrastructure are already delivering significant economic benefits to the Australian economy. The Australian Government established a 10-year project Pipeline in the 2018-19 Budget, which will invest more than \$75 billion towards transport infrastructure across Australia and it will be of critical importance that opportunities for private sector investment, including foreign investment, are maximised to achieve optimum value for money for this commitment.

It is therefore important that investment opportunities remain clearly visible and are continually promoted to ensure a strong understanding of Australia's infrastructure financing and construction markets, as demand for transport infrastructure increases, associated with population growth, especially in our major cities. Driving competition, and matching appropriate delivery models to major infrastructure projects, is integral to the Government achieving value for money.

The Principles and Goals Underpinning Investment in Major Infrastructure

Government investments in major infrastructure projects are undertaken to support high priority and high quality transport infrastructure. Investments need to represent value for money to the Australian public and improve economic productivity, sustainability, quality of life; and secure urban planning and cities policy outcomes.

In addition to the Australian businesses, which benefit from the financing and construction market associated with the delivery of major infrastructure, there are benefits to other business sectors, which utilise this critical transport infrastructure. These benefits are seen through reduced travel time savings and operating costs for freight movements, as well as business and commuter travel.

Government investment is designed to optimise the impact of public spending on transport infrastructure and projects are selected based on their capacity to meet national priorities and deliver the greatest benefit to the Australian community and economy. Project proposals are assessed against the extent to which they align with integrated transport and land use planning needs, and the extent to which technology solutions are used to optimise the capacity of existing and new infrastructure.

The Government has developed national guidelines for the delivery of infrastructure projects to promote cross-government consistency and the use of best practice approaches. In determining the approach best suited to a project delivery the balance between project cost and the risk against achieving project objectives and outcomes are carefully considered. Optimising private sector engagement in infrastructure and services is a priority, assuring risk to the private sector is appropriately priced and transparent.

The transparent environment of risk, regulation, and evidence-based decisions for Australia's major infrastructure projects, creates an appealing environment to encourage foreign direct investment (FDI) in Australia on the world stage.

Austrade's Role

Austrade is responsible for attracting and facilitating foreign direct investment into Australia, where it targets foreign companies whose plans include overseas expansion or investment, and works with state and territory governments to facilitate investment and encourage re-investment.

The Department's Agreement with Austrade

In August 2012, the Department (then the Department of Infrastructure and Transport) entered into an Agency Partnership Agreement (APA) with Austrade to develop a joint infrastructure investment strategy to promote, attract, facilitate and retain increased FDI. The *Foreign Direct Investment Promotion and Attraction Strategy for Major Australian Infrastructure 2012-2017* (the FDI Strategy) was agreed to at the time of commencement of the APA.

State and territory governments also played an integral role in the APA and FDI Strategy and were consulted throughout the process as required. While the Australian Government plays a key role in funding and delivering major infrastructure projects, and attracting FDI into the Australian infrastructure market, the role of state governments is equally, if not more important. The Australian and state governments together set transport infrastructure priorities, which serve the needs at both a national and state level. The state governments are responsible for the delivery of a significant number of major infrastructure projects, and as such develop their own FDI strategies to attract foreign investment into the market.

The Department and Austrade assist the states by undertaking research, and providing them with information on market intelligence, data and system based tools to assist in preparing more targeted approaches to attracting FDI into their respective markets. The Department also assist the states in ensuring international messaging and information regarding the delivery of major infrastructure is presented in a nationally consistent way.

Responsibilities Underpinning the Department's Agreement with Austrade

Under the APA and the FDI Strategy Austrade's responsibilities were to:

- create national investment attraction and promotion strategies;
- lead / coordinate promotional campaigns offshore;
- identify and profile potential investors; present the business case for investing in Australian infrastructure;
- introduce leads to states and territories;
- provide insight and feedback on barriers to investment;
- maintain an ongoing relationship with the investor in market;
- report on key deliverables; and
- participate in working groups as appropriate.

The responsibility of the Department under the APA and the FDI Strategy was to:

- provide onshore policy coordination;
- provide insight to and feedback on policies, regulatory reforms and impediments;
- generate and provide access to high level industry research, statistics, marketing materials and projects;
- report on key deliverables;
- participate in working groups as appropriate; and
- where-ever possible advise Austrade of Ministerial/Senior Executive travel to tier 1 and 2 markets for possible involvement in post infrastructure focussed activities.

Under the APA and the FDI Strategy the state and territory Investment Promotion Agencies (IPA) and infrastructure organisations responsibilities were to:

- work with Austrade on investment attraction strategies and promotional campaigns;
- contribute industry insight to support investment leads and facilitation services to potential investors;
- work with their relevant lead infrastructure organisation to identify opportunities and present the business case for infrastructure investment in their jurisdiction;
- participate in working groups as appropriate;
- report on key deliverables;
- work with their relevant IPA and the Department (and Austrade where relevant) to provide infrastructure industry insight, research and promotional collateral;
- work with their relevant IPA regarding on site identification and facilitation services to support investment leads; and
- provide insight and updates on regulatory reform and work with IPA's to respond to investor feedback on impediments and barriers.

The Memorandum of Understanding (MoU) built around the APA and FDI Strategy was in effect from 2012 until 2017. The agreement assisted Australia to expand the capability and depth of its infrastructure construction market by bringing in global infrastructure capital and expertise at a time of elevated demand and where projects were increasing in size and technical complexity. The current status of the market suggests that there isn't the same degree of difficulty in attracting a competitive field, given that the infrastructure market is now highly experienced and sufficiently deep. Overall, there does not appear to be a compelling need to establish another formal MoU, considering the principles established in the MoU continue to be followed within the current operational frameworks by which the Department and Austrade operate in relation to FDIs.

Joint Projects Between the Department and Austrade.

The Department works closely with Austrade in developing materials to showcase the benefits of investing in the Australian infrastructure market. These materials are then distributed by Austrade in targeted foreign markets to promote the Government's investments in Australia's infrastructure pipeline, and attract foreign investment into these infrastructure projects. An example of this promotional material can be found in **(Attachment A, Investment opportunities in Australian Infrastructure)**.

In addition to the development of promotional material, Austrade and the Department facilitate the development of interactive tools, which assist international investors in identifying investment opportunities in the Australian Infrastructure market. An example of these tools can be seen in the Australia and New Zealand Infrastructure Pipeline (ANZIP) interactive website: infrastructurepipeline.org.

Closing Remarks

The Department appreciates the opportunity to input towards the issues outlined in the Inquiry's terms of reference, and trusts the submission provides the Committee with an understanding of the relationship between the Department and Austrade, and the role Austrade plays in attracting investment into major infrastructure projects in Australia.



Australian Government
Australian Trade and Investment Commission



INVESTMENT OPPORTUNITIES IN AUSTRALIAN INFRASTRUCTURE

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Port Botany, Sydney, New South Wales.

AUSTRALIA. STABLE. GROWING. PROSPEROUS.

Australia's buoyant economy, growing population and increased trade footprint are driving an unprecedented need for investment in, and better use of, infrastructure.

As an underpinning for economic growth, infrastructure development is a priority for Australian governments. Infrastructure planning and innovative financing play a prominent role in public policy. The Australian Government has committed more than A\$50 billion for current and future investments in public infrastructure, between 2013–14 and 2019–20 onwards.

This is in addition to significant investments by state and territory governments and the private sector. Australia's strong economic credentials, transparent business environment and substantial pipeline of projects provide the ideal conditions for companies to finance, construct, own and operate major infrastructure assets.



WHY AUSTRALIA

Strong economy

Australia offers a powerful combination of solid economic performance, a diversified economy and low-risk environment in which to do business.

Entering 26 years of uninterrupted economic growth and with a AAA sovereign risk profile, Australia is well positioned to continue growing. Despite the fact that it is home to only 0.3 per cent of the world's population, Australia's GDP accounts for 1.7 per cent of the world's economy.¹

Australia's diversified economy means that no single sector contributes more than 10 per cent to the country's real gross value added. In 2014, major infrastructure industries accounted for around 10 per cent of the economy.² Since 1992, the construction sector has been one of the fastest-growing sectors (on average) in the Australian economy, surpassed only by the information media/telecommunications and financial/insurance services sectors.³

'Australia is seen as a global leader in infrastructure, with a strong track record of infrastructure deals and highly knowledgeable participants. It is also perceived as a country with economic stability where it is easy to do business.'

IPA Perpetual, *Australian Infrastructure Investment Report 2015*, October 2015.

Stable and open business environment

Australia's political stability, transparent regulatory system and sound governance frameworks, combined with a highly sophisticated financial sector and ease of doing business, provides business confidence and a stable environment for investment.

Australia's financial sector offers access to one of the Asia-Pacific region's largest pool of bank assets, as well as the world's fourth largest pool of alternative assets under management.⁴ The country is also home to world-leading experts in advisory services, and in structuring public-private partnerships (PPPs) and project finance.

Increasing, urbanised population

Australia's population is expected to grow at 1.3 per cent a year to 2055, resulting in a population of 39.7 million – an increase of 60 per cent.⁵ The composition of the population is also changing. Like many countries, Australia has an increasing number of citizens aged 65 and over, with the number of Australians in this age group projected to more than double by 2055.⁶

Australia is also highly urbanised with 86 per cent of Australians living in cities and towns.⁷ Almost half of the country's 23.7 million people live in Sydney, Melbourne and Brisbane. Populations for the four largest cities – Sydney, Melbourne, Brisbane and Perth – are projected to reach 18.6 million by 2031.⁸

Urbanisation, population growth and the ageing population are placing increasing pressure on social and economic infrastructure. These factors are driving an unprecedented need to build more infrastructure and use existing infrastructure more efficiently. The Australian Bureau of Infrastructure, Transport and Regional Economics (BITRE) estimates the economic cost of congestion in Australian capital cities could be as high as A\$37 billion in 2031.⁹

Robust freight growth

Australia's significant trade growth is directly linked to the country's strong ties with Asia. The region represents 10 of Australia's top 12 export markets. This trend is expected to continue as Asia's appetite for Australian minerals and energy resources continues, and the demand for Australian agriculture, merchandise and services grows.

As a major producer and exporter of bulk commodities and other merchandise, Australia expects road freight to grow by 50 per cent and rail freight to grow by 67 per cent to 2030.¹⁰

Rail-freight growth is driven by continued growth in mineral and agricultural exports, as well as the increased demand for consumer goods driven by population growth.

As an island nation, Australia is particularly dependent on well-functioning seaports and airports to trade with the world.



Sir Leo Hielscher Bridges, Brisbane, Queensland.

AUSTRALIAN INFRASTRUCTURE STATISTICS (BITRE YEARBOOK) FISCAL YEAR 2014–15



10.2 PER CENT

of GDP generated by Australian
infrastructure industries



**210.6 BILLION
TONNE-KILOMETRES**

of freight moved by road



**290.6 BILLION
TONNE-KILOMETRES**

of freight moved by rail



33.9 MILLION PASSENGERS

on international flights in Australia

57.2 MILLION PASSENGERS

on domestic flights



6.9 MILLION TEUs

exchanged at Australia's five principal
container ports



873,573 KILOMETRES

of roads in Australia



33,343 ROUTE-KILOMETRES

of open railway in Australia

1,672 ROUTE-KILOMETRES

of urban railway in Australia



**698 PUBLIC HOSPITALS AND
624 PRIVATE HOSPITALS**

in Australia¹¹



**10.2 MILLION
HOSPITALISATIONS**

in public and private hospitals¹²

Source: BITRE, *Australian Infrastructure Statistics
Yearbook 2015* (except where otherwise noted).

SIGNIFICANT PROJECT PIPELINE

The Australian Government has identified infrastructure development as a priority and plays a leading role in building the country's infrastructure, including road and rail networks.

The Government has committed over A\$50 billion for current and future infrastructure investments for the period 2013–14 to 2019–20 onwards. This investment is combined with contributions from local, state and territory governments, and the private sector.

To support industry engagement on major projects, the Australian Government maintains a publicly accessible list of upcoming public infrastructure works contracts. The National Infrastructure Construction Schedule (NICS) lists public infrastructure projects going to market (including government asset sales) across all levels of government. It provides investors with an accurate, transparent view of current and future opportunities to help them select and plan projects.

Visit nics.gov.au for more information.

Australia New Zealand Infrastructure Pipeline

Australia also represents an ideal base for expansion in the region. To this end, the Australian and New Zealand Governments have supported the creation of a web-based joint infrastructure pipeline to increase the scale and attractiveness to foreign investors and major infrastructure companies of the combined Australia New Zealand infrastructure market.

Infrastructure Partnerships Australia, the peak body for Australia's infrastructure sector, hosts the Australia New Zealand Infrastructure Pipeline (ANZIP). This website presents a forward view of the major greenfield and brownfield infrastructure and investment projects in Australia and New Zealand.

Visit infrastructurepipeline.org.au for more information.

INFRASTRUCTURE AUSTRALIA

Infrastructure Australia – an independent national infrastructure advisory body – was established to provide effective, independent advice to government, and ensure that major projects are exposed to robust and transparent assessment processes. The Australian Government commissioned Infrastructure Australia to undertake evidence-based audits of Australia's infrastructure asset base and develop a plan based on national, state and local infrastructure priorities.

On 17 February 2016, Infrastructure Australia released the Australian Infrastructure Plan (the Plan), a 15-year plan outlining its views on Australia's infrastructure reform priorities. Infrastructure Australia will update the Plan at least every five years. The Plan is accompanied by an infrastructure priority list of potential projects across Australia that will assist in developing a pipeline of infrastructure priorities to inform future government and private sector investment decisions.

The Australian Government released its response to The Plan on 24 November 2016. In doing so, the Government announced a number of new initiatives and reforms; a national freight strategy; the development of urban rail plans in Australia's five largest cities; a study on the potential benefits and impacts of road reform; acceleration of heavy vehicle road reform; using technology and data to optimise existing infrastructure; and accelerating planning and development work.

These new measures will enable better, more informed decision making in future investments and build on the Government's investment in urban rail, freight, roads and airport infrastructure currently being delivered around the country.

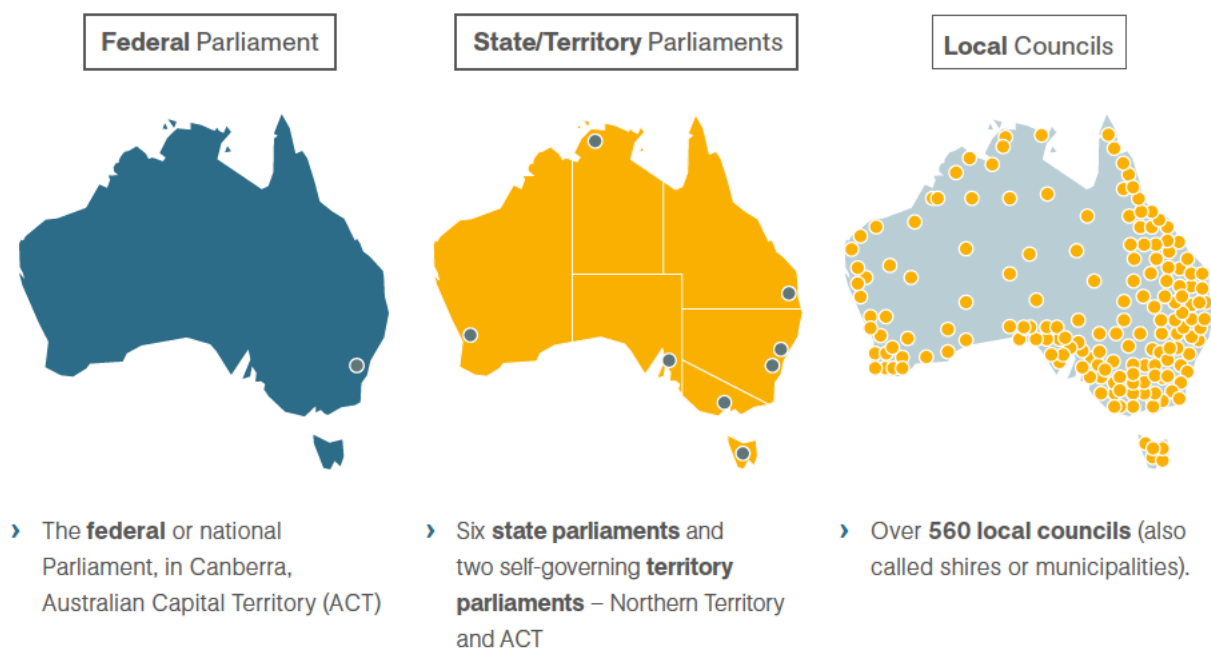
Visit investment.infrastructure.gov.au/funding/projects/infrastructurestatement.aspx for more information on the Government's response to the Plan.

WORKING WITH STATE AND TERRITORY GOVERNMENTS

There are three levels of government in Australia with defined law-making powers: federal, state and territory, and local. All three levels work together to deliver public infrastructure.

The federal government is the main revenue raising government in Australia. State and territory governments, as the land holder, have much of the responsibility for planning and building public infrastructure. As such, most major infrastructure projects are developed in partnership and jointly funded by federal and state governments.

Australia has three levels of government with defined law-making powers:





Webb Bridge, Melbourne, Victoria.

MAJOR AUSTRALIAN GOVERNMENT-FUNDED INFRASTRUCTURE PROJECTS

- › Bruce Highway (QLD): Up to A\$6.7 billion for a 10-year program of works for the Bruce Highway between Brisbane and Cairns targeting safety, flood mitigation and congestion.
- › Pacific Highway (NSW): A\$5.6 billion to complete construction of the dual carriageway.
- › Western Sydney Infrastructure Plan (NSW): A\$2.9 billion for road upgrades and a new motorway to support the development of Western Sydney and provide connections to the Western Sydney Airport site.
- › WestConnex (NSW): A\$1.5 billion to extend and upgrade the M4 and M5 corridor, including the construction of a new tunnel linking the motorways. The Australian Government is also providing a A\$2 billion concessional loan to accelerate delivery of the new M5.
- › NorthConnex (NSW): A\$412 million towards the A\$3 billion project to construct a new tunnel link between the M1 and M2 motorways in Sydney.
- › Toowoomba Second Range Crossing (QLD): Up to A\$1.17 billion to construct a bypass of Toowoomba to improve freight efficiency, safety and productivity in the region.
- › Gateway Upgrade North (QLD): Up to A\$914.2 million to upgrade the motorway's northern section.
- › North South Corridor (SA): A\$1.7 billion to upgrade the Northern Connector, Torrens Road to River Torrens and Darlington sections of Adelaide's North-South Corridor.
- › Gateway WA (WA): A\$676 million to improve the safety and efficiency of one of the state's most important transport hubs, with major works completed in April 2016.
- › Perth Freight Link (WA): A\$1.2 billion to construct a high-quality connection between the Roe Highway and Fremantle Port.
- › NorthLink WA (WA): A\$894 million for a new Swan Valley bypass highway and grade separations at three interchanges on the Tonkin Highway.
- › Northern Sydney Freight Corridor (NSW): A\$840 million to improve freight-train access between Sydney and Newcastle.
- › Moreton Bay Rail Link (QLD): A\$594 million to build a new dual-track passenger rail line.
- › Western Highway (VIC): A\$501.3 million to build a duplication of a section of road.
- › Inland Railway (national): A\$893.7 million for pre-construction works and land acquisition.
- › Transport Infrastructure Package (VIC): A\$1.5 billion to upgrade the Monash Freeway, complete the upgrade of the M80 Ring Road and address urban congestion in Melbourne; standardise freight rail infrastructure across the Murray Basin and upgrade roads across regional Victoria.
- › Midland Highway (TAS): A\$400 million to upgrade and improve safety on the highway.

CONSTRUCTION

Australia's revenue in the construction sector is forecast to grow by an annualised 2.4 per cent, rising to a record A\$414.7 billion over the next five years.¹³

Towards 2020, a significant number of public-sector-funded projects are expected to be brought to market.

The majority of these projects involve transport infrastructure in large cities, creating opportunities for domestic and international companies with experience in complex engineering and construction projects.

Examples of international construction companies active in Australian infrastructure

Acciona

As a member of the Nexus consortium, Spanish conglomerate Acciona was awarded the contract to design, construct, finance and operate the Toowoomba Second Range Crossing project – a 41-kilometre highway in Queensland. Acciona is also a member of the ALTRAC Light Rail consortium, which was awarded the A\$2.1 billion contract to construct, operate and maintain the CBD and South East Light Rail in Sydney, NSW – a 12-kilometre light-rail project expected to be completed in 2018.

Recently, Acciona was shortlisted as a member of the Continuum Victoria consortium to build the A\$6 billion PPP Melbourne Metro Tunnel project. It has also shortlisted to build the tunnel under Sydney Harbour as a part of the Sydney Metro City & Southwest project as a member of the Ferrovial Agroman, Acciona Infrastructure Australia and BAM International joint venture.

Bouygues Construction

France-based Bouygues Construction has partnered with Australian company Lendlease on the A\$3 billion NorthConnex road tunnel project in Sydney. Spanning nine kilometres, NorthConnex is the longest road tunnel project in Australia's history. Recently, Bouygues was shortlisted as a member of the Cross Yarra Partnership consortium to build the A\$6 billion PPP Melbourne Metro Tunnel project, as well as the A\$5.5 billion Western Distributor project in Melbourne with Lendlease.

China Communications Construction Company International (CCCC)

CCCC, the international development subsidiary of the world's fourth largest construction company, China Communications Construction Company (CCCC), entered the Australian market in 2015 by purchasing John Holland, a leading Australian engineering construction company. The acquisition will see John Holland further expand its operations in Australia as a major engineering, procurement and construction (EPC) contractor, and participate in Australian PPP projects across major infrastructure segments.

Recently, John Holland won the A\$324 million early-works package for the Melbourne Metro project. It has been shortlisted as a member of the John Holland, CPB Contractors and Ghella joint venture for tunnelling on the Sydney Metro City & Southwest project. It has also been shortlisted with McConnell Dowell Constructors and UGL Engineering for the A\$587 million Mernda Rail project in Victoria.

Proposed construction project pipeline

Sydney Metro City & Southwest

The NSW Government is planning Stage 2 of its Sydney Metro project, the Sydney Metro City & Southwest rail line. Due to open in 2024, the 30-kilometre rail line will include approximately 12.5 kilometres of twin rail tunnels, as well as an underground Sydney Harbour crossing and CBD rapid transit line.

Western Harbour Tunnel

The NSW Government has proposed a second north–south road tunnel for Sydney Harbour. The Western Harbour Tunnel will give road users a new route from the Inner West to employment hubs in the north and northwest of Sydney.

Melbourne Metro Rail

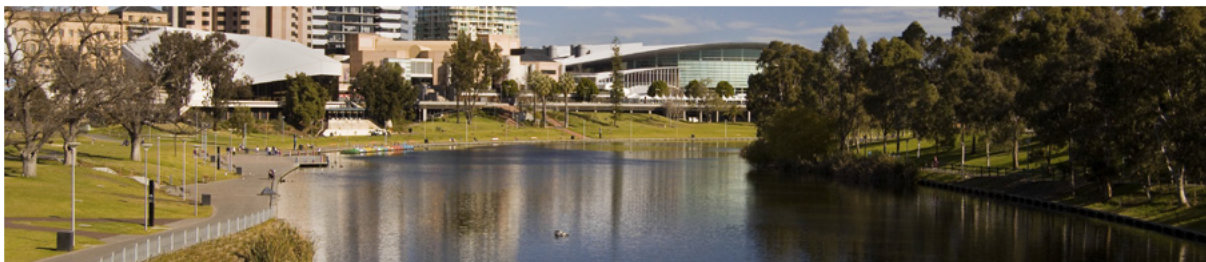
The Victorian Government announced plans to build the Melbourne Metro Rail project, which will include two nine-kilometre rail tunnels and underground stations across Melbourne's CBD.

Canberra University Hospital

The ACT Government plans to build a 140-bed sub-acute hospital on the campus of the University of Canberra. The facility will provide a range of rehabilitation services, treat various mental health conditions and provide targeted care for ageing Canberra residents.



Sydney Harbour Bridge at sunset,
Sydney, New South Wales.



Adelaide cityscape, Adelaide, South Australia.

PUBLIC–PRIVATE PARTNERSHIPS

The private sector has played a critical role in the development, construction and financing of Australian infrastructure. Australian governments have a long history of embracing the PPP model, recognising the benefits private-sector participation provides, including innovation, operational efficiencies and alleviating pressure on public financing.

Since the late 1980s, Australian governments have used PPPs to deliver social infrastructure projects such as hospitals and schools packages, as well as upgrades to major economic infrastructure such as road and rail networks.

Examples of recent public–private partnerships

Project	Terms	Procuring state government	Industry	Value (A\$m)	Consortium members included
Sydney Metro Northwest Eight new railway stations, 4,000 commuter car parking spaces, new metro trains, and upgrading the railway lines between Chatswood and Epping	20 years: operations, trains and systems	New South Wales	Transport	3,700	Northwest Rapid Transit consortium: MTR Corporation (Australia), John Holland, Leighton Contractors, UGL Rail Services, Plenary Group
Canberra Light Rail A 12-km light-rail route between Gungahlin and the CBD, including 13 stations	20 years: design, construct, operate, finance and maintain	Australian Capital Territory	Transport	698	Canberra Metro consortium: Deutsche Bahn, Pacific Partnership, CPB Contractors, John Holland, Mitsubishi Corporation, Aberdeen, CAF

Project	Terms	Procuring state government	Industry	Value (A\$m)	Consortium members included
Victorian Comprehensive Cancer Centre Specialist cancer treatment hospital, oncology R&D, education and training	25 years: design, construct, finance and maintain	Victoria	Health	1,000	Plenary Group, Grocon, PCL, Honeywell, UniSuper, Partners Group
Education Works Six new schools in Adelaide	30 years: design, build, operate, finance and maintain	South Australia	Education	178	Capella Capital, Hansen Yuncken, Commonwealth Bank, Spotless Group
Gold Coast Light Rail (Stage 1 and Stage 2) Stage 1: 13-km light-rail public transport system Stage 2: 7.3-km light-rail public transport system	15 years: design, build, finance, operate and maintain	Queensland	Transport	Stage 1: 1,296 Stage 2: 420	GoldLinQ consortium: McDonnell Dowell Constructors, Bombardier Transportation, KDR Gold Coast Pty Ltd (Keolis and Downer EDI), Plenary Group
New Royal Adelaide Hospital Public teaching hospital with 800 beds and 40 operating theatres	35 years: design, build, operate and finance	South Australia	Health	1,850	Hansen Yuncken, CPB Contractors, Macquarie Capital, InfraRed, Spotless Group, John Laing Investments, Lloyds Bank
Toowoomba Second Range Crossing A 41-km bypass route that takes heavy vehicle highway traffic around the north of Toowoomba	25 years: design, construct, operate and maintain	Queensland	Transport	1,600	Nexus Infrastructure consortium: Plenary Group, Cintra, Acciona Concessions, Acciona Infrastructure, Ferrovial Agroman, Broadspectrum
ACT Law Courts New law courts to accommodate the ACT Court of Appeal, Supreme Court, Magistrates Court and Childrens Court	25 years: design, construct, finance and maintain	Australian Capital Territory	Social	150	Juris partnership: Laing O'Rourke, Macquarie Capital, Programmed Facility Management, Lyons Architects



Rail crossing, Western Australia.

FINANCING AND INVESTMENT

Innovative financing approaches are having a greater role in Australian infrastructure development and the PPP model, encouraging private sector investment and ensuring Australian taxpayer dollars are efficiently used.

Australian governments have used multiple funding mechanisms to finance infrastructure development including asset sales, debt, PPPs, federal grants, value capture and concessional loans.

Investment asset class

Australia's US\$1.6 trillion pool of funds under management is the sixth largest in the world and the largest in Asia.¹⁴ Australian superannuation funds (pension funds) have been active investors in infrastructure for almost 20 years and have developed strong expertise and knowledge of the sector. Many of these funds are attracted to the long-term and stable cash flows inherent in infrastructure assets through their inelastic-demand properties.

The Industry Super Network, an industry association representing Australian superannuation funds with around A\$150 billion in assets, has recorded 12 per cent annual returns over the past 18 years from its unlisted infrastructure investments – higher than most other asset classes.¹⁵

Many superannuation funds with long-term investment horizons now classify and measure infrastructure as a separate asset class, appreciating the unique qualities and diversification it provides in the asset-allocation decision.

Infrastructure financing expertise

Small investment managers or those without experience in infrastructure investments can use the skills of local fund managers to participate in Australia's infrastructure market. Larger funds with established skills and dedicated infrastructure investment teams can partner with Australian superannuation funds or investment managers in consortia. Australian fund managers are also active in offshore infrastructure deals. This creates opportunities for Australian and international firms to form strategic investment partnerships in Australia, their home jurisdiction, and third markets of mutual interest.

Secondary trade market

Participants in the Australian infrastructure market are not limited to primary asset sales or greenfield builds. The country's stock of privately owned infrastructure assets provides a strong secondary market for buyers and sellers. Examples of secondary market transactions include:

- ▶ Global Infrastructure Partners sold its unlisted equity in the Port of Brisbane to Caisse de dépôt et placement du Québec after three years of ownership.
- ▶ UK pension fund Universities Superannuation Scheme purchased Airtrain Holdings, which held the concession for the Brisbane Airport rail link.
- ▶ State Grid Corporation of China purchased 19.9 per cent equity from Singapore Power in the listed energy infrastructure assets of SP AusNet.

EXAMPLES OF INTERNATIONAL COMPANIES ACTIVE IN AUSTRALIAN INFRASTRUCTURE FINANCING

Abu Dhabi Investment Authority

Abu Dhabi Investment Authority was a member of the consortia awarded a 99-year lease of the state-owned electricity transmission network Transgrid in NSW. Abu Dhabi Investment Authority also holds shares in the Port of Brisbane in Queensland, and Port Botany and Port Kembla in NSW.

Canada Pension Plan Investment Board

Canada Pension Plan Investment Board has Australian investments including the A\$3.4 billion acquisition of toll road operator Intoll and a A\$525 million (25 per cent) stake in Sydney's NorthConnex Motorway.

Caisse de dépôt et placement du Québec

Caisse de dépôt et placement du Québec (CDPQ) is a member of the consortia awarded the 99-year lease of Transgrid, the NSW Government-owned electricity transmission network. CDPQ also holds interests in the Port of Brisbane.

China Merchants Group

China Merchants Group jointly invested A\$1.45 billion with Australia-based Hastings Fund Management in a 98-year lease of the Port of Newcastle.

Ontario Teachers' Pension Plan

Canadian pension fund Ontario Teachers' Pension Plan, in consortia with Australia-based Hastings Fund Management, successfully bid for the 50-year lease of the Sydney Desalination Plant.

Wren House Infrastructure (Kuwait Investment Authority)

Wren House Infrastructure is a member of the consortia awarded a 99-year lease of Transgrid, the NSW Government-owned electricity transmission network.

EXAMPLES OF MAJOR INVESTORS IN INFRASTRUCTURE

General partners

- › AMP Capital
- › Capella Capital
- › CIMIC (Pacific Partnerships)
- › Colonial First State
- › CP2
- › Hastings Funds Management
- › IFM Investors
- › Macquarie Group

- › Palisade Investment Partners
- › Plenary Group
- › Queensland Investment Corporation
- › Transurban Group

Limited partners

- › AustralianSuper
- › Future Fund

- › HESTA
- › MTAA Super Fund
- › QSuper
- › Retail Employees Super Trust
- › UniSuper
- › Victorian Funds Management Corporation

OPERATORS

State governments are turning to the private sector for assistance in operating and managing state-owned assets. There is an opportunity for investment in these assets to ensure their ongoing productivity.

Examples of operators' foreign investment

MTR Corporation

Hong Kong's MTR Corporation, a leading multinational railway company, is a member of the winning consortium constructing and operating the Sydney Metro North West project on a 15-year PPP contract. The A\$3.7 billion contract will see the consortium deliver the North West Rail Link by mid-2019. MTR Corporation is also a member of Metro Trains Melbourne, a consortium of rail and construction businesses operating Melbourne's metropolitan train network.

Keolis

French transport conglomerate Keolis is a 51 per cent shareholder in KDR Victoria – the private company that has operated Melbourne's tram network (under the trading name Yarra Trams) since 2009. In 2015, Keolis acquired Australian Transit Enterprise, one of Australia's leading bus operators with operations in South Australia, Western Australia and Queensland. Keolis is also a member of the GoldLinQ consortium, which in 2011 won the 15-year PPP contract to design, build, finance, operate and maintain the Gold Coast Light Rail system.

Veolia Environnement

French transnational company Veolia Environnement provides an array of solutions related to water, energy and materials – with a focus on waste recovery – to promote Australia's transition toward a 'circular economy'. In partnership with John Holland, Veolia Environnement designed and built the Sydney Desalination Plant in 2010 and is now operating and maintaining the plant under a long-term contract. The company also retains a significant stake in Transdev Australasia – a joint partner in Harbour City Ferries. In July 2012, the NSW Government awarded Harbour City Ferries a franchise contract to operate the services of Sydney Ferries.



Melbourne tram in Victoria Australia.



Sydney office buildings, aerial view.

SMART CITIES

On 29 April 2016, the Australian Government launched its Smart Cities Plan, which sets out a national vision to enhance cities through smart policy, investment and technologies.

The Smart Cities Plan is focused on better coordinating the various policy, investment and regulatory levers held across governments, to address the needs of cities.

City Deals

City Deals are the primary tools for delivering the Smart Cities Plan. City Deals are a new approach to coordinating investment, planning and reform across the three levels of government in partnership with business and communities. They are developed in collaboration with communities and other stakeholders, addressing local challenges while capitalising on local advantages. As at September 2016, three inaugural City Deals have been announced for Townsville, Launceston and Western Sydney.

Through City Deals, governments, industries and communities will develop collective plans for growth and commit to the actions, investments, reforms and governance needed to implement them.

Visit dpmc.gov.au/cities for more information.

Smart Cities and Suburbs Program

As part of the Smart Cities Plan, the Australian Government is establishing a competitive A\$50 million Smart Cities and Suburbs Program. The Program will support local governments to fast-track innovative technology solutions that improve longstanding urban problems.

The Program seeks to increase the efficiency and effectiveness of urban service delivery, infrastructure and planning to improve the livability of cities and their suburbs.

The Australian Government expects a wide variety of cutting-edge projects to be supported under the Program, such as collaborative design of solutions to complex urban problems, pilots of emerging technologies, the implementation of technologies at scale, and business case development.

The most valuable projects will involve collaborations between multiple councils and technology industry partners that link closely with future plans for the area.

OPPORTUNITIES

With a fast-growing population and freight movements expected to double over the next 20 years¹⁶, there are many opportunities for international investors, construction and engineering companies, and operators. Australia is making significant investments in transport, utilities and social infrastructure.

Roads

Australia's road network is 873,573 route-kilometres in length as of 2015, with 145,929 kilometres of urban roads and 727,645 kilometres of non-urban roads. In 2013–14, 210.6 billion tonne-kilometres of freight was carried on roads. Domestic road passenger movements within Australia was 420.1 billion passenger kilometres.¹⁷

Rail

Australia is investing in rail freight infrastructure to increase the volume of freight that can be transported by trains and ensure rail freight continues to provide a competitive alternative to road transport. The Australian Government is progressing planning for the A\$10 billion Melbourne-to-Brisbane inland rail project, committing an additional A\$593.7 million for continued preconstruction works and land acquisition in the 2016–17 Budget, bringing the total Australian Government commitment to A\$893.7 million. While preconstruction activities continue, the Australian Government will test the market to examine ways to optimise private-sector involvement in delivering inland rail. This is expected to occur in late 2016 and early 2017.

Seaports

Australia's island status and liberalised trade policies offer tremendous potential for future growth in port freight. The weight of international sea freight to and from Australia has increased by 112 per cent over the past 10 years, growing by 7.8 per cent per annum.¹⁸

Airports

Australia is the world's 14th largest aviation market based on passengers transported.¹⁹ Total passenger movements have almost doubled in the past 15 years, growing by 4.3 per cent a year. In 2015, annual passenger movements totalled over 149 million.²⁰

All of Australia's capital city airports are operated by private companies holding long-term leases from the Australian Government. These airports prepare a Master Plan every five years, setting out their major development plans for the upcoming 20-year term.

In April 2014, the Australian Government announced that Commonwealth-owned land at Badgerys Creek will be the site of an airport for Western Sydney. In the 2015–16 Budget, the federal government committed A\$115 million to fund planning and preparation work for the Western Sydney Airport project. The commitment includes A\$26 million to develop a concept design for rail access through the airport site and A\$89 million to undertake critical site-preparation activities. This funding will allow for a range of preparatory activities to support an airport commencing operations in the mid-2020s. The owners of Sydney (Kingsford Smith) Airport have the right of first refusal over the opportunity to develop and operate a Western Sydney airport. A formal offer for the airport development opportunity could be made in late 2016. The project is expected to create significant direct and indirect economic benefits, along with potential opportunities for the private sector, during construction and the ongoing operation of the proposed airport.



Sydney Airport, New South Wales.

Opportunities exist for private financiers to invest in Australian airports, including existing federal government–leased airports and existing private airports. As state and local governments examine the possibility of privatising regional airports, or seek private investment to upgrade regional airports, further opportunities may become available.

Energy

Australia's demand for energy is expected to increase due to economic and population growth, creating opportunities for future construction projects. There are 18 electricity generation projects worth A\$5.5 billion at the committed stage.²¹

Water

As the world's driest inhabited continent, water security and management is a major priority for Australia. This has led to a number of major water infrastructure projects in recent years, including desalination plants in Adelaide, the Gold Coast, Melbourne, Perth and Sydney. Significant capital expenditure is required to renew ageing assets and expand the desalination plant network in line with population growth.

Social infrastructure

Like many countries, Australia's population is ageing. The number of Australians aged 65 and over is projected to more than double by 2055, with one in 1,000 people projected to be aged over 100. In 1975, this was one in 10,000. This rate is projected to accelerate in coming years and grow at a faster rate than the broader population.²²

Australia's ageing population will require federal, state and territory governments to spend an increasing proportion of their income on health and aged care facilities. Governments will be looking to the private sector to help bridge funding gaps.

In addition, Australia's fast-growing general population requires the construction of additional schools, defence, justice and other social infrastructure.

PPPs are common for these types of projects due to the availability and attractiveness of payment structures. Recent PPP projects include the New Royal Adelaide Hospital in South Australia, Ravenhall Prison in Victoria, the Victorian Comprehensive Cancer Centre and the Queensland Schools Project.



Rail crossing, Western Australia.

NORTHERN AUSTRALIA

Northern Australia covers three million square kilometres spanning all of the Northern Territory, and north of the Tropic of Capricorn in Queensland and Western Australia.

This relatively untouched region is rich with culture, biodiversity, unique landscapes, abundant natural resources, significant food production and agricultural activity, and iconic tourist destinations.

The private sector has made significant investments in economic and social infrastructure in recent years related to resources and energy projects. Demand is also growing for more and better infrastructure to enable agricultural, resources, energy and tourism development. The Australian Government announced a number of programs to drive this investment in its 2015 White Paper on Developing Northern Australia. Visit northernaustralia.gov.au for more information.

Northern Australia Roads Program

The Australian Government has committed A\$600 million for priority road projects in northern Australia. The objective of the Northern Australia Roads Program (the Program) is to fund high-priority projects in northern Australia essential to the movement of people and freight to support the north's economic development.

Key roads to be upgraded include the Hann, Barkly, Flinders, Peak Downs, Landsborough and Capricorn highways in Queensland; the Great Northern Highway, Cape Leveque Road and Marble Bar Road in Western Australia; and the Outback Way, the Keep River Road and the Buntine and Arnhem highways in the Northern Territory.

Northern Australia Beef Roads Program

The A\$100 million Northern Australia Beef Roads Program is aimed at improving the resilience, efficiency and productivity of cattle supply chains in northern Australia by upgrading key roads necessary for transporting cattle.

In 2016, the Australian Government announced projects to be funded under the Program. Roads to be upgraded include the Capricorn Highway and Burke Developmental Road in Queensland, the Great Northern Highway in Western Australia, and the Tablelands Highway in the Northern Territory.

Northern Australia Infrastructure Facility

The Northern Australia Infrastructure Facility (NAIF) aims to promote economic and population growth in northern Australia by constructing new economic infrastructure or by materially enhancing existing economic infrastructure.

NAIF will offer up to A\$5 billion in concessional finance to encourage and complement private- and public-sector investment in economic infrastructure (such as airports, ports, rail, energy, water, transmission lines, pipelines and communications technology) that otherwise would not be built, or would not be built for some time.

NAIF is designed to complement private capital and address financing gaps, such as providing longer-tenor finance, to enable projects to become financially viable.

Visit industry.gov.au/industry/Northern-Australia-Infrastructure-Facility/Pages/default.aspx for more information.

GOVERNMENT DEPARTMENTS

Department of Infrastructure and Regional Development

The Department of Infrastructure and Regional Development is responsible for designing and implementing the Australian Government's infrastructure, transport and regional development policies and programs. The department works to:

- › promote, evaluate, plan and invest in infrastructure and regional development
- › foster an efficient, sustainable, competitive, safe and secure transport system
- › facilitate local partnerships between all levels of government and local communities
- › provide good governance in Australian territories.

For more information visit infrastructure.gov.au.

Infrastructure Australia

Infrastructure Australia is an independent statutory body that provides independent research and advice to all levels of government, as well as to investors and owners of infrastructure, on the projects and reforms Australia needs to fill the infrastructure gap.

State and territory governments

- › Australian Capital Territory Government
business.act.gov.au
- › New South Wales Government
industry.nsw.gov.au
- › Northern Territory Government
investnt.com.au
- › Queensland Government
business.qld.gov.au/invest
- › Government of South Australia
invest.sa.gov.au
- › Tasmanian Government
investtasmania.com.au
- › Victorian Government
invest.vic.gov.au
- › Government of Western Australia
dsd.wa.gov.au/invest-in-wa



Parliament House grounds, Canberra, ACT.

FOREIGN INVESTMENT REVIEW BOARD

The Australian Government, through the Foreign Investment Review Board (FIRB), reviews foreign investment proposals above certain thresholds on a case-by-case basis to ensure they are not contrary to the national interest.

The Treasurer is responsible for approving investment applications. The Treasurer can either approve a proposal, approve it with conditions, or reject it as being contrary to the national interest. Rejections are rare and in instances of large and complex transactions, the FIRB will work with investors to navigate sensitive issues.

Who must apply?

In general, proposals to acquire an interest of 20 per cent or more in any business valued at over A\$252 million (or a higher threshold of A\$1,094 million for agreement country investors from Chile, China, Japan, Korea, New Zealand and the US) require prior approval. All foreign government investors require approval to acquire a direct interest in an Australian entity or business, regardless of the value of the investment.

The 'national interest' test

The Treasurer is responsible for deciding whether a particular investment is 'contrary to the national interest'. While not defined by legislation, Australia's foreign investment policy document (available at **firb.gov.au**) sets out matters that will be taken into consideration in assessing an application. These include:

- › national security
- › competition
- › other Australian government policies
- › impact on the economy and the community
- › character of the investor.

Applications

Potential investors must lodge an application in advance of any reviewable transaction. Applications can be lodged electronically on the FIRB website at **firb.gov.au**. The FIRB website has a range of information materials including guidance notes and factsheets to help investors understand the FIRB system.

Investors are encouraged to engage with FIRB as early as possible prior to lodging an application on significant proposals to allow for timely consideration and to work through any complex issues. The Treasurer has 30 days to consider an application and make a decision, and an applicant will be informed of the decision within 10 days of it being made. A fee is payable for all applications. See **firb.gov.au** for details on fees for different proposal types.

HOW AUSTRADE CAN HELP

The Australian Trade and Investment Commission – Austrade – contributes to Australia's economic prosperity by helping Australian businesses, education institutions, tourism operators, governments and citizens as they:

- › develop international markets
- › win productive foreign direct investment
- › promote international education
- › strengthen Australia's tourism industry
- › seek consular and passport services.

What we provide

Working in partnership with Australian Commonwealth agencies, and state and territory governments, Austrade provides international investors with the information needed to establish or expand a business in Australia.

Services for international investors include:

- › initial coordination of investment enquiries and assistance
- › information on the Australian business and regulatory environment
- › market intelligence and investment opportunities
- › identifying suitable investment locations and partners in Australia
- › advice on Australian government programs and approval processes.

Accessing Austrade's investment services

Austrade's investment services are free of charge and are focused on productive foreign direct investment outcomes of strategic importance to the Australian economy, to build capability and enhance productivity.

austrade.gov.au/invest
info@austrade.gov.au

Endnotes

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austrade.gov.au



Australian Government
Australian Trade and Investment Commission

