

Investment in Australian Infrastructure



Australian Government

Department of Infrastructure and Transport

Australian Trade Commission

The Australian economy is growing strongly, which, together with sustained population growth, has created burgeoning demand for new and renewed transport, energy, water and other infrastructure.



About this publication

The Australian economy is growing strongly, which, together with sustained population growth, has created burgeoning demand for new and renewed transport, energy, water and other infrastructure.

Australia as a nation, and through its various levels of government, welcomes foreign investment and is looking to overseas firms to help finance, develop and reap the rewards from a substantial pipeline of infrastructure projects over the next decade.

This publication aims to provide those with an interest in exploring these opportunities to enter the Australian infrastructure market with information, analysis and contacts that will serve as a starting point for your investigation.

September 2012

Front cover: Construction site silhouette with multiple cranes at sunset

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Australia's infrastructure construction market has experienced unprecedented growth over the last ten years. This has been driven by the resources and mining boom, economic stimulus spending by the Australian Government and reconstruction work associated with devastating floods in Australia's eastern states in 2010 and 2011.

Key business forecasters predict this growth in infrastructure construction and other private infrastructure financing opportunities will continue. Underpinned by the next phase of the resources boom (stimulating strong demand for supporting infrastructure), sustained population growth, continued urbanisation, rapid growth in freight and passenger transport demand and the need for energy and water security, Australia's high demand for new and upgraded infrastructure remains strong.

According to Business Monitor International (BMI):

Australia remains, in BMI's opinion, one of our favourite long-term markets among developed states, offering an attractive combination of vast growth potential (stemming from the infrastructure sector) and low risks in the operating environment. A key factor underpinning its attractive operating market is the strong platform it provides for Public Private Partnerships (PPP). Australia has one of the world's most mature PPP markets and over the last two decades has pioneered the delivery of complex PPP projects, developing a model that other countries, notably Canada, have sought to emulate.

Source: Business Monitor International (BMI), *Australia Infrastructure Report*, February 2012.

The high demand and continued growth of infrastructure needs in Australia creates opportunities for overseas companies in the areas of:

- financing the country's burgeoning infrastructure requirements
- increasing the level of competition in the construction sector
- tapping into new technologies, skills and innovations that will help drive productivity in the Australian economy
- assisting in meeting emerging skill shortages generated by resource sector demands.

It's a win-win proposition... International firms get to participate in a strong and commercially attractive economy and Australia secures broader access to cutting edge design and technology, significant expertise in construction and operation of infrastructure assets as well as additional capacity to finance critical infrastructure projects.



Panoramic view of Southbank Bridge, Melbourne, Australia.

Australia—an attractive place to invest

Australia ticks all the boxes when it comes to being an attractive location for international private sector investors, contractors and other infrastructure players.

- ✓ a strong, growing and resilient economy
- ✓ one of the most politically stable countries in the world
- ✓ a highly skilled and multilingual working population
- ✓ part of the fast growing Asian region

Australia is an island continent, close in land size to the USA but with a population of around 23 million people. Despite its relatively small population size, Australia's economy is the 13th largest in the world.

Australia's population is projected to increase to 36 million by 2050—an increase of more than 60 per cent.

Source: Commonwealth of Australia, *2010 Intergenerational Report*

Australia has maintained a policy of market openness with full integration of its markets to international competition. This has delivered significant benefits, as two-thirds of Australia's trade is with Asia-Pacific Economic Cooperation economies, with rapidly growing Asian markets in China and South Korea, as well as with India. Australia also pursues bilateral free trade agreements with key trading partners.

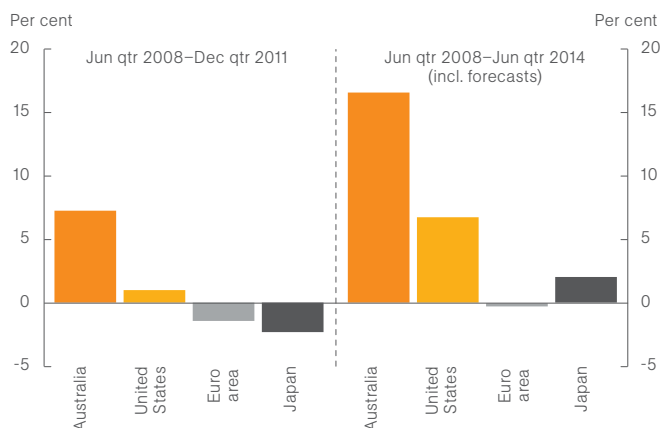
Opposite: Sydney City and Harbour Bridge.

General economic conditions

Australia's economy continues to perform solidly, building upon 21 years of growth.

Gross Domestic Product (GDP) growth is forecast to be 3.25 per cent in 2012–13 and three per cent in 2013–14, with the economy expected to outperform every major advanced economy over this period (Figure 1).

Figure 1: Real GDP growth



Source: Australian Government, Budget Paper No. 1: Budget Strategy and Outlook 2012–13.

Australia's economic performance since the global financial crisis has been 'enviable', according to the International Monetary Fund's (IMF) latest annual assessment:

'...it [Australia] was one of the few advanced economies to avoid falling into recession—a reflection of its strong position at the start of the crisis, a supportive macro policy response, a healthy banking system, and a flexible exchange rate, as well as robust demand from Asia'.¹

Safe, secure and easy to do business

Australia is a safe and secure destination for investment. The country's political and regulatory environment is democratic, stable, open and progressive—providing investors with a high degree of confidence and certainty.

According to the World Economic Forum, among Australia's most notable advantages are its efficient financial system (ranked 6th in the world), supported by a banking sector that counts among the most stable and sound in the world (currently ranked 4th).²

Highly educated and skilled infrastructure workforce

The Australian population is also among the most educated in the world. In the annual ranking of world universities, Australia has five universities ranked in the top 100 for Engineering/Technology and Computer Sciences.³ It is also a culturally diverse nation, making it easy to find skilled, multilingual staff. Almost 1.3 million Australians speak a European language at home and an additional 2.1 million speak an Asian language at home.

More than 320,000 foreign students are currently studying in Australia, primarily from China, Singapore, Malaysia and India, helping to build strong business and cultural ties.

Part of the fast-growing Asian region

Australia is primed for multinational business, thanks to strong trade relationships with Asia, Europe and the Americas, its location within the high-growth Asia-Pacific region, and its unique time zone advantage. China, Japan, South Korea and India are Australia's largest export markets and more than 40,000 Australian companies are currently exporting to Asia.

For investors from the Americas and Europe, Australia offers a low-risk, relatively high-growth destination that has familiar cultural and institutional frameworks to use as a platform to enter the high-growth Asia-Pacific region.

As one of Australia's largest, and now one of the world's, major infrastructure contracting organisations, Leighton Holdings recently expressed this unique advantage in the following terms:

"This is the Asian Century, with growth forecast for the foreseeable future from economic development and urbanisation. Leighton operates in more than 25 countries within this region. It is in the right place, at the right time and with the right skills to harness the benefits."

Mr Hamish Tyrwhitt, CEO
Leighton Holdings
22 May 2012

1. IMF, 7 October 2011, www.imf.org

2. World Economic Forum, *The Global Competitiveness Report 2011–12*.

3. ShanghaiRanking Consultancy, *Academic Ranking of World Universities 2011*.

Australia's infrastructure market

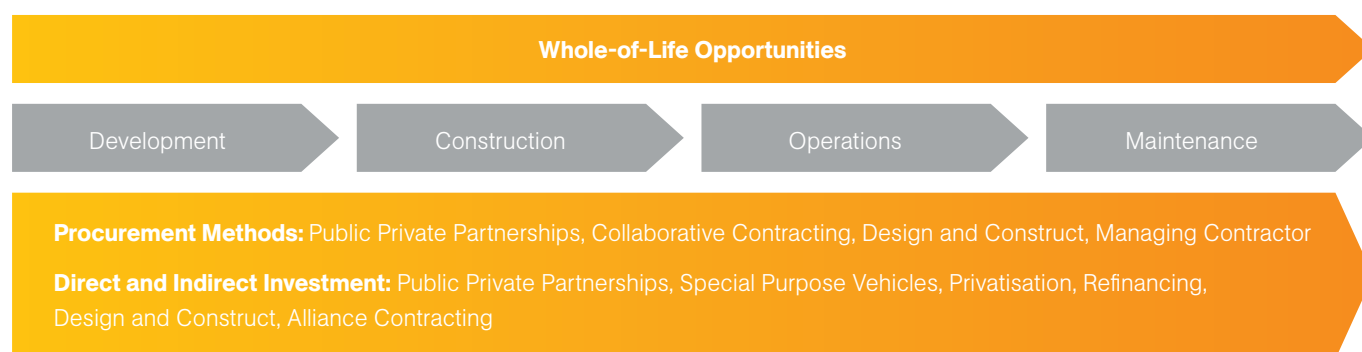
The Australian Government is seeking private investment and construction capability from overseas firms to help finance and develop infrastructure over the next decade. Opportunities exist to apply state-of-the-art technologies and construction expertise to new projects as well as upgrades of existing infrastructure, and to invest at all stages of the asset life.

Diagram 1 illustrates the multiple points at which entry to the Australian infrastructure market can occur—from start-up through to a later stage in the asset life. There are also many different forms of procurement for infrastructure projects, and direct and indirect options for the private sector to finance infrastructure. Australia is a relatively sophisticated market and there is a growing trend toward more integrated and whole-of-life transactions.



Aerial view of Sydney, Australia.

Diagram 1: Construction and financing opportunities framework



Construction

Engineering construction activity (all construction activity other than construction of houses and buildings) in Australia was valued at around AUD \$85 billion in 2010–11 and is expected to increase by 21 per cent to reach AUD \$108.5 billion in 2011–12.

Historically, engineering construction activity in Australia was predominantly funded by the public sector. However, a strong, consistent increase in the private sector funded share since the mid-1990s, and especially in the last six years, has seen work funded by the private sector surpass work funded by the public sector. While the global financial crisis saw some rebalancing of private/public funding, private funded work is still expected to exceed its public sector counterpart for the foreseeable future.⁴

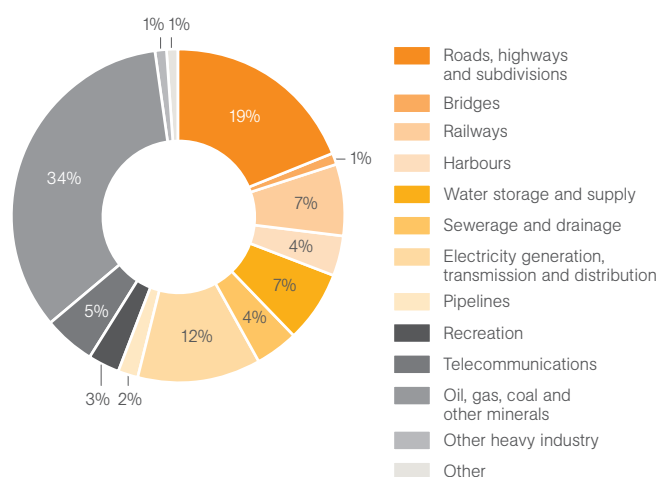
In 2010–11, work done for the public sector (by its own labour force or on a private contract basis) accounted for 36 per cent of the value of engineering construction work undertaken. Private sector expenditure contributed the other 64 per cent.

The Australian Bureau of Statistics (ABS) data divides engineering construction into 12 categories: roads, highways and subdivisions; bridges; railways; harbours; water storage and supply; sewerage and drainage; electricity generation, transmission and distribution; pipelines; recreation; telecommunications; oil, gas, coal and other minerals; and other heavy industry.

4. BIS Shrapnel, *Engineering Construction in Australia 2011/12 – 2025/26*, www.bis.com.au



Figure 2: Engineering construction work, Australia 2010–11, percentage of total value of work done by category



Source: Engineering Construction Activity Australia (ABS cat. No.8762.0), December Quarter 2011, Original series.

As Figure 2 (above) illustrates, the largest expenditure category is 'Oil, gas, coal and other minerals', which accounted for around 34 per cent of the total value of engineering construction work done in 2010–11. 'Roads, highways and subdivisions' contributed around 19 per cent of total engineering construction. 'Electricity generation, transmission and distribution' was the next largest category, accounting for 12 per cent of activity.

In 2010–11, the largest proportion of public expenditure was on roads, highways and subdivisions (35 per cent), followed by electricity (21 per cent) and railways (14 per cent). Private sector funded work is concentrated in the 'oil, gas, coal and other minerals' category, with work done valued at around AUD \$29 billion in 2010–11, representing over 50 per cent of total private sector expenditure. Construction of roads, highways and subdivisions was worth around AUD \$5 billion in 2010–11, representing approximately nine per cent of total private expenditure.

According to recent reports from two Australian construction industry leaders—Leighton Holdings and Lend Lease—the outlook for the engineering construction market in Australia is strong. At their May 2012 Annual General Meeting, Chairman of Leighton Holdings Mr Stephen Johns said:

Work in hand at 31 March 2012 was around \$45 billion, with a further \$11.5 billion of work that extends beyond five years. We are currently tendering for around \$30 billion worth of work, which demonstrates the strength of the markets we operate in.⁵

Total transport engineering construction (roads, bridges, railways and harbours) in Australia has been growing steadily for the last decade—at around 10.8 per cent per annum (Figure 3). Business Monitor International forecasts average annual growth of around six per cent a year between 2012 and 2016 in the Australian transport infrastructure industry.

This is being driven by two factors: Chinese demand for Australian resources and the demand for passenger transport services. The former has led to increased investment in ports and freight railways in Western Australia, Queensland and New South Wales. A number of ports are adding or expanding coal terminals in an attempt to cater for the demand from China, which is anticipated to continue over the medium to long term. New mines are also being connected to ports via freight railways.⁶

The Australian Government, a significant funder of transport infrastructure, also expects transport construction growth to continue in future, with mounting demand pressures, particularly in Australian cities.

By 2030 there is expected to be:

- a doubling of Australia's freight transport movements
- 2.5 times the number of container movements through our ports than in 2007
- a tripling of international passenger movements through our capital cities
- a one-third increase in the number of public transport passenger journeys.⁷

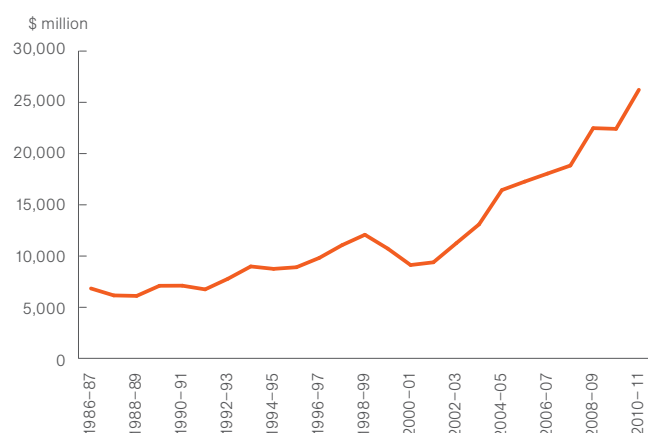
Opposite: West Gate Bridge in Melbourne, Australia.

5. Leighton Holdings operates across the Australia-Pacific, Asia, India, the Middle East and Africa.

6. Business Monitor International (BMI), *Australia Infrastructure Report*, 2012.

7. Commonwealth of Australia, *Nation Building: Driving Australia's Productivity*, May 2012.

Figure 3: Growth in Transport Engineering Construction 1987–2011



Source: Engineering Construction Activity, Australia (ABS cat no. 8762.0)

Major companies in the Australian market

Information on some of the major domestic and overseas companies operating in the Australian infrastructure construction market is available from the Australian Trade Commission.

Financing

Australia's infrastructure market is more than its construction pipeline.

Since the mid 1990s, when around AUD \$60 billion was transacted via privatisations that occurred in electricity, gas, transport and communication services, at both the Australian government and state/territory government level, the private sector has been involved in financing, owning and operating infrastructure in Australia.

Investment in infrastructure in its broadest definition includes both direct and indirect investment. Investment can be made directly into an infrastructure project at either the start-up phase or at a later stage when the project is mature. This includes buying shares in a special purpose vehicle. Investing indirectly through infrastructure funds (such as CP2) or infrastructure based companies (such as Transurban) is also a form of infrastructure investment.

“Since the mid 1990s... the private sector has been involved in financing, owning and operating infrastructure in Australia.”

Major investment opportunities for the private sector—direct and indirect—will continue to grow in Australia. The refinancing of ConnectEast Group in Victoria in October 2011 is an illustration of new investment being made at a later stage of the project's life cycle (Box 1). The investor group for this AUD \$2.17 billion asset includes pension funds, superannuation funds, sovereign wealth funds and other institutions from the Netherlands, Korea, China, Denmark, the United States of America and New Zealand.

Skyline of Perth, Western Australia.



Box 1: ConnectEast Group

ConnectEast – Tollway Public Private Partnership and refinancing 2011

ConnectEast was established as a single-purpose entity dedicated to the successful delivery of the EastLink tollway. It was awarded a 39-year concession to finance, design, construct, commission, toll, operate, deliver customer services, maintain, repair and ultimately hand over EastLink to the state government at the end of the concession period. ConnectEast listed on the Australian Stock Exchange in November 2004. Construction of EastLink began in early 2005 and was delivered in mid 2008—five months early and on budget.

ConnectEast was acquired by Horizon Roads in October 2011. The Group was valued at AUD \$2.17 billion.

Horizon Roads and CP2

Horizon Roads is the investment vehicle that was established by CP2 to acquire the ConnectEast Group through a scheme of arrangement. Following the approval of ConnectEast unit holders and other necessary approvals, including from the state of Victoria and the Foreign Investment Review Board, the acquisition was completed on 26 October 2011.

CP2 is an Australian owned and headquartered infrastructure fund manager that was established in 1997. It has approximately AUD \$3.5 billion in funds under management for a global client base of pension funds, sovereign wealth funds and other institutions. CP2 has an extensive history of investing in high-quality toll roads and other core infrastructure sectors.

The Horizon Roads investor group comprises: Universities Superannuation Scheme (UK), APG Infrastructure Pool 2011 (the Netherlands), National Pension Service (Korea), Leader Investment Corporation (China), ATP (Denmark), New Zealand Superannuation Fund, Teachers Insurance and Annuity Association of America, Mirae Asset / Korean Teachers Credit Union, and CP2 Limited and related entities. CP2 acts as investment manager to each investor.

In its latest report, Infrastructure Australia has recommended that all Australian governments initiate reviews of their government owned assets to identify their potential for sale or lease to the private sector.⁸ Opportunities are also likely to emerge in New South Wales over the next few years. For example, the New South Wales Government has recently announced its intention to offer two major ports—Australia's second largest port, Port Botany in Sydney, and Port Kembla south of Sydney—for long-term lease (see Box 2). The New South Wales Government has also recently passed legislation to enable the sale (privatisation) of the remaining power generators. At the same time, the government is considering whether to also sell the state's transmission and distribution assets, which is estimated to yield a return of about AUD \$20 billion.⁹

In addition, considerable future investment will be required in the nation's ageing energy infrastructure—estimated at AUD \$100 billion in electricity generation and transmission infrastructure over the next decade.¹⁰ Public hospitals across Australia are also being progressively upgraded and expanded (Box 3).

8. Infrastructure Australia, *Australian Infrastructure: Progress and Action*, June 2012.

9. *The Sydney Morning Herald*, 24 November 2011.

10. Australian Government, Draft Energy White Paper, *Strengthening the Foundations for Australia's Energy Future*, December 2011.

Box 2: Long-term lease of Port Botany – Sydney, New South Wales

The announcement of a long-term lease for Australia's second largest port was a major infrastructure announcement in the New South Wales Budget handed down on 6 September 2011, and on 12 June 2012 the New South Wales Government, in its 2012–13 Budget, announced a long-term lease for Port Kembla.

In passing port facilities to a private operator, the New South Wales Government is following the lead of the Queensland Government, which recently banked AUD \$2.1 billion for offering a 99-year lease on the Port of Brisbane.

The New South Wales Government plans to invest the money raised in the state's roads, rails and hospitals.

'Having the private sector acquire a long-term lease to operate Port Botany will improve efficiencies and enable the New South Wales Government to invest in priority infrastructure, both of which will enhance ongoing productivity,' the New South Wales Treasurer, Mike Baird, said.

Sources: *Sydney Morning Herald*, 6 September 2011; New South Wales Budget Paper No. 1 2012–13.

Australian superannuation funds have been investing in infrastructure via PPP and privatised assets for many years. A 2011 report by Ernst and Young for the Financial Services Council in Australia estimated that Australian superannuation funds currently have approximately five per cent to 10 per cent allocated to infrastructure. This allocation is typically higher for industry funds. In addition, Australian superannuation funds currently hold investments in the majority of PPP projects in Australia.¹¹

Your nearest office of the Australian Trade Commission will have a specialist who can keep you abreast of emerging infrastructure investment opportunities. Contact details are provided at the end of this publication.

Public Private Partnerships

The fact is Australia needs to increase the pool of funding available for infrastructure investment. The cost of our identified infrastructure requirements will almost certainly exceed the funds governments have available. Furthermore, Australian governments believe the private sector has a vital role to play in the long-term efficient operation of many forms of infrastructure. As a consequence, Australia has developed one of the most sophisticated Public Private Partnerships (PPP) markets in the world.

According to BMI's 2012 infrastructure report, one of Australia's greatest strengths is its healthcare PPP market, where, along with the UK, it is a world leader in the private procurement of healthcare provision. Given the country's public healthcare system and established PPP precedent, the healthcare PPP market has flourished in Australia (see Box 3). Indeed, given the relatively small number of countries with established health PPP sectors, Australia's social infrastructure PPP market remains highly attractive.¹²

The Council of Australian Governments, working through the Infrastructure Working Group, has developed national guidelines for PPPs, making it simpler for firms to participate in the Australian infrastructure market. The *National Public Private Partnership Policy and Guidelines* can be found at www.infrastructureaustralia.gov.au/public_private/ppp_policy_guidelines.aspx

Despite some recent high-profile problems with toll road PPPs in Australia, private investment in higher margin assets like these is continuing. According to the National Leader of KPMG's Australian infrastructure practice, Julian Vella, 'These failures are not symptomatic of a fundamental flaw in the PPP concept. Rather they represent an over-allocation of demand risk to the private sector in the early stages of these projects'¹³.

In the wake of these developments, Australian governments have heeded the message from the superannuation industry, among others: 'build the appropriate risk/return model and we will invest'. To this end, work is underway on infrastructure financing and funding reforms to help ensure the private sector can play a larger role in financing Australian infrastructure in future. Some of the reforms that have been recommended to governments include:

- a change to the allocation of risk between government and private investors
- co-funding by government
- a review of government owned infrastructure assets to identify potential candidates for sale or lease as brownfield assets to the private sector.¹⁴

11. Ernst & Young, *Financing Australia's Infrastructure Needs* – Report for the Financial Services Council, 2011.

12. Business Monitor International (BMI), *Australia Infrastructure Report*, 2012.

13. Vella, Julian, *KPMG Perspectives*, Issue 3, October 2011.

14. Infrastructure Finance Working Group Report, *Infrastructure Finance and Funding Reform*, April 2012, available at www.infrastructureaustralia.gov.au

Box 3: The new Royal Adelaide Hospital (under construction), South Australia



Public Private Partnership

South Australia (SA) Health Partnership was awarded the contract to finance, design, build and operate a new 800-bed Royal Adelaide Hospital under a 35-year concession.

The agreed capital cost includes: AUD \$1.85 billion for SA Health Partnership to design and build the hospital (this is a fixed price) plus AUD \$244.7 million for state funded works for the upgrade and connection of utilities, key clinical equipment such as linear accelerators and state project management.

The annual service payment will average AUD \$397 million a year over 30 years. Service payments won't start until 2016, when the new hospital is built and certified as 'fit for purpose'.

The total capital cost, including the new medical equipment, is AUD \$2.09 billion. After 30 years of use, the buildings will revert to state management.

Preferred bidder announced: December 2010

Financial close: June 2011

Site works for construction commenced: September 2011

Completion: 2016

SA Health Partnership brings together the skills, capacity and expertise of Hansen Yuncken, Leighton Contractors, Macquarie and Spotless as the project sponsors and key consortium members.

Hansen Yuncken is one of Australia's largest private commercial construction contractors, employing over 800 people throughout Australia.

The local expertise of Hansen Yuncken is further supplemented by the capacity and reputation of Leighton Contractors. Leighton Contractors is one of Australia's leading contracting and infrastructure groups employing more than 10,000 people across Australia and New Zealand.

Macquarie Capital comprises Macquarie Group's corporate advisory, equity and debt capital markets and principal investment businesses. Macquarie Capital's Public Private Partnership (PPP) group provides specialist financing advice on PPP and private finance initiatives in Australia, the United Kingdom, Ireland, Europe, Canada, South Korea and the Middle East. Macquarie Capital Advisers Ltd is the financial adviser to the SA Health Partnership consortium.

Spotless Group's Facility Services business operates across Australia and New Zealand, employing more than 28,000 employees who work in government, defence, healthcare, education, resources, industrial, commercial, utilities and PPP segments.

Artist's impression of the new Royal Adelaide Hospital, South Australia.
Image courtesy of SA Health Partnership.

Delivering rewards

A 2012 assessment of the risks and returns to Australian superannuation funds from investment in infrastructure over the last 15 years, by independent global asset manager Russell Investments, concluded:

Australian infrastructure managers have produced compelling returns for investors over the last 15 years. Investment in unlisted infrastructure funds have generally made a positive contribution to the diversification of portfolios, and delivered relatively stable and predictable income yields.¹⁵

Government sponsored infrastructure

Funding

The Australian Government places a high priority on infrastructure development. The first ever Minister for Infrastructure was appointed in 2007 and the new national body—Infrastructure Australia—was established in 2008 to help drive the development of a long-term, national approach to infrastructure planning and development (www.infrastructureaustralia.gov.au). Infrastructure Australia also aims to encourage private investment in infrastructure. Some state and territory governments have also moved to establish similar bodies in recent times—for example, Infrastructure NSW (www.infrastructure.nsw.gov.au) and the Projects Queensland Unit, Queensland Treasury and Trade (www.treasury.qld.gov.au/projects-queensland/).

While the private sector is playing a greater role in financing and managing Australian infrastructure, the Australian Government has also invested significant funds in infrastructure development over recent years—in large measure to lift national productivity and in part to counteract the impact of the global financial crisis. Some analysts have estimated that Australia has an infrastructure deficit of AUD \$770 billion.¹⁶



Myall River bridges – Bulahdelah upgrade, Pacific Highway, New South Wales.

Over the six years to 2013–14 the Australian Government alone is providing AUD \$36 billion in infrastructure funding across Australia, including more than 120 major road projects, 30 rail networks and six urban public transportation projects. Further commitments have been made in the 2012–13 Budget, including an Australian Government contribution of up to AUD \$3.65 billion towards the completion of the Pacific Highway upgrade (at an estimated total cost of AUD \$7.7 billion) and the development of the Moorebank intermodal terminal (see Box 4). State, territory and local governments in Australia also provide significant funds for infrastructure.

15. Russell Investments, Australian and Infrastructure Investment, March 2012.

16. Citigroup, *Australia's Infrastructure Supercycle*, 20 June 2008.

Box 4: Moorebank intermodal terminal (in planning), New South Wales



The Australian Government is facilitating the delivery of a major intermodal facility at Moorebank, New South Wales, to provide a rail 'port shuttle' between Port Botany and the south-west of Sydney, as well as warehousing and a separate terminal for interstate freight.

The port shuttle terminal, expected to commence operations from 2017, will have capacity for 1.2 million containers, vastly improving efficiency and productivity while relieving congestion on Sydney's roads. Additional capacity for 500,000 containers will become available at a later stage, when the interstate freight terminal commences operation.

The Australian Government will fund the relocation of the Moorebank Defence Units to make available a 220-hectare site for the project. The Australian Government will seek private sector interest to design, build and operate the site as an intermodal terminal.

Private sector partners will be selected through competitive tender processes. See the National Infrastructure Construction Schedule at www.nics.gov.au for more details on the project.

Artist's impression of the Moorebank intermodal terminal, New South Wales.
Image courtesy of the Moorebank Project Office.

Simplified transaction processes

At the same time, the Australian Government has implemented a number of major infrastructure sector reforms, aimed at reducing the regulatory burden and delivering lower costs to business. Some of the significant reforms in the infrastructure area include removing impediments to investment and streamlining procurement and approval processes. Information on a number of these changes is provided in Table 1.

Table 1: Relevant recent infrastructure reforms

Public Private Partnerships (PPP)	<p>The Council of Australian Governments, working through the Infrastructure Working Group, has developed National PPP Policy and Guidelines, which are applied by all Australian, state and territory government agencies.</p> <p>Infrastructure Australia also lists PPP projects that are in the process of being procured or that governments have identified as potential candidates for PPPs. PPPs must be considered for projects with a capital cost in excess of AUD \$50 million. This data is updated every six months.</p> <p>See the Infrastructure Australia website: www.infrastructureaustralia.gov.au/public_private/</p>
Alliance (Collaborative) Contracting	<p>The Infrastructure Working Group, under the auspices of the Council of Australian Governments, has developed the <i>National Alliance Contracting Policy and Guidelines</i>. These create a consistent national alliance (collaborative) contracting standard.</p> <p>See the Department of Infrastructure and Transport website: www.infrastructure.gov.au/infrastructure/nacg/index.aspx</p>
Prequalification	<p>A National Prequalification System (NPS) is now in place in Australia. Contractors can now prequalify in one state or territory and be recognised in all other states and territories for tendering for construction projects valued at AUD \$50 million and over.</p> <p>See the Australasian Procurement and Construction Council website: www.apcc.gov.au</p>
Major Project Facilitation Program	<p>For projects that are assessed to be of strategic significance to Australia, the Australian Government Minister for Infrastructure and Transport may make available a free facilitation service to assist project proponents with processes such as negotiating approvals. The program offers tailored facilitation services to address the nature and complexity of projects and improve the proponent's familiarity with the Australian Government and business environment.</p> <p>Proponents are encouraged to liaise with the Department of Infrastructure and Transport regarding their application before applying.</p> <p>See the Department of Infrastructure and Transport website: www.majorprojectfacilitation.gov.au</p> <p>Department of Infrastructure and Transport Major Projects Facilitation Unit Tel: +61 2 6274 6684 Fax: +61 2 6274 7400</p>



Long-term strategic infrastructure planning

Infrastructure Australia is also assisting in the development of long-term infrastructure strategies and plans which will be used to inform their National Infrastructure Priority List and, in turn, future infrastructure investment decisions by Australian governments. On 13 July 2012, Infrastructure Australia provided its fourth review of Australia's infrastructure priorities to the Council of Australian Governments. The annual review reports on the state of infrastructure and identifies opportunities for further reform and investment.

They have already prepared a National Ports Strategy, and a National Land Freight Strategy. Copies of these documents are also available from the Infrastructure Australia website.

The Australian Government is also undertaking long-term planning on specific major projects, including:

- The High-Speed Rail Study—examining potential routes linking Brisbane to Sydney, Canberra and Melbourne and the economic viability of such a service.
- The Joint Study on Aviation Capacity of the Sydney Region—to inform future aviation infrastructure planning and investment.
- Melbourne – Brisbane Inland Rail Alignment Study—examining alignment options, economic benefits and likely commercial success of a new inland railway.

This work will underpin more robust infrastructure planning and provide greater certainty to investors about where future opportunities are expected to emerge.



Artist's impression of Melbourne Metro, Victoria.

Image courtesy of Public Transport Victoria.

National Infrastructure Construction Schedule

During 2012, the Australian Government Minister for Infrastructure and Transport launched the National Infrastructure Construction Schedule (NICS). The NICS contains information on major infrastructure projects generally over AUD \$50 million procured by the government sector in Australia. The NICS provides a national pipeline of committed projects to provide greater certainty to the infrastructure industry. The NICS currently contains some 70 plus projects and can be accessed at www.nics.gov.au

NICS NATIONAL INFRASTRUCTURE CONSTRUCTION SCHEDULE

The National Infrastructure Construction Schedule (NICS) is an initiative of the Australian Government that brings together information on major infrastructure projects in Australia from all levels of government on one unique website.

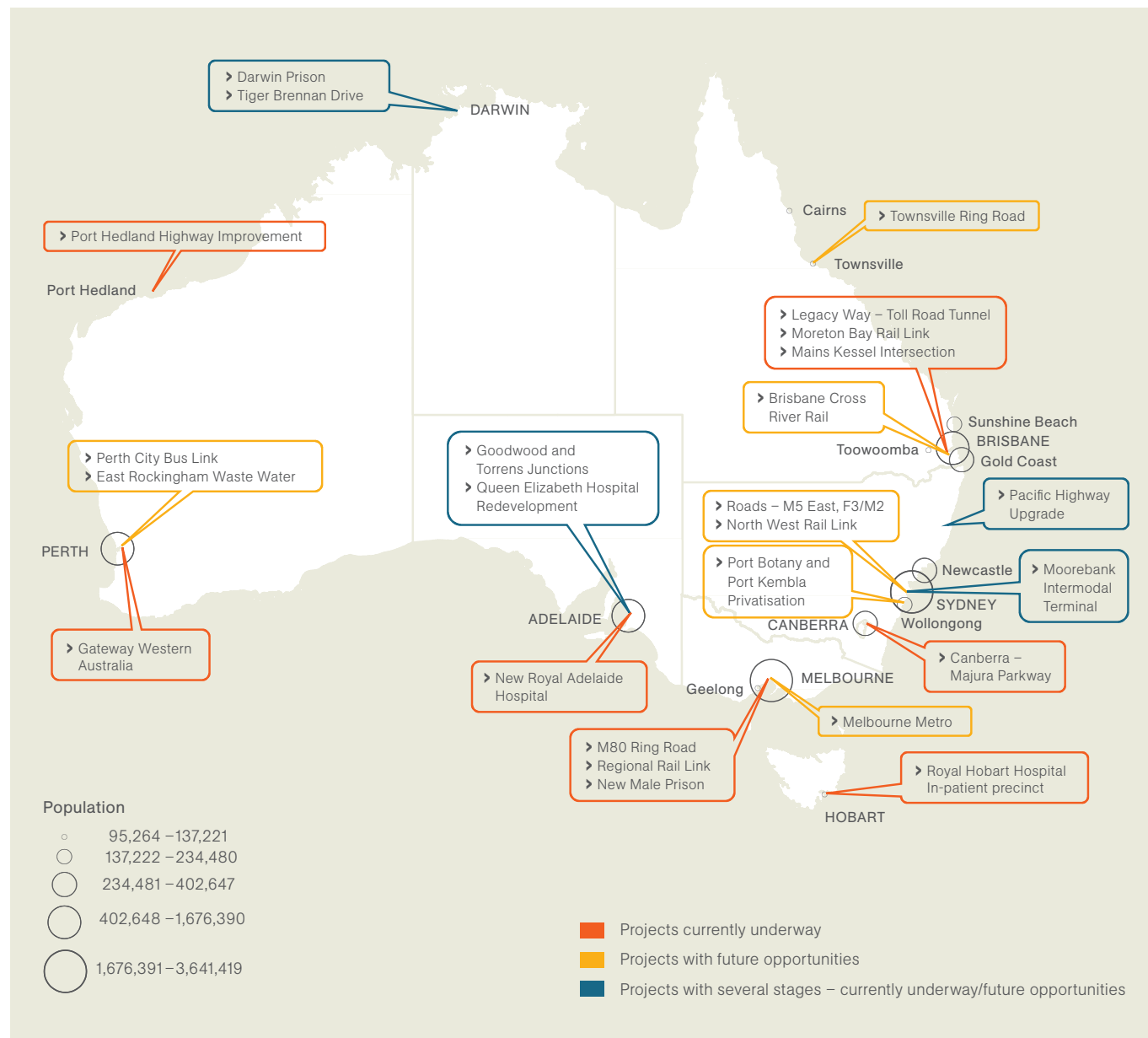
For the first time, constructors, investors, governments and the public can view the national pipeline of upcoming infrastructure projects where governments have committed to fund construction in a single time line. The NICS also provides information on Infrastructure Australia's National Priority List, as well as all planning and feasibility studies currently being undertaken by governments, so that industry can look to the future with confidence.

By providing a one-stop portal for information on government procured infrastructure, the NICS will bring the certainty and transparency that industry seeks. This initiative will facilitate broader involvement in the market, bring greater efficiencies in procurement and resource planning, and encourage increased investment by showcasing Australian infrastructure to the world.

See www.nics.gov.au

Major infrastructure projects in Australia

Figure 4: Some of Australia's current major infrastructure projects and future projects being considered by governments



Box 5: Legacy Way – Toll road tunnel (under construction), Queensland



Design, construct, maintain and operate contract

Legacy Way is a major road tunnel project, sponsored by the Brisbane City Council, providing an important bypass of Brisbane's central business district and inner western suburbs. It is designed to reduce congestion and increase connectivity on Brisbane's road network.

Total project cost: AUD \$1.7 billion

Australian Government contribution: AUD \$500 million

Transcity was selected to design, construct, maintain and operate Legacy Way. Construction on the project commenced in April 2011 and is expected to take four years. Transcity will be responsible for the operations and maintenance of Legacy Way for 10 years after it opens. The Transcity joint venture is comprised of BMD Constructions, ACCIONA and Ghella.

Transcity's design for the project includes:

- two parallel tunnels 4.6 kilometres in length, one eastbound and one westbound, each containing two lanes for traffic
- a longitudinal ventilation system to manage in-tunnel air quality
- fire protection and safety management systems
- a free-flow electronic tolling system.

About the Transcity Joint Venture team—BMD Constructions, ACCIONA and Ghella:



BMD Constructions is a wholly owned subsidiary of the BMD Group and provides civil and industrial construction

services to public and private sector organisations throughout Australia. Established in 1979, BMD has grown to become one of Australia's largest privately owned construction, consulting and urban development organisations. Its project experience ranges in value from AUD \$1 million to over AUD \$1 billion in its own right and in joint venture with local and international partners.



ACCIONA is a global leader in infrastructure, renewable energy and water resources. One of Spain's largest corporations, the company operates in more than 30 countries on five continents. In Australia, ACCIONA has been operating for seven years and in that time has invested more than AUD \$630 million and employed more than 500 people.



Ghella is a privately owned Italian based company established in 1894 that has expertise in tunnelling work around the world. With over 4000 employees and operations in 14 countries, its vast tunnelling experience will be applied to this project.

Legacy Way is an initiative of Brisbane City Council, Queensland and is designed and constructed by Transcity Joint Venture.

Photograph by South Pacific Aerials.

Sources: www.brisbane.qld.gov.au, www.transcityjv.com.au, www.bmd.com.au

Doing business in Australia

Throughout this document there have been references to the commitment of all levels of government in Australia to facilitating a stronger role for the private sector in the delivery and financing of infrastructure. This section provides information on some of the key regulatory and policy matters that overseas businesses need to be aware of when exploring opportunities to participate in the Australian infrastructure market.

Australia has a long history in relation to deregulation and other reforms which reduce costs and complexity for business and enhance the country's productivity. These reforms have contributed significantly to Australia's economic success over the last two decades and are recognised in the global competitiveness assessments of the World Economic Forum, the Organisation for Economic Co-operation and Development (OECD) and others.

The Australian Government has provided a renewed reform impetus and is committed to efforts to build a national seamless economy, harmonising key regulations across governments.

Tax incentives

The Australian Government has announced new taxation measures to enable companies investing in infrastructure to benefit from early stage tax losses, to help preserve the real value of early stage tax losses incurred in infrastructure investments by indexing them to the 10-year bond rate. In addition, companies may carry back tax losses so they receive a refund against tax previously paid.

It is important to note that overall, Australia is the sixth lowest taxing nation among the 31 member countries of the OECD.¹⁷

Government regulation

Australia has done a great deal to create a business-friendly environment and is committed to continuous improvement in this regard. Many governments in Australia have set themselves targets for the reduction in 'red tape'—regulations and processes that impede efficiency and add costs to business. As a matter of priority, governments are also working on streamlining environmental assessments and approvals (reducing 'green tape') of major projects which still involve an element of double-handling by states, territories and the Australian Government.



A colourful sound wall is part of the 'International Gateway' feature on the CityLink motorway in Melbourne, Victoria.

Photograph courtesy of Transurban Group.

Some of the key policies and regulations that overseas businesses need to be aware of when exploring opportunities to participate in the Australian infrastructure market include the following.

Foreign Investment Review Board (FIRB)

The FIRB provides foreign investment policy advice to the Australian Government. The FIRB's function is to assess direct investment proposals submitted by foreign interests and to make recommendations to the government on the compatibility of those proposals with government policy and the *Foreign Acquisitions and Takeovers Act 1975* (Cth). The FIRB also provides information on the government's policies to prospective foreign investors.

Only investment proposals over a certain value are subject to scrutiny by the FIRB and only those determined to be contrary to the national interest are not approved. Around 99.9 per cent of all proposals considered by the FIRB are approved.

For more information visit www.firb.gov.au

17. IMD 2010 World Competitiveness Yearbook, Collected Total Tax Revenues consolidated rankings.

Business Entry to Australia

There are a number of ways that international business people can enter Australia—all are required to have a visa.

The Australian Government has developed a number of reforms in legislation, immigration policy and procedure in recent years to encourage business migration and make it easier to enter Australia for business purposes. This has particularly been the case for business visitors and for those entering for business purposes temporarily.

For more information visit www.immi.gov.au

Occupational Health and Safety Accreditation

Overseas construction companies wanting access to contracts for building and construction projects funded directly or indirectly by the Australian Government MUST be accredited under the Australian Government Building and Construction Occupational Health and Safety (OHS) Accreditation Scheme.

Accreditation is a two-stage process: a desktop assessment followed by an on-site audit (which may be conducted at a construction site outside of Australia). As a prerequisite, the applicant's OHS management system must be certified to Australian Standards. Accreditation is valid for a period of up to three years—and further audits may be conducted on accredited companies to ensure they maintain the OHS standards required.

For more information visit www.fsc.gov.au.

Employment and Workplace Relations

Australia's workplace relations system changed on 1 July 2009, with a new national system for employees and employers across Australia. This system, called Fair Work, is designed to balance the needs of employees and employers.

Some of the key features of the Australian workplace relations system are:

- a fair and comprehensive safety net of minimum employment conditions
- protections from unfair dismissal for all employees
- protection for the low-paid
- protection of the freedom to choose to be represented in the workplace.

The workplace relations system has an independent umpire: Fair Work Australia.

Superannuation

Australian employees have the benefit of federal legislation which requires the payment of statutory superannuation contributions by employers on behalf of their employees.

The prescribed minimum level of superannuation support that employers must provide for each of their employees is currently nine per cent of an employee's notional earnings base.¹⁸

Payroll tax

Payroll tax is a state tax levied monthly by each state on the payroll of employers who pay wages in excess of a prescribed threshold. The rate of tax imposed varies from state to state.

Industrial Disputes

Industrial action in Australia is legal under certain circumstances. Workplace relations have improved significantly in recent decades, with disputes and strikes now at an all-time low.

For more information visit www.fairwork.gov.au

18. This percentage will increase gradually up to 12 per cent by 2020.



Who can help?

In addition to the contacts provided throughout this publication, the following government and industry organisations can assist you with further information and advice.

The Australian Government recommends that overseas construction firms and/or financiers interested in the Australian infrastructure market seek advice from a reputable source with knowledge, up-to-date experience and contacts within Australia.

The Australian Trade Commission (Austrade)

Austrade is responsible for the promotion, attraction and facilitation of productive foreign direct investment into Australia. Austrade helps international companies establish and build their business in Australia. We understand the challenges of investing. We seek to provide the information required to make good investment decisions and to provide a coordinated approach that saves investors time and money.

What Austrade provides:

- initial coordination of all investment inquiries and assistance
- information on the Australian business and regulatory environment
- market intelligence and investment opportunities
- identification of suitable investment locations and partners in Australia
- advice on Australian government programs and approval processes
- access to Austrade's investment services.

Austrade's investment services are free of charge and are focused on foreign direct investment outcomes of strategic importance to the Australian economy.

For more information on Austrade's investment services, speak to an investment specialist directly, or send an inquiry through our website.

For the location of investment specialists:

www.austrade.gov.au/Invest/Investment-Specialists/Investment-Specialists/default.aspx

Email the Australian Trade Commission via

www.austrade.gov.au/Invest/Investment-Specialists/Enquiry-Form/default.aspx

Investment services offered by Australian state and territory governments

All state and territory governments in Australia provide free and confidential services and professional advice to international investors. Many also have staff posted in overseas locations.

Australian Capital Territory www.business.act.gov.au

Northern Territory www.investnt.com.au

New South Wales www.business.NSW.gov.au

Queensland www.business.qld.gov.au

South Australia www.southaustralia.biz

Tasmania www.development.tas.gov.au

Victoria www.invest.vic.gov.au

Western Australia www.dsd.wa.gov.au

Professional service providers

Consultants

There are a number of professional service providers in Australia, including the major accounting and legal firms that offer specialised infrastructure transaction services to overseas firms and investors, up-to-date industry intelligence and assistance with identifying projects and partners.

Examples include: KPMG, PricewaterhouseCoopers, Ernst & Young, Minter Ellison, Clayton Utz and DLA Piper.

Financial

There are 19 listed infrastructure trusts on the Australian Stock Exchange and Australia's stock market is the sixth largest free-floating stock market globally. Australia has 40 international banks, including leading banks from Asia, Europe and the Americas. Australia also houses a large number of investment banks, including JP Morgan, Deutsche bank, Credit Suisse, Macquarie Group Ltd, Bank of Tokyo-Mitsubishi UFJ, CommSec, Goldman Sachs, Barclays, BNP Paribas and HSBC.

Department of Infrastructure and Transport

The Department of Infrastructure and Transport provides policy advice to the Australian Government Minister for Infrastructure and Transport and delivers a variety of programs on behalf of the Australian Government. The provision of policy advice, programs and regulation covers a wide range of areas, including:

- › infrastructure planning and coordination
- › transport safety, including investigations
- › land transport
- › civil aviation and airports
- › transport security
- › maritime transport including shipping
- › major projects facilitation.

The Department's purpose is to promote economic, social and regional development by enhancing Australia's infrastructure and transport performance.

For more information visit www.infrastructure.gov.au

Southern Link section of CityLink in Melbourne, Victoria.
Photograph courtesy of Transurban Group.





Australian Government

Department of Infrastructure and Transport

Australian Trade Commission

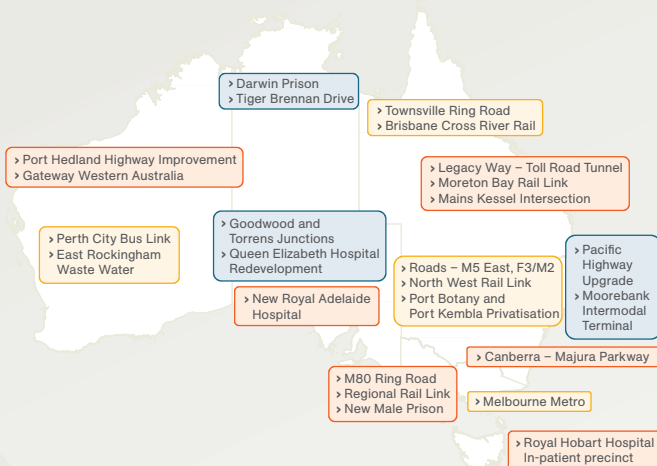
NICS NATIONAL INFRASTRUCTURE CONSTRUCTION SCHEDULE

The National Infrastructure Construction Schedule is an initiative of the Australian Government that brings together information on major infrastructure projects generally over AUD \$50 million on one unique website www.nics.gov.au.

For the first time, constructors, investors, governments and the public can view the pipeline of upcoming infrastructure projects where governments have committed to fund construction in a single time line.

Major infrastructure projects in Australia

Some of Australia's current major infrastructure projects and future projects being considered by governments are:



Infrastructure Australia

Infrastructure Australia is a key adviser to governments, investors and infrastructure owners on Australia's current infrastructure needs, mechanisms for financing infrastructure, and infrastructure policy, pricing and regulation. Infrastructure Australia assists in the development of long-term infrastructure strategies and plans which are used to inform future infrastructure investment decisions by Australian governments. On 13 July 2012, Infrastructure Australia provided its fourth review of Australia's infrastructure priorities to the Council of Australian Governments. The annual review reports on the state of infrastructure and identifies opportunities for further reform and investment. This work provides greater certainty to investors about where future opportunities are expected to emerge.

Further information

'Investment in Australian Infrastructure' explores in more detail the opportunities available to enter the Australian infrastructure market and highlights some of the key regulatory and policy matters that overseas businesses need to be aware of when exploring opportunities to participate in the Australian infrastructure market.

The Australian Trade Commission (Austrade) is responsible for the promotion, attraction and facilitation of productive foreign direct investment into Australia. Austrade helps international companies establish and build their business in Australia.

For more information on Austrade's investment services visit www.austrade.gov.au



Australian Government

Department of Infrastructure and Transport

Australian Trade Commission

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Investment in Australian Infrastructure



Australian Government

Department of Infrastructure and Transport

Australian Trade Commission

Australia as a nation, and through its various levels of government, welcomes foreign investment and is looking to overseas firms to help finance, develop and reap the rewards from a substantial pipeline of infrastructure projects.

Australia—an attractive place to invest

Australia's infrastructure construction market has experienced unprecedented growth over the last ten years. This has been driven by the resources and mining boom, economic stimulus spending by the Australian Government and reconstruction work associated with devastating floods in Australia's eastern states in 2010 and 2011.

The continued demand and growth of infrastructure needs in Australia creates opportunities for companies in the areas of:

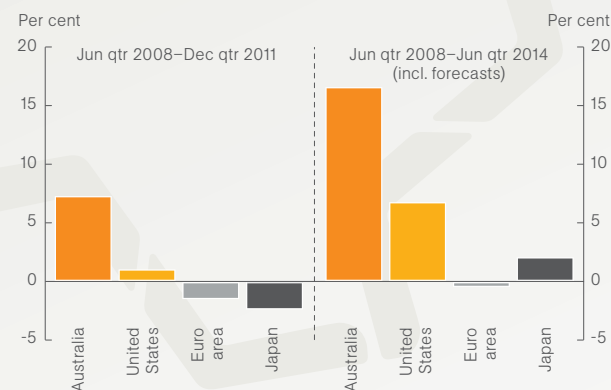
- ▶ financing the country's burgeoning infrastructure requirements
- ▶ increasing the level of competition in the construction sector
- ▶ new technologies, skills and innovations
- ▶ meeting emerging skill shortages generated by resource sector demands.

Australia's economy

With more than a decade of strong growth, a large and diverse economy, a stable and flexible business environment and a growing dynamic population, Australia offers an attractive location with significant infrastructure opportunities:

- ✓ a strong, growing and resilient economy
- ✓ one of the most politically stable countries in the world
- ✓ a highly skilled and multilingual working population
- ✓ part of the fast-growing Asian region

Real Gross Domestic Product Growth



Source: Australian Government, Budget Paper No. 1: Budget Strategy and Outlook 2012–13.

Australia's infrastructure market

Australia's high demand for new and upgraded infrastructure remains strong.

Engineering construction activity (excluding housing and buildings) in Australia was at around AUD \$85 billion in 2010–11 and is expected to increase by 21 per cent to reach AUD \$108.5 billion in 2011–12.

Key business forecasters predict growth in infrastructure construction and other private infrastructure financing opportunities over the next decade, which is underpinned by:

- ▶ the next phase of the resources boom—stimulating strong demand for supporting infrastructure
- ▶ sustained population growth, continued urbanisation, rapid growth in demand for freight and passenger transport
- ▶ the need for energy and water security.

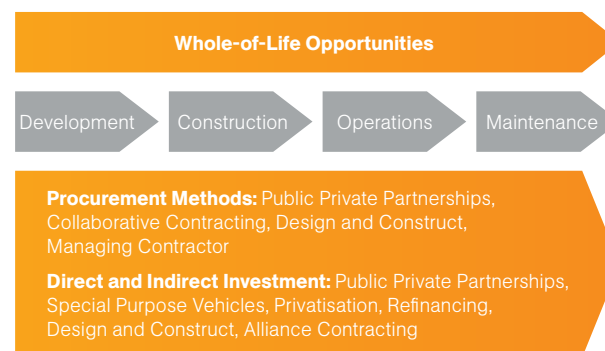
Construction and financing opportunities

Opportunities exist to apply state-of-the-art technologies and construction expertise to new projects as well as upgrades of existing infrastructure and to invest at all stages of the asset life, from start-up or at a later stage in the asset life.

Different forms of procurement methods for infrastructure projects include direct and indirect options for the private sector to finance infrastructure. Opportunities are also likely to emerge in privatisation of government owned assets.

Australia is a relatively sophisticated market and there is a growing trend toward more integrated and whole-of-life transactions. Diagram 1 illustrates the various procurement methods available at different stages of a project's life cycle.

Diagram 1: Construction and financing opportunities framework



Construction

Historically, engineering construction activity in Australia was predominantly funded by the public sector. There has been a strong, consistent increase in the private sector funded share since the mid-1990s, and especially in the last six years, which has seen work funded by the private sector surpass work funded by the public sector.

Government sponsored infrastructure

The Australian Government has invested significant funds in infrastructure development. Over the six years to 2013–14, the Australian Government is investing AUD \$36 billion in infrastructure funding across Australia, including more than 120 major road projects, 30 rail networks and six urban public transportation projects.

Further commitments have been made in the 2012–13 Budget, including an Australian Government contribution of up to AUD \$3.65 billion towards the completion of the Pacific Highway upgrade (at an estimated total cost of AUD \$7.7 billion) and the development of the Moorebank intermodal terminal, both located in New South Wales.

State, territory and local governments in Australia also provide significant funds for infrastructure.



From left: Artist's impression of the Moorebank intermodal terminal, New South Wales. Image courtesy of the Moorebank Project Office. Artist's impression of the new Royal Adelaide Hospital, South Australia. Image courtesy of SA Health Partnership.

Public Private Partnerships

The private sector has a vital role to play in the long-term efficient operation of many forms of infrastructure in Australia. Australia has developed one of the most sophisticated Public Private Partnership (PPP) markets in the world, with Australia's social infrastructure PPP market remaining highly attractive.