Speech by Michael Kilgariff
Asset Privatisation Conference
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Recycling of brownfields assets for re-investment in greenfields logistics assets (check against delivery)

Ladies and gentlemen, first may I thank you for giving me the opportunity to speak to the conference today.

The Australian Logistics Council is the peak national industry body for the freight logistics industry.

You will be familiar with our member companies.

Many are household names.

Our members span the whole of the supply chain -- road, rail, sea and air.

While our members compete vigorously for market share we all agree on one objective – the improvement of productivity, efficiency and safety in the logistics industry.

ALC advocates for those improvements with government and in the wider community because those aims improve standards of living for all.

The recent change of government in Canberra has bought with it a certain amount of expectation, particularly in the business community.

But it would be fair to say that the appetite in the wider community for economic reform has waned since the late 1990s after the significant changes in the Hawke-Keating period and the early Howard years.

As that appetite waned, so did the political will to implement it.

But Australia must re-engage in the task of economic reform.

The task is made more urgent because of the slowing of the resources boom and also because of the enormous growing freight and infrastructure task that faces Australia.

Our political leaders will simply have to overcome their fear of championing further economic change.

That said, there have been some encouraging signs recently.

Before the election Tony Abbott said he wanted to become the Infrastructure Prime Minister and promised an annual Infrastructure statement to Parliament.

After the election his Treasurer Joe Hockey lost no time in putting infrastructure at the top of the agenda of his first meeting with state and territory Treasurers.

After the meeting Mr Hockey said, and I quote:

"On infrastructure, we agreed to commence work on new incentives for building Australia's economic infrastructure, how that should be funded and how we increase the private sector's involvement. We will reconvene early in 2014 to continue these discussions."

NSW Treasurer Mike Baird said he had put such a proposal to the previous Government without success.

Late last month, the new Federal Assistant Infrastructure Minister, Jamie Briggs called for financial targets for public and private investment in infrastructure to encourage international competition and reduce project costs.

He said:

"This could deliver more certainty and with it a pipeline of projects where, through greater planning and competition, we could deliver better project delivery outcomes for both investors and taxpayers."

He wanted the Productivity Commission's inquiry into infrastructure to result in "an action plan that will help us work with state governments and the private sector to drive down costs and deliver projects more quickly".

The Productivity Commission inquiry will look at ways to encourage private financing and funding for major infrastructure projects.

We have seen some encouraging progress in recent months to encourage greater private sector involvement in infrastructure.

The NSW Government has announced it is to put a long-term lease the Port of Newcastle to private-sector tender.

This is after realising $5 billion from the privatisation of Port of Botany and Port Kembla.

Importantly, most of the funds raised from the long term lease of these two ports will go back into productive infrastructure.

We would also encourage the NSW Government to adopt a similar approach in regards to the Port of Newcastle.

There are other promising signs in other jurisdictions.

Queensland's Commission of Audit promises greater private-sector engagement in infrastructure provision.

The Victorian Government has recently published several major development and infrastructure plans.

Importantly, the Victorian Opposition has joined the fray with its list of major infrastructure projects which would be funded from the long term lease of Port of Melbourne.

ALC has been advocating for some time for the Port of Melbourne to be leased to the private sector and I am encouraged by the Opposition's approach to this issue.

The need to attract greater private sector investment in infrastructure is underscored by the common reaction when governments announce major infrastructure projects, and that is: "Where's the money coming from?"

Or questions are posed about priorities. Police, nurses and teachers before ports and rail.

Federal, state and territory governments are having great difficulty meeting immediate demands – demands which are growing with an ageing population which has rising expectations of government.

In this environment, it is easy for governments to put off major infrastructure funding, especially if the benefits are not likely to be seen in the immediate electoral cycle.

So it is important for business and industry not only to push the infrastructure cause with politicians, but also with the wider community.

Neither is an easy task. As we say, "Freight does not vote."

But we all benefit in so many ways from an efficient transport and logistics system.

Funding is a crucial part of the argument.

Persuading politicians and the public to use precious taxpayers' money on long-range infrastructure can be difficult.

This is why "recycling" has its appeal.

Instead of having to raise new capital from either the public or the private sector, capital can be raised by selling or leasing long-term present government assets.

This capital can then be "recycled" for new infrastructure projects.

Private capital is more wary of new projects than buying into existing infrastructure.

This is because it is often more difficult for the private sector to raise capital for new ventures, or to raise it at reasonable interest rates, especially since the global financial crisis.

Therefore, we have to stretch our imagination further afield when talking about the funding of new projects.

Earlier in the year, Infrastructure Australia pointed out just how much government-owned infrastructure would be available for sale and just how much it would realise.

Its National Infrastructure Plan, published in June, pointed to up to $13 billion worth of rail infrastructure in government hands.

Further, it said that state governments own the great majority of electricity and generating infrastructure – worth up to $66 billion. Similarly with water assets. About $60 billion worth of water assets are in government hands.

That adds up to about $140 billion, without including ports or indeed many other commercial or business operations of state governments.

It is a significant amount of capital that could be realised by government and put into new infrastructure.

Significantly, Infrastructure Australia pointed out that much of the work need for privatisation of water and electricity networks has already been done. They have nearly all been corporatised.

Their balance sheets have been separated from the general government budgets. Their assets, liabilities and income streams are there for private investors to see and make judgments about.

Of equal importance, the track record of privatisation of infrastructure has been much better than the popular perception.
The privatisation of airports resulted in greater injections of new capital after ownership changes than the record of capital injection by government owners before privatisation.

The new owners saw opportunities in providing better facilities and services and were more prudent in ensuring that users paid an economic price for the capital they used.

Overall, services to industry and the community have been improved.

It is highly likely that the same thing would happen with other infrastructure sales or long leasing.

So the sale of "brownfields" or existing infrastructure not only frees up new capital, it almost invariably results in better use of the sold assets as the private sector brings more imagination and opportunity-seeking to the task.

Of course, there was a time when the private sector was not capable of raising the capital to create or buy large national or state-wide infrastructure elements.

That time has long passed.

There is no longer any need for government to own the telecommunications system; or to own a retail bank; or to own an airline.

Nor do governments have to own and run water, electricity and rail systems.

Once businesses become more established and mature and proper regulatory regimes are in place, the rationale for public ownership falls away.

Privatisation in the past has been politically sensitive.

There has been a high level of voter wariness.

So it will not be enough for industry and business to convince itself of the benefits of "recycling"; the public will have to be brought along, too, or it will not happen.

The wariness takes several misguided forms: once the asset is sold it is lost; jobs will go; services will fall.

These misconceptions must be addressed.

The assets are not lost; the private sector usually makes them work harder, adds to them and improves them.

Yes, some jobs go in the short term, but in the longer term as the capital is worked more efficiently new jobs are created.

Moreover, the old jobs that go are, of their nature, unproductive jobs.

Services do not fall.

Rather people and industry have to pay more realistic costs for them.

Our job is to convince our political leaders and the public that we will be better off if more government capital now tied up in existing infrastructure is realised so that government has more money to do things that only government can do.

Those things include the identification and seed funding of major new infrastructure and the funding of any viability gap in large new infrastructure projects.

Though it must be said that very often the viability gap closes after big new infrastructure projects are completed and unforeseen new uses for it are realised.

Put simply, Australia will miss some of the opportunities that come with big new infrastructure if we wait for the creaking Commonwealth-grants-to-the-state model to garner the requisite capital – particularly in a political environment that abhors debt of any kind.

We saw a prime example of the abhorrence of debt with the post-election spat over Commonwealth debt levels.

One of the problems with government ownership of enterprises is that the public quite reasonably expects complete avoidance of any significant losses.

In turn that means, of course, the removal of risk.

And once one removes risk from an enterprise it means loss of opportunity.

We cannot afford to continue to have "brownfields" infrastructure remain in government hands.

It is a lose-lose situation.

We lose the opportunity that private-sector vigour could bring to those assets and we lose the opportunity to invest in much needed new infrastructure with the capital that their sale would yield.

Queensland is a case in point.

Its state government expenditure in 2011-12 was the highest as a portion of GDP of the five largest states.

Its Commission of Audit identified many state-run businesses that could be sold.

These pose risks to its balance sheet.

Once sold, those risks would fall away and the government's budgetary position would balance over the cycle.

That in turn would result in the restoration of the state's triple A credit rating which would even further improve its budgetary position.

Queensland would then be in a better position to do those things that only government can do, in particular, initiate important large new infrastructure.

However, there are some important caveats to the selling of “brownfields” side of the ledger.

As I mentioned earlier, the whole recycling argument will fall away if the proceeds from sale and long-leasing are not ear-marked or hypothecated to new infrastructure spending, particularly logistics and transport infrastructure.

The political temptation is always there to spend money on more immediate demands.

There are caveats on the “greenfields” side of the ledger, too.

The forecast increases in population and industry needs make it imperative that large amounts of capital are found for big new logistic and transport infrastructure to meet the projected freight task.

The inland railway and Sydney’s second airport are good examples.

As this slide demonstrates, the national freight task is approximately 400 billon tonne kilometres today, and it is estimated to reach 1000 billion tonne kilometres by 2030 and 1400 billion tonne kilometres by 2050.

That freight should be moved as efficiently as possible and that will require very large investments in transport infrastructure.

Without it, the living standards of all Australians will be lower than could be expected and we will not meet our full potential.

That said, it is crucial that new infrastructure spending meet rigorous cost-benefit analysis and that viability shortfalls are identified and acknowledged.

Further, identification of transport projects should be neutral across the platforms of road, rail, sea and air.

And freight needs must be given greater emphasis.

Passenger priority is politically understandable but for an efficient economy delivering higher standards of living, the freight task must be met.

Several other considerations come to mind when talking about recycling capital from “brownfields” to “greenfields”.

The first is the unleashing of superannuation funds.

The second is the taxation system.

The third is the role of foreign investment.

And lastly is the need to integrate land-use planning with transport planning.

Since the introduction of compulsory superannuation, funds have grown significantly.

The Australian Prudential Regulatory Authority's latest estimate published in June was that superannuation funds amounted to $1,400 billion at the end of 2011-12.

That figure would have gone up sharply since then.

It will not be long before it hits $2,000 billion.

There must be a sensible way to direct some of that money to long-term infrastructure investment.

The superannuation industry would welcome it as it would help stabilise its returns.

As the global financial crisis revealed, superannuation was cruelly susceptible to the volatility of the stock market.

Earlier this year the Federal Government introduced a new tax incentive for infrastructure investment.

It will ensure greater deductibility in the construction phase and more flexible arrangements to deal with portability of tax deductions when ownerships structures change.

The Standing Committee on Federal Financial Relations has come to an in-principle agreement where, if states agree to privatise assets, the corporate tax the private owner would then pay to the federal government would instead be returned to the respective state government as a tax equivalent incentive payment.

ALC welcomes this sort of arrangement and encourages governments to look at other more flexible tax arrangements to encourage more infrastructure investment.

Foreign investment has played a critical role in the development of Australia and will continue to do so.

Australian businesses, including many operating in the freight logistics industry, thrive on the ability to invest in overseas markets, as well as their ability to attract foreign investment in their share register and operations.

Too often foreign investment has been treated with suspicion.

Sometimes national security is cited as reasons for rejecting foreign investment in vital industries and infrastructure.

Much of this commentary is misplaced.

With infrastructure, it is not as if foreign investors can take it with them.

Australia is a sovereign nature and has proven itself more than capable of imposing sensible regulatory regimes on the use of capital.

Australia would be denying itself valuable opportunities if it places unnecessary burdens on foreign investment.

There is no reason foreign investment cannot play a significant role in recycling "brownfield" assets to "greenfield"ones.

It was encouraging to hear Assistant Minister Briggs saying that Australia needed to attract more international companies to bid for projects and reduce reliance on "two dominant construction players" by lowering barriers to entry.

Lastly, as we recycle capital into greenfields investment, it is critical that governments at all three levels integrate their land-use planning with transport planning.

It is critical, in particular, that transport corridors are identified early and preserved where necessary.

Further, governments must co-ordinate freight and passenger movement with land-use planning so that we are not setback with bottlenecks or expensive compulsory acquisition because of lack of foresight now.

These are important and significant issues.

The Australian logistics industry through the ALC will continue to take an active part in lobbying governments and putting forward in the public domain its views and ideas on how we can develop more efficient transport and supply chains.

More efficient supply chains will benefit not only the logistics industry, but also industry and business in general and for the broader community.

Only then will Australia have the infrastructure it needs to meet rising freight growth in the future.

It has been a pleasure to share with you my thoughts on these issues today.

And if you wish to continue the conversation, I encourage you to attend the 2014 ALC Forum, which will be held at Royal Randwick Racecourse on the 19th and 20th of March.