AUSTRALIAN LOGISTICS COUNCIL

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GOVERNMENT ASSET RECYCLING CONFERENCE

TUESDAY 10 FEBRUARY 2014

Check against delivery

"May you live in interesting times."

This Chinese saying reflects where we are in Australia today when considering what to do about providing the infrastructure necessary to allow freight to efficiently move around the country and around the world.

The East-West Link will not proceed.

The Queensland electorate appears to have rejected the recycling of state owned assets, meaning that the value of those assets that were to be used, in part, on the development of new infrastructure will remain locked within the old asset.

The leasing of electricity assets will now be centre stage in the forthcoming NSW election.

This is a shame as the need for investment in productivity enhancing infrastructure has never been higher.

The B20 is a forum that allows the private sector to provide policy recommendations to the annual meeting of the Group of 20 leaders, or G20, which was held in Australia last year.

That body identified two great challenges facing all governments are ageing or poorly managed assets and public balance sheets and fiscal pressures. It concluded that by 2030, around 60–70 trillion dollars of additional infrastructure capacity will be needed globally.

Under current conditions however, only $45 trillion is likely to be realised, leaving a gap of some $15–20 trillion dollars.
The story is the same in Australia, with Infrastructure Australia estimating that the infrastructure deficit in Australia was in the order of $300 billion.

This is a national and international tragedy.

We're all here at this conference because we are all interested in ensuring proper investment in infrastructure.

To avoid the terrible shortfall I've just mentioned we must all continually act as champions for investment and reform.

This includes the Australian Logistics Council.

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.

This whole-of-supply-chain approach is critical when you consider Australia's rising freight task, which is expected to almost double in the next 15 years and nearly triple by 2050.

The logistics industry – covering the storage and movement of goods – employs 1.2 million people in Australia and adds $131.6 billion a year (8.6 per cent) to GDP, according to an ACIL-Allen report that was released by ALC late last year.

However, congestion, bottlenecks, poorly planned and maintained infrastructure and urban encroachment all impact on the logistics industry to move Australia’s large and growing freight task efficiently.

Improving efficiency in the logistics industry is vital for the Australian economy, with the ACIL Allen report finding that a one per cent improvement in efficiency will yield a $2 billion-a-year benefit.

That 1 percent efficient improvement can be achieved by better identification and delivery of key infrastructure projects and better targeting of scarce infrastructure dollars.

And so action must be taken.

A number of mechanisms have been identified as ways to fund the infrastructure Australia desperately needs, most recently in the Productivity Commission’s recent report on public infrastructure.
They include user charges as well as value capture approaches, developer contributions, public-private partnerships and government funding (either through taxes or incurring debt).

Another of the mechanism is of course, asset recycling – the central issue of this conference.

ALC supports the concept of asset recycling.

As identified by the Infrastructure Finance Working Group in 2011, asset recycling offers a capacity of governments with constrained balance sheets to unlock capital captured in mature assets.

Last year Infrastructure Australia’s National Infrastructure Plan identified up to $13 billion worth of rail infrastructure in government hands; about $65 billion in poles, wires and electricity-generating capacity; and about $60 billion in water assets.

This does not include ports or other commercial or business operations of state governments.

Properly done, privatisation of these assets could realise desperately needed funds for new infrastructure projects.

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.

And it is necessary because the budgets of most Australian governments are likely to be deficit for the foreseeable future.

It is also the case that the Budget will also face increased funding demand in areas such as health, education, the National Disability Insurance Scheme as well as other social programmes.

Alternative funding sources for public infrastructure hitherto regarded as public goods funded from consolidated revenue must therefore be identified.

However, it is crystal clear from the results of the recent Queensland and Victorian elections that there must be full and complete transparency with the electorate.

It seems to me that public antipathy to asset disposal is a mixed bag. Part of it is a yearning for “the good old days” seen through rose-coloured glasses, particularly in rural and regional Australia.

Part of it is a suspicion of that the “profit” motive (and resulting higher prices) will displace a “service” motive, without an acknowledgement that the profit motive is a powerful incentive to provide service.

Another part is the history of job losses after changes in ownership of assets.

Finally, part is a suspicion that well off people and corporations who subscribed to shares have made, and will continue to make, a killing at the expense of the public at large.

This antipathy should not be dismissed in an arrogant, offhand way. Rather, it has to be addressed.

All of us must make a convincing case that any given asset disposal will benefit the nation as a whole.

It is incumbent that any government proposing some form of lease or sale of an asset must explain, firstly, the financial reason for the asset disposal and then clearly identify the public benefits that will accrue as a result the disposal.

The question then is: what do we need to show the Australian community that a particular asset disposal is in either the state or national interest?

Here is a roadmap may assist.

Tangible proof of a net positive benefit

Any proposal to sell, or offer a long-term lease for any piece of infrastructure must possess a net positive benefit.

This benefit should be illustrated in a published cost benefit analysis that is freely available to the public, so the community can be certain that value for money has been achieved

This is an important point.

For example, ALC supported in principle the development of the East-West Link.

Providing an efficient linkage to the Port of Melbourne, Australia's busiest container port, is critical to coping with the rising freight growth and growing population in Melbourne's west.

However, it can be argued that the East-West Link did not win public favour in Victoria as the public benefits of the proposal were not immediately available to the Victorian electorate.

The recent Queensland result also reminds us that merely promising a 'strong plan' without specifics will also no longer do.

ALC also believes that the business cases supporting either the disposal of assets, or for that matter government investment in infrastructure, should also be publicly available.

Kerry Schott, who is on the Infrastructure Australia board and chairs the Moorebank Intermodal Company, described as a "complete furphy" government claims that disclosing business cases would hurt commercial deals.

As US Supreme Court Justice Louis Brandeis said when referring to the benefits of openness and transparency, 'sunlight is the best disinfectant'.

We agree.

It is finally worth noting that Australian Government has committed to ensuring all projects over $100 million are subject to full cost benefit analysis by Infrastructure Australia.

We look forward to jurisdictions all over Australia following this lead.

Hypothecation

It is also important that funds raised as a result of the lease or sale of infrastructure is in turn invested in the productivity enhancing infrastructure.

We believe the Restart NSW model, which places the benefits of infrastructure asset sales into a specific account for the purposes of further investment into infrastructure, is the model that should be followed by the States and Territories.

That jurisdiction used the grant of a 99 year lease over Port Botany and Port Kembla (amongst other asset disposals) to create the Restart NSW fund, which will be used to fund new infrastructure such as the WestConnex motorway and upgrades to the Pacific and Princes Highways and Bridges for the Bush.
These are all tangible benefits that should be able to convince the community of the appropriateness of the decision to recycle assets.

Although, that said, this hypothesis will be well and truly tested next month!

Value for money

ALC also believes that any asset that is sold must be sold for the right price and not at any price just because a government needs a sugar hit of cash just to pay this month’s metaphoric credit card bill to fund recurrent expenditure.

The public must receive an appropriate return for the disposal of the asset. To do otherwise will lead to an even greater public suspicion towards this form of infrastructure funding.

Efficient markets

Finally, ALC believes the sale or long-term lease of an asset should not be pursued to the detriment of competition and freight efficiency.

It follows that any analysis conducted to support either the sale or long-term lease of an infrastructure asset should consider:

- whether the proposed sale will promote competition and efficiency; and

- the need as to whether the subsequent operation of the asset should be the subject of economic regulation, so as to permit the efficient use of the asset to the benefit of the Australian community as a whole.

Of particular concern are:

- vertical integration - vertical integration will provide the any recycled monopoly asset or entity with the ability to leverage its power in monopoly markets into vertically related competitive markets, thus distorting efficient market outcomes; and

- monopoly pricing – any recycled monopoly asset or entity should have its pricing subject to government oversight, typically by the ACCC or state based economic regulators, as appropriate.

These two issues must be addressed in any asset recycling program.

Now, it's pretty well known that the Commonwealth has also committed $5 billion to give to states which undertake asset recycling through a National Partnership Agreement on Asset Recycling developed through the Council of Australian Governments.

That is a significant incentive.

Sadly, this initiative is blocked in the Senate.

Notwithstanding the results in recent state elections, it is important that governments stay the course and continue to make the case for investing in infrastructure using innovative methods. Australia’s governments must continue to support this National Partnership.

It should be noted that before an infrastructure project is eligible for Federal funding, the projects must:

- demonstrate a net positive benefit:
- enhance long term productivity capacity of the economy; and
- where possible, provide for enhanced private sector involvement in both the funding and financing of the infrastructure.

We believe that these safeguards should be sufficient benchmarks that will ensure that the public interest is best served.

However, to further guarantee the community that an asset disposal is in the public interest, there is some argument to say that Infrastructure Australia should have a role in determining whether a particular asset disposal falls within the funding criteria set out in the National Partnership.

Amendments to the legislation establishing Infrastructure Australia made last year require the body to generally evaluate proposals for investment in, or enhancements to, nationally significant infrastructure that involve Commonwealth funding of at least $100 million.

However, as the Parliamentary Library has observed the proposed legislation does not require Infrastructure Australia to do this for the purposes of the Asset Recycling National Partnership.

It should do so.
And any analysis should be made public.

That said, we all have a role to play in ensuring that the level of investment in Australia’s infrastructure is at the level necessary to enhance and improve the productivity necessary to allow the Australian economy to compete with the rest of the world.

We have to be more convincing about the privatisation of what economists call “natural monopolies”. Rail, electricity and water are good examples.

Realistically, no-one can set up a second or third railway network, electricity grid or water-delivery system. They are natural monopolies. Monopolies can sometimes set prices at excessive levels. This is a common public fear.

We all must make the case that, properly regulated, a private monopoly can be prevented from excessive pricing, upon pain of heavy financial penalties or even divestment orders.

And more generally we must all continue to make the case for considering new and different ways of funding infrastructure.

ALC is willing to continue to help governments gain support for that process. We see it as in the national interest. Properly done, it will benefit not only those who will run those newly privatised industries but also small businesses and consumers done the line. This is especially true in the logistics industry.

Another thing that I want to mention is the need to ensure that governments commit to long term freight planning.

ALC has been pleased that the New South Wales and Victorian governments have developed plans giving indications as to where infrastructure designed to support the movement of freight will be developed, as well as broad timelines as to when development of relevant infrastructure may take place.

This is a pleasing development, however it is imperative that governments do not chop and change the contents of these plans.

Industry participants make capital investments on the basis of receiving a return of capital over periods of 40 years or more.

Boards will not have the confidence to make necessary investments if they feel the goalposts are to be changed at either every election or at every change of government.

Parties of all persuasions must undertake to not significantly change the contents of the documents over the short to medium term.

Finally, there is a need to ensure that the right freight is taken from the point of generation to the point of destination using the right form of transport. The Transport and Infrastructure Council, which constitutes both State and Federal Ministers for Transport, recently considered the publication of the first-ever maps of Australia's key freight routes.

The maps provide a detailed picture of the road and rail routes connecting Australia's nationally significant places for freight.

ALC hopes that the publication of these maps will allow decision-makers to focus on the particular routes that require investment so that freight can conveniently move.

To that extent, you may be aware that in its report on public infrastructure Productivity Commission recommended the creation of a road fund will capture user charges levied on heavy vehicle users on a particular road.

One of the report's findings is that the existing approach to heavy vehicle charging has some deficiencies.

This is largely due to the fact that road use charges are averaged and do not take into account where heavy vehicles are, how far they drive and how heavy they are.

In effect, there is a disconnect between the revenue raised and spending decisions of road providers.

ACCC Chairman Rod Simms made similar points in a speech late last year, where he called for structural reforms to road pricing framework to unlock considerable productivity benefits.

ALC is encouraging reform to the current system because we accept the fact that there needs to be a more efficient way of providing infrastructure for high priority freight routes.

However, any money raised must 'follow the freight' and not lost to consolidated revenue.

There is a misconception that major heavy vehicle companies are not willing to pay their fair share for infrastructure projects, through new funding mechanisms or through tolling.

That is not the case.

By and large, logistics operators running heavy vehicles are prepared to pay a fair and reasonable price for infrastructure, so long as it improves access arrangements and supports greater productivity and reliability.
The Australian Government has said that supports the Productivity Commission recommendation in principle as 'a long term reform option' and is working with State, Territory and Local government to investigate options to trial road fund models as an initial step, including focusing on commercial freight routes.

ALC observes that governments have been working on reform in this area for years.

It is to be hoped that at the next meeting of the Transport and Infrastructure Council, Australia's governments will put a timeline around when trials will commence and finish, and when a final funding proposal is expected to be developed.

The imperative of ensuring that Australia's strategic freight routes can continue to efficiently carry Australia's freight task deserves no less a commitment.

One other recent contribution was a draft recommendation made by the Australian government's Competition Policy Review (commonly called the Harper Review) to create a single national regulator for utilities administering regulation relating to prices and access issues.

ALC believes that the creation of such a body would be the catalyst for the development of a consistent approach to key regulatory rules, such as the cost of capital, contracting approaches and network rules and would reduce the need for industry to deal with a number of different regulators based in different states who have different approaches to determining price structures and access rules.

ALC has suggested that as a first step a single economic rail regulator could be established so that, amongst other things, the movement of freight across state borders by rail will have the same access rules throughout the country. This is an appropriate outcome given the effective single market that exists in Australia in the 21st century. It may also lead to increased investment in the sector as well as increased volumes of freight on rail.

To conclude, as I said at the start, we live in interesting times.

We must all work together to explain to the nation that as man cannot live by bread alone, infrastructure just simply can't be funded from taxes or from government debt.

New and innovative means need to be developed so as to fund infrastructure of the 21st century.

Now let's go to work and do it.