

## 36 BUSINESS FEATURES

# \$200bn infrastructure bonanza coming

The private sector has a strong appetite for investments in roads, railways and ports

Adele Ferguson

WITH the federal election out of the way, Australia is set to get its biggest infrastructure reform with more than \$200 billion of state and federal funds allocated to building and fixing roads, rail, ports, water and broadband.

But while we are about to be awash with government spending on infrastructure, the listed infrastructure sector has been bludgeoned by investors deserting stocks with high gearing levels.

Port and rail operator Asciano scrapped plans to buy Brambles due to difficult debt markets and a falling share price, SP AusNet scratched its controversial \$8.3 billion deal to buy former Alinta energy assets from its major shareholder Singapore Power, and Australian Infrastructure Fund ditched a \$150 million bond raising due to lack of investor interest.

The sector's woes have not been helped by the fact that several institutional funds, including Perpetual, have mandates that stop them investing in infrastructure stocks due to the high level of gearing attached to the trusts.

And with the sub-prime crisis lifting the cost of capital and making it increasingly difficult to raise money, investors are panicking and dumping infrastructure stocks, pushing some to record lows.

Against this backdrop, the construction boom is forecast to increase 10.8 per cent in 2008 and 7.4 per cent in 2009, largely underwritten by infrastructure projects and mining-related construction. In particular roads, which is estimated to rise 15.4 per cent; rail projects to jump 22.2 per cent; water supply projects at 24.8 per cent; electricity generation and supply at 19.3 per cent; and telecommunications at 15.1 per cent.

The states will fund part of this infrastructure spending by raising at least \$50 billion from the privatisation of assets including energy, transport and forestry.

Australia's infrastructure is expected to get additional funding from the private sector as the federal and state governments push for more Public Private Partnerships (PPP).

The NSW Government has just confirmed it will privatise its retail and power generation assets, worth up to \$15 billion. Next is likely to be the privatisation of Sydney Ferries, followed by details on the size, funding and timing of the M4 East road, along with a 14km tunnel linking the M4 to Port Botany.

The M4 project, which is the biggest freight, road and tunnel project in Australia, will be valued at more than \$10 billion and *The Australian* understands it will be financed by the private sector, possibly through tolls.

All state Governments have been waiting until the federal election was over before unveiling some of the more controversial privatisations and projects.

NSW is also expected to look at privatising the State Transit Authority, the NSW Lotto business, and Forests NSW, which is responsible for managing 2.4 million hectares of native and planted forests.

Lotto could raise at least \$200 million and Forests, between \$400 million and \$600 million.

It will be the lemma Government's first attempt to privatise some of its assets since the \$3 billion sale of Snowy Hydro collapsed last year.

The sell-offs are being examined to help the meet a commitment to improve infrastructure throughout the state.

*The Weekend Australian* understands the lemma Government will implement the recommendations of a high-level inquiry into Sydney Ferries either later this year or early next year, which recommends that the service be run by the private sector in an attempt to draw a line under losses of \$48 million a year.

The inquiry into Sydney Ferries, which was instigated after the deaths of five people in two separate accidents earlier this year, presented an overall picture of a poorly run, underfunded, antiquated ferry service dogged by a culture of slackness.

The performance of some of the state-owned enterprises adds to the attraction of a sale or outsourcing. Patronage on Sydney Ferries fell 0.2 per cent during 2005-06, while the city's population grew 37,200 during the same

## CRITICAL PROJECTS



### WATER

**Sustainable water:** A \$10 billion national urban water restructure and a \$1 billion desalination plant  
**Water recycling:** Recycled water projects in western Sydney, Werribee district and La Trobe in Victoria for agricultural use

**Dams:** Broadscale projects in SE Queensland; Adelaide and Queensland dams, Traveston dam (above) on the Mary River; Wyalong dam at Teviot Brook

**Pipelines:** 400km pipeline to service WA goldfields; link Ballarat to Goulburn water system via Bendigo pipeline; project to take water from NSW northern rivers to service SE Queensland

**Desalination:** NSW central coast; Melbourne; two new plants in Brisbane and Gold Coast; Adelaide and to service Olympic Dam

### RAIL

**Inland rail link:** New efficient Melbourne-Sydney-Brisbane freight rail corridor

**Light rail:** New Brisbane light rail and Sydney and Adelaide expansion

**Network:** Complete refurbishment of Sydney-wide network in partnership with private sector, plus new metro including new harbour crossing

**Southwest Sydney:** New heavy rail link



**Gold Coast:** New mass transit system

**POWER**  
**National energy market:** Creation of true national energy market through investment in inter-connectors and private investment in NSW and Queensland

**NSW:** Two new base-load power stations

**Queensland:** New base-load power station

### ROADS

**Pacific Highway upgrades:** Four-lane dual carriageway Sydney-Brisbane by 2015

**Hume Highway:** Four-lane standard Sydney-Melbourne by 2012

**Sydney:** Link from Anzac Bridge to M4 and Port Botany (above)

**Melbourne:** Link Eastern freeway, Western freeway and metropolitan ring road

**SE Queensland:** Upgrades to Ipswich, Gateway and Logan motorways and Gateway bridge crossing



### PORTS

**Botany Bay:** New intermodal facility

**Newcastle:** Channel deepening

**Port Melbourne:** Melbourne channel deepening

**Fremantle:** Inner harbour dredging plus new port facility in outer harbour

**Geraldton:** New Oakajee port facility to increase iron ore export capacity

**HOSPITALS**

**Sydney:** New hospital at Frenchs Forest for northern Sydney

**Victoria:** Redevelopment of Box Hill hospital on the outskirts of Melbourne

**Brisbane:** New 400-bed paediatric hospital

**Gold Coast:** New hospital on Griffith University site

**Sunshine Coast:** 650-bed health campus

**Perth:** New Fiona Stanley hospital at Murdoch University

**Adelaide:** Redevelopment of Royal Adelaide Hospital (above)

**TELECOMMUNICATIONS**

**Broadband regulatory framework:** Federal Government commitment to spend \$4.7 billion on a broadband network

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## Boom puts a strain on the supply chain firms

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In the case of Emeco, the shares have dived amid concerns about Emeco's business model and delays in sourcing machinery to supply large miners, while Boom Logistics recently downgraded its profit, citing coal port congestion in the Bowen Basin and Hunter Valley coal regions, strong competition and heavy equipment shortages.

Boom Logistics, which derives more than a third of its revenue from the mining sector, has suffered a massive 50 per cent fall in its share price since peaking at \$4.43 in February.

The supply chain even goes as far as explosives, with Dyno Nobel forced to mothball its Moranbah ammonium nitrate project in Queensland earlier this week because of soaring costs.

*The Australian* reported this week that the Queensland construction market blew out the cost of the Moranbah project from \$520 million to more than \$800 million, destroying the project's commercial viability.

Moranbah had been expected to employ up to 600 people at the height of construction and provide 90 permanent jobs, but labour shortages have made it difficult.

The problem with Dyno abandoning the project is that the mining industry on the east coast will now face a shortage of explosives and increased prices.

As Goldman Sachs JB Wre Asset Management head of infrastructure Geoff Frankish says: "When you are dealing with a supply chain, if one part of it goes wrong, it disrupts the rest."

But the good news is, he says, governments are becoming more responsive and starting to try to alleviate some of the problems.

"We are seeing action in terms of the Queensland Government funding the Northern Link, Queensland Rail, etc," he says. For instance, Central Queensland Port Authority's expansion of the RG Tanna coal terminal at Gladstone is essentially complete.

The first stage of the expansion of the Dalrymple Bay Coal terminal near Mackay is also almost finished, with owner Babcock & Brown Infrastructure saying it might be ready by the end of January, and expansion of the annual capacity to 102 million tonnes at Port Waratah in Newcastle is complete.

On the rail side, Asciano's Pacific National, and Queensland Rail's QR National are investing in more locomotives and rolling stock to carry the coal the miners want to produce.

Asciano managing director Mark Rowshorn told *The Australian*: "We want to grow our rail and ports business and we want to create inland ports and connect them to rail because we see lots of opportunities to package them up and improve the whole supply chain."

"It will cost between \$500 million to \$700 million for six inland ports, but it will be worth it and it will make us more efficient and more competitive."

## King gambles reputation on green and global

Adele Ferguson

AT a time when listed infrastructure funds have taken a battering on the ASX, former Hastings funds management boss Mitch King is putting his reputation on the line.

He is going out on the hustings to raise up to \$450 million to launch a listed and unlisted wholesale infrastructure fund.

After nine years as a director of Hastings, Mr King created Melbourne's Lighthouse Infrastructure last year and helped to build the ASX-listed Australian Infrastructure Fund into one of the best-performing transport funds with a market capitalisation of more than \$1 billion.

He wanted to do it for himself, so in July he teamed up with

former Deutsche Bank infrastructure analyst Clinton Wood and property funds management group Orchard to test the market appetite for a listed infrastructure fund and wholesale clean energy fund.

"We will look at anything in wind, biofuels and the non renewables space," he said.

The first to market is the Lighthouse Clean Energy Development Fund, with a target of \$50-200 million.

The other, a global infrastructure fund, will raise \$250 million and list on the ASX.

Mr King said he was excited at the prospect of both funds because they were in an area that made a difference to people's lives for generations to come.

He said clean energy had been

niche for a long time and was to become more mainstream. "We see a lot of opportunities," he said.

He said although infrastructure stocks had suffered massive falls since the sub-prime crisis pushed the cost of credit higher and share prices lower on stocks with high gearing, he was confident there was still money to be made out of the sector.

"Markets misprice assets from time to time and I think there are some cheap buys out there," he said.

To prove his point, he set up a shadow portfolio in the second half of the year and tracked its performance against the UBS infrastructure index.

"I'm pleased to say we have outperformed the index by 500 or 600 basis points," Mr King said.

He said the 20 stocks in the shadow portfolio included diversified infrastructure stocks from New Zealand and Australia.

"We are a fundamental investor and so in times when infrastructure stocks are falling out of favour, we see opportunities to buy," he said.

"Our value-add is we are a bottom-up investor with a fundamental 'value' bias."

Mr King said he had observed that over a long period of time, various infrastructure securities could typically trade at a discount to fair intrinsic value and in extreme cases in substantial discounts of more than 30 per cent to intrinsic value.

The infrastructure fund would include a mix of global-listed infrastructure stocks and non-listed assets.



Funds raising: Mitch King, right, with Deutsche Bank's Clinton Wood

## If you're out of your tree, better pass on the office party mistletoe

Susannah Moran Celebrations

WHILE most lawyers are on holidays in January, employment law specialists are often at their busiest, fielding calls from clients whose staff have behaved badly during the Christmas party season.

December is the time when CBD restaurants are booked out with workers enjoying long boozy Christmas lunches, congratulating themselves on a rewarding year.

Then there are the golfing days, the afternoons spent sailing, all in the name of maintaining client relationships, of course, and often accompanied by several beers or cocktails.

But what some employers might not realise is that they can be found liable for inappropriate conduct at all work-related Christmas events, not just the traditional office party, and no matter where they are located.

And the worker who wakes up half-remembering trying to kiss a colleague at Christmas drinks but thinking nothing of it, could be in for a rude surprise when HR is there to greet him or her at the office.

For all its joy and goodwill, Christmas is also the time when there is a rise in sexual harassment claims, according to the president of the NSW Anti-Discrimination Board, Stanti Kerkyasharian.

"This time of year is not called the silly season for nothing," he says.

"The combination of a social setting, a relaxed party atmosphere and alcohol can create high spirits, which can quickly erode inhibitions and common sense."



Singing the booze: Office Christmas parties are a legal danger zone

Managing director at Australian Business Lawyers, Tim Capelin, says the most common form of sexual harassment at work-related events is inappropriate propositions followed by inappropriate touching. Male bosses are the worst offenders, Capelin says.

He says people often misconstrue signs — "they think there is a mutual attraction and there isn't. A fair bit seems to be maturity levels reduced by their intoxication, and they say things I am sure they would never say if they were sober ... really infantile things."

Cases rarely get to court, with employers preferring to solve the dispute in-house.

Capelin says an apology is often what complainants want, particularly if the comment was at the lower end of the offensive scale.

But for more serious cases, financial compensation might have to be paid, offenders can be sacked, and the matter even referred to the police.

Capelin says companies should

make it clear at the end of a function that they are not sponsoring any "after parties" — corporate cards should not be thrown around if kicking on to another bar.

Mark Howard, workplace relations and safety partner at Midletons law firm, says that at this time of year companies often ask for their staff to be updated on discrimination and harassment policies.

"Alcohol intake is no defence to allegations of sexual harassment, and managements need to lead by example," he says.

Howard also says workers need to remember that the workplace "is not defined by the four walls in which you work", but rather it extends to any social occasions that are work-related.

He says that when hosting Christmas events employers should have a cut-off time for drinks, and the event should be properly supervised.

And, perhaps, leave the mistletoe off the decorating list.

## Murdoch reassures staff after Wall Street Journal purchase

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about the new ownership, but said those were now dwindling. "There was a little hostility ... But the great body of people there love to see someone coming in, saying: 'Hey, we want to develop this business, not break it up and sell it off or cut it down'."

The comments came as News Corporation embarked on an international advertising blitz to coincide with the Dow Jones vote. The company bought advertisements for the Friday editions of many rival newspapers around the world, including the *New York Times*, *Washington Post* and *Los Angeles Times* in the US and the *Daily Telegraph* and *Guardian* in Britain.

But the three-page advertisement — headed "Free people, Free markets, Free thinking" — was not taken by another major international publication — the *Financial Times*. A spokesman for the newspaper told the *WSJ* it

objected to one sentence in the ad, which stated: "Today the greatest brand in journalism joins up with the world's most restless global media company."

The spokesman said: "We would have been prepared to reconsider the decision if the ad could be amended."

Mr Murdoch responded in the *WSJ* interview: "I think they're being a little over-sensitive. If I were them, I'd have taken the money."

The ad is running in *The Weekend Australian* and every Saturday edition of News Limited papers around Australia. It uses two pages to mock sceptical comments over "six decades" predicting the failure of a number of News Corporation deals, including the purchase of London's *The Sun* and *The Times*, and more recent ventures such as its move to start the Fox News Channel and social networking website MySpace.

There is a last quote in the ad

"I think we are in for a recession, probably. How bad, I don't know"

Rupert Murdoch, News Corporation chairman

from naysayers about the *WSJ* purchase: "*The Wall Street Journal* will never be the same." The ad's response is: "Exactly. And that's a promise."

Mr Thomson told the head office gathering of Dow Jones journalists that it was necessary the organisation adapted to the times. "While it is right to be respectful of the past, these days it is certainly fatal to be haunted by history," he was reported by the *WSJ* as saying. "He who stands still will be overrun."

Mr Murdoch has used the Fox News interview to clarify some of his plans for change — including the likelihood that the *WSJ* would

website might change from a subscription-based model to a free site reliant on advertising. "It may take a year to get there, but we will get there," he said.

"We think, when it goes from one million subscribers to 20 million people watching it around the world, that there will be more than enough advertising to make up the difference."

But Mr Murdoch hinted that making money out of the non-subscription model for *WSJ* did not have to be a short-term project. "We do these things for the long term. And we think this is a very, very great asset," he said. "We are seeing in the world today huge creation of wealth ... There's 100 million people a year coming out of poverty, creating things. And there is going to be a huge hunger and a need for financial and business information."

He has also signalled broadening the appeal of the *WSJ* beyond its financial core. "Already, there

is a great deal of news from ... around the world in the *Journal* that is not strictly financial. We will expand that, but not at the cost of what we're doing with the financial community."

Mr Murdoch has signalled strong co-operation between the *WSJ* and the new Fox Business Network — despite contractual obligations that *WSJ* reporters have with rival business network CNBC. "They'll build each other, they'll help each other. At the moment, there's a standing agreement with our competition, but that will run down or run out, and we'll be able to put the two together more and more."