$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 Iemma 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 Iemma 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 period. In contrast, Brisbane Ferries, which is outsourced to the private sector, has seen double-digit growth over the past year.

The NSW Government is tipped to announce the privatisation of its energy assets early next year. These include EnergyAustralia, Integral Energy and Country Energy, worth at least $4 billion. It is also expected to sell or offer long-term leases on NSW generation assets including Macquarie Generation, Delta Electricity and Eraring Energy, which are worth at least $15 billion.

Queensland is also revving up its list of privatisations and infrastructure projects. The Queensland Government started privatising its energy assets a year ago with the sale of its retail assets for almost $3 billion. Earlier this week it sold its wind farms to Transfield Services Infrastructure Fund for $460 million and a few weeks ago sold its Enertrade gas supply business to AGL and Arrow Energy for $268 million.

It is now believed to be considering selling its generation assets, which include CS Energy, Stanwell and Tarong Energy, worth an estimated $10 billion.

Infrastructure expert Mitch King, who was the former chief operating officer of Australian Infrastructure Fund, and now runs his own infrastructure funds management business, Lighthouse Infrastructure, says he expects the backlog of infrastructure projects to start moving forward. “A change of government means there is a good chance there will be a change in the infrastructure landscape,” he told *The Australian*.

“There are some good opportunities that will open up now with Labor governments all around the country and I think having some certainty and simplification in policy makes it more attractive for the private sector to invest,” he says.

Mr King welcomed the new federal Government's promise to fix the infrastructure mess by appointing an infrastructure minister, Anthony Albanese, as well as creating an independent, Commonwealth Statutory Authority called Infrastructure Australia.

Mr Albanese says the creation of Infrastructure Australia is an important step towards addressing the capacity constraints identified by the Reserve Bank. “These are important first steps towards building the world class infrastructure Australia needs to ensure our future prosperity.”

Infrastructure Australia can't come soon enough. Port bottlenecks, poor rail infrastructure and roads that need networking and repairing are just a few of the problems facing Australia and hurting economic growth.

The Business Council of Australia estimates that Australia has an infrastructure deficit of $90 billion. CEDA estimates that the infrastructure backlog is costing the country about $6.4 billion a year in lost production.

Infrastructure Partnerships Australia chairman Mark Birrell says he anticipates more PPP projects at a federal level, consistent with the track record of equivalent overseas governments. “The long experience in places like the UK (under a Labour Government) proves there is no debating the public benefit of partnerships between the public sector and private companies — in areas as diverse as transport, defence and education. Let's capture the innovation and fiscal discipline that private sector project management can deliver.”

He says “Creating frameworks for a ‘perfect match’ between our national retirement savings of more than $1.1 trillion and our urgently needed infrastructure has been a strong focus of senior ministers in the new Government”.

The irony in all of this is while Australia's infrastructure is in disarray, with most states experiencing electricity outages, rail problems and bottlenecks at the ports, there is a strong appetite by the private sector to invest in infrastructure assets, but few opportunities.

According to the ABS, total assets of super funds reached $1.1 trillion in the December quarter of 2006. Projections by industry analysts indicate that the pool of superannuation savings will escalate to more than $2 trillion by 2020.

But the lack of opportunities to fund these projects means they are being forced to spend the money on infrastructure overseas.

As one investment banker who specialises in infrastructure says: “Water plants, power plants and ports have good commercial rates of return, but a lot of other infrastructure assets don't and so the private sector isn't interested in investing in those.”

In the past few weeks Challenger Infrastructure Fund announced it was part of a winning consortium for the £4.19 billion ($9.7 billion) Southern Water Capital water and sewerage group, which was put up for sale by Royal Bank of Scotland earlier this year, and a few days ago Colonial First State Global Asset Management announced it had won a bid to acquire United Utilities Electricity Limited for $3.88 billion. Meanwhile, Sydney-based Spark Infrastructure has revealed it is looking at a gas distribution business in the US valued at up to $1 billion.

Australia's top 10 infrastructure funds are drowning in cash as they increasingly struggle to find assets to invest in.

Put simply, in the past 18 months, 72 infrastructure funds have been established globally, raising more than $US160 billion ($182.2 billion), and of them, 17 have raised more than $US2.5 billion, all looking for infrastructure assets. The problem with this is a lack of suitable assets.

In a recent report, Australia's Infrastructure Priorities — Securing Our Prosperity, IPA identified three sources of funding: superannuation funds, state government funding, and increased gearing levels by the states offering up debt funding.

IPA's Mr Birrell says despite this money looking for a home, there are not enough opportunities in Australia. “There is no matching of the funds with assets and so you are seeing companies like Macquarie Bank and Colonial buying water assets overseas,” he says. “They could be doing a lot more here if they had the opportunity.”

In the report, the IPA identifies 100 high priority infrastructure projects. These projects, which *The Australian* estimates would cost at least $120 billion to build, include a $7 billion four-lane highway linking Melbourne, Brisbane and Sydney; rail lines throughout the country; hospitals; schools; fast-tracking approval for the construction of a new intermodal facility at Sydney Ports to service an expanded Port Botany; gas projects in Queensland; SEQ Water Grid to facilitate the sharing of water in southeast Queensland; and developing a new $1.5 billion port facility in Fremantle's outer harbour.

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; Wyaralong 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 interconnectors 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 pediatric hospital

Gold Coast: New hospital on Griffith University site

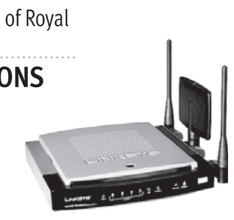
Sunshine Coast: 650-bed health campus

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



Boom puts a strain on the supply chain firms

From Page 33

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 Were 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 Rowsthorn 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, Stepan 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 Middletons 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

From Page 33

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 Fox News 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 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”.

> ‘I think we are in for a recession, probably. How bad, I don't know’
>
> **Rupert Murdoch,**
> **News Corporation chairman**

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.com 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.com 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.”

But the News Corporation boss has pointed to choppy waters for the US economy next year. “I think we are in for a recession, probably. How bad it will be, I don't know. But I think there's a lot more bad news to come out of . . . European banks, insurance companies, pension funds.”

Swan dives in, breaking bread with business bosses

From Page 33

Business leaders will wait to see how Swan's optimism about change works out in practice. The states aren't going to miraculously lift their very poor record on reform simply because there's now a federal Labor Government.

Swan talked about the need to improve the performance of infrastructure debacles like the ports on the east coast, and Australia's mishmash of transport infrastructure. But business could hardly disagree with his sentiment that long-term change and the discipline of a national perspective is overdue.

The Australian Industry Group lunch made for a convenient coincidence for other reasons.

Peter Costello was often criticised for not being sufficiently available to the Sydney business community. In contrast, Swan has worked the boardrooms relentlessly, particularly in Sydney, ever since Mark Latham (remember him?) appointed him shadow treasurer three years ago. But Swan has attracted a much more interested response since the advent of Kevin Rudd to the leadership a year ago suddenly made the prospect of a Labor government seem more real.

As shadow treasurer, he also had to spend a lot of time reassuring the business community that Labor would not allow its industrial relations policies to harm the economy.

Just before the election was called, the Australian Industry Group deliberately refused to join an employer-backed advertising campaign against rolling back reform on industrial relations after chief executive Heather Ridout judged the campaign to be too political.

The Treasurer has deliberately made it clear that the Labor Government bears no grudges, quickly calling the Business Council of Australia and the Australian Chamber of Commerce and Industry which spearheaded the ad campaign. But it meant that his segue yesterday into how Labor's industrial relations changes won't add to inflationary pressure was less awkward than it could have been if he had been facing a more openly sceptical audience.

“The flexibility associated with our fair and balanced IR system — with enterprise bargaining at its core — also means any increases in wages associated with the mining boom are less likely to spill over into other parts of the economy,” Swan said.

Like the new Prime Minister, Wayne Swan managed to avoid even once mentioning the word “union” in his 25-minute speech. Instead it was all about “wage increases being tied to productivity gains at the enterprise level”.

But even that reference was brief, relative to what Swan called a “an inflation-fighting package of reforms, extending from immediate actions to a long-term agenda. An agenda to build prosperity, modernise the economy and lift the speed limits on sustainable economic growth.”

He told his audience that however trying the physical demands of an election campaign, “you do get a burst of energy when it's over — at least when you win”. Now business will want to see that burst of energy produce results as well as rhetoric. And be hoping for the best.