

**Speech for the Melbourne Institute/The Australian
New Agenda for Prosperity Conference: Our Infrastructure
Catch-up**

Friday 28 March 2008

Melbourne

Check Against Delivery

Introduction

The title of this session ‘The Infrastructure Catch-Up’ is appropriate given that it evokes the concept of time as a central element to the discussion.

On one level this is obvious.

Our roads are clogged, queues of ships stretch to the horizon at our ports, our capital cities have water restrictions and our broadband connections are amongst the slowest in the industrialised world.

As the saying goes, ‘time is money’.

This is even more the case when we consider opportunity cost, not just real time cost impositions.

The longer the delay, the greater the cost of catch-up.

There is, however, another aspect to the time factor that goes a long way to explaining how we have reached this predicament.

And that is the triumph of short-term politics over long-term reform.

Because the political cycle is just 3 years, there has been a tendency to prioritise spending on programmes that can be fully realised within a single political term.

The truth is, the minister who initiates an infrastructure project will rarely preside at the opening ceremony.

Australia needs a triumph of policy vision which looks beyond the electoral cycle.

I hope that the last election represents a change in the dynamic which shapes the political debate.

Many of the key priorities established by Kevin Rudd as Labor leader – climate change, skills and infrastructure – were a break with politics-as-usual as they emphasised the need to take a long-term perspective.

It is also why the Prime Minister announced yesterday that we will develop long term goals for building productivity, including for infrastructure.

If the nation is to have an agenda for prosperity – both economic and social – we must search for long term solutions.

In no area is this more the case, than in infrastructure provision.

Impact of infrastructure bottlenecks

There are very compelling reasons for tackling infrastructure investment as a matter of urgency.

Put simply, Australia's infrastructure can no longer cope with growing levels of demand.

A failure to address bottlenecks and the under-utilisation of existing infrastructure is putting the hand-brake on our economy.

It is limiting our true potential.

These signs of constraint are reflected most obviously in high inflation rates.

For example, the lack of dedicated rail freight lines through Sydney means either more trucks on our city streets or containers left sitting on the wharves.

This adds to the cost of doing business, which flows through to higher prices for working families.

Productivity also declines in the face of infrastructure bottlenecks.

If a worker spends more than two hours a day commuting to work, this amounts to lost productivity, not to mention the cost to their family life and their community.

It is unacceptable that in some Australian cities, parents spend more time commuting in their cars than at home with their kids.

Infrastructure bottlenecks also reduce the incentive for business to invest.

There is little incentive for a farmer to invest in new crops if they cannot rely on the irrigation systems to support them.

An exporter will see minimal benefit to increasing production, if those extra products are going to languish on the docks.

Ultimately, a lack of suitable investment opportunities means that billions of potential investment dollars flow overseas each year from superannuation and managed funds.

On one estimate, infrastructure shortfalls are costing us 0.8 per cent of GDP in lost production every year.

All these factors combine to slow growth and create an uncertain outlook for Australia.

Tackling infrastructure bottlenecks is a major component of the Government's five-point anti-inflation plan.

Our approach to addressing bottlenecks

Addressing infrastructure bottlenecks will in many ways come down to ensuring that we get the balance right in terms of governance arrangements, regulation and pricing.

To address this head on, we have hit the ground running and in just over 100 days, have:

- appointed Australia's first ever federal infrastructure minister;
- established a federal infrastructure department;
- passed legislation to establish Infrastructure Australia within the first parliamentary sittings period;
- held 2 COAG infrastructure working group meetings;
- set a clear role and forward work plan for Infrastructure Australia;
- initiated work through the Australian Transport Council on a national transport policy and plan; and
- appointed Sir Rod Eddington as the inaugural chair of Infrastructure Australia.

Governance

Ensuring that appropriate governance arrangements are in place has been one of our first priorities.

Key to this is the creation of Infrastructure Australia.

Infrastructure Australia will develop a strategic blueprint for unlocking infrastructure bottlenecks and modernising the nation's infrastructure.

This includes, but is not restricted to, our transport, water, energy and communication assets.

Infrastructure Australia's first task will be to conduct an audit to determine the capacity and condition of nationally significant infrastructure.

Infrastructure Australia will consult widely as part of the audit – including with owners and operators of existing infrastructure assets.

After the audit is complete, Infrastructure Australia will draw up a national priority list, which it will deliver to COAG in March 2009.

The priority list will provide governments and private investors with clear direction on viable, productive investments that will deliver significant benefits to our country.

A pipeline of projects will also facilitate better long term planning and construction of key national infrastructure.

Regulation

Appropriate and consistent regulatory arrangements are undoubtedly important in overcoming bottlenecks.

Recognising this, another of Infrastructure Australia's roles will be to provide advice to all levels of government on regulatory reform needed to help improve the utilisation of existing infrastructure.

This will include streamlining planning and access regimes across jurisdictions.

The COAG infrastructure working group will also play a significant role by bringing together all levels of government to work towards consistent regulations throughout Australia.

Pricing

Regulatory arrangements link closely with getting the right price signals for infrastructure investment.

Pricing could be confused as relating only to rewards to investors.

It is also about the price that industry pays for its own inputs, such as construction and maintenance.

And it is also about recognising other costs – be those social, environmental or economic – which are not always factored into headline price.

Establishing the right price signals leads to efficient use of infrastructure, healthy competition and more investment.

Governments also need to ensure there is strong competition in infrastructure provision.

We must attract major global infrastructure companies to our shores.

We need to acknowledge that restricted competition in the infrastructure construction industry leads to increased costs which are in the end paid for by the community.

Financing infrastructure

To adequately meet current and future infrastructure demand, the government must consider a range of financing options, in addition to the public sector.

One of the procurement options should be public private partnerships.

To date there hasn't been nationally consistent guidelines on how to effectively utilise PPPs.

As a result barely any national partnerships have taken place.

It is for this reason, that I have tasked Infrastructure Australia with developing consistent guidelines for PPPs by October 2008.

Nationally consistent, best practice PPP guidelines will make it simpler and less expensive for local and international financiers to bid for local infrastructure projects on offer.

When considered to be the best procurement option, PPPs maximise value for money, transparency, innovation, risk management and public accountability.

We have a simultaneous demand for infrastructure and a potential supply of available capital.

This includes \$1.2 trillion in superannuation funds – a figure greater than Australia's annual GDP.

The challenge is to establish a policy framework that brings together demand and supply.

National Transport Policy

So far the approach that I have outlined for governance arrangements, regulation and pricing has been about infrastructure as a whole.

But transport infrastructure will play a particularly fundamental role in addressing bottlenecks.

In light of this, the nation's Transport Ministers have agreed to join with me in developing a national transport policy and plan.

We have ten work areas, each being lead by a Minister.

These include:

- the development of an economic framework for an efficient transport marketplace, such as pricing mechanisms;
- work on transport infrastructure planning and investment; and
- work on investigating capacity constraints and supply chain performance.

The Commonwealth will lead work to make sure our future governance arrangements work to deliver the best transport infrastructure for moving Australian people and freight.

This work again represents the Government's commitment to taking a collaborative, long-term perspective to tackling Australia's problems.

Some specific steps taken

Moving on from our broad infrastructure agenda, let me now outline for you some of the specific steps we have taken since November.

The Ipswich Motorway

On our 99th day in office, the Prime Minister and I turned the sod on the most critical road project in south-east Queensland – the Ipswich Motorway upgrade.

We are providing \$700 million towards the Wacol to Darra project to eventually upgrade a road used by 80,000 cars and trucks every day.

Once completed, the upgrade will take an estimated 20% of vehicles off the motorway, improve safety, and accommodate alternative transport, such as cycling.

Broadband

The Government will also facilitate the rollout of a new world-class National Broadband Network with a minimum speed of 12 megabits per second.

The Commonwealth will invest up to \$4.7 billion in the project, in partnership with the private sector.

Inland rail

Today I am pleased to officially announce that the Government will also be providing \$15 million to the Australian Rail Track Corporation for a study into the inland rail project.

Moving freight from Melbourne to Brisbane by rail currently takes around 36 hours.

Moving the same goods by road takes as little as 21 hours.

Rail clearly still has a long way to go in measuring up to the reliability and on-time performance of road transport.

The ARTC study, which will be completed by August 2009, will resolve once and for all the likely success of building a second north-south rail corridor.

It will take into account the needs of potential users as well as possible engineering, planning and environmental issues.

Importantly, the inland rail study will also provide the government with a basis for evaluating private financing opportunities and options.

Conclusion

In conclusion, let me reiterate the importance of time in the infrastructure catch-up.

Time really is money.

Delays in addressing infrastructure bottlenecks have cost our economy.

The longer they are neglected, the higher that cost will be.

Conferences such as this are critical in lifting the level of public debate.

At the beginning of my speech today I drew the distinction between long term reforms and short term political fixes.

This has been reflected in economic terms by the failure of some to appreciate the distinction between capital investment in infrastructure for long term benefit and one-off discretionary payments for perceived short term gain.

The fact that the extraordinary growth in discretionary payments over the last decade occurred at the same time as our infrastructure deficit was

increasingly constraining our economy is a legacy that should never have been left.

The opportunity which the windfall revenue from the resources boom presented was not used to secure our long term prosperity.

The infrastructure backlog must be addressed now as a matter of urgency.

As Australia's first infrastructure minister, that is exactly what I intend to do.

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