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KEYNOTE ADDRESS

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Thank you for the opportunity to speak to you today.

Standing here today, it is hard to know if I am speaking to you during or after a Global Financial Crisis.

Australia has indeed been fortunate to avoid the worst impacts of the crisis that spread around the globe after the collapse of Lehman Brothers in September 2008.

Australia entered that period with very strong public finances including zero net debt, our banks and the regulatory system that governs them in very good shape, and the developing economies of Asia providing strong demand for our resources with very favourable terms of trade.

When the crisis hit, the Australian government joined many others in moving quickly to launch a stimulus package of unprecedented proportions – and it seemed to work. Australia is one of the very few countries in the so-called developed world that has not contracted but kept growing right through last year.

With the tentative signs of economic growth emerging by mid-2009, and a central bank that raised interest rates three consecutive times last year, you could be forgiven for thinking that the financial crisis is behind us here in Australia.

But suddenly now, things seem very fragile again. The tightening of monetary policy in China, the persistent high levels of unemployment in the US and concerns of sovereign default in the Euro zone are now combining to create a new threat to confidence.

These events serve to remind us that recovery from such a major economic crisis does not just happen smoothly and automatically. It reminds us how difficult it will be for policy-makers to exit from very expansionary fiscal settings, to an environment where private investment flows in to replace publicly funded stimulus. All without the economy reversing into a double dip downturn or recession.

When the crisis hit Australia, we had enjoyed a long period of economic growth. But the signs of an economy running close or at capacity were evident.

There were clear skills shortages as the country reached full employment.

There had been stubbornly low productivity growth over quite an extended period.

Ships were queued off the coast of many of our major coal exporting ports in NSW and Queensland. Many people don't realise that virtually all of Australia's increased export income during the mining boom came from commodity price increases – not increases in export volume. We couldn't get the commodities out fast enough to meet demand.

The main transport arteries of our major cities were obviously congested as population growth, commercial activity and seemingly exponential increases in freight movements clogged up our city streets and public transport systems.

In addition, a period of extended drought and the early effects of long-term climate change at a time of rapid population growth combined to create real challenges in water supply for our farms and cities, as well as the need to increase our energy supplies, but in a way that did not continue the same path in greenhouse emissions.

So before the crisis hit, the need for a major investment in infrastructure was recognised to clear a backlog of long overdue infrastructure developments that would bolster Australia's productive capacity and allow us to grow in the future.

The GFC may have bought us a small respite from these growing pains, but it has taken only the most modest levels of recent economic growth to see these capacity constraints instantly begin to re-emerge. Ships were queuing off the coast of Newcastle again by the end of 2009, and some industries are already flagging skills shortages. Our roads are congested as ever and the population continues to surge.

Our infrastructure challenge has not gone away. It is staring us in the face and it is back with a vengeance.

Here in Victoria, our State Government has recognised the need for major infrastructure investment for some time.

Victoria currently has an unprecedented capital program roughly three times the normal level focussed on transport, education and health – the main service provision responsibilities of the States.

But State Governments in Australia have limited financial capacity, and as the size of the national infrastructure challenge becomes apparent, we are seeing State Governments increasingly turn to the National Government to fund infrastructure projects.

The National Government recognises this, and so we are seeing an historic shift occurring in our Federal system in a gradual but undeniable trend.

For the first time, the national Government is declaring and accepting a central role in the development of our major cities. In the past, it has been the State Governments like Victoria that have made investments in public transport and city motorways.

In the past, the national Government's transport investments have been confined to the major road and rail links between cities, as well as the nation's airports.

And so, in 2008 the Australian Government established Infrastructure Australia – an independent advisory body chaired by the former Chief Executive of British Airways, Sir Rod Eddington – to audit the nation's infrastructure requirements and advise the Government where to prioritise its investment in order to increase the nation's productive capacity.

Some $8 billion was allocated to projects around the country in 2009, with Victoria winning the lion's share on the back of a thorough infrastructure planning process that had already been undertaken by this State. The centrepiece of these investments is the $4 billion Regional Rail Link project happening here in Melbourne's west.

Infrastructure Australia represents an excellent model for best practice investment decision-making in a federal system of government with competing interests at the sub-national level.

It is of course very natural that our sub-national governments, our States and Territories, compete to attract the most money they can from the Australian government.

To balance that, Infrastructure Australia ensures that projects are assessed against *national* criteria, focussed on *national* productivity. Not the concerns of individual States.

The board of Infrastructure Australia is drawn from mostly private industry, as well as academia and senior members of the bureaucracy. It has been an excellent innovation designed to avoid scarce public dollars going to projects that may be politically popular but do not meaningfully contribute to productivity.

Of course, with such a major infrastructure challenge facing both the State and National Governments, it is now firmly recognised in Australia that the private sector must play a crucial role in financing and building public infrastructure.

It is very exciting to hear the Australian Government promoting PPPs as a critical part of the strategy to take on the infrastructure challenge I have been talking about.

Victoria has led the way in this respect, introducing the Partnerships Victoria policy in 2000. Partnerships Victoria is a framework for the use of public private partnerships for the provision of public infrastructure.

Since its launch, 22 separate PPP projects have been or are being delivered in Victoria at a value of more than $11 billion.

The use of PPPs has been remarkably successful in Victoria. From the Government's perspective, critical infrastructure in transport, health, water, education and justice have been delivered by the private and public sectors working together in ways that have brought world class innovation and design to our State.

Architecturally, PPPs have helped change the face of Melbourne.

Developments such as the Bolte Bridge, the award-winning Southern Cross Station, the County Court and the recently opened Melbourne Convention Centre have made substantial design contributions to a fast-changing streetscape.

But even more importantly, time after time we have seen these complex, at times risky and massive undertakings delivered on time and with the State protected from critical delivery risks.

In 2008, the University of Melbourne undertook extensive research into how PPP projects compared to other types of projects in time and cost. After examining 25 PPP projects and 42 traditional projects from across the country, it found that PPPs delivered projects for a price that is far closer to the expected cost compared to traditional projects.

The research found that in relation to expected cost and final cost outcomes, PPPs performed 31% better than traditional projects.

When it comes to on-time performance, the research found that both traditional and PPP projects had similar outcomes for delivery dates given at the original project announcement. However, once a contract has been signed, traditional projects are about 25% late, compared to about 2.5% for PPP projects.

In other words, PPPs require more discipline up-front, but once that work is done, Governments have the highest possible degree of certainty around price and time of delivery.

PPPs are now being used in nearly all Australian States. But they are not always done in a consistent fashion.

The PPP industry indicated to governments that if a large degree of consistency could be achieved in how PPPs were being delivered, then this would reduce transaction costs and the procurement period, leading to greater efficiency.

And so in 2008 and 2009, the national government through Infrastructure Australia worked with all of the States to develop the first set of national guidelines for PPP projects.

That work is now largely completed and has been published. I am proud to say that to a large measure, those national guidelines have been based on the Partnerships Victoria framework that has served this State so well.

Indeed, the Partnerships Victoria framework is drawn upon by many different countries and organisations such as the United Nations and the World Bank.
In just two days time, we will be hosting a delegation from the Republic of Korea, and we have also had recent discussions with representatives from Japan and Vietnam.

But those guidelines will change. How we do PPPs and what projects we undertake will always keep evolving as we learn more about PPPs and as market conditions change.

The Global Financial Crisis created a new set of challenges for PPPs, and has seen changes in risk allocation and commercial terms as the PPP model responds to market conditions.

It is interesting speaking to people from different countries and learning the subtle differences from place to place as to how the GFC has affected PPP projects.

In Australia, we observed very early in the Global Financial Crisis the disappearance of the long-term bond market, which had until that point provided the vast majority of long-term finance for PPP projects at a relatively low cost.

And while there may be signs of its re-emergence, we are yet to see bonds return in the Australian market to this point. And yet that is not the case in other places.

Early in the crisis, the overriding concern was a so-called cap on liquidity. The notion that any project requiring more than say $400 million in finance could not be fully financed. But we never encountered that problem in Victoria, with perhaps the most defining moment coming when the $4 billion of private finance to be raised for the Victorian Desalination Project was actually over-subscribed by nearly $1 billion.

But there is no denying that there has been a re-calibrating of risk. And this has manifested itself in both a higher cost of finance on PPPs, and a change in some commercial terms and conditions.

In recent times however, at Partnerships Victoria, we have seen finance costs begin to come down and an easing in commercial risk contractual provisions at the negotiating table.

It shows that when we approach a PPP project, we do so in an open market place where different forces directly impact every transaction in slightly different ways.
Our PPP framework must be robust, but it must also be flexible.

As we examined the PPP model during the Financial Crisis, and spoke to private industry about different options, one message came through loud and clear. The PPP model was sound. Don't change the basic structure of the model. But do adapt to the market, and if you have to consider alternatives, make them temporary, not permanent.

To me, there are two very exciting developments in PPPs that give me great cause for optimism and anticipation.

The first is the heightened level of interest now being shown by the Australian government in PPPs.

The Australian Government and Infrastructure Australia are encouraging and looking for opportunities to develop a pipeline of PPP projects across the country.

This is exciting because, as I mentioned earlier, the Australian government's emerging direct role in major infrastructure projects in our cities means we will hopefully see a pipeline of major co-funded PPP projects across Australia in not just roads and public transport, but also health – such as the $1 billion Parkville Comprehensive Cancer Centre here in Melbourne – social housing, renewable and cleaner energy, and higher education.

The second cause for great excitement is the new level of interest in our region, amply demonstrated by this event – a public private partnerships forum sponsored by the APEC Business Advisory Council.

In the same way I have described in Australia, the nations of the APEC community face massive infrastructure challenges in the years ahead. As our business and cultural links continue to develop and grow, it is both logical and natural that we share our experiences to develop capability and capacity.

PPPs are still relatively new. But they now represent a proven model, in many jurisdictions around the world, for joining the might of the private sector with that of the public sector to deliver what our societies need most – the sort of public infrastructure that has underpinned progress and higher living standards since civilisation began.

But we need to do more. There is still a lack of understanding of PPPs at all levels, and there is a lack of expertise in putting together and successfully delivering PPPs.

We must do more to create that greater capacity and develop the model to meet different circumstances. That is why I am very pleased to see a session at this forum devoted to the establishment of an Institutional Framework for an Asia-Pacific Partnership.

That is exactly the kind of initiative we need to create a better future in this area.

In Australia, under our federal system, it is fair to say that in the past there has not been enough co-operation and resource-sharing across State borders. But over the last one and a half years, there has been a significant change in that regard.

There are now several forums through which PPPs are developed and discussed across the country, and the level of communication today far exceeds what went before.

I am also involved in the implementation of the federal government's economic stimulus package, and that too has benefited greatly from a major concerted effort in national co-operation. It is amazing what can be achieved when we all get in the same boat and row in the same direction.

Similarly, forums such as this extend that concept internationally. What we can learn from each other is limitless, and while we are doing it, we are also learning *about* each other. And perhaps that is the greatest benefit of all.

May I once again thank John Denton, Ken Waller and you all for the opportunity to speak here today.

This forum takes place at a time when our links have never been stronger, and at a time when we are beginning to re-emerge from a financial crisis that threatened but did not destroy a PPP model that continues to evolve.

Therefore, opportunity beckons. I hope you have a very successful PPP forum today and into tomorrow.