How to attract foreign firms to do Australian infrastructure

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Abstract
Australia's two biggest construction companies, Leighton and Lend Lease, control a significant share of construction - up to 75% in cases such as major rail projects. The recent Productivity Commission draft report on public infrastructure found their combined "market shares would appear sufficient to allow them to exercise market power to inflate prices and/or profits". At the same time, the Commission noted that no evidence exists to support such a proposition. A more important unanswered question remains - what conditions are necessary to attract foreign firms to help Australia deliver cheaper, faster and better infrastructure? Looking abroad for solutions can solve some problems, but in the case of infrastructure, Australia must first do some necessary and overdue housekeeping before multinational construction companies would be interested in pursuing a long-term presence in the country. The last two decades have seen a series of multinational infrastructure firms test the waters in Australia, but the reality is that few stay for long, and many are toughened by the experience without much reward. This is not to say that foreign infrastructure firms are fickle or lack the staying power to be successful in Australia. But if doing business and securing profits is easier elsewhere, then the decision to exit or not enter at all is a straightforward one.

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More international competition won’t necessarily drive down infrastructure costs if the groundwork isn’t done by governments. AAP/Tony McDonough

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At the same time, the Commission noted that no evidence exists to support such a proposition. A more important unanswered question remains - what conditions are necessary to attract foreign firms to help Australia deliver cheaper, faster and better infrastructure?

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**An uninviting welcome mat**

Apart from the well-known fact that Australia is a relatively small market, it has three unique characteristics that exacerbate the challenges for international and local players alike.
The first is a lack of institutional architecture to help the various parts of the infrastructure system work together – markets, land use, planning, approvals, project prioritisation, funding, financing, delivery and operation.

This is a big issue because it highlights risk, and the lack of mechanisms available to manage them.

The second major factor in Australia is the absence of a track record of long term major infrastructure projects. The practical implication is that the private sector cannot assess the type and quality of opportunities over the medium term to justify a serious and ongoing presence in Australia.

Finally, the cost of acquiring business is high. Some European firms have argued that the cost of bidding for a contract is not only high, but almost double that of the second most expensive jurisdictions they operate in.

SMART’s recent Infrastructure Imperatives for Australia green paper made 18 recommendations to address a number of biases in infrastructure planning and procurement which distort quality decision-making and market structure.

The infrastructure development process in Australia often moves very quickly from project inception to engineering blueprints. The difficulty this raises is that infrastructure is rapidly designed at short notice without proper consideration to the problem it is intended to address.

This often limits the role of private sector to a quick design and construct mentality. The unintended consequence is that innovation, problem solving and the ability to adapt assets to changing circumstances over their lifespan go missing. As a result taxpayers will ultimately pay more and get less for their infrastructure dollar.

Infrastructure is too commonly seen as a static physical asset without proper consideration of the services it will need to deliver, and its value proposition to customers. This further limits the scope of services and is further distorted with a bias to building new infrastructure first as opposed to renovating and trying to better use existing infrastructure.

No shortcuts

Infrastructure procurement expertise and knowledge is too often siloed in risk adverse purchasing departments that lack a whole-of-government perspective. Teams can be poorly trained for dealing with non-traditional procurement techniques like public-private partnerships that can frustrate market actors with new ideas and methodologies.

While there appears to be a general consensus governments are paying too much for infrastructure, this is a complex matter with a myriad of issues at play. Greater policy attention is required to understand the cost drivers and how greater value for money can be achieved for taxpayer dollars.

Many cost drivers are hidden, at times subtle, and cumulatively can be very significant on overall project costs. These include changes to technical standards (over-engineering),
environmental and planning requirements, safety standards and treatment of contingencies in contracts.

Understanding possible links between long-term planning and infrastructure costs is fundamental.

As cities become bigger and denser, access to land is rapidly diminishing. Land corridors have not been preserved, causing tunnelling that is more risky and expensive.

While foreign and local firms can easily do this work, escalating risk in projects has a cost, which is paid for by users as higher tolls and more government funding is required. While this is preventable with long term planning, today we are paying the price of short sightedness.

Australia has a proud history of being an open and competitive economy to the world. There is every reason to expect that greater foreign participation in infrastructure would be a good outcome.

The question is whether we can plan infrastructure for the long term and create the conditions for a sustainable, innovative and competitive market. That destiny is very much in Australia’s hands.