



MACQUARIE

# The Role the Private Sector can Play in the Transport Solution

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ITLS Seminar  
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# Agenda



1. Introduction
2. Roads
3. Airports
4. Rail



# Introduction

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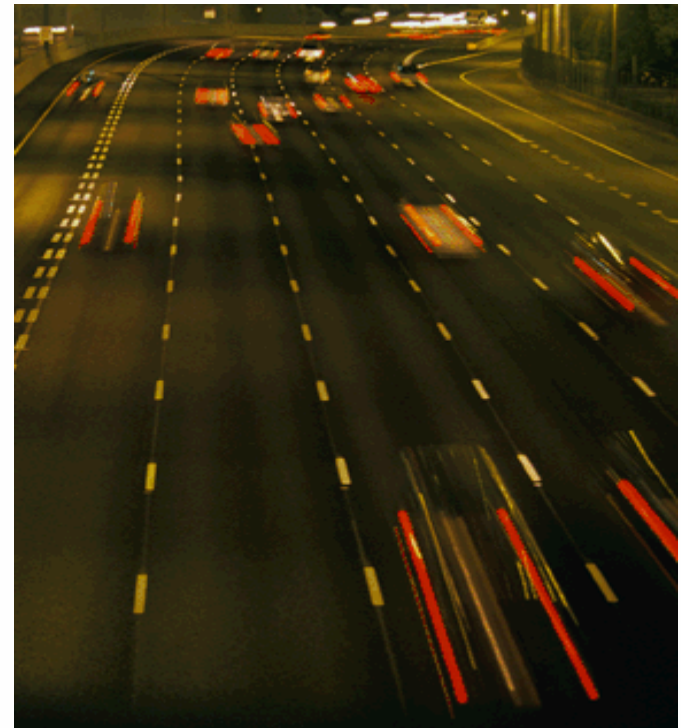
# Introduction

- basic structural foundations of a society
- roads, airports, bridges, rail, ports etc regarded as a country's economic foundation

## Private Sector Involvement

Allows the allocation of responsibilities and risks to the sector who are best able to manage and mitigate those risks

- better value for money
- better quality of service





# Introduction to Infrastructure

- As private sector investors, Macquarie funds have greater supply of money for investment than available projects
  - A\$2 billion unspent
  - many billions available
- Macquarie experience is shared by many private investors
  - Australian managers
  - Australian investors
  - Canadian investors
  - European investors
  - Asian investors
  - And now US investors
- Constraint is community concerns of private ownership of essential assets



# Introduction

## Globally, when it comes to infrastructure delivery, the community has concerns

*"The bottom line here is the State of New Jersey... is going to run the road as well as it can for the good of the people who use that road. If that road is now in the hands of a private corporation, that private corporation is going to run that road as best it can to make its own profit..."*

*There is no alternative to the New Jersey Turnpike. They could let it go to rack and ruin - that's the only road...*

*... I've got to tell you as a daily user of the New Jersey Turn Pike this strikes me as a really bad idea".*



Mark Haines, Host Anchor  
CNBC Squawk Box, 1 Feb  
2005



# Concern private sector involvement costs more

**“It is hard, however, to find examples of BOOT schemes that yielded both satisfactory returns to investors and value for money for the public sector.”**

*AFR, 16 Dec 2004*

- Higher Cost of Borrowing
- Bid Costs
- Loss of future income – no “magic pudding”
- Complexity of contracting arrangements
- Sophisticated private sector takes advantage of less sophisticated government
- Price gouging
- Spiralling costs for access to services

**“Going public-private looks good, but can exact a terrible toll.”**

*The Age, 7 May 2005*

**“PPPs have put states at odds with unions and party members who argue that it is cheaper to finance infrastructure directly.”**

*AFR, 17 Feb 2004*



# Concern over lower quality of services

**“The negatives include the blurring of accountability when private-sector profit agendas crash into the public interest.”**

*The Age, 7 May 2005*

- Some projects have not been a success
- Private sector is motivated by profit at the expense of public interest
- Lack of accountability to deliver high quality services
- Reduced services

**Newly appointed Treasurer Andrew Refshauge said Port Macquarie, like Sydney airport rail link, had been ‘a monumental failure’. The government would still look at involving the private sector in building and maintaining assets but not running them, he said...”When you add the area of service provision, that’s when you get into much more trouble.”**

*AFR, 8 Feb 2005*



# Community concerns are not homogenous

**“We do not want  
[the UTS station]  
at all”**

*Mr Jim Baird, Residents  
Committee, Parramatta to  
Chatswood Link*

- Protect existing environment
- Protect existing jobs
- NIMBY

**A new report on transport in Baulkham Hills Shire, the Western catchment of the M2, has found that 70% of people favour the \$644m M2 tollway and almost 50 per cent back new motorways.**

*SMH, 11 Dec 1995*

**Sydney’s biggest rail project in 70 years is stirring community alarm on the North Shore because the \$1.4bn Parramatta to Chatswood line will have to cut through the Lane Cove National Park... Minister for Transport Mr Scully, said he anticipated few environmental objections because 50 percent of the 28 kilometre line would be underground.**

*SMH, 1 Feb 1996*



# Concern about the natural role of Government

**“You have to worry a bit about the Howard Government’s philosophy towards privatising monopolies.”**

*Crikey.com.au, 24 Feb 2005*

- Trusted to provide essential services – safe pair of hands
- Government most efficient allocator of resources
- Government is abdicating responsibility
- Dilution of rights to essential services

**“No federal minister should give the powers of the Federal Government to a private corporation against the interests of its citizens.”**

*Rae Jones, Mayor of Ashfield, 10 Mar 2005*

**“They are arguing that because [the Federal Government] have leased it to a private company, they have no responsibility.”**

*Murray Matson, Greens Mayor of Randwick City, 10 Mar 2005*



# Legitimate concerns may not be economically rational

## People resist change

- Status quo bias
  - People take bigger gambles to maintain the status quo than to acquire it: “fear of regret”
- Irrational loss aversion
  - Asymmetric attitude to gains and loss (prospect theory)
- Endowment effect
  - Greater than rational value for ownership
- Anchoring and availability/recency bias
  - Most recent and readily available experience dominates attitude

**Kahneman Tversky**



## Community likely to resist

- Change to existing (brownfield assets)
- Compensation: ever enough?
- Recent band-aid can dominate judgement



# Transport Infrastructure?

## Views propagated by proponents of further private infrastructure spending

- Currently a **AUD\$25 billion backlog** in essential infrastructure investment (*Australian Council for Infrastructure Development (AusCID)*)
- Latest Australian Infrastructure Alliance Report Card: a B minus for electricity, Ds for local roads and stormwater, a C minus for state roads and wastewater
- "I don't think people fully understand what little leverage some of the states have to keep their AAA rating. At some point we're going to run out of money." *Col McKeith, ABN Amro, 15 Sep 2006*

“**Rail transport** in Sydney is in crisis... a system which is near capacity, dilapidated, dysfunctional and seriously in need of significant injection of capital investment - just to bring it into the 21st Century.”

*Dennis O'Neill, CEO of AusCID, 11 Mar 2005*





# Private sector manages billions of \$ of transport infrastructure globally

## EUROPE

### UK

Birmingham Airport  
Bristol Airport  
M1-A1 Link  
M6 Toll  
Wightlink

### Italy

Rome Airport

### Belgium

Brussels Airport

### France

Autoroutes Paris-Rhin-Rhône\*

### Germany

Warnow Tunnel

### Denmark

Copenhagen Airport

### Portugal

Tagus Crossings

### Poland

Deep Sea Container Terminal

### Sweden

Arlanda Express

## Canada

407 ETR  
Edmonton Ring Road  
AltaLink  
Sea To Sky

## Japan

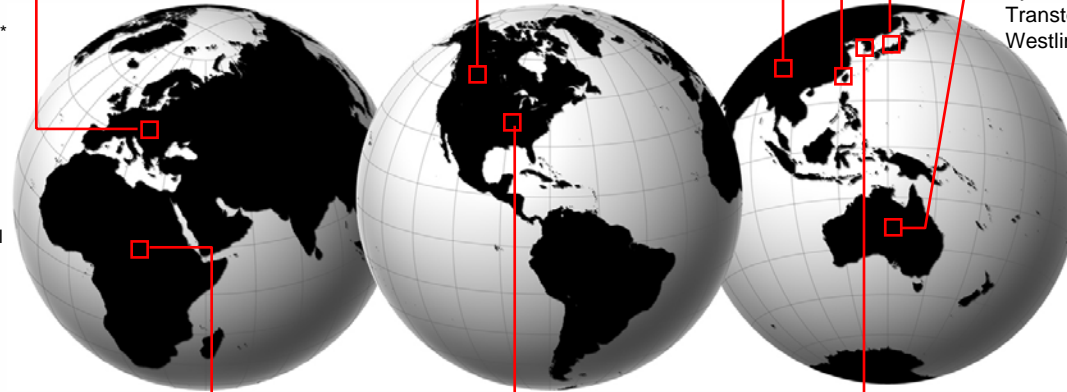
Hakone Turnpike  
Ibukiyama Driveway\*

## China/Taiwan

Changshu Xinghua Port

## Australia

Adelaide Airport  
Asia Pacific Transport  
M1 (Eastern Distributor)  
M4  
M5  
EastLink  
Sydney Airport  
Transtoll  
Westlink M7



## AFRICA

### South Africa

Bakwena Platinum  
Corridor  
N3 Toll  
N4 Maputo Toll  
Tanzania  
Kilimanjaro Airport

## USA

Airports Services Business  
Detroit-Windsor Tunnel  
Dulles Greenway  
Indiana Toll Road\*  
Skyway  
South Bay Expressway

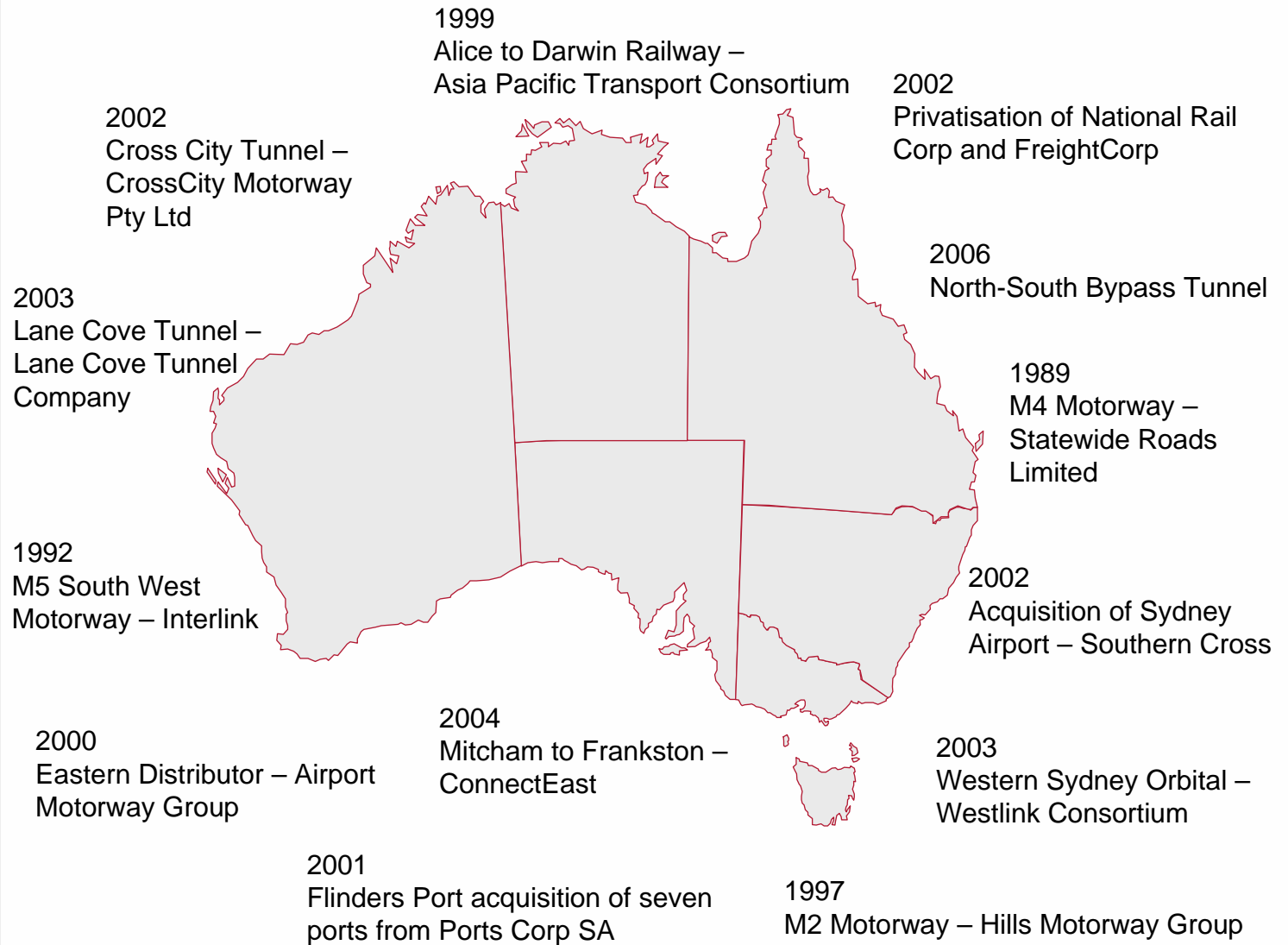
## South Korea

Baekyang Tunnel  
Cheonan Nonsan Expressway  
New Daegu Busan Expressway  
Daegu East Circular Road  
Incheon Expressway  
Incheon Grand Bridge  
Kwangju 2<sup>nd</sup> Beltway, Section 1  
Kwangju 2<sup>nd</sup> Beltway, Section 3  
Machang Bridge  
Seoul Chuncheon Expressway  
Seoul Subway #9  
Soojungsan Tunnel  
Woomyunsan Tunnel\*  
Yongin Seoul Expressway

\*Subject to financing and customary closing arrangements  
As at 18 September 2006 – the assets listed are managed on behalf of investors with various direct % stakes held in each



# Recent **Transport Deals**





# Roads

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# Tollroads

**A new report on transport in Baulkham Hills Shire, the Western catchment of the M2, has found that 70% of people favour the \$644m M2 tollway and almost 50 per cent back new motorways.**

*SMH, 11 Dec 1995*

**Tolls are more efficient than fuel taxes for funding road maintenance and reconstruction**

- User pay – pay directly in proportion to use
- Reduce spending on so called political highways – backers of tollroads must prove to the debt and equity markets that a tollroad is viable
- Bondholders insist on legally enforceable requirements for proper ongoing maintenance – no counterpart on non tollroads



# Tollroads

## Features

- Approx. 85% of revenue from tolls is used to service capital
- Low risk in nature - main variables are traffic and costs
- Major construction risks can be offloaded to contractors
- Traffic and revenue growth is affected mainly by population and demographic factors
- As the risk of the tollroad declines over time, the value of the toll road increases, and the rate of return increases – (the ‘re-rating’ process)



# Airports

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# Airports

**“THE Tourism & Transport Forum has delivered a big tick to airport privatisation, releasing a report saying private airports have made big efficiency gains and that they are lifting revenue through new business.”**

The Age, 13 Sep 2006

## Sydney Airport

June 2002 - Southern Cross Consortium acquired 100% of Sydney Airport from the Commonwealth Government of Australia

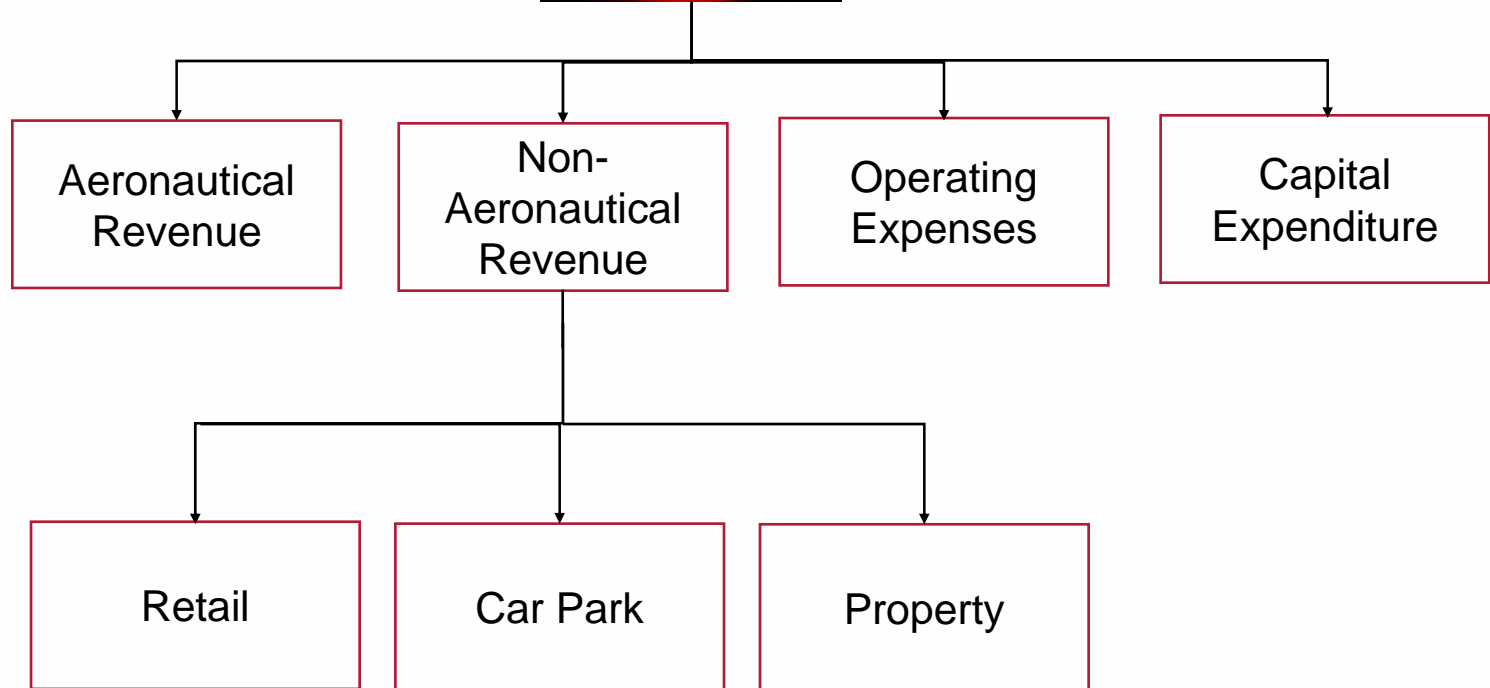
- The single largest government trade sale in Australian history
- The world's largest trade sale of an airport





# Airports activities

- Providers of aeronautical services, including the provision of runways and taxiways, aerobridges and airport terminal buildings, to airlines
- Also support a wide range of commercial activities (e.g. retailing, car parking and the provision of property for aeronautical related or commercial purposes)





# Rail

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# Rail - categories

**“NSW Premier Morris lemma described the deal as “ the biggest rolling stock acquisition in Australian history.”**

Mr lemma’s comments on the recent 72DD RailCorp bid, AFR, 5 May 2006

→ The Australian Rail Industry can be classified into the following categories

1. Bulk Freight (e.g. National Rail, Freight Australia, Australian Railroad Group)
2. Urban Mass Transit (e.g. Perth to Mandurah rail line)
3. Intermodal Freight (e.g. North-South Intermodal)
4. Long Distance Passenger Rail (e.g. Indian Pacific, Great Southern Rail); Special Passenger Rail



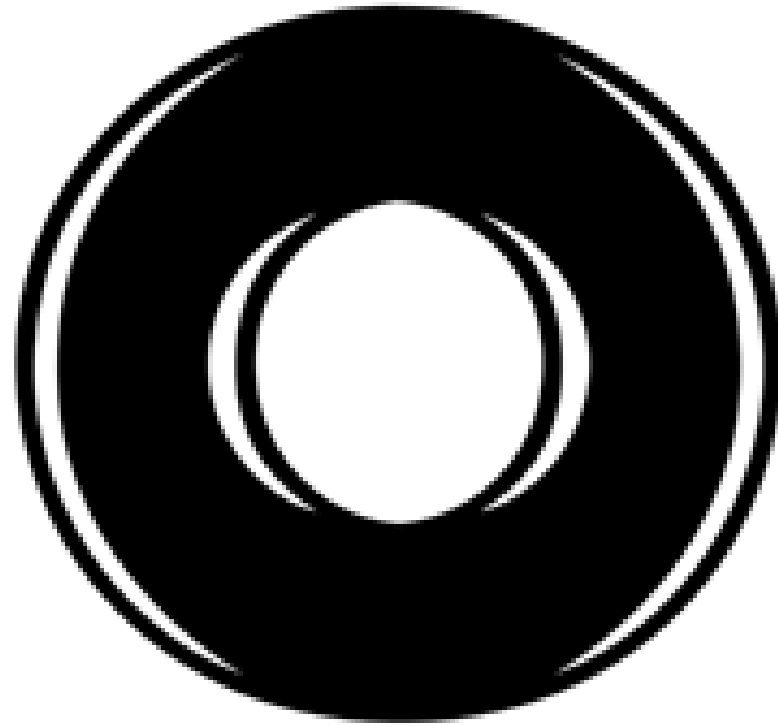
## Rail - value drivers

- ✓ Strong patronage and/or freight base to support financing
- ✓ A capital cost structure relative to potential revenues
- ✓ Fares which are affordable or directly subsidised
- ✓ Financing structure which will support downturns (Government may have to take some contingent downside risk)
- ✓ Effective alignment of interests
  - ✓ If dependent upon another entity or a network (e.g. CityRail) need more effective alignment of interests other than sharing of profits
- ✓ Fuel Costs
- ✓ Track access fees
- ✓ Train Crew - costs related to the net effect of salary increases, new bulk businesses acquiring additional labour, overtime, crew numbers
- ✓ Locomotive Hire and Maintenance - freight rates



# Rail - covering expenses

- Most Australian urban railways recover 20-25% of operating expenses through fares.
  
- The remainder is covered by government subsidies and commercialisation of associated operations.
  
- Government subsidies can be obtained via:
  - Fee per passenger
  - Flat fee
  - Fee per train



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