

**“Selling the Sydney Harbour Bridge:
Australian Infrastructure Abroad”**

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1. Unbundling Public Infrastructure

They have a saying in North America, sometimes used in addressing the highly gullible: ‘If you can believe that, then I’ve got a bridge you might like to buy’.

It is based on the legend of the great 20th century con artist, George C. Parker, who allegedly sold Brooklyn Bridge (several times) to naïve investors.

And yet in 1968, it was the British who managed to sell London Bridge to an American billionaire, Robert P. McCulloch (who later insisted that he had definitely *not* mistaken it for the much more picturesque Tower Bridge further down the Thames).

John’s Rennie’s famous bridge was carefully disassembled, the parts were meticulously numbered, and it was shipped in its entirety to North America where it stands today on the shores of Lake Havasu in Arizona.

London Bridge was sold. Brooklyn Bridge was sold.

Why aren’t we selling the Sydney Harbour Bridge? Why aren’t we exporting the Snowy River Scheme and the Sydney Opera House? Why aren’t we selling Australian infrastructure abroad?

Of course, you can’t physically export a road or a dam. Rennie’s bridge was an exception in that regard.

What you can do is unbundle the assets – separate out the various services that help to make up a piece of physical infrastructure – and sell *those* services throughout the rest of the world.

Let me explain what I mean. A bridge or a tunnel doesn't just consist of steel and concrete. Unless someone takes those materials and turns them into a physical edifice, they will continue to lie at the harbour's edge.

A bridge or a tunnel has to be designed, so that urban planning and civil engineering skills are involved. Construction has to be planned and supervised, so that project management skills are required. Funding must be found. The facility must be maintained throughout its lifetime. And as the cross-city tunnel and the M7 demonstrate, if a toll is to be charged, then someone has to manage the interface with road users, among other things, convincing them of the benefits of paying for this particular piece of infrastructure.

So a bridge or a hospital or a prison is merely the physical manifestation of a cluster of materials and services, bundled together in a particular way.

We should be speaking not just of infrastructure, but of infrastructure *services*. And we should be thinking not just of the government departments that commission these facilities, but of an entire infrastructure services *sector*.

It's not difficult to understand why we remain trapped into thinking about our public infrastructure solely in terms of its physical manifestation.

The elegance of the Sydney Opera House or the Millau Bridge (the new cable-stayed bridge in France) or the Glenfinnan Viaduct in Scotland (the 19th railway bridge that featured in the second Harry Potter movie) makes it difficult for us to move beyond their physical form.

And a brand new bridge or tunnel provides a much better photo opportunity for a politician in pursuit of votes than a really well-designed programme of maintenance or a well-structured package of mezzanine debt.

And yet if we are unable to think in terms of infrastructure *services*, if governments are incapable of imagining an infrastructure services *industry*, then we will deny ourselves the opportunity of unbundling our bridges, our hospitals and our prisons, and selling our expertise to governments overseas.

In fact, in one or two areas, Australian governments have been extraordinarily successful at commercialising their infrastructure services. The tollroad industry is the most obvious example. It is little appreciated in this country that the NSW and Victorian governments were world leaders in the development of PPP tollways in the late 1980s and early 1990s.

And in providing a constant deal flow over more than a decade, they deepened local expertise, they encouraged the development of institutions capable of supporting that expertise and they gave Australian companies a huge competitive advantage in international markets.

The most successful of these has been Macquarie Bank, which has become the market leader in tollroad financing in Europe and North America.

Transurban is another, and over the past two years, it has taken its pioneering e-tag technology and its customer service culture into the US market. Listen to how Transurban describes itself in its latest annual report:

“Our business model is not just about the development of high quality infrastructure. It is about providing services over many decades to the stakeholders who use the infrastructure.”

- infrastructure *services*, and not just infrastructure.

2. The Opportunity

Both in the UK and here in Australia, the debate has traditionally focused on the potential benefits that PPPs offer to domestic governments, in terms of lower costs and faster delivery times, on-time and on-budget delivery, more sophisticated risk allocation and whole-of-life asset management.

However, governments have generally *failed* to appreciate the opportunity that PPP provides in giving domestic companies a competitive edge overseas.

We are able to see the benefits of selling *financial* services overseas, and *professional* services. But governments have been slow to see the massive opportunity that is developing to sell *infrastructure* services abroad.

In the UK, that has begun to change. UK Trade & Investment has arranged for the infrastructure services industry to participate in briefings of British trade officials from around the world. British embassies are now active in promoting the public services sector in their dealings with foreign governments. Partnerships UK, a public-private partnership at the centre of British government, is active in promoting the British PPP model at conferences and seminars across the world.

Make no mistake, the British regard PFI/PPP as a product that is capable of being exported to the advantage of British business. To give one more example – in a report published late last year, the City of London identified India’s need for physical infrastructure and associated project financing capabilities as a major market opportunity. They believe that City institutions have a great deal to offer China in the provision of turnkey solutions, combined with ‘innovative pricing and funding packages, including PFI’.

Both China and India are pursuing PPPs, particularly in economic infrastructure, and increasingly they will turn to the private sector for social infrastructure (although probably with models that are somewhat different from the PPPs that have been used for social infrastructure in Australia and the UK).

I appreciate that this conference has focused on China and India, but I would be remiss if I did not point out that PPPs are now being pursued right across Europe, Asia and North America – presenting a unique opportunity for governments that are agile enough to commercialise their public services and render them amenable to export.

3. Some Issues

An after-dinner speech is not the occasion on which to mount a detailed examination of the concept of an infrastructure services industry, but let me make a couple of observations:

a. First mover advantage

There is a first mover advantage in these markets – those countries that move first give their companies a massive advantage on the international stage.

Australia's tollroads are the obvious example. One of the principal reasons why Macquarie and Transurban have been able to occupy strategic positions in overseas markets, is that they have had longer to explore the sources of competitive advantage.

We have also seen this in other sectors:

- British and French water companies have dominated international markets for several decades – because they moved first. The French had never municipalised their water industry. The British broke new ground in 1989 in privatising their water supply, thereby creating internationally-mobile infrastructure service providers where there had only been geographically-constrained public sector monopolies before.
- American prison companies took an early lead in corrections markets around the world, for the same reason. When Australia and then Britain first introduced PPP prisons in the late 1980s and early 1990s, the Americans were the only ones with the relevant experience.

b. To move first is not enough

But to move first is not enough. Australia used to be one of the world leaders in several other PPP markets – hospitals and prisons, for example. For a variety of reasons, we failed to press home the advantage – we surrendered the role of market leader to the British.

In part this was because we failed to grasp the significance of what we were doing. Those of us inside government who were driving these reforms understood that we were breaking new ground, but we failed to understand the commercial advantage we were capable of creating for Australian business.

We also made mistakes (as we were destined to do in breaking new ground), and since the scale of the market was rather small, the significance of those mistakes was exaggerated in proportion to the benefits.

And we failed to understand the need for a constant deal flow. Inside government, we were inclined to think of PPPs as a series of discrete procurements. We failed to appreciate that the private sector needs an ongoing series of opportunities to justify the investment in developing new capabilities (and ultimately, building a market).

Two weeks ago, I was discussing this same question with the Hong Kong government. They were building PPP toll tunnels in the 1970s – ten or fifteen years before NSW. They possess a vigorous capital market. And yet it is an Australian investment bank, and not one from Hong Kong, that is dominating tollroad financing around the world.

Why is that so? It has nothing to do with market size – the Hong Kong market is somewhat larger than Sydney (where the Australian tollroad market has been largely developed).

It may have had something to do with timing – Hong Kong may have moved too far ahead of international demand.

But the Hong Kong government also failed to develop a constant deal flow that justified private investment in new capabilities.

Hong Kong's tunnels suggest another lesson for first movers hoping to dominate international markets – the model has to be transferable. For reasons that are peculiar to Hong Kong, the consortia that emerged in the 1970s were heavily dominated by the property industry. That is not a model that is directly transferable to Sydney or Washington DC.

A similar phenomenon was observable in the international market for PPP prisons. British companies have come to replace the Americans, in large part because the British model is more acceptable outside of the American political context. The French were the second to establish a PPP prison industry, and (with the exception of Sodexo), their model has not travelled well overseas either.

So, yes, there is a first mover advantage in international infrastructure services markets. But whether a first mover is able to magnify domestic capability and provide its companies with a competitive edge depends on factors such as market depth and transferability.

c. Market size

Isn't Australia too small and too remote for home-grown companies to have a significant edge? Transurban and Macquarie Bank are evidence that the size

of the domestic market isn't necessarily a good predictor of which countries will serve as successful incubators.

Let me give you another Australian example from the broader public services sector (that is, broader than *infrastructure* services). Australia was a first mover in the market for managing the transition from welfare to work (Job Network as it is known in this country). Britain, France and Japan – to name just three examples – have studied our model closely with a view to developing similar arrangements.

Ingeus, a medium-sized Australian company based out of Brisbane – established by Kevin Rudd's wife, Therese Rein – seized that advantage, and positioned itself as a leading player in the emerging British market, won the first two pilot projects in France, and took two of the early contracts in Germany.

Mission Australia – another large player in the Australian market – has also taken a strategic investment in the leading British welfare-to-work provider.

The investment bankers among you might be wondering what relevance the welfare-to-work market has for you, but the UK government has recently released a report in which it explores the possibility of non-asset based PFIs in the welfare-to-work market.

Under this model, private companies would assume the risk of shifting the long-term unemployed into full-time jobs, financing the up-front investment themselves and being recompensed out of savings to government in terms of reduced unemployment benefits.

Health authorities are exploring similar models for the management of chronic disease, and the Home Office has been talking to the industry about a similar model for managing reoffending.

To come back to my original point, here are two examples – the tollroad market and the welfare-to-work market – where Australia has led the world, and where Australian businesses have seized the competitive advantage.

There are others. My favourite example demonstrating that size doesn't matter in the infrastructure services market is an historical one – the Netherlands, which dominated hydraulic engineering across Europe for more than five hundred years.

The foundation of this massive export industry lay in their technological dominance of hydrology – not just windmills, which were a relatively late invention – but the use of canals and ditches, sluices and dikes.

Let me be quite clear – this competitive advantage wasn't built on a series of intergovernmental agreements about cooperation in water management. This

massive international transfer of technological and organisational expertise was led by private entrepreneurs who profited from it commercially.

It is not widely recognised that a large proportion of the Dutch polders – the farming districts reclaimed from the marshes – were constructed and managed by private cooperatives and financed by private capital.

Moreover, the Dutch weren't just selling technological know-how. These drainage works needed to be project managed. They also had to be regularly maintained. (The boy with his finger in the dike was simply doing O&M for an early form of PPP!) And they had to be organised in such a way that the farmers and villagers all undertook their share of the work.

The Dutch possessed unrivalled expertise in the organisation of new village communities made up of free settlers who relocated to the reclaimed land on condition that they could govern themselves. And they pioneered new capital-raising techniques that probably laid the foundation of the joint stock company, a business model that would later be exported from the Netherlands to Britain and North America.

And the Dutch exported these services throughout the known world, initially to Germany and then to Italy, France, England, Russia and Spain.

The massive works undertaken in draining the fens of eastern England throughout the late 16th and early 17th centuries were managed by Dutch engineers, using the labour of Dutch settlers, and (in the early years at least) financed by Dutch capital.

The first of the private companies that supplied water to the city of London was established by a Dutch entrepreneur, using leading-edge water-lifting technology, based on an exclusive franchise granted by government that lasted for a century and a half, and was meant to last for five hundred years. (Talk about long-term contracting!).

How did such a small and war-torn country come to dominate this area of expertise? The obvious answer, surely, is that the Dutch made a virtue of necessity.

But that is only part of the story. Germany was also covered by a vast expanse of wetlands that held back agricultural expansion. And yet the Germans failed to develop an infrastructure services industry capable of being exported abroad. Something else was involved.

The Dutch created a hotspot and they exploited it. Yes, they had originally developed these capabilities to deal with a domestic problem. But they built upon it.

They were probably not the first movers in lifting water, reclaiming land and founding new settlements. But they were the first to turn those capabilities to

commercial advantage. They were the first to develop a comprehensive range of services – civil engineering, capital raising, operations and maintenance, town planning and community governance – that enabled foreign governments to extract economic value from these new technologies. They were the first to develop a workable model that was capable of being exported abroad.

And if the size of their domestic market had anything to do with their international success, it lay in the realisation that if they wanted to magnify their infrastructure services capabilities, they needed to expand into other jurisdictions.

d. Will this encourage a brain drain?

But won't this just encourage a brain drain – from the public sector and from Australia more generally?

Not if we develop an interesting and diverse public service economy in this country, capable of attracting our best and brightest back home. Don't underestimate the loyalty that expatriate Australians feel for their homeland.

And not if we encourage these capabilities to be organised into a total service package, in the way that the Dutch were able to do with their hydrology services, rather than just selling them abroad on a consulting basis.

This is not a zero sum game. To the contrary, an international trade in public service managers has the potential to deepen our domestic capabilities and lead to the importation of best practice from overseas.

Australian governments should avoid adopting a mercantilist attitude towards our infrastructure services – state governments have as much to learn from an international trade in these services, as the federal government has to gain in terms of export income.

4. Unlocking the Expertise Inside the Public Sector

Much of the expertise that will be necessary to build a competitive infrastructure services industry is presently to be found inside government departments and agencies.

The key to unlocking this untapped resource lies in a paradigm shift on the part of government – a move to public-private partnerships at home and commercial exploitation abroad.

Again, there are precedents. When the Victorian government outsourced its hydrotechnology group to Sinclair Knight Merz in 1995, a number of talented public servants made the transition to the private sector. Among them was a hydrogeologist who is presently working with a World Bank team on groundwater management in the Hai River Basin in China.

SKM also took over the Victorian government's Building Services Agency in 1999. Using technology developed for the fast-track construction of classrooms in Victoria, this team is now using demountable structures for service stations in India, increasing Shells' 'speed to market' capability.

Australia has immense value locked up in its infrastructure sector. We have a great deal to offer the world. Whether we step up to the mark depends largely on whether our governments, state and federal, make the transition from an outdated paradigm based on the monopoly provision of public works and financed through internal bureaucratic processes.

PPPs – and other forms of engagement between the public and private sectors – offer us the opportunity to unpack these capabilities, to magnify them, to commercialise them, and sell them abroad.

PPPs provide us with the opportunity to sell the Sydney Harbour Bridge in Bengal and Beijing, not just once, but time and time again.