

**The Asia Pacific Infrastructure Forum held meetings in Beijing, Tianjin and Shanghai in June – July 2006, with the attached program (PDF - Beijing). The organising committee for the Forums was Tasman Asia Pacific, Freehills, The Allen Consulting Group, Deacons and KPMG.**

**Core Points from Melbourne and China Forums**

- The Asia Pacific Infrastructure Forum (APIF) has focused, first in Melbourne and then in three symposia in China, on the preconditions and government frameworks that best facilitate increased domestic and international private investment in infrastructure, in partnership with government and under.
- The Beijing, Shanghai and Tianjin Infrastructure Forums were held in June and July 2006, along lines of Asia Pacific Infrastructure Forum in Melbourne December 2004. All four meetings presented:
  - an overview of the lessons emerging from public-private partnerships,
  - examples of alternative and preferred financing arrangements for public-private partnerships
  - regulatory structures capable of lowering costs of capital by reducing and allocating risks and attracting local long term investment funds at a reduced capital cost reflective of reduced project risks
  - examples of infrastructure reforms and transactions across the region – including key examples from Australia and Asian region.
- In Australia the key private and public sector parties to all the major infrastructure investment were invited and key Principals and Ministers participated – the Commonwealth Foreign Minister and the State Treasury, Development and Finance Ministers.
- In China key participants included leaders from the State Council, The National Development and Reform Commission, the China Development Bank, regional governments of Beijing, Tianjin and Shanghai, and the various utilities and related ministries.
- The APIF model differs from that used in the past in East and South Asia by the international development banks in terms of not favouring use of external foreign debt and aid, but rather creating well structured and regulated projects whose levels of certainty and risk are mitigated by sound contract specifications. The goal is to make the projects attractive to domestic long term private and public sector investment sources, such as pension and insurance funds, as well as making infrastructure equity attractive to domestic participants.
- The Australian and particularly Victorian model of restructure, privatization and finance has proved relevant, both because it has facilitated greatly reduced government debt and has expanded the balance sheets of key financial institutions to include well regulated and secure infrastructure-based assets.
- Government infrastructure and reform agencies (finance and line ministries) play an expanded role in project planning and structuring, with private sector players

tendering for design, construction, financing and management of infrastructure projects. Thus the DBO, BOO, BOOT and BOT models are discussed, along with needed regulatory arrangements.

- The regulatory role of government expands to facilitate sound management as per contract design and in a way that reflects government policy goals.
- What emerged from the comparisons of projects around the Asia Pacific region was that the Infrastructure sector, with its long-lived assets, is sensitive above all to the reliability and predictability of government policy, not least as it affects tariffs, coverage, and the details of investment approvals and implementation.
- The framework envisages that infrastructure proposals be written and tendered so as to be attractive to domestic investment and pension funds – so that long term capital can be attracted and there be a domestic owning of the infrastructure investments. Pension funds can provide lower costs of capital to the project if the project regulation is sound, and this facilitates lower user charges than otherwise.
- The preferred model involves contracts being enforceable by a suitable agency of government with regulatory and enforcement powers, but subject always to the agreed contract.
- It was noted at all Forums that following the 1997 currency crises two things happened in many East Asian countries; (1) many government utilities of Asia could not readily meet their increased infrastructure-related liabilities and (2) private sector investors backed away from infrastructure investment in these countries – despite the favoured direct or political appointments they may have received. Political risk was seen as more of a problem than well managed project risk, the need being for contracts and processes which clearly define what Ministers may and may not do by way of project implementation.
- While there is a boom in private sector investment in infrastructure in countries such as Australia and much of the OECD, the sector is still seen post these crises as high risk and largely unacceptable to the private sector in much of Asia including China. As a result, infrastructure and its finance is a huge challenge for governments across Asia and in China. Infrastructure is getting inadequate investment in some areas, and is very risky in others.
- In contrast, in Victoria, Australia and increasingly across the region there is now a rich range of experience and lessons from the various forms of public-private partnerships that have been implemented in the energy, transport, roads, pipelines and health sectors. There are successes and failures to discuss, from Australia and Asia – a wide range of learning experiences. The APIF forums facilitated those discussions.
- One of the major lessons from the Forums is that it is possible to create a new asset class – infrastructure investments - as safe channels for individual and institutional savings. Debt and equity investment backed by secure infrastructure service contracts is a way of the future. But this requires attention to regulation and structuring concepts, and sound local governance.

## **THE PRESENTATIONS**

- The presentations were brief and to the point. They will draw on Australian and Asian examples – for airports, pipelines, water, transport and energy. Themes included:
  - Governance and corporatization reforms – getting structure right within SOEs and agencies before private sector finance is approached
  - Setting place the regulation and tariff setting processes, so subsequent investors can see the income stream that will secure their investments
  - The mix of public support and regulation that can combine with private finance to secure new investment at affordable tariffs
  - The creation of a climate of reduced uncertainty surrounding infrastructure projects that make their finance attractive to long term investors such as pension and insurance funds
  - Making investment in infrastructure less risky - because of the essential and regulated nature of the services – so that infrastructure investment is not a gamble but a prudent investment

## **PARTICIPANTS**

- This Forums were by invitation only to carefully selected and high level government and private sector representatives in the major infrastructure sectors
- The Forum involved high level participants from national planning agencies (NDRC, China Development Bank, State Council) plus SOEs and agencies in the Beijing, Shanghai and Tianjin Governments, as well as state and private sector enterprises in infrastructure.