

AUSTRALIAN INFRASTRUCTURE INVESTMENT REPORT 2017



Perpetual 



About Us



Infrastructure Partnerships Australia is the nation's peak body for infrastructure – formed in 2005 as a genuine and enduring policy partnership between Australia's governments and industry.

Through our research and deep engagement with policymakers and industry, IPA seeks to capture best practice and advance complex reform options to drive up national economic prosperity and competitiveness.

IPA's formation recognises that through innovation and reform, Australia can extract more from the infrastructure it has, and invest more in the infrastructure we need.

Infrastructure is about more than balance sheets and building sites. Infrastructure is the key to how Australia does business, how we meet the needs of a prosperous economy and growing population and how we sustain a cohesive and inclusive society.

Infrastructure Partnerships Australia draws together the public and private sectors in a genuine partnership to debate the policy reforms and priority projects that will build Australia for the challenges ahead.

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Perpetual is a diversified financial services group providing specialised investment management, wealth advice and corporate trustee services to individuals, families, financial advisers and institutions.

Our origin as a trustee company, together with our outstanding track record in investment management, has built our reputation as one of the most respected brands in financial services in Australia.

We act as a trustee for many infrastructure funds and investors so we have a keen interest in the future direction of Australian infrastructure. But our interest goes deeper than that. At Perpetual, we facilitate infrastructure development which benefits the future of all Australians.

Our passion is to protect and grow our client's wealth with our vision to be Australia's largest and most trusted independent wealth manager.

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Executive Message

The 2017 Australian Infrastructure Investment Report shows continuing appetite and focus on infrastructure opportunities – but shows with clarity that Australia's solid reputation as an infrastructure investment destination is being eroded, as investors take stock of increasingly unpredictable political interventions, perpetrated by national and state governments.

OUR REPORT MEASURES WHAT ACTUAL INVESTORS REALLY THINK

Infrastructure Partnerships Australia (IPA) and Perpetual Corporate Trust are delighted to jointly deliver the 2017 edition of our annual *Australian Infrastructure Investment Report*.

This year's survey captures the views of 26 sophisticated global and Australian investors who together, collectively own or manage circa AUD\$220 billion of infrastructure assets, across the globe.

Our report provides an annual barometer showing investor appetite and sentiment – providing important insights into the drivers and inhibitors for infrastructure investors – including sovereign wealth funds, pension funds, fund managers, banks and other industry professionals.

While almost all participants are Australian-based, half have their head offices in Australia, while the others are evenly spread across Europe, North America and (for the first time this year) in Asia.

ABOUT OUR 2017 FINDINGS

The 2017 survey shows that Australia remains globally attractive, but also shows cracks appearing in light of accelerating political interventions on projects and policies.

Positively, 70 per cent of investors report that they are 'highly likely' to invest in Australian infrastructure – although this reported intention has reduced by 24 percentage points from 2016.

78 per cent of investors report that the visibility of transactions and projects has improved in Australia in the last year, including through the Australia & New Zealand Infrastructure Pipeline (ANZIP) – infrastructurepipeline.org.



Roads remain the most attractive asset type, followed by renewable energy generation, water infrastructure and tunnels. The high level of interest in renewable energy generation is in response to the relative certainty provided by the Renewable Energy Target (RET); although more broadly investors report being spooked by energy policy uncertainty – and the closing off of the RET itself, in 2020.

On the downside, political (62 per cent) and sovereign type risks (35 per cent) are the greatest concern for investors.

A staggering 66 per cent of investors report that they are not optimistic about Commonwealth Government infrastructure policy; with concerns gathered around mooted changes to stapled structure tax arrangements and the emergence of 'bizarre' policies that would see taxpayer equity and debt compete against private investment.

Three quarters of participants agree that Australia's energy sector is full of uncertainty, reflecting unilateral Federal interventions in upstream gas, network price regulation, wholesale generation and potentially, retail energy – plus ongoing 'go it alone' state interventions, such as in South Australia.



Concern about Commonwealth tax policy has jumped from just five per cent of participants last year to more than one third of the investment market now.

This echoes the policy uncertainty around infrastructure taxation treatments (stapled structures) and to some degree, the surprise tax imposed on the banks in the Federal Budget and South Australia's copy-cat policy some weeks later.

The report shows that investors will punish jurisdictions for poor behaviour with an 80 per cent collapse in willingness to invest in South Australia; meaning that just four per cent of respondents are looking to make investments there.

This follows SA's unprecedented attempts to dishonour and frustrate its massive health Public Private Partnership (PPP) contract in the face of a deterioration in public finances, demonstrating that political risks are far from cost free.

The 2017 *Australian Infrastructure Investment Report* makes for sobering reading because it shows that while Australia remains better than many markets, our reputation is being eroded further by each political intervention.

We hope that this Report provides an opportunity for policymakers, regulators and the business sector to each reflect on what we are doing – and what we should be doing – to improve national infrastructure and economic policy.

We thank each participant for their contribution to the third IPA Perpetual *Australian Infrastructure Investment Report*.

Chris Green
Group Executive,
Perpetual Corporate Trust

Brendan Lyon
CEO, Infrastructure
Partnerships Australia

Key Findings



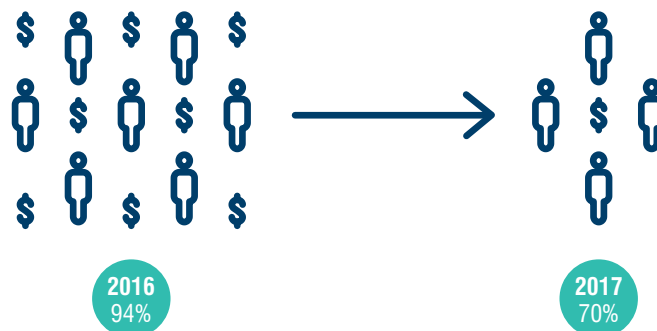
AUSTRALIA HAS A GREAT TRACK RECORD OF INFRASTRUCTURE BUSINESS

69 per cent find Australia's track record of infrastructure business makes Australia **attractive** for investment.



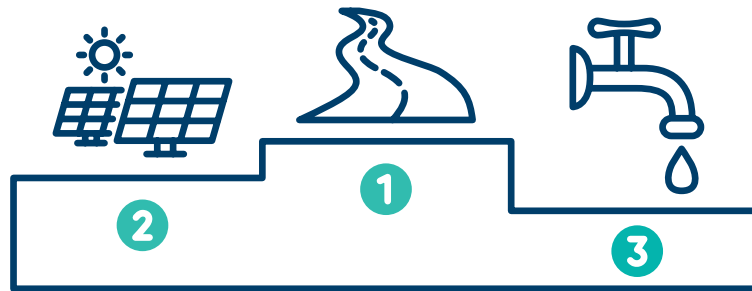
PIPELINE CERTAINTY HAS IMPROVED

78 per cent **agree** that visibility of the Australian infrastructure pipeline has been improved by Australian infrastructure bodies and tools like the Australia & New Zealand Infrastructure Pipeline (ANZIP) – infrastructurepipeline.org.



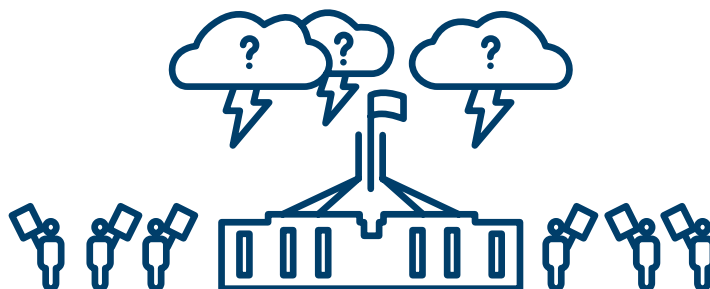
BUT THE APPETITE FOR AUSTRALIAN INFRASTRUCTURE ASSETS HAS WANED...

A 24 percentage point drop on 2016 sees only 70 per cent of participants **highly likely** to invest in Australian infrastructure.
17 per cent say they are **not sure or unlikely** to invest in Australia.



ROADS REMAIN ON TOP, FOLLOWED BY UTILITIES

Roads remain the **most favoured** infrastructure asset class for over half the participants both globally and in Australia. Renewable energy generation appetite in Australia is **rising** with over half interested in Australian projects, making it one of the most appealing asset classes.



A CLOUD OF POLITICAL UNCERTAINTY IS HOVERING OVERHEAD

62 per cent **report** political type risks as a significant challenge to investing in Australia. 66 per cent are **not optimistic** about the Federal Government's approach to infrastructure.



THE ENERGY MARKET IS FULL OF UNCERTAINTY

74 per cent **agree** that the Australian energy sector is full of uncertainty right now.

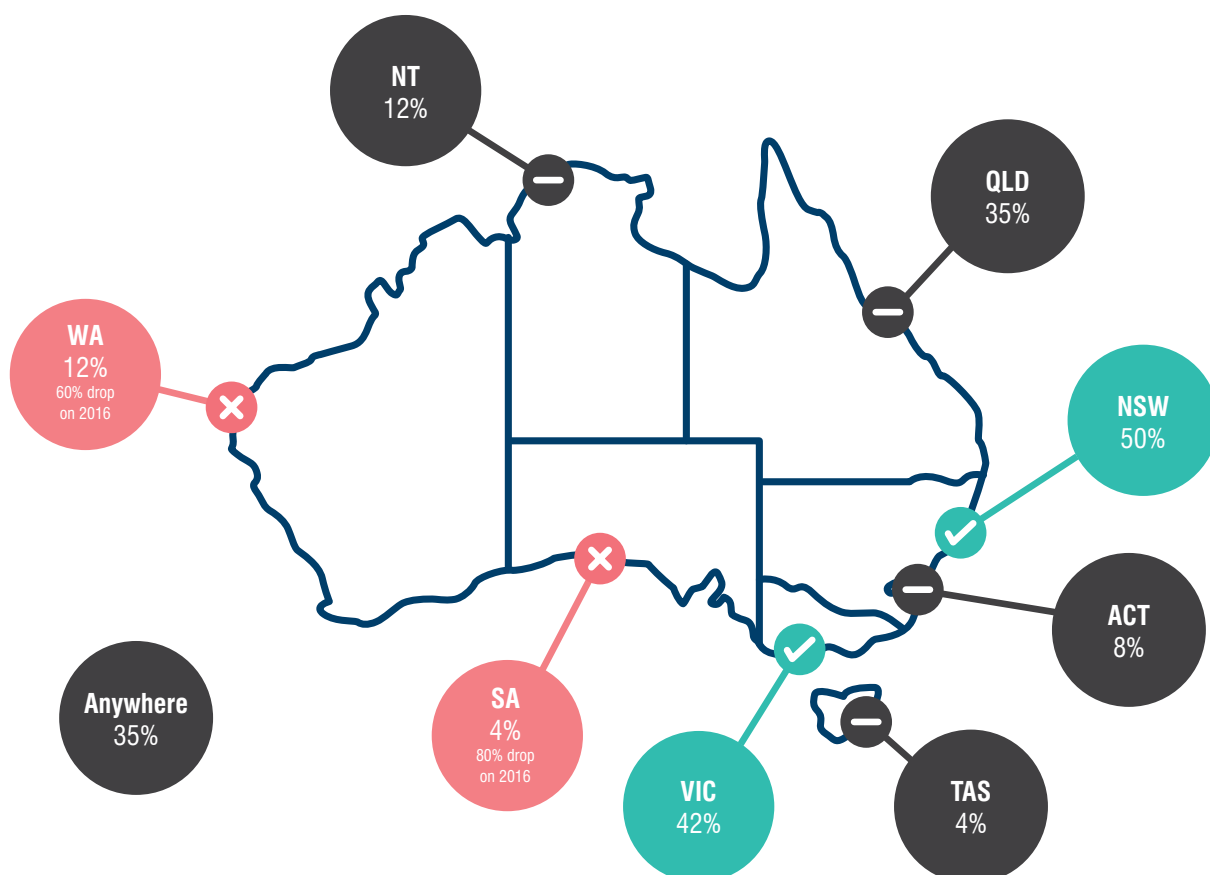


INVESTING IS TAXING AND GETTING HARDER

35 per cent see tax policy as a **significant challenge**, up from just five per cent in 2016.

Many investors find **investing for value** a challenge (42 per cent).

Only 27 per cent claim ease of doing business makes Australia attractive, compared to 60 per cent last year.



INVESTORS ARE MORE COMFORTABLE INVESTING ON THE EAST COAST AND WILL PUNISH STATES FOR BAD CONDUCT

Methodology & Participant Profile



Source: Sydney Metro/Transport for NSW

METHODOLOGY

This report provides a unique insight into the preferences, intentions and concerns of the major market participants who invest in Australian infrastructure. This year's report builds on the learnings from the 2015 and 2016 editions, highlighting the changing Australian infrastructure investment landscape through perceived challenges and attractions.

In July 2017, IPA and Perpetual conducted a quantitative survey of 26 market participants about investing in Australian infrastructure.

We followed this with detailed qualitative discussions with five industry participants to gain a deeper understanding of the issues.

The resulting report draws on both the quantitative and qualitative research and provides insights into the perceptions of investors about Australian infrastructure and the factors that influence their decisions.

PARTICIPANT PROFILE

We spoke to a range of large infrastructure players, including sovereign wealth funds, fund managers, infrastructure providers, banks and companies in the construction sector.

Half of these have their head office in Australia, with the rest evenly spread across North America, Europe and, for the first time, Asia. All the individuals we spoke to were based in Australia, which reflects the importance of having a local presence in order to successfully participate in the Australian market.

The representatives included chief executives, general managers, investment managers, fund managers, and managing directors.

Participants' Investments

This year's survey participants managed or owned in total an estimated AUD\$220 billion in infrastructure investments worldwide. Over a third of them had global infrastructure investment portfolios worth more than AUD\$10 billion, as shown in Figure 1.

Most of the participants (81 per cent) were already invested in Australian infrastructure (see Figure 2), with over half of those having more than 50 per cent of their investments in Australia, as shown in Figure 3.

The participants already had stakes in a broad range of investments, however some investment classes were more popular than others. The most common types of projects they invested in globally centred around transport with roads, social infrastructure, passenger rail, ports and bridges, rounding out the top five sectors as shown in Figure 4.

Participants were less particular when it came to investment preferences than in previous years, with almost half having no preference between greenfield or brownfield investments (see Figure 5), nor unregulated versus regulated assets (see Figure 6).

It's worth noting that those participants who were interviewed suggested the increase in 'no preference' is a case of desire versus reality. With an abundance of capital coupled with increasing competition, the reality of the market is making investors search outside of their traditional infrastructure preferences to allocate capital and find value.

While there was a continued preference for direct investment, no participant preferred pooled investments (see Figure 7) – a change on previous years.

"The drop in specific preferences for one type of investment over another reflects the desperation of investors to deploy capital."

Asset developer and manager

"For value whether that's greenfield or brownfield or regulated and unregulated, judge each asset on its own merit, against your particular expertise in that field. If you're too restricted, such as if you're just a renewables fund, then you could have nowhere else to invest."

Fund manager

"People who are only interested in existing assets, say brownfield assets, are having to move further up the risk curve into greenfield assets in order to chase opportunities."

Investor and consultant

FIGURE 1: PROFILE OF SURVEY PARTICIPANTS' GLOBAL INFRASTRUCTURE INVESTMENTS (\$AUD)

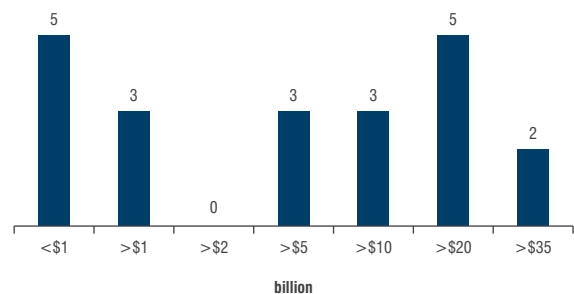


FIGURE 2: CURRENT INVESTMENT IN AUSTRALIAN INFRASTRUCTURE

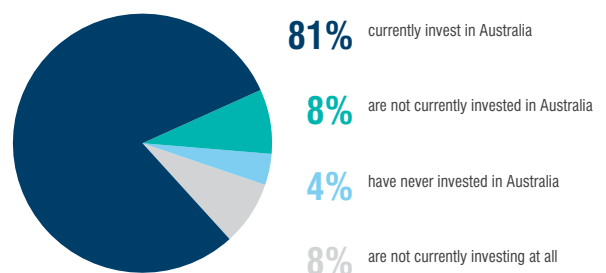




FIGURE 3: PROPORTION OF TOTAL INVESTMENTS IN AUSTRALIA VERSUS ANYWHERE ELSE

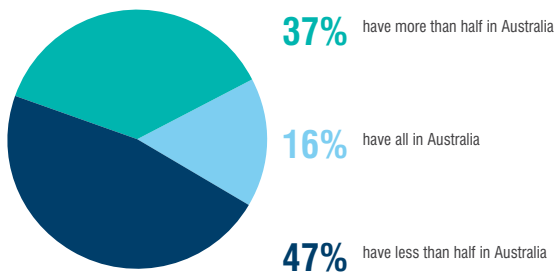


FIGURE 4: PROFILE OF PARTICIPANTS' GLOBAL INVESTMENTS BY TYPE (PER CENT):

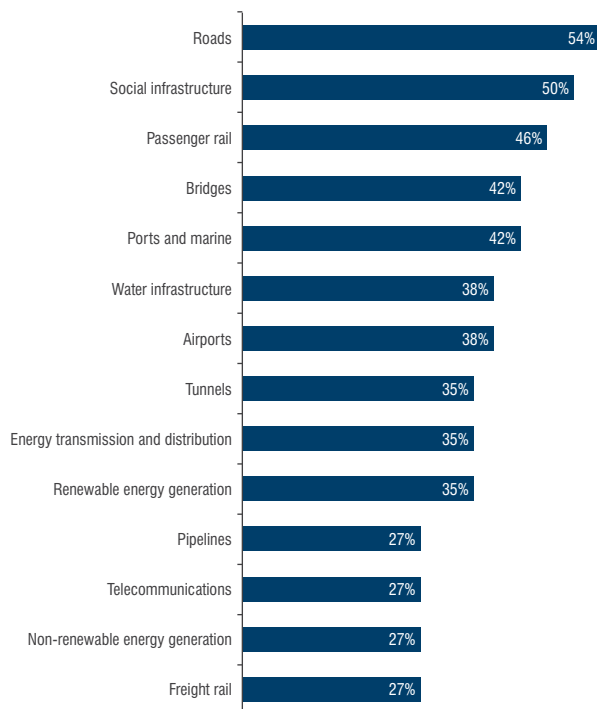


FIGURE 5: BROWNFIELD OR GREENFIELD

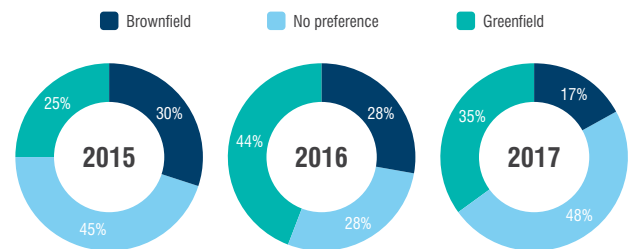


FIGURE 6: PREFERRED REGULATORY MODEL FOR INVESTMENTS

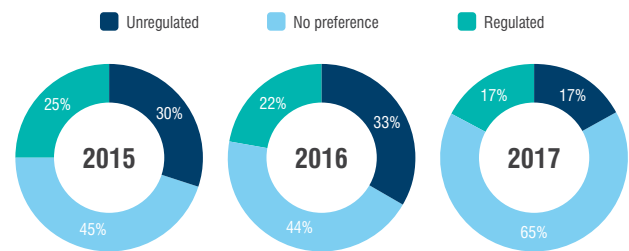
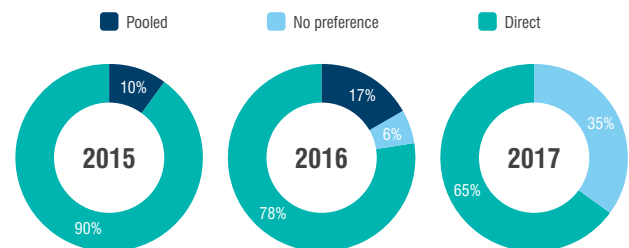


FIGURE 7: PREFERRED INVESTMENT TYPE



Investment Intentions

2017 has seen a material 24 percentage point drop in participants indicating they are 'highly likely' to invest in Australian infrastructure (see Figure 8), falling to 70 per cent from 94 per cent in 2016. This suggests investors are taking a cautious approach, with 22 per cent considering investing or 'not sure'.

In terms of investment intentions, participants cited roads and renewable energy generation as the most attractive assets, followed by water infrastructure and tunnels (see Figure 9). Discussions with participants highlighted concern about investment opportunities with investors turning to smaller projects and non-traditional infrastructure assets.

Participants indicated growing interest in renewable energy at 54 per cent and a slight rebound of interest in non-renewable energy at 27 per cent (see Figure 9). This is despite 74 per cent of participants being concerned by Australia's energy policy uncertainty (see Figure 10).

The past year has seen an unprecedented level of intervention and change in the energy sector, with the national energy policy vacuum filled by fragmented interventions across the National Electricity Market (NEM). In particular, investor confidence in the wholesale energy market is suffering from the spectre of direct government investment in energy generation assets and ongoing uncertainty on carbon emissions policy. This is discussed further in the *Challenges for Australian Infrastructure* section (page 17).

Apart from energy generation and telecommunications, interest in all asset types surveyed has dropped, with the largest decreases in bridges and passenger rail (19 and 17 percentage points respectively), as well as a 13 percentage point decrease in interest for energy transmission and distribution. The latter likely reflects the completion of the recent sales of Ausgrid, Transgrid and Endeavour Energy plus state government policies against major asset sales (particularly in Queensland and WA).

The method of investing in infrastructure has remained relatively unchanged from 2016, as shown in Figure 11, with a slight increase in preference to be part of a consortia, reflecting the number of large transactions expected to take place in the coming 12 months.

Expectations on shifts in investment behaviour have changed minimally since 2016, with the most notable change being an increase in expectations for brownfield transactions (see Figure 12).

Interestingly the majority of participants indicated they are growing the size of their Australia based teams (see Figure 13). Some pointed to new or international entrants setting up local teams, or reduced reliance on external consultants to operate in Australia. Others suggested the need for expertise in new investment sectors, such as renewables. The reason is likely a mixture of both, along with increasing asset management demands following the large tranche of deals closed over the last couple of years.

Participants also suggested new entrants to the market with small budgets as a reason for the continuing decrease in the size of investments being considered, as shown in Figure 14. The rationale for this being that their smaller budgets coupled with the strong buying power of the large players is forcing them to search for smaller investments across traditional and non-traditional infrastructure assets. The politicisation of larger projects was also mentioned as a reason for the decrease, with political risk identified as one of the main challenges of investing in Australian infrastructure.

Overall, investors are being selective about the size of investments, but less selective about type with an increasing willingness to look at investments outside traditional asset classes.

"The demand for smaller projects is in some way a result of the bigger projects being more highly politicised, I think that's proportionality."

Asset developer and manager

"I think (the reduction in likelihood to invest in Australia) it's a combination of increased politicisation or a reduction in political stability and just deal flow."

Fund Manager

"Government policy uncertainty is driving the uncertainty in the energy sector. The market is waiting for the energy sector to stabilise."

Investor and consultant

"We are moving to a renewable future but there probably will be some regulatory shake-up before too long, because it just doesn't seem sustainable."

Asset developer and manager



"Australia is a competitive region. There is a lot of liquidity in Australia and not many projects to invest in."

Construction

FIGURE 8: LIKELIHOOD TO INVEST IN AUSTRALIAN INFRASTRUCTURE

■ Highly likely ■ Considering ■ Not sure ■ Not at this stage ■ Highly unlikely

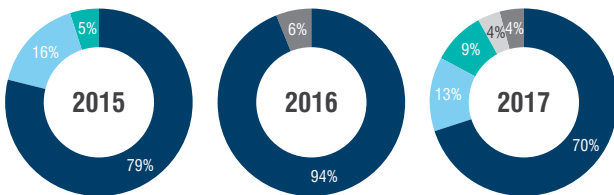


FIGURE 9: PREFERRED AUSTRALIAN ASSET TYPE TO INVEST IN

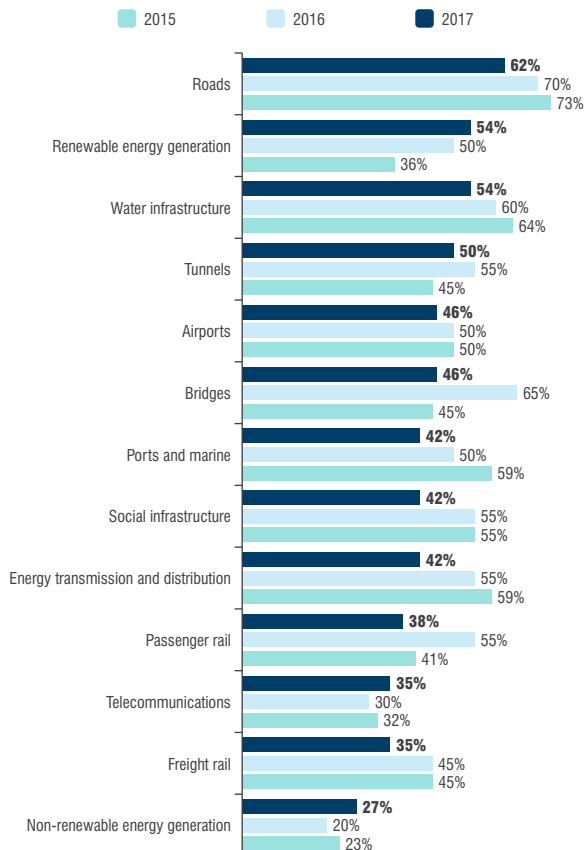


FIGURE 10: THE AUSTRALIAN ENERGY SECTOR IS FULL OF UNCERTAINTY

■ Strongly disagree ■ Disagree ■ Not sure/no opinion ■ Agree ■ Strongly agree

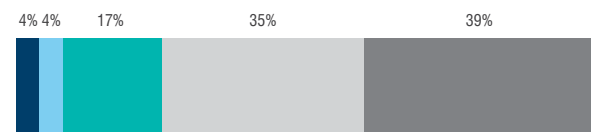


FIGURE 11: PREFERRED METHOD OF INVESTING IN AUSTRALIA

■ Direct ■ As part of consortia ■ Via a fund manager ■ No preference

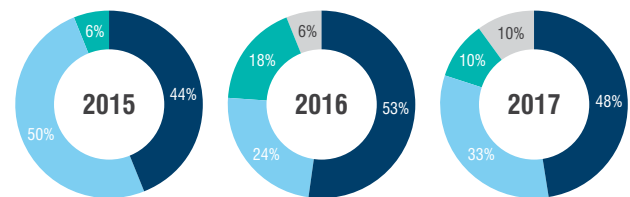


FIGURE 12: WHAT INVESTING BEHAVIOUR IS LIKELY TO CHANGE?

■ Expected to decrease ■ Little change ■ Expected to increase

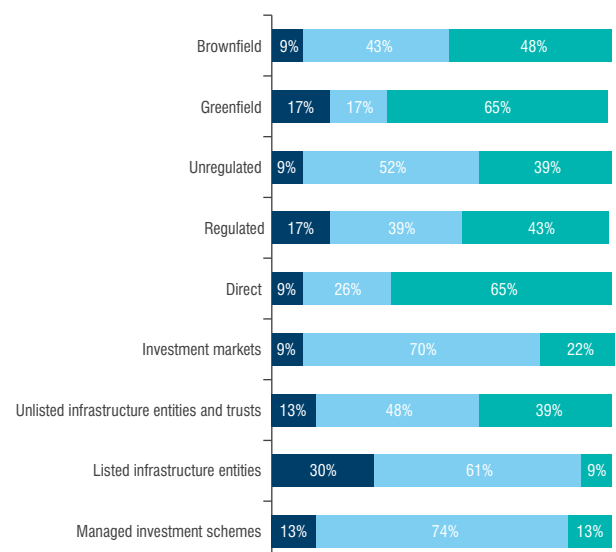


FIGURE 13: SIZE OF AUSTRALIAN TEAM

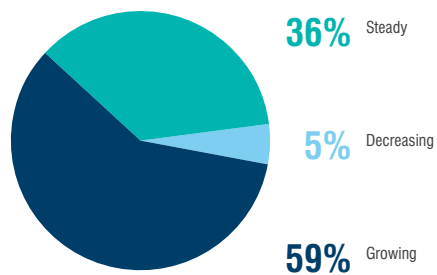
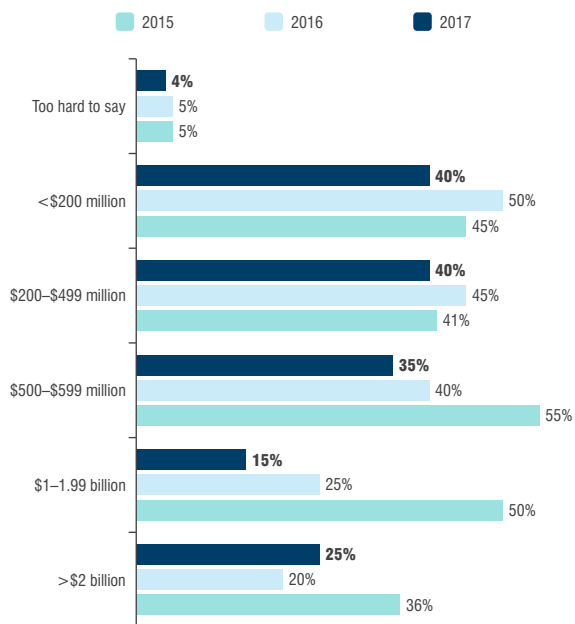


FIGURE 14: PARTICIPANTS WOULD CONSIDER SINGLE INVESTMENTS OF THE FOLLOWING SIZE



Why Australia for Infrastructure?



While investors are concerned about political risk and market factors, Australia's track record for infrastructure business remains the most attractive attribute for investors.

Infrastructure investors have also noted the significant improvement in the visibility of the infrastructure pipeline in recent years through tools like IPA's ANZIP (infrastructurepipeline.org) and the infrastructure bodies.

Interestingly, the 19 percentage point increase in 'track record' coincides with falls in 'economic stability', 'strong knowledge of market participants' and most alarmingly 'ease of doing business' (see Figure 15). The Federal Government's approach to infrastructure investment likely contributed to the drop in economic stability with 66 per cent of participants not optimistic about the national policy direction.

The 33 percentage point drop in 'ease of doing business' could be attributed to government intervention and political uncertainty, with almost half of participants deterred from investing in projects by current national regulatory and political uncertainty. The majority of participants also identified the recent cancellations of contracts for state government projects as making investing in Australian infrastructure less attractive (see Figure 16).

Despite the contract cancellation of Perth Freight Link (Roe 8) in WA and the ongoing contract dispute with the New Royal Adelaide Hospital (NRAH), investors still see Australia's track record of infrastructure business as Australia's most attractive attribute for infrastructure investment. This is complemented by the increase in pipeline certainty attributable to the long term plans published by the infrastructure bodies and tools like IPA's ANZIP providing much needed visibility and analysis of the market (see Figure 16).

"We're one of the few countries that will have a big growing population that's under-invested in infrastructure."

Asset developer and manager

"ANZIP has improved pipeline visibility and now the kiwi pipeline is being picked up."

Bank

"New South Wales and Victoria have done a great job of laying out pipelines of what they're trying to achieve."

Asset developer and manager

FIGURE 15: WHAT MAKES AUSTRALIA ATTRACTIVE FOR INFRASTRUCTURE INVESTMENT?

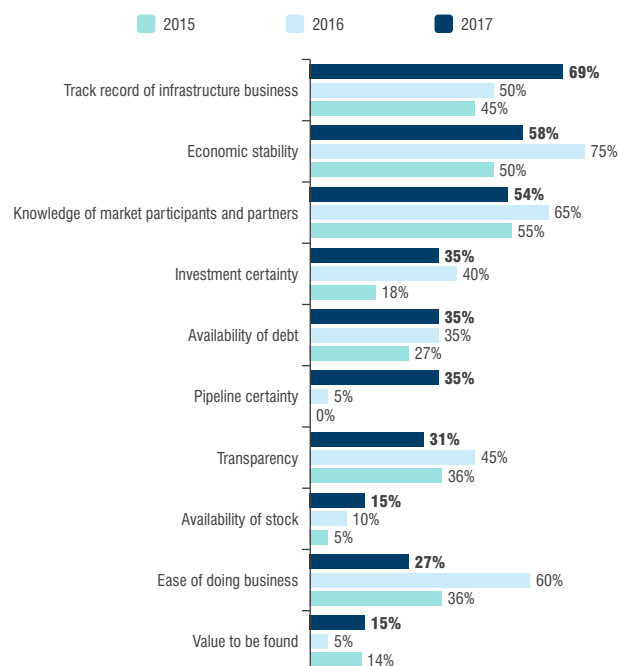
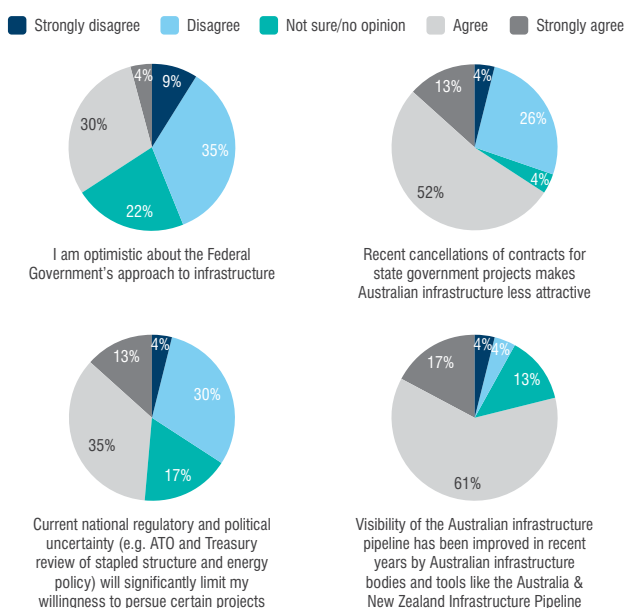


FIGURE 16: ARE MARKET EVENTS AND CONDITIONS IMPACTING INVESTMENT?



Australia vs Other Markets

Despite headwinds, Australia's track record of infrastructure business, our highly knowledgeable participants and relative economic stability still make Australia an attractive destination for investment.

However, taxation benefits were viewed as 'below average' by almost half, with the Federal Government's recent review of the stapled structures tax policy concerning participants. Although not directly related to infrastructure, the major bank levies imposed by the Federal and SA governments have also had a negative impact on investor sentiment.

This year's survey results showed that the majority of participants believe investment certainty in Australia has declined from 'above average' in 2016 to 'about average' (see Figure 17).

Opinion was divided amongst participants as to the impact of improving infrastructure markets in developed countries like the USA shown in Figure 18, with 46 per cent of participants viewing North America as having the most compelling opportunities. Europe and Latin America also saw increased interest compared to 2016 but Australia was still seen by over half of those surveyed as having the most compelling opportunities (see Figure 19).

Discussions with participants reinforced these findings, with many noting the increasing competition for investment, particularly from the Americas and Europe. Nonetheless, Australia remains the most attractive.

NSW and Victoria continued to be the preferred states for investment with the next highest being Queensland or 'anywhere' in Australia. The 20 percentage point rise in preference for 'anywhere' in Australia suggests investors are searching for opportunities and value across the country and that there is a greater visibility of the Australian infrastructure pipeline.

Participants widely commended NSW and Victoria on their infrastructure pipelines, which are visible and predictable.

Notably, following the recent contract cancellations and challenges in WA and SA respectively, along with poor fiscal circumstances and policy settings drying up their infrastructure pipelines, preference for each state dived. Only one in 25 view SA as an attractive destination and 12 per cent for WA (see Figure 20).

Beyond NSW completing its sale of Endeavour Energy in May 2017, and the upcoming sales of Westconnex, WA TAB and Victorian Land Titles Registry there is likely to be a slowdown in major asset sales. With a number of state governments and oppositions heading to upcoming elections with policies opposing asset recycling, it is unclear how states such as Queensland, SA and WA will deliver their infrastructure pipelines.

Overall the majority of respondents still see Australia as better than average or a clear leader globally, contextualising domestic concerns with the overall attractiveness of Australia as a destination. However, Australia's value proposition is being eroded by uncertain policy and political risk. Australia needs to ensure there are ample opportunities to invest so capital does not leave Australia for greener pastures in other infrastructure markets overseas.

"The Trump infrastructure pipeline has received attention, but we're waiting to see any changes."

Fund Manager

"There are some great deals to do in America particularly in the power space but still to do this sort of big stuff it's really complicated there, to try and get all the parties aligned."

Bank

"In Europe the yields may be lower but the interest rates are so much lower and I think they feel there's less risk."

Asset developer and manager

"It doesn't surprise me that the political side of things in Australia gets called out as a reason for looking elsewhere."

Bank

"I would say Australia is as attractive if not more attractive than many other places, but the margin of its attractiveness compared to previously has decreased."

Fund Manager

"There is more Aussie money going overseas so that's definitely happening already, that's a big thing."

Bank

"Stapled structures is a great way to get sufficient money into the system."

Fund Manager



"I think it would be a big blow if the government were to substantially change the ability to utilise stapled structures for infrastructure, because it will make it a lot less tax efficient and it will be harder to attract capital."

Fund Manager

FIGURE 17: HOW DOES AUSTRALIA COMPARE TO OTHER INFRASTRUCTURE MARKETS?

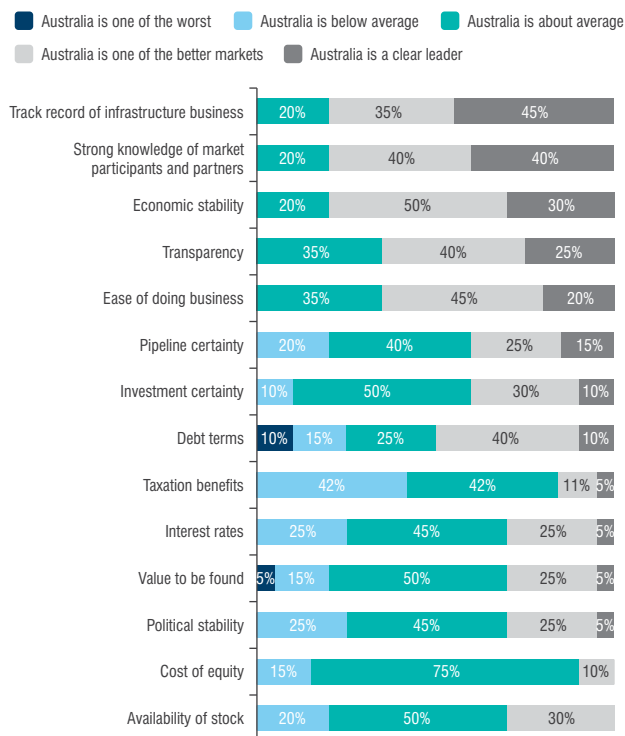


FIGURE 18: IS AUSTRALIA LESS ATTRACTIVE VS DEVELOPED COUNTRIES WITH INFRASTRUCTURE ACTIVITY?

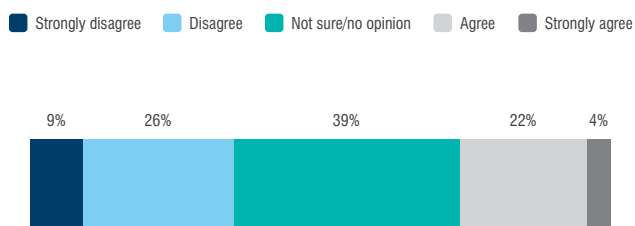


FIGURE 19: REGION WITH THE MOST COMPELLING OPPORTUNITIES

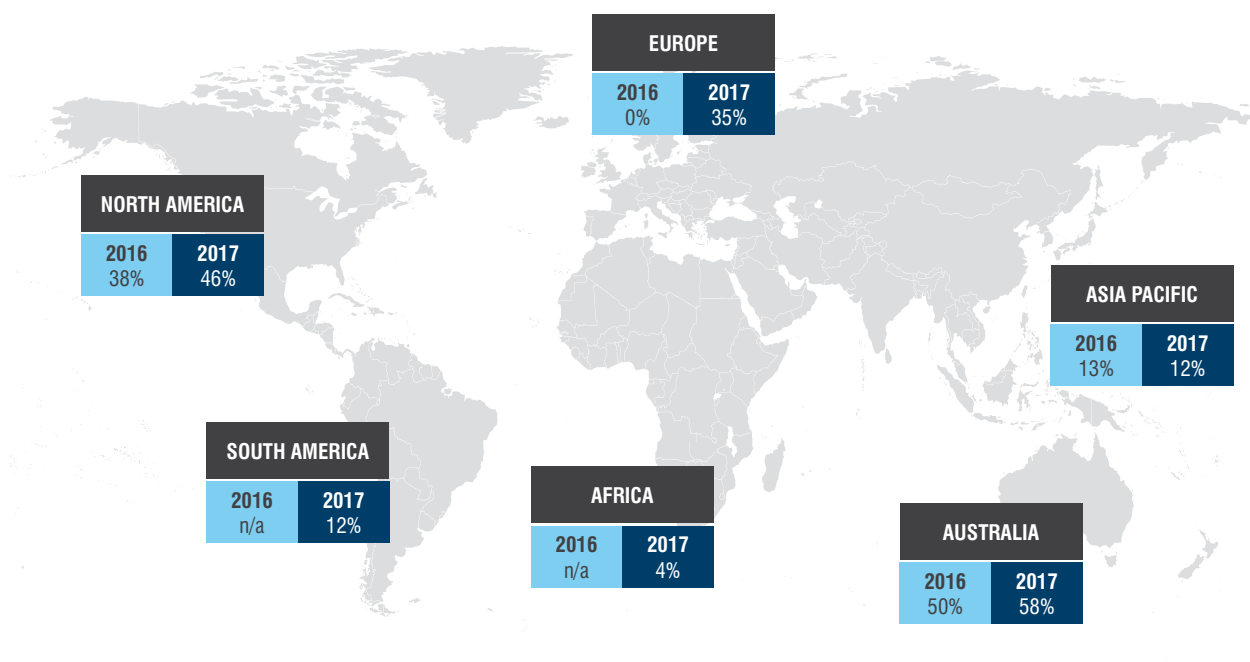
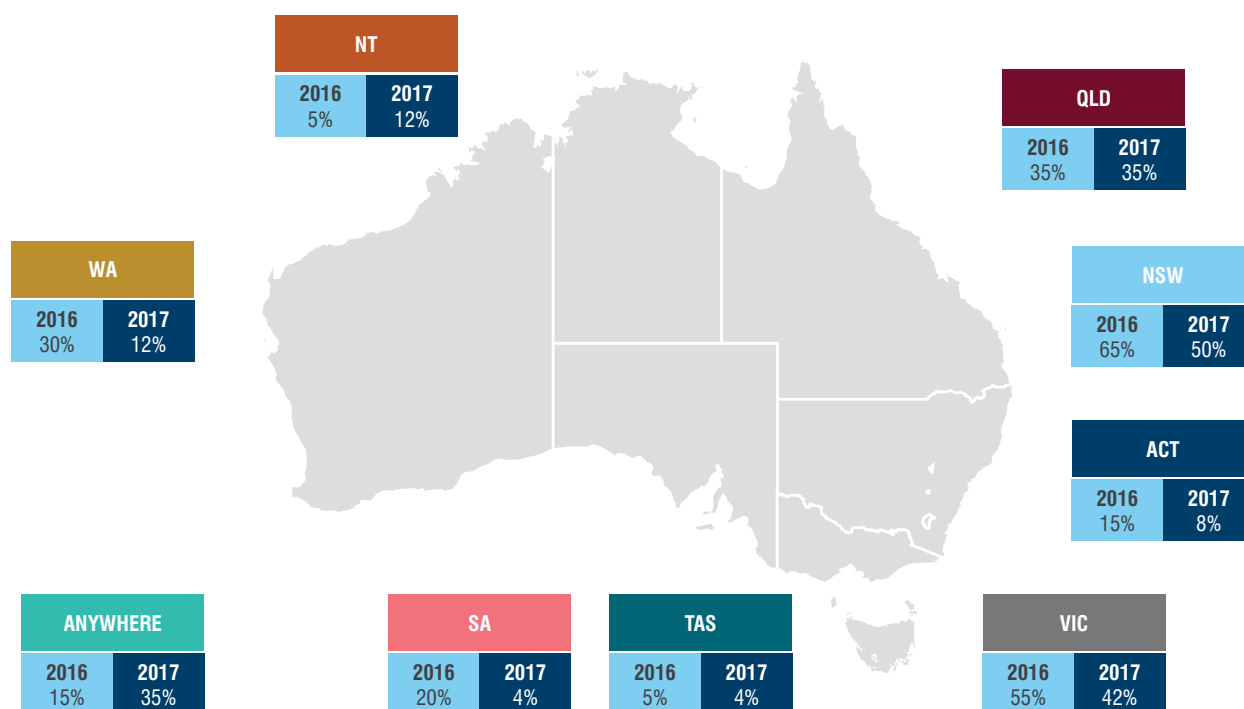


FIGURE 20: PREFERENCE TO INVEST ON A STATE BY STATE BASIS



Challenges for Australian Infrastructure



Australia is viewed as an attractive place to invest with a strong and well-established infrastructure market, but challenges are growing. There is substantial concern over political and sovereign risk with 62 per cent identifying this as a significant challenge and our interviews highlighting the uncertain policy positions across states.

Political risk is now the most significant challenge to investing in Australian infrastructure, with a 27 percentage point increase on 2016, as shown in Figure 21. Sovereign type risk also rose dramatically (20 percentage point increase), with the result mirroring 2015 when the survey was conducted shortly after the cancellation of Queensland's asset recycling programme and Victoria's EastWest Link project. While 2016 saw a decrease in this metric, the survey was conducted

prior to the Commonwealth's decision to block two foreign bids for Ausgrid, with political risk subsequently highlighted as a major concern in interviews.

Risks identified by participants this year extend beyond individual projects. Most participants expressed their concerns about discordant state and Federal government policy and the rapid change in law and practice.

Specifically, participants highlighted the Commonwealth's decision to try to finance infrastructure instead of funding it; the lack of a clear national energy policy with some governments indicating their intentions to nationalise elements of the network; and the review of stapled structures tax policy – the latter being underlined by 35 per cent of participants identifying taxation as a significant challenge to investing (up from five per cent in 2016).

In fact, across all challenges to investing in Australia posed to participants the only one to substantially decrease from 2016 levels was 'visibility of pipeline'.

ENERGY MARKET

Unsurprisingly, policy uncertainty in the energy market has been a constant theme, to the detriment of investor confidence. The past year has seen Australia suffer several energy reliability and security incidents along with rising and more volatile prices, resulting from a lack of long-term and coordinated national energy policy.

In response to these concerns over energy reliability, security and affordability, numerous political interventions and inquiries have been announced at both state and Federal levels, which has further eroded investor confidence in the energy sector.

In particular, investor confidence has been damaged by moves towards direct government investment in the competitive wholesale energy market. This includes an announcement by the SA Government to build a government owned gas power plant and the Federal Government's funding of a feasibility study into the possible expansion of the Snowy Hydro scheme.

In the longer term, investors in the wholesale market also lack certainty over carbon emissions policy, with

the existing Federal Renewable Energy Target (RET) mechanism due to end in 2020 and no agreement reached on the proposed Clean Energy Target (CET), which the 2017 Finkel Review recommended as a replacement for the RET.

Outside of the wholesale energy market, investor confidence is also at risk, with proposals to re-regulate retail markets being discussed in both NSW and Victoria. Moreover, even regulated networks businesses have seen political and sovereign-type risks emerge, with the Federal Government unilaterally abolishing appropriate rights to appeal revenue determinations. Indeed, the abolition of the appeals mechanism was announced only a month after Endeavour Energy was leased.

The energy market landscape presented to investors is full of uncertainty. Unless state and Federal governments can provide a uniform and consistent approach to energy policy, there will continue to be uncertainty in the sector and higher costs for consumers.

"Not all governments are pulling in the same direction which adds to the energy uncertainty."

Investor and consultant

"Firstly I would agree that there is a degree of uncertainty in the energy sector, government policy uncertainty is driving the uncertainty in the energy sector."

Investor and consultant

"There could be a big investment in renewables when you cross the economic point without the subsidies and then again it is incredibly complicated to figure out what the regulatory environment actually is for renewables."

Asset developer and manager

However, despite the myriad of concerns, Australia is still considered one of the more attractive infrastructure markets.

The majority of investors believe Australia will provide sufficient opportunities in the next couple of years. Only 29 per cent of participants felt that Australia would not make a continual improvement in this metric over the next two years, shown in Figure 22.

Compared to the drop in likelihood of investing in Australia, this indicates that there is more competition in the market and Australia is 'shooting itself in the foot' with political and sovereign type risks and uncertainty across all levels of government.



"I've been in the industry now for 27 years and I've never seen as much politicisation of infrastructure, political risk, sovereign risk, things being cancelled, populism around infrastructure, and the whole lack of policy in energy markets."

Asset developer and manager

"In the last 12 months, we've gone from a lot of focus on asset recycling and stable relations between Canberra and the states, to political changes where asset recycling has come to the end of its current run and where Canberra is playing a more populist short-term game."

Fund Manager

"There is nothing the markets hate more than instability. So the best thing to do is set a system and then just keep it stable and you'll get the best response. But keep playing around with it, particularly as we have in the last couple of years, whether it's the Foreign Investment Review Board (FIRB) or tax or processes, markets don't like that instability."

Asset developer and manager

"The Turnbull Government's becoming an equity investor, effectively competing against private investors, is just bizarre from our perspective."

Asset developer and manager

"If you're a foreign investor with the new FIRB criteria, with the uncertainty around the Australian Taxation Office's positioning on stapled structures, I don't find it surprising that investors might be less enthused about Australia as an investment destination."

Fund Manager

"Probably not unsurprising that we're not perceived to be as easy to deal with now; the policy uncertainty, government intervention in markets, sovereign risk around changing policy and lack of co-ordination between state and Federal governments all goes to that."

Investor and consultant

FIGURE 21: MOST SIGNIFICANT CHALLENGES TO INVESTING IN AUSTRALIAN INFRASTRUCTURE

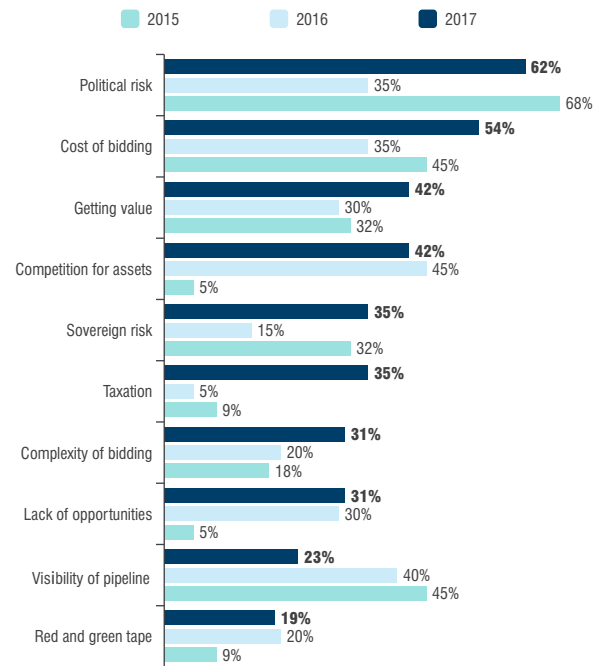
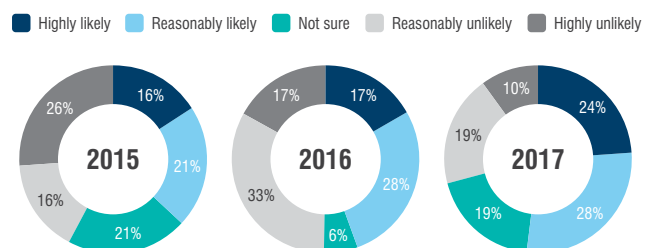


FIGURE 22: LIKELIHOOD AUSTRALIA WILL PROVIDE SUFFICIENT OPPORTUNITY IN THE NEXT TWO YEARS



Conclusion

The 2017 Australian Infrastructure Investment Report shows that investors remain focused on Australian infrastructure, but that a reducing pipeline of investable projects and increasing competition, coupled with accelerating political and sovereign type risks, mean we are rapidly eroding our competitive advantages in infrastructure.

Participants show an increasing willingness to look at global opportunities, which is a reminder that we are in a global competition for infrastructure investment, talent and skills.

In infrastructure, investors and the wider community are essentially aligned in needing increased public transparency and accountability for infrastructure outcomes – and a return to settled, predictable policy making and project selection.

Australia remains one of the world's most attractive and sophisticated infrastructure markets, but this hard-won reputation is under increasing pressure from within.



ANZIP AUSTRALIA & NEW ZEALAND INFRASTRUCTURE PIPELINE



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