

Craig Emerson, MP

**Minister for Small Business, Independent Contractors and the
Service Economy**

**Minister for Competition Policy and Consumer Affairs
Minister Assisting the Finance Minister on Deregulation**

**Address to the In the Zone Conference
University of Western Australia
Perth**

9 November 2009

What a wonderful privilege it is to be asked by Ambassador-designate Kim (Bomber) Beazley to join such a distinguished gathering here 'in the zone'.

It is with some regret that later tonight I must fly out of the zone back east, but I certainly intend enjoying tonight as I catch up with friends of old like Narongchai Akrasanee, who supported me as a 24 year-old young fella at the United Nations in Bangkok where I started my professional career.

Narongchai, never back in the late 1970s, wearing my safari suits, did I imagine that we would both have the opportunity of becoming ministers in governments in our two countries.

Neither then did I imagine that the city around us would develop as it has over only three decades. I will ask Narongchai tonight whether his imagination was better than mine.

When I returned to Bangkok in January with our 19 year-old son, Ben, I barely recognised the place; though I did remember our telephone number – song, jeth, badth, si, si, badth, ha (278 4485), back before the mobile phone was invented.

Back in 1979, Vietnam had invaded Kampuchea, as it was then called, and we travelled to the hastily assembled Sa Kaeo refugee camp to help Cambodian refugees in distress, many of them dying. After being elected to Federal Parliament in 1998, one of my early delights as a new MP was to present my annual academic encouragement award to a Year 12 student at Woodridge High School for achieving academically against overwhelming odds. Her earliest days on earth were as a tiny infant in Sa Kaeo refugee camp.

My purpose in relaying this story is as a stark human reminder of the profound changes that have occurred in the zone in the last three decades.

And within that 30-year period the pace of change has indisputably accelerated. The internet as we know it did not exist for the first one-third of that period, having opened to general subscribers in 1992. And in the last 30 years the population of countries in the zone has increased by more than 1.3 billion!

But if we agree that the zone has changed rapidly in the last 30 years, we can only imagine the face of the region in another 30 years' time. Yet we must prepare for that change, to shape it in a most positive way.

In just a decade from now, China alone will have 15 cities each with more people than live in Australia – and a further 22 cities each with more than 10 million people.

It is far from a coincidence that the enormous economic growth occurring in the zone, lifting hundreds of millions of people out of poverty, is being achieved as the countries in the zone make the transition to market economies.

China has been liberalising its economy since 1978, India since the early 1990s, and Indonesia and the rest of southeast Asia for more than two decades.

Along the way there have been setbacks, such as the Asian financial crisis of the late 1990s. Astonishingly, while affected by the global financial crisis when it struck in late 2008, that setback has been temporary and brief; China, India and Indonesia are now growing strongly again. While recession is still gripping much of the developed world, the market forces unleashed by economic liberalisation in the zone seem so powerful as to overcome any obstacles placed on the pathway to prosperity.

Nor do China and India aspire to become struggling middle-income countries looking up to their affluent peers in the West. In the pre-industrial era, China was among the richest countries on earth and it intends competing for that proud position once again. India, too, was one of the world's three great, sophisticated civilisations and aspires to become so again.

Professor Ross Garnaut was one of the speakers at a Twenty-Twenty Vision Forum series I convened in the early 1990s. He predicted that: "Australians in the year 2020 will live in a world in which the centre of gravity of economic production and power has shifted decisively to East Asia. The Chinese economy alone will be as large as the United States; Japan a clear number three in the world league; and a united Korea sharing fourth spot with Germany. The Indonesian economy will be as large as any in Europe other than Germany".

Ross went on to suggest that East Asia would produce as many goods and services in 2020 as the United States and Europe combined.

A check of the latest purchasing power parity tables bears out most of Professor Garnaut's predictions. China is already in second place, Japan at number three and South Korea at 13 and rising. But, in 1992, Professor Garnaut underestimated the rise of India to fourth place right now, since India had only just begun to open up.

I joined the book club in 2006, writing in *Vital Signs, Vibrant Society*, launched by Kim Beazley, that: "For its first two hundred years of European settlement, Australia suffered the tyranny of distance from European and American markets. Now, in the twenty-first century, Australia needs to rise to the challenge and seize the opportunities of proximity to an Asian centre of global economic activity whose five biggest economies together will soon be the same size as the nine biggest economies of Europe and North America".

In The Weekend Australian's feature on this In the Zone conference, Jennifer Hewett writes: "WA's geography and abundance of resources, combined with the rise of China and India, and the continuing importance of Japan, translates into the tyranny of distance becoming the triumph of proximity".

In fact, the location of this beautiful city close to opportunities in China and India was the principal reason that Captain Stirling gave when trying to persuade the Colonial Office of the merits of establishing a settlement on the Swan River. That was a century and a half before this, the Asian Century. Now that's what I call vision!

As the global centre of economic gravity shifts towards the time zone Western Australia shares with 60 per cent of the world's population, so too will the Australian centre of industrial economic gravity continue to shift westward. Further massive mineral and natural gas projects will be established in Western Australia to provide the raw and processed materials needed to feed the industrialising processes occurring in the zone. And with the right vision and planning, the north of Western Australia could well become one of many food bowls for the zone.

With Australia's population now projected to rise by 60 per cent by the middle of this century to almost 35 million people, 3½ million of whom would be residents of Perth, Australia's urban infrastructure requirements over the coming decades will be enormous.

Add to the urban infrastructure challenge the task of providing the export infrastructure needed to capitalise on the industrialisation of countries in the zone and only one conclusion can be reached: the national infrastructure challenge confronting Australia is colossal.

Are we up to the task and what new policy measures are needed if Australia is to meet this infrastructure challenge?

To answer these questions, we need first to accept that Australian infrastructure investment is coming off a low base. National investment in economic infrastructure averaged less than 4 per cent of GDP between 1990 and 2007, only rising to 5 per cent of GDP in 2008 (Port Jackson Partners 2009, p. 34). Even if we were to assume that 5 per cent is adequate – and it is not – then the underinvestment in infrastructure over the last decade and a half has been at least \$11 billion a year in today's dollars.

The Rudd Government's \$22.5 billion Nation Building Plan for the Future announced in the 2009-10 Budget commits a major new investment in the nation's infrastructure. It includes an investment of \$8.4 billion in expanding Australia's transport networks – essential road, rail and port infrastructure.

As part of this package, the Government has allocated \$339 million for Oakajee Port, near Geraldton.

This deepwater port will help prevent future bottlenecks emerging by supporting the loading of cape-sized vessels which are increasingly used, worldwide, to transport iron ore at lowest cost.

The \$4 billion Oakajee Port development will facilitate the economic development of the region and its growing iron ore industry. Over the next 20 years, it will handle up to 35 million tonnes of iron ore exports annually.

While it is a project driven by private sector investment, the massive Gorgon LNG project is also part of the story of the Australian government's commitment to supporting Western Australia's infrastructure. The Rudd government will be honouring its election commitment to set aside 25 per cent – that's up to \$100 million a year – of the Petroleum Resource Rent Tax generated from this project for investment in Western Australian infrastructure.

This is another example of the Rudd government working in partnership with the Western Australian government to plan for the state's long-term infrastructure needs.

But the Commonwealth and state governments will not be able to do all the necessary extra heavy lifting in meeting the nation's colossal infrastructure challenge. The Commonwealth has committed to holding real growth in spending to 2 per cent a year in order to return the Budget to surplus in 2015-16 and several states are expected to scale back their infrastructure spending from the record levels of 2009.

At present the private sector is responsible for less than half of national investment in economic infrastructure. The policy challenge is to improve private sector incentives for investing in infrastructure, especially export infrastructure.

The Rudd government has put in place the institutional arrangements needed to realise a strategic, nationally-coordinated approach to the future planning and development of Australia's critical infrastructure.

In 2008, the Rudd government established Infrastructure Australia under Sir Rod Eddington's chairmanship as an independent, statutory advisory council to drive the development of a long-term, coordinated national approach to infrastructure planning and investment.

Infrastructure Australia provides advice to governments, private investors and infrastructure owners on nationally significant infrastructure priorities, identifies possible impediments to the efficient use and provision of national infrastructure and develops policy and regulatory reforms needed to use national infrastructure more efficiently.

For example, Infrastructure Australia has developed a list of 'pipeline' infrastructure projects to help inform governments, investors and infrastructure owners in planning and coordinating long-term infrastructure investment priorities.

With the establishment of the Major Cities Unit within Infrastructure Australia, the Commonwealth government is providing national leadership in the development of strategic planning frameworks for our largest cities.

And, working with the states and territories, the Rudd government has established a Cities Taskforce to examine how we can ensure our cities are liveable, productive and sustainable in the future.

In addition to putting in place the right institutional arrangements for meeting Australia's colossal infrastructure challenge, the Rudd government has worked with the states to develop a consistent national approach to developing public-private partnerships (PPPs).

But crucially, we will need to ensure that there are strong private sector incentives to invest in vital export infrastructure.

The regulatory arrangements governing access by third parties to public and private infrastructure are set out on Part IIIA of the Trade Practices Act. These arrangements were developed in the mid-1990s as an important part of the national competition policy reforms.

Building on the liberalising microeconomic reforms initiated in the 1980s, the national competition policy reforms were the second wave of reforms in fashioning Australia's open, competitive economy.

The national competition policy reforms were largely directed at government-owned enterprises, moving them to a position of competitive neutrality with private investment projects and operations.

While the National Access Regime was intended to apply access rules regardless of whether infrastructure was publicly or privately owned, much of the focus was initially on publicly-owned infrastructure. But a wave of subsequent privatisations means that much of that infrastructure is now privately owned.

These considerations led to regulatory arrangements that promoted more efficient use of existing infrastructure, but arguably less emphasis was placed on ensuring strong private incentives to invest in new infrastructure.

If this analysis is correct, it might be timely to revisit the National Access Regime to ensure it is consistent with the imperative of meeting Australia's colossal infrastructure challenge.

On 29 October 2009, I introduced a bill into Parliament to improve regulatory certainty and streamline administrative processes under the National Access Regime. The establishment of time limits for decision making about third-party access to private infrastructure and limiting reviews to information provided to the initial decision-maker are both designed to streamline the processes of deciding whether a third party can gain access to private infrastructure.

And importantly, the amendments will provide greater regulatory certainty for private investors in new infrastructure. The existing Regime does not allow a private investor who is considering building an infrastructure facility to determine with certainty whether or not the proposed facility would be declarable for possible access by a third party. The amendments provide for an upfront decision to be made by the relevant

minister. If the minister decides upfront that third-party access will not be granted, that decision holds for at least 20 years.

This reform will enhance regulatory certainty for potential investors in major new infrastructure.

But will private infrastructure investors not wanting to run the risk of having to negotiate access by other private users to their infrastructure assets have strong incentives to build to size instead of building to ultimate desired capacity? That is, will they size their infrastructure capacity to meet only their shorter-term needs in order to avoid having to deal with rivals seeking access to short-term excess capacity?

From a national perspective, is it an economically inefficient way of investing in private infrastructure if private investors deliberately under-size their infrastructure capacity as a consequence of the National Access Regime?

On the other hand, if rivals cannot gain access to infrastructure assets, does this result in wasteful duplication of infrastructure and/or the stranding of mineral and natural gas deposits?

I pose these questions not because I have an immediate answer but because they deserve an answer if we are to meet Australia's colossal infrastructure challenge. The Government will continue to monitor whether the National Access Regime is meeting its objectives and is striking the right balance between the rights and interests of infrastructure owners and the competition benefits of facilitating access. And I make this important point: simply asking these questions has no bearing upon the issue of access to rail assets in the Pilbara.

Let a public discussion begin about the suitability of the soon-to-be-amended National Access Regime in meeting Australia's infrastructure challenge. In posing these questions, I have an open mind to what is undoubtedly an exceedingly complex but vitally important issue.

The sense of excitement about the role of Western Australia in the zone is palpable. The Rudd government understands the dynamics at play and will do whatever it reasonably can to help seize the enormous opportunities for Western Australia to lead wealth generation in Australia in this, the Asian Century.