

Speech

Sharon Warburton

Chair, Northern Australia Infrastructure Facility

Developing Northern Australia Conference

Cairns

19 June 2017

CHECK AGAINST DELIVERY

The NAIF offers up to \$5 billion in debt or alternative financing mechanisms, which may be on concessional terms, for infrastructure projects in northern Australia which will benefit the public. Ms Warburton will provide an update on the activities and progress of the NAIF over its first year of operation. She will discuss the role of the NAIF in being a key catalyst for longer term transformation of the north including for example opening up new market opportunities and assist the development of new, more resilient and reliable supply chains.

Acknowledgements

Thank you and good morning.

It is my pleasure to be here in Cairns. I would like to respectfully acknowledge the Gimuy Walbura Yidniji and the Yirrganydi peoples, traditional owners and custodians of the land on which we meet today, and pay my respects to their elders, past and present.

I also extend that respect to other Aboriginal and Torres Strait Islander peoples who are present.

As well as the next generation of leaders, both here locally in Cairns and right across northern Australia.

Congratulations to Allan Dale and his team for once again putting the spotlight on northern Australia. Events like this are a fabulous opportunity to celebrate success, network and share ideas.

Thank you also to Councillor Bob Manning, Mayor and my fellow speakers for this morning session – Mr Joe Morrison and Mr Bernard Salt. I have met both Mr Morrison and Bernard previously. I value their roles immensely and I am looking forward to their thoughtful insights on the state of the north.

I am delighted to be back in Cairns. In my role as Chair of NAIF, it is my fourth visit to North Queensland since I spoke to you last year in Darwin 12 months ago.

I and the NAIF Board and team are so energised and are giving it our all to achieve what the NAIF mandate has empowered us to do.

I have an incredibly talented NAIF Executive team, with their headquarters here in Cairns, led by Ms Laurie Walker who regularly tells me how much she loves living here and what a good place it is to do business.

Whilst I speak to the NAIF team daily from my home in Perth, it is always my pleasure to visit them to discuss the economic development of the north.

Let me introduce you to some of them here today.

My fellow Directors – Barry Coulter from Northern Territory, Bill Shannon and Khory McCormick from Queensland and Justin Mannolini from Western Australia.

And members of my Executive – Laurie, Peter, Tim, Amanda and Carol.

And I am delighted to report our service level agreement with Efic is working really well.

It gives us expertise of an organisation with over 60 years of experience in lending on complex projects with access to over 100 staff.

We have implemented a strong governance framework and I thank colleagues at Efic and CEFC for sharing their best practice with us.

Reflecting on the past year - what a year of achievement it has been!

The team have travelled to each corner of the north meeting potential infrastructure investors. I personally have joined them to visit stakeholders in Kununurra, Legune Station, Cairns, Townsville, Darwin and Rockhampton to help unlock potential qualifying projects.

Today I want to focus on NAIF's achievements - and the unbelievable opportunity and challenges that NAIF is here to take on.

NAIF was set up with bi-partisan support. That support included agreement on our investment mandate. We think about that mandate and the NAIF Act as our 'rule book'.

There are many rules in that book.

There are two critical rules in that book that I want to explain.

First NAIF must align with Commonwealth policy.

And that is a whole of government position, remembering it is taxpayer funds we are deploying.

Secondly - importantly we cannot lend funds if all regulation at both a Commonwealth and State level are not in place. This includes all relevant regulatory, environmental and Native Title approvals and arrangements.

NAIF does not replicate the analysis and decisions of the regulator.

The other tremendously important parameter under which we operate is that it was set up to be an independent body making decisions independently of all outside influence.

Be that government of various levels, the Minister or other specific interest groups.

There will always be views for and views against a proposal.

But is it an important role this board has been tasked with to make its decision independently.

At the end of the day decisions will be made by the Board. It will do that in compliance with best practice governance and for the achievement of public benefit.

It's complex. I encourage you to leave today with just one key message. I want that to be an understanding of the NAIF vision and the passion and commitment that I, my fellow directors and the NAIF team have for **transforming** the north.

Let me first talk about what NAIF is about. If I distil it down it's all about development of infrastructure in northern Australia for public **benefit**.

How NAIF will improve the way we do business, how NAIF will create new opportunities, new supply chains, new sectors, new jobs and employment opportunities.

How the public can benefit from opportunities for growth going on around us.

But it is not just about commercial economic growth – which is a key objective. It is also growth at a very personal level. NAIF is about supporting and improving our way of life here in the north.

It's about reliable and affordable access to water, energy and communications.

It's about making it easy to travel between regions.

Sometimes the simplest things are the most important.

I know this because I grew up in the north.

I spent my childhood in locations spread across all three northern jurisdictions.

For a while I attended primary school in Mt Isa, holidayed at the caravan park at Ellis Beach and often visited Cardwell, Cooktown and Mareeba.

As a kid I've lived in Darwin, Katherine, Kununurra, Broome but mostly my family were based in the coastal town of Exmouth, half way up the WA Coast – just inside the NAIF northern Australia boundary.

I remember when telephones first came to town – landlines not mobiles. I recall working in the north when there were no mobile communications to connect with your colleagues even in emergencies.

I spent a lot of time in the Ningaloo Reef region. The ocean and its treasures are important to me.

I appreciate the beauty and our need to preserve the natural environment – much of which is unique to the north. I haven't just looked at the pictures. I've been there.

There are some other things that I want to mention which are relevant to achieving NAIF's objectives.

I have significant experience in an iron ore mining company, an emerging gold mining company and in the construction sectors as a non-executive Director or executive. I therefore bring to my role essential skills for the creation of infrastructure, which is how NAIF will achieve its mandate.

At the same time, I am a strong social and environmental advocate which I personally believe should be a focus for all Australian leaders. Amongst other things, I am passionate about indigenous and female engagement and participation and proud of what I do to advocate for workplace opportunity, wellness and participation.

Our board is fully committed to our mandate – which is a challenging one.

But they understand the unique opportunities which a mandate focussed on bringing benefit (rather than just return) can embrace- and to an area which has traditionally been under invested in.

I have worked closely with them for almost a year and I see their commitment to transformational change and impact.

I am really very proud of the contribution being made by every member of this Board.

They have invaluable tangible real life business experience.

As a team, we focus on the benefit we can deliver supporting projects in northern Australia.

And benefit that will also flow more broadly to all of Australia.

So how will we achieve the NAIF objectives?

How will investing in infrastructure in the north achieve the public benefit we need to see – that is in essence what NAIF's \$5 billion of debt finance to invest is all about.

There is a simple answer.

Infrastructure is an enabler. It is the backbone to economic growth.

Infrastructure is core to developing our life in the north, a building block.

Without all-weather roads providing year-round accessibility or without ports or airports with capacity to meet demand to get produce to market - we can't achieve growth.

We also need social amenity to encourage people to live and work in the north to generate that economic benefit.

There is no point having ports or airports or rail or roads if people aren't in the region to operate them or to use them.

Infrastructure is an enabler of social amenity.

As an example.

An hour drive from here on the Gillies Highway mobile reception drops in and out. The staff in the NAIF office here in Cairns can attest to that!

And another example from the other side of northern Australia.

I have friends that live in Broome in the Kimberley. I know they don't have access to high speed and reliable communications infrastructure.

I learnt that the hard way when I thought I could 'work from home' for the day in Broome. If I can't work from home in Broome – what is that saying about the impact on key services such as health and education? Services that so many people in other parts of Australia take for granted.

Getting this right will attract new residents and tourism.

This is just one example.

Power is another example.

Electricity availability and cost is a key challenge for residents and business in the north. It can be a major factor in determining the feasibility of marginal projects such as irrigated agriculture developments.

Beyond the north-east coast of Queensland, all of northern Australia's energy networks are isolated and/or dispersed — serving relatively small populations in specific geographic areas or a particular industry demand.

There is much that can be done to address this challenge.

Water is another example. Northern Australia has significant sources of surface water and ground water – but there is a need to develop new projects. Which will not be economically viable – in terms of covering the capital, administrative and operational costs of those new projects – without the concessional loan terms that NAIF can bring to help pay for those costs over much longer time periods than non-government lenders can offer.

These are difficult challenges. We need to work together to overcome these hurdles to growth.

So what about the opportunities?

They exist because of the positioning of the north relative to Asia and the tropics.

Darwin is 4 and 1/2 hours from Singapore. A major gateway to Asia for both business and leisure.

It's closer than Sydney is to the snowfields.

Even Cairns is only 7 hours to Hong Kong. Another major port.

And the statistics are staggering.

By 2030 two thirds of the world's middle class and 50% of world's GDP will be in the Asia Pacific region.

By 2050 50% of global growth in demand for agriculture products will come from China.

The rapidly growing middle class in those markets is driving demand for commodities, food, goods and services, better health and education.

Northern Australia can service that growth. If we don't, our other neighbours will.

The opportunity is now. We must not let it pass us by.

The strategist in me says we need to be thinking about how we leverage this opportunity. And as I said we can grab it or we can watch it go to others. We are doing too much watching today.

Obviously, there is opportunity in our primary industries.

There is demand for healthy, regulated, uncontaminated fruit and vegetables, meat and other agribusiness.

Laurie and her team of originators know this as they are out talking to agri leaders, participating in 'paddock to plate' workshops and talking to foreign countries about unlocking new international supply chains.

There are also so many more opportunities.

What about medical tourism and education as examples.

On a per capita basis Australia consumes multiples of the nuclear medicine treatment than China does in a week.

That is astonishing.

For a moment think about the difference we could make to individuals and their families across Asia.

Imagine the relief and the difference for those from a serious illness in say Manila (five hours from Darwin) that new infrastructure - which NAIF can help to develop – and which creates a safe pathway to access world class Australian treatment options could make. There is a real opportunity there for creating new businesses around such medical tourism.

This could transform so many people's lives.

There are many more examples.

What is common across such examples is the concept of opportunity for northern Australia with NAIF assistance to satisfy demand.

Infrastructure as an enabler can marry northern Australian quality product and services with untapped and growing Asian demand.

Let's talk about another example.

The total real value of Australian agricultural exports increased for seven consecutive years to 2014–15.

Japan, Hong Kong and China were Australia's largest export markets for citrus in 2015–16.

For 2017-18, those Australian citrus exports are forecast to be a third higher.

And over the medium term, those exports are forecast to continue growing because of higher Asian demand.

This is really significant.

This is one example of the size of the prize.

It is what we want our producers and investors to focus on and NAIF can help make this happen.

We partner with other lenders to get the key building blocks established however....

There are challenges

Challenges to generating investment in infrastructure.

We know the private sector is currently not investing at the level needed to facilitate such growth for many reasons; including the tyranny of distance, remoteness and climate (weather related) events which make investing in the north expensive and riskier than for projects in the south.

The private sector can tend to follow rather than trail blaze.

This gives NAIF an opportunity to lead the way.

To develop a new way of investing in the north – almost a new asset class. NAIF – which is a lender (not a grant funder) is designed to and must partner with other lenders - but we are also what is called a 'gap financier' i.e. we can only put in the minimum amount of debt or other concessions (which I will come to) to fill a gap that other lenders or investors cannot satisfy.

NAIF will do this by complementing not competing with the private sector and other financiers.

NAIF's Investment Mandate provides for NAIF to have a high risk tolerance in relation to factors that are unique to investing in infrastructure in the north, including, but not limited to distance, remoteness and climate.

And we have a mandate to encourage private sector participation in financing that infrastructure development i.e. we call it 'crowding in' the private sector.

NAIF has been given a toolkit of so called 'concessions' which it can use to address the debt financing gaps in the market.

These are used to make sure NAIF allows other investors to invest as much as they can.

What are the opportunities for lenders?

They could be created by:

- Demand gaps where new infrastructure could generate demand that is not currently present. That is about creating new businesses.
- Service gaps – where the level of infrastructure falls below acceptable standards (e.g. reliability, resilience, accessibility, safety, quantity). I have already given some examples about that today.
- Cost gaps, where the cost of providing infrastructure is higher than in other locations.

For example.

Agriculture – Australian farmers need to get produce to market.

There is a need for new infrastructure right across the production and supply chain.

Be it irrigation on the property, packing and storage facilities, or the road, port and airports needed to get produce to market.

You all know about these challenges for example that on the Atherton Tablelands; a significant food bowl right here in the Cairns hinterland – but its fresh produce needs to be driven to Brisbane - a 19 hour drive - to be loaded on a barge and shipped to Asia.

This is almost mind boggling when we know Asia is just one flight from where we are standing today.

Why do we need to add the 1,600 kilometres of additional travel?

Let alone face additional risk of road closure, particularly during the wet season. This can be extremely disruptive to our local businesses.

By working together, we can identify these opportunities for improvement.

The Brisbane West Wellcamp Airport is a case in point example of what can be achieved.

Many local farmers on the Darling Downs are now about to ship fresh product direct to Asia from their doorstep.

Imagine the new opportunities for growth that this can provide.

Infrastructure takes time

Infrastructure development is a big undertaking.

Getting it right takes time and we will take the time necessary to ensure we do that.

It involves feasibility studies, planning and government regulation before it is even ready to be considered by lenders.

So how long is reasonable and what is the benchmark?

According to Ernst and Young, for a Government led infrastructure project, from project conception to when the project is ready to be assessed by a lender - it can take 19 to 36 months.

Then a further 3 to 6 months of commercial negotiations to reach financial close.

Overall that is 2 to 3 years from inception of an idea to when a lender can put its money into a project i.e. when cheques can be written.

Of course, these timeframes can significantly increase for higher risk projects – and for Proponent led (rather than government procured which is what Ernst and Young assessed).

There is foundational ground work required for infrastructure projects that must be undertaken. They need to be designed to last a long time and when financiers cut corners bad deals are done.

It's like building a house. You don't build a house without getting your engineer, geotech, architect, lawyer, bushfire regulations, building certificates and planning approval and more!

NAIF is operating on a scale way above a residential house development and we have taxpayers money. We will be making sure that there has been rigorous investigation of the risks and that the foundations are strong.

There is much to consider. For example:

- How much will it cost? What is the risk of a cost overrun and how is that mitigated?
- What are the risks of delay in construction? (for example, impact of cyclones and floods that could delay construction)
- What are the technical risks associated with the project – does it involve new technology?
- What are the regulatory, environmental, Native Title and other required approvals?
- What is the impact on the supply chain?
- What is the go to market strategy? What is the demand for it and where?
- Is there a locked in offtaker for the product?
- Does the operator have the right distributor – what are the risks? For example, that our product might be mixed with substandard product on the shelves in the offshore supermarket? How is that protected against?
- What is the public benefit? And in particular the ongoing benefits to the local indigenous groups?

We would not be meeting our Director obligations if we did not understand all these risks before we make a decision.

This is our job and we do not take it lightly.

To date NAIF has received 119 enquiries. There are 60 active deals currently in our list of potential projects.

By active I mean **both** those in the due diligence stage and those the team is working with on a regular basis to consider material for the Board's initial consideration.

There has been solid growth in the number of enquires since NAIF's establishment, both in terms of total enquiries and quality active enquiries.

We did not walk in on day one to an in tray full of shovel ready proposals.

The team has been working hard to identify the transformational opportunities where NAIF can help achieve benefit.

We have experienced infrastructure and project finance lenders focused on originating these opportunities.

We all have a role to play here.

Under the model legislated for us, NAIF is not the proponent. We need leadership and ideas from you and the market more broadly. It is about partnership - working together to identify the game changing opportunities like those I have spoken about.

The talent and ingenuity lies within the region. NAIF wants to be a catalyst for bringing these ideas to fruition.

Commercial in Confidence protocols are imperative to what NAIF needs to achieve.

The integrity of our process is critical to **realising the public benefit** we have been established to generate. It is in the best interest of the public and the taxpayer that we do so.

There are fundamental – mandatory - aspects of our mandate.

For example.

Firstly, a mandatory requirement which prevents us from lending more than 50% of the infrastructure debt to any project.

And secondly as a gap financier.

NAIF needs to negotiate terms for the provision of its loan with the project proponent, equity investors, commercial and other debt financiers and contractors, operators and key suppliers amongst others.

And it needs to make sure that it puts in the minimum amount of debt and concessional terms – that is mandated to it and that is also important in spreading the \$5bn as widely as possible.

In the simplest terms, how can NAIF negotiate best terms for the taxpayer, while showing its hand to the party we are trying to negotiate with?

It is also fundamental from the perspective of the other parties that NAIF is negotiating with – they expect as a **standard practice that negotiations will be maintained as confidential.**

If they cannot be confident that they will be the ground rules – the risk to NAIF's objectives is that proponents will be reticent to deal with NAIF – at all – or as earlier as they might otherwise be prepared to come forward

And that risks the NAIF's list of projects – and it being converted to funding and public benefit.

Consider - if you were going to your bank for a personal loan you would not expect information regarding the details of your negotiations and financial position or even the fact you approached the bank for a loan to be discussed publicly.

That basic premise of dealing with your lender is no less important when managing the NAIF mandate. We have obligations under our mandate to publish certain information after an Investment decision is made and of course will comply with them.

Adani

We know there is a lot of interest in NAIF and the Adani rail project. I can confirm we are in our due diligence phase on that project.

But for the reasons I have just explained I cannot discuss the detail of any dealings with any proponent.

Again put yourself in that position. Would you expect people you were negotiating with to discuss publicly any of those details?

NAIF must adhere to best practice (in both government and commercial spheres) under its mandate and does so in all circumstances.

Conclusion

What I want you to go away with today is an appreciation of the NAIF vision.

The tremendous opportunity that we have. The determination that NAIF needs and has to realise that vision, and to take on our challenges to get the huge job of transforming northern Australia done.

We cannot do that alone. Each of you is important to making this northern Australia agenda happen.

We will look back and be proud knowing we leveraged an opportunity today, for tomorrow and future generations.

Thankyou.