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HD Call for private sector-led infrastructure

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Boral chief executive Mike Kane will be shocked to read the Productivity Commission report on public infrastructure which recommends adopting the Victorian guidelines for building codes. Kane has little time for Victoria's construction industry because the Construction, Forestry, **Mining** and **Energy** Union has stopped Boral supplying cement in the Melbourne CBD.

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Boral was favoured in a recent tender on a Melbourne CBD site when the word came back to Kane that the CFMEU had stepped in and stopped the head contractor awarding the contract to Boral.

Kane sent a message back to his man there to offer to supply the cement for free just to get a Boral cement mixer on black-banned ground. But the head contractor was too scared to go ahead with the arrangement no matter how financially advantageous it was to his business.

The Productivity Commission analysis of public infrastructure in Australia finds many reasons for the high costs involved ranging from excessive tendering costs to lack of competition in a market dominated by Lend Lease and Leighton Holdings.

When it comes to industrial relations, the report closely examines the concerns that union and employer behaviour is not only fuelling unlawful conduct but also frustrating productivity and raising costs. IR was not raised by stakeholders as a major source of cost pressures and the commission notes that days lost per employee are "very low" by historical standards.

When the analysis turns to the sort of issues that have made Kane scream in frustration, it recognises there is widespread unlawful conduct, most of it concentrated in Victoria and involving the CFMEU.

The problem for companies like Boral is that dealing with these issues involves long, drawn-out court action. Kane welcomes the Royal Commission into the building industry but it will do nothing to bring down the barriers to Boral doing business in the Melbourne CBD.

The commission says the unlawful conduct is mainly in general construction rather than civil construction. But there are broader problems highlighted by a review of a sample of enterprise bargaining agreements "including inexplicable variations in terms and conditions, potentially excessive powers for some union officials and constraints on workplace flexibility likely to be inimical to productivity".

It warns against having an over-optimistic aspiration for large industry-wide productivity increases thanks to IR reform, and recommends the Australia-wide adoption of the Victorian guidelines for building codes, which allow for the disqualification of contractors from tendering for public infrastructure projects if they mismanaged industrial relations arrangements or reached sweetheart deals with unions. It also advises raising the ceiling for penalties for unlawful conduct.

Peter Harris, chairman of the Productivity Commission and arguably the busiest public servant in Australia, says governments have it in their power to attract greater private sector financing of infrastructure. Many projects will still need public funding but private sector financing can deliver new efficiency gains.

ANZ Banking Group will on Thursday publish a new analysis of the opportunities for investors in Australian infrastructure. It recommends governments follow NSW's **lead** by recycling the capital from asset sales and use it to kick-start new projects.

ANZ estimates opportunities for investors in Australian infrastructure of around $175 **billion** over the next five years including $110 **billion** from the **sale** of state-owned infrastructure assets. This pipeline could exceed $220 **billion** in the period to 2020.

ANZ's global head of utilities and infrastructure David Byrne says banks will have to recycle their infrastructure funding from bank balance sheets to bond markets.

One of Australia's most promising integrated **mining** and **ore** processing companies Lynas Corp is being smashed in the Australian sharemarket as it struggles to transition from start-up phase to world-leading rare-earths producer.

Lynas has spent about $800 **million** building a rare-earths oxide production facility in Malaysia to process the resources from Mount Weld in Western Australia. Mount Weld is one of the highest-grade rare-earths oxide deposits in the world, with 23.9 **million** tonnes at an average grade of 7.9 per cent.

But after the release of qualified interim accounts on Tuesday, the question that must be asked now is whether the shareholders of Lynas will end up owning the **company** or if the price of refinancing its heavily geared balance sheet will mean a change in control.

There is added intrigue because of the apparently invidious role of **China**, which has about 90 per cent of all the world's rare-earths oxides and supplies about 95 per cent of all processed rare-earths minerals.

When Lynas started down the path of building the largest rare-earths processing plant outside of **China** several years ago, the price of rare earths was at heady levels. Rare earths, which are used in electronics, military and in the automotive industry, hit a price of about $US80 a kilogram.

In the December quarter Lynas was receiving about $US23 a kilogram. But when you load in the costs of its debt of about $500 **million**, the rate of production is well below the level for break even.**Chinese** restricted rare-earths exports UBS analyst Jo Battershill says cash break-even for Lynas is a production rate at the Malaysian plant of 12,000 tonnes a year. Lynas has previously guided to a cash cost of $US14 to $US15 a kilogram once the plant reaches its nameplate production target of 22,000 tonnes.

The **Chinese** restricted exports of rare earths and that pushed up global prices. It encouraged the world's processing companies to set up facilities in **China**. That has helped Lynas because it now supplies product to customers inside **China**.

However, after squeezing the rare-earths supply chain, the **Chinese** appear to have turned on the supply taps and the price of rare earths has plummeted. This collapse in prices has coincided with a critical period in the Lynas production ramp-up.

Lynas has experienced production bottlenecks at its plant but directors, led by chairman Nick Curtis, are confident the **company** can reach its target run rate of 11,000 tonnes a year during the June quarter. Production in the six months to December was 994 tonnes and total sold was 627 tonnes.

The **company** has about $74.7 **million** cash at bank and is burning cash at about $50 **million** every six months. It has admitted it will need to refinance its debt possibly through a capital raising. The board of Lynas was recently strengthened with the appointment of Amanda Lacaze, who has much experience in working with start-up companies and companies facing financial distress.

Margaret Jackson is close to being appointed to the chairmanship of facility management **company**, Spotless. The appointment would be one of the last significant moves before the owner Pacific **Equity** Partners sells the bulk of the **company** in an intital public offering.

PEP bought Spotless in August 2012 for $US741 **million**. It is expected to be valued at about $2 **billion** when it lists on the ASX. The negative attitude towards private **equity**-selling companies to the sharemarket has diminished recently thanks to the strong performance of stocks such as Nine Entertainment Co.

While shareholders in Qantas and Virgin cringe while Alan Joyce and John Borghetti threaten each other with increased domestic airline capacity, Rod Sims at the Australian Competition and Consumer Commission wants more regulation.

Sims will tell the National Consumer Congress on Thursday that the recent statements by Joyce and Borghetti show why the price signalling laws in banking need to be extended to aviation. Shareholders in both companies know the best outcome will be when market equilibrium occurs. But there is no need for price signalling for the duopoly to figure out how to make more money.

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