

Australia: Privatised road tunnel creates havoc in Sydney

Rick Kelly**21 October 2005**

One would struggle to conceive of a more compelling demonstration of the incompatibility of the profit system with the most elementary requirements of contemporary mass society than the debacle of Sydney's Cross City Tunnel project. In the face of a motorists' boycott of the privately run tunnel, the state Labor government has been thrown into crisis, as public attention has revealed what amounts to nothing less than the plunder of public funds for the benefit of private road and other infrastructure companies.

The Cross City Tunnel, running under the centre of Sydney, opened last month under the control of an international syndicate headed by Li Ka-Shing, Asia's wealthiest individual. The group won the bid to operate the tunnel and collect the toll revenue for the next 30 years after paying the New South Wales (NSW) government \$105 million. This payment was based on the forecast that 90,000 vehicles would make daily use of the two-kilometre tunnel.

Only the boycott of the tunnel by Sydney motorists disrupted this lucrative arrangement. Less than 25,000 cars presently use the tunnel each day, with other drivers taking alternative routes to avoid the exorbitant \$3.56 minimum toll for each trip on the private road. The Cross City Tunnel owners declared a three-week period, beginning October 24, of free travel in order to boost traffic.

In an extraordinary measure befitting that of a police state, the government of Premier Morris Iemma has tried to dragoon motorists into the tunnel by shutting down and restricting a number of public roads in the area. When this predictably provoked public outrage, the government admitted that the 30-year contract negotiated with the tunnel's owners compelled it to take such measures to ensure an adequate traffic flow on the road. Under the terms of the deal, within a five-kilometre radius of the tunnel, up to 500 roads in a dozen suburbs can be closed or restricted. (The contract euphemistically refers to such measures as "road calming").

The result has been traffic chaos throughout many parts of eastern Sydney. A number of small businesses have also been adversely affected by the traffic diversions. The fiasco has acted as a lightning rod for the public's discontent and anger with the Labor government. For several weeks now, talkback radio responses and letters to newspaper editors have been dominated by expressions of anger over the government's corruption and ineptitude.

This outrage is entirely justified. The terms of the Cross City Tunnel contract were negotiated and signed in complete secrecy, with only a 64-page summary document later released to the public. For weeks the government maintained that it could not release the exact details of the deal because they were "commercial-in-confidence". Only on October 18, in the face of mounting public pressure, did it back down and agree to table the contract in parliament.

Underlying the deal is an understanding between the NSW government and the Cross City Tunnel owners that the former would do everything in its power—including the deliberate and systematic sabotage of the local road network—to ensure that the company received an adequate return on its investment. According to the *Sydney Morning Herald*, one section of the contract requires the state government to buy out the Cross City Tunnel operators and pay expected profits of up to \$100 million a year for the next 30 years if it fails to maintain the specified public road and lane closures.

The government also promised to compensate the company if any improvements were made to the public transport system which affected the number of vehicles travelling through the tunnel. If the contract is broken—by any government in the next three decades—the company is entitled to an \$850 million payout.

Under the Cross City Tunnel deal—as with every other privatised infrastructure initiative in Australia—large transnational corporations stand to reap enormous profits, while governments are effectively bound to step in and wear the losses if things go wrong. And it is working people who end up paying—directly, through the road charges, and indirectly, through the diversion and waste of public money.

The Cross City Tunnel scandal largely overshadowed an announcement by the NSW government that it has agreed to pay more than \$100 million to the receivers of the private company that formerly operated the Sydney airport rail link. The company collapsed five years ago after lower than expected usage of the route. The public payout results from the terms of the contract negotiated by the former Coalition government with a private consortium in 1991. Successive state governments have spent a total of \$800 million on the 10-kilometre railway.

Despite the failures of the rail link and the Cross City Tunnel, the Iemma government is pressing ahead with its privatisation of transport services. In 2007, the 3.6-kilometre Lane Cove Tunnel is due to open. Like the Cross City project, the Lane Cove Tunnel

will charge motorists excessive tolls; for the privilege of driving through one 190-metre (210 yard) section of the road, motorists will be forced to pay \$1.20.

Transport expert Dr. John Cox has condemned the \$1.1 billion project as a “financial extravagance”. Cox told the *Australian* that Epping Road, the six-lane thoroughfare under which the tunnel will be directed, could have been upgraded for just \$130 million, with benefits to traffic flow equivalent to those forecast with the tunnel. But instead of an upgrade, the terms of the tunnel contract will see the government deliberately congest Epping Road through lane closures. Other roads in the area will also be closed off.

The intimate relationship between the state Labor government and the private road companies was graphically demonstrated with the October 10 appointment of former New South Wales Labor premier Bob Carr as a part-time consultant to Macquarie Bank, on a \$500,000 salary. Macquarie is the world’s single largest private infrastructure firm, and operates five toll roads in Sydney alone. The whole affair seemed designed to provide further evidence of what Griffith University’s Brendan Gleeson has aptly described as the “tunnel industry complex”.

The privatisation of Australia’s transport infrastructure is directly bound up with the right-wing economic reform program embraced by both the Labor and Liberal parties over the past two and a half decades. Under the guise of making Australia more internationally competitive, governments at both the federal and state levels have worked to introduce so-called free market and user-pays models throughout virtually every aspect of society.

So-called Public Private Partnerships (also variously known as Private Finance Initiatives or Privately Financed Projects) have spearheaded the privatisation drive over the past decade. First developed in Britain by the Tory government in the early 1990s, and then further promoted by Labour’s Tony Blair as part of his right-wing “third way” program, Public Private Partnerships (PPPs) have been particularly utilised throughout Australia to sell off and contract out those sectors for which there is the most deep rooted hostility towards privatisation. In NSW, PPPs have been used to introduce the profit principle into areas such as school and hospital development, construction of public housing, prison upgrades, and waste disposal and recycling. Across Australia, the PPP market is expected to soon be worth \$20 billion to private companies.

None of the arguments used by governments and supporters of PPPs hold water. Proponents variously claim that private contractors are more efficient, deliver higher quality service, and help governments avoid going into debt to fund expensive new infrastructure developments. The latter claim is especially bogus with regard to the operation of privately run roads and tunnels in Australia. Independent research conducted by Sydney University’s Dr. John Goldberg has demonstrated that without the ongoing support of massive levels of government funding, the toll road companies would be unviable.

Through an obscure and highly complex scheme known as the infrastructure offset borrowings tax offset scheme (IBTOS), the federal government effectively underwrites private loans to road infrastructure companies through tax concessions worth billions of dollars to the lenders. This ensures that the infrastructure

companies have a guaranteed flow of government-backed money through their books—which is then paid to the companies’ shareholders in the form of dividends, ensuring that these companies maintain their high rating on the stock market.

Dr. Goldberg conducted a five-year study into the operation of Sydney’s M2 and CityLink toll roads. According to the academic, the two projects had a combined revenue of \$1.65 billion, of which \$704 million, or almost 43 percent, came from IBTOS related funding. The balance of revenues for other projects, including the Cross City Tunnel, is not exactly known—firstly because of the secretive and obfuscatory financial statements released by these companies, and secondly because of escape clauses in the Freedom of Information Act that specifically relate to the IBTOS scheme.

As Goldberg has noted: “The government agencies involved in protecting the information do not appear to consider the public interest and are therefore complicit in supporting the improper financial activities involved in these toll road schemes.” (“Toll Road Operations in Australia: a critical examination of the financial and economic realities,” a paper presented to the 2005 Australasian Transport Research Forum.)

The flow of money through private investors, the federal government, and the infrastructure companies increasingly resembles that of a pyramid scheme. As ABC Radio explained: “Toll roads cost a lot to build and generally don’t make a profit for many years. So to make their stock attractive to investors, toll road companies borrow against future earnings, and pay that yet to be earned money out to shareholders in dividends today, often refinancing and upping the debt again and again. Of course those debts eventually have to be repaid. So to keep investors fed with dividends, toll road companies have to buy new assets and start the process all over again.”

For all the furore surrounding the Cross City Tunnel, and the revelations concerning the operations of private infrastructure companies, the Australian political and media establishment has closed ranks to defend the operation and principle of Public Private Partnerships. While the NSW state opposition and the media have strongly criticised certain aspects of the Cross City Tunnel deal, and have called for greater contractual transparency in the future, no-one has suggested that the overall strategy of wholesale privatisation should be altered.

As has been demonstrated in Australia and internationally, transport and other social infrastructure cannot be operated rationally and efficiently on a for-profit basis. Public works should be socially owned and operated, and developed according to the real needs of ordinary people, rather than the interests of private companies. Such a system of genuine public ownership and democratic control is incompatible with the profit system, which is defended by the all the major parties—Liberal, Labor, Democrats and Greens.



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