Nine Ideas for a new Infrastrutture Culture

The Manifesto

with the scientific contribution of

Università Commerciale Luigi Bocconi

autostrade per l'italia

with the scientific contribution of

Università Commerciale Luigi Bocconi

autostrade per l'italia

Nine Ideas for a new Infrastructure Culture

The Manifesto

Foreword

The Manifesto for a new Infrastructure Culture is the result of the work carried out by the Infrastructure Lab, set up by the Bocconi University and Autostrade per l'Italia in December 2012. The Lab conducts basic and applied research with a strong international focus, probably without equal in Italy in this sector, and based on a multi-disciplinary approach. The policy recommendations summarized in the Manifesto are backed up by scientific analysis provided by the research teams at the Bocconi University, coordinated by professors Lanfranco Senn, Stefano Gatti and Michele Polo, and dealing with the economic, financial and regulatory aspects of the construction and management of infrastructure.

Giovanni Castellucci
Stefano Gatti
Michele Polo
Lanfranco Senn

1. From “A culture of doing” to a “A culture of doing what is useful”

In recent years, Italian infrastructure has been a battleground for preconceived, ideologically based and extremely polarised visions.

On the one hand, the “culture of doing nothing”, namely a preconceived hostility to all new infrastructure. Driven by a mix of often convergent reasons: from the decrescita felice movement (a group promoting the idea of “degrowth”) to a lack of confidence in our ability to manage major projects, from the assumption that corruption will be involved to a theoretical idea of environmental protection, through to concerns over how little control we have over the private sector.

Opposition has come from the “doers”, who consider “doing” to be a positive value in itself. Their reasoning ranges from a Keynesian-based impact on the economy to a generic denunciation of the country’s infrastructure gap, from the need to improve freight logistics to worries over employment.

Both, in reality, represent two extreme viewpoints. The existence of one justifies that of the other and they feed off each other’s extremism. The unfettered application of either philosophy would drive any country into a state of decline. The only way out would be greater selectivity when choosing the works that were really needed and capable of generating an economic return. And through greater involvement of the affected communities in the decision-making process.

This is because infrastructure is not, by definition, either necessary or sufficient. It must be useful: in meeting the community’s transport needs, for industrial competitiveness, for the development of tourism in a particular region.

2. From the infrastructure gap to the effectiveness gap

Many studies have been published over time describing Italy's infrastructure gap, using indicators such as the number of kilometres of motorway per head of population or per square kilometre. As if it were possible to compare countries with a more elongated shape (more favourable conditions) with "rounder" countries, or as if the degree of industrial concentration were not a variant. Other studies try to show how 30 years ago Italy excelled in the construction of infrastructure and how it has subsequently ground to a halt. Nothing could be further from the truth.

These studies appear to ignore that fact that the industrialisation of our country was completed years ago and that, today, the objective is to support (as far as possible) an industrial base that is already located close to the motorway network. This evidently ensures the efficiency of the existing motorway system.

The real gap faced by our country is, therefore, a gap in the effectiveness of our transport system. We need to make up the missing links, remove the bottlenecks and trim the "dry branches": for example, by developing underground systems and public transport in our cities, or by improving the road networks connecting our motorways with city centres.
The issue, in fact, is above all to meet the demand for transport, regardless of the form of transport or the legal status of who operates the infrastructure.

3. From “major transport routes” to “hubs”

The need to build a popular consensus, and reach a compromise, around major European initiatives has led to decisions and announcements that are detached from reality. To talk about a “corridor linking Lisbon and Kiev” appears to make little sense: as if we were still living in the time of the “Silk Road” or the “Royal Road” (from Sardis to Susa). No lorry or train will ever set off from Lisbon for Kiev!

The emphasis on major routes has led politicians and public opinion to ignore the enormous gap affecting the sections that make up these major routes and above all access to the “hubs”, within which the need for long-distance travel overlaps and is intertwined with demand for transport over shorter distances. Work on these hubs makes a much smaller impression, and probably receives less support from the public, but brings greater benefits for the community.

4. From “freight logistics” to the “logistics of people and ideas”

We often read statements from politicians or supporters of development regarding the need to speed up the transportation of freight and the fact that construction of a new, faster infrastructure network should not be delayed. As if the competitiveness of a country in the process of deindustrialising, as is Italy, does not depend on its ability to innovate, to be flexible and to increase labour productivity and employment and on an active and efficient welfare system.

In reality, the “logistics of ideas” (fibre and broadband) and the “logistics of people” (intra-urban and extra-urban networks, underground systems, crèches) are much more important, compared with the transport of freight. We cannot ignore the fact that the biggest share of our GDP is produced in a very few areas of the country. And it is here where we need to intervene. But in order to “add to” (something that earns fewer “points” in political terms) to something that already exists, not just to “build”.

5. The role of the private sector: from “capital providers” to “assumers of risk”

An argument often put forward in order to head off (with little success) concerns and opposition over the role of the private sector in the infrastructure sector is that there is a “need”, due to restrictions on the public finances, to attract private investment.

However, the wrong reason can lead to mistakes (inefficiency) in the way the relationship is handled. As we all know, private investors expect (but are not “guaranteed”) a return that is higher than the risk-free return (conventionally, the interest paid by the State on its long-term debt). This is known as the “equity risk premium”. The private investor thus expects to run certain risks and to be rewarded for doing so. And hopes to be able to manage them better than his or her competitors.

It is up to the State to identify the risks and decide which ones to transfer to the private investor, ensuring that this takes place in an effective manner and, above all, at the lowest possible cost to the State. Otherwise, there is a risk that the role of the private investor will cost much more than any benefits for the community. It is then up to the private investor to assume these risks: knowing that if the risks are managed well they will make a return, if not they could even lose everything.

6. From the need to “guarantee the investor a return” to the need to guarantee “no surprises”

We often hear it said, in more or less these very words: there is an abundance of private money available to invest in infrastructure, but there is a need to guarantee a return on that investment. These are apparently innocuous and obvious statements, which in reality hide a transfer of risk to the community and a return for the private investor for risks to which they are not always exposed.

Which risks is it efficient to transfer from the State to the private sector and which not? A look at successful case histories shows how it is right and efficient to transfer operational risks (as these are usually accepted and correctly “priced”, above all by efficient operators). Whilst there is little willingness among private investors to assume regulatory risk or the risk of contractual uncertainty. And, should this happen, the cost to the community is extremely high. In short, the private investor follows a basic rule: risks yes, surprises no.

7. From “regulatory certainty” to “contractual certainty”

Apparently, we all need regulatory certainty. But what State can afford to make no changes over time to the regulations governing concessions and the attribution and allocation of risks? Situations change. Priorities too. And the regulations governing concessions are not written into constitutional law. But fortunately the most important thing for ensuring correct relations between the public and private sectors is not “regulatory certainty”. It is “contract compliance”.

Countries that have best harnessed the private sector’s ability to invest in infrastructure (such as, for example Chile and Australia) have frequently changed the terms and conditions of the related contracts, because there isn’t a single model to be applied. But they have never even thought about altering the provisions included in existing contracts.

It is legitimate for the State, for the government or for the lawmaker to have a change of mind. But only with respect to new concession arrangements.

8. From "market regulation" to "market competition"

The fact that infrastructure concessions are a monopoly is a fact of life. The community must make sure that it extracts the greatest possible economic value, through the availability of infrastructure with the lowest possible tariffs and for the shortest possible period of time.

There are two ways of achieving this result: through "variable and discretionary regulation" or, in contrast, by maximising competition during the concession award process. Under the second model, the winning bidder is the one most able to assume and manage the risks at the lowest cost. The method of regulating concessions also plays a role in selecting the operators: the ones with the best contacts and the most willing to assume a "political risk" in the first case, the best at managing the risks in the second.

9. From a “a contract that is progressively formed” to a “closed contract”

A correct and effective transfer of the risks to a private investor requires a clear definition of the related commitments (above all regarding construction and investment). But, unfortunately, in most cases, the tender or the award is based on a preliminary design that has yet to obtain all the necessary consents and approvals.

In this way, the operator has an “administrative right” to build an object, which for the most part has not been defined (with respect to the necessary investment, the applicable tariffs and so on).

Correct selection of the best bid, in these cases, is an illusion. And the risk that the community will have to pay more than is necessary increases.