

## Investing in Australasia

*A differentiated opportunity supporting the energy transition*

by Ross Israel



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Poised to play a pivotal role in advancing the global energy transition, Australasia (Australia and New Zealand) offers compelling fundamentals and opportunities in infrastructure and the energy transition, making it a landscape ripe for investment.

### WHY INVEST IN AUSTRALASIA?

Australasia serves a key function in a diversified infrastructure portfolio, with its dominance in renewable energy, contribution of critical minerals in achieving net zero, innovation in emerging technologies, regulatory support and market maturity. Australia and New Zealand are consistently ranked among the most transparent, well-regulated and orderly nations in the world, according to The World Bank. The region is economically and politically vital to the greater Asia Pacific region, maintaining close relationships with China, Japan and South Korea. A key ally in the Western world, it shares strong cultural and historical ties to Europe and North America. Sitting at the crossroads of the Asia Pacific and Western worlds, Australasia represents a safe harbor to navigate through tumultuous times. In infrastructure, Australasia has a differentiated record providing favorable risk-adjusted returns and is well positioned to take advantage of decarbonization, deglobalization, decentralization and aging demographics. The region is a ballast for portfolios during times of prolonged economic, social, geopolitical and climate uncertainty — a benefit that, in today's world, can't be overstated.

The addition of Australian and New Zealand infrastructure to an existing investment portfolio heavily weighted toward developed regions such as North America and Europe can serve as an attractive diversifier and natural next step for allocators looking to grow their international exposures.

### PRIVATE CAPITAL ADVANCES AUSTRALASIA'S INFRA MARKET

Australasia has been a global leader for

private infrastructure investment for more than 40 years, resulting in a sophisticated, mature market. The region has demonstrated a strong track record in privatizations, initially backed by the Australian superannuation industry, followed by foreign institutional investors and sovereign wealth funds. In the Oceania region, dominated by Australia and New Zealand, private infrastructure investment represents 1.4 percent of GDP — a figure far greater than in other regions, according to the Global Infrastructure Hub's *Infrastructure Monitor 2023*, demonstrating Australasia's draw.

Today, private capital continues to seek and generate attractive risk-adjusted returns from Australian and New Zealand infrastructure. Like many regions, these governments are capital-constrained, yet committed to net-zero targets and other policy initiatives. To achieve these goals, they are supporting a significant pipeline of infrastructure projects. To reduce the funding gap, the role of private capital will become increasingly critical.

### WHY AUSTRALIAN INFRASTRUCTURE?

It's early in Australia's decarbonization journey, and we have a significant opportunity during the coming decades to invest in energy-transition infrastructure. As the world decarbonizes, Australia has ample land, wind and sun to support renewable development, while political momentum at both the federal and state government levels is accelerating Australia's decarbonization effort. In addition, large companies are setting emissions reduction targets, driving demand for renewable-energy generation and storage as well as for renewable-enabling infrastructure, such as firming capacity and smart meters. For its part, New Zealand's infrastructure market, albeit much smaller than Australia's, is still replete with privatization opportunities.

Australia also has some of the world's lowest-density transmission and distribution

networks. For the energy users in remote and regional locations on the edge of power grids, this can mean unreliable supply and high electricity losses. Since it is more sparsely populated than most developed countries, Australia is uniquely positioned to leverage extensive efficiency benefits from a decentralized energy grid. This creates investible opportunities across community, commercial and industrial solar, energy efficient retrofit and services, microgrids and fuel cells, and low carbon transport, including electric vehicles (EVs) and hydrogen. The country's size and the long distances between supply and demand centers mean Australia's decarbonization solution lies in a decentralized model that will also build climate change resilience.

## INVESTING IN THE ENERGY TRANSITION

Australasia's energy transition offers investors a once-in-a-generation opportunity. In Australia alone, \$1.9 trillion of investment is required to reach net zero by 2050, or \$68 billion annually, according to Bloomberg New Energy Finance's (BNEF) *New Energy Outlook Australia 2023*. This includes an estimated investment of \$400 billion for low-carbon power, \$300 billion in the grid and \$1 trillion in EVs, according to BNEF's report.

Notably, the energy transition is spurring investment, not just on the supply side, moving away from fossil fuels to low-carbon sources of energy, but also on the demand side, moving toward electrified transport, electrified heat, clean industry and clean shipping. According to a McKinsey & Co. report from December 2022, an orderly energy transition could allow Australia to add about \$55 billion to the economy each year through 2035 and create 120,000 new jobs — an attractive return on investment.

Australia's federal government has set an ambitious agenda supporting the energy transition. It has implemented several policies that are complemented by state government initiatives that encourage investment in renewables. These include its recently announced Future Made in Australia plan, a A\$22.7 billion (\$15 billion) policy that will maximize the economic and industrial benefits of the energy transition and build on earlier initiatives to chart a robust course toward net zero, according to the Australian government's Department of Climate Change, Energy, the Environment and Water.

The region's wealth of natural resources

provides a competitive advantage and point of differentiation compared with other global regions for investment. Australia is fortunate to maintain a vital position in the value chain of both fossil fuels and clean energy, adding to its economic resilience as the world shifts its supply and consumption of energy toward a low emissions future.

Australia, a net energy exporter, is one of the world's leading producers of commodities such as aluminum ore, iron ore, gold, lead and critical minerals, which are key inputs for the energy transition. The region contributes lithium, nickel, zinc, copper, rare earths and other materials needed to produce EVs, batteries, solar panels and wind turbines, and it could also export green fuels and renewable energy. To support these activities, Australia and New Zealand have many free trade agreements that alleviate barriers for goods, services and investment to flow internationally.

Australasia is rich not only in natural resources but also in human resources. It is highly rated for its quality of life, higher education institutions and skilled workforce, and it is home to a wealthy, growing population. Australia and New Zealand ranked 10th and 16th, respectively, on achievement in key dimensions of human development: a long and healthy life, being knowledgeable, and having a decent standard of living, according to the United Nations Development Program's *Human Development Report 2023–24*. These factors make the region an attractive destination for talent, leading to demographic and economic growth — vital to long-term infrastructure demand as well as research and development, which is crucial for technological innovation.

Australasia meets all the prerequisites to deliver on the energy transition. To achieve our global climate goals, we need the private sector to fund critical pathways: increasing the share of renewable energy and low-emissions transport, boosting resilience through structural interventions and risk management, improving the standard operation of infrastructure, and integrating technology and digitalization into infrastructure assets, notes the Global Infrastructure Hub. While government initiatives are propelling infrastructure growth, private capital remains critical to meet the targets and steer us toward a resilient net-zero future. ❖

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