Perspective of port privatisation & current developments in Australia

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- Why so political? – the process so far, the new owners & the possible effects of short-term shareholdings
- Net benefits post-privatisation? – the need to monitor the economic 'reality', and how best to do this?

What is port privatisation in Australia?

"Selling the Crown Jewels?" - not really because:

- **Landownership** typically remains with government (50-99 years leases, reversion at end)
- **Regulatory-marine service port functions** (i.e. pilotage, harbour/channel control) typically remain with government - 'old' port authority for capital city ports, & often already out-sourced by licences to industry for remote regional ports*
- **Operator port functions** (i.e. stevedoring terminal leases, towage) typically already contracted out*
- **Port Tariff Pricing post-privatisation** often under increased regulatory scrutiny or control (i.e. proposed 15 year CPI cap part of PoM lease)




…. And as Old as 1996

Year	Port (lease years)	Details
1996	Geelong	Asciano & Reef (DB)
1996	Portland	HastingsFM & Palisade
1999	Wyndham, WA (20)	Operating agreement – CGL
2001	7 SA ports (99)	Flinders Ports (ICG etc.); 2012 buys 100% ACT
2001	Dalrymple Bay CT (99)	Various owners, now Brookfield
2010	Brisbane (99)	$2.3B (IFM, QIC, Tawreed, etc.)
2012	Botany & Kembla (99)	$5.07B (IFM, Aus Super, Q Super, Tawreed)
2014	Newcastle (98)	$1.75B (HastingsFM & China Merchants)
2015	Darwin (99)	$506M (Landbridge)
2015	Gladstone & Townsville	Pending lease - cancelled with new government
2016	Melbourne (50)	Pending – method **deadline 25/2**. $5-6B?
2016	Fremantle & Utah Pt. (?)	Pending (Utah Pt. legislated). $1.5+B?

* South Australia a notable exception.

And many private/industry port facilities (WA)

Proclaimed port	Port facility	Facility operator	Ports authority
Wyndham		Cambridge Gulf Ltd	Kimberley
Yampi Sound	Cockatoo Island	Pluton Resources	
	Koolan Island	Mt Gibson Iron Ore	
Derby[1]		Shire of Derby-West Kimberley	
Port Walcott	Cape Lambert	Robe River Mining (Rio Tinto)	Pilbara
Port of Cape Preston		CITIC	
Varanus Island		Apache Energy	
Barrow Island		Chevron Australia	
Onslow	Airlie Island	Apache Energy	
	Onslow	Onslow Salt	
	Thevenard Island	Chevron Australia	
Carnarvon	Cape Cuvier	Dampier Salt (Rio Tinto)	Mid West
	Useless Loop	Shark Bay Salt	




Source: WA Department of Transport – Port Governance Reform, Tranche 2 (April 2015)

Why privatise ports – the 'grand' benefits (1)?

- **Unlocking Public Money** for Government Treasuries to reduce debt, improve financial ratings, and finance new higher priority transport infrastructure. Mature (low risk) ports are attractive to cashed-up Fund Managers with limited investment returns (i.e. record low interest rates)
- Governments can re-invest proceeds to **"de-risk" new infrastructure** (i.e. taking demand risk on new road or rail PPPs)

And, Port of Melbourne transaction 2016

To help government fund total 50 level-crossing removals by 2022, with 20 by 2018 at $2.4B cost

Some Actuals

- Since 2010: **TOTAL $10B** raised with possibility of further $8B (Vic, WA, Qld)
- Per June 2014: **Extra $5B**** over next 5 years available from Federal Government as Asset Recycling Initiative (max. 15% of proceeds, i.e. $1B gets an extra $150M if re-invest)
- Port of Brisbane sale obligated owner to spend $200M on port motorway
- Botany/Kembla sale, government committed $4.3B to new roads
- Darwin new owners committed to invest $200M on growth over 20 years with $35M before 2020
- *In 2006, Flinders Ports co-invested in $45M Port Adelaide channel upgrade*

**** NOTE: Max. $5B @15% equates to $33B of state/territory government Asset Sales or $6.7B per year until June 2019.**

Why privatise ports – the 'grand' benefits (2)?

- **Increased Efficiency** of capital-city, multi-cargo port investments, master planning, operations and industry port supply-chains

Some Possible Future Post-Privatisation Issues?
Priority with most profitable cargo sectors and assets (i.e. only targeted 'trade facilitation'; effectiveness of government mode-shift policies)
Loss of port industry knowledge / expertise within government due to reduced state governance needs
Future effect of historic port pricing when replacing with new assets or expanding (i.e. cost recovery catch-ups versus regulated port pricing)
Deciding optimal location for the economy of future new 'green-field' port capacity (how to best manage?)
Influences of seaboard port shareholding & regulating

Some Key Positive Expectations
With High Annual Earnings Multiples (>20x for lease), new owners will need to 'sweat' the assets
Reduction in Overheads to optimise earnings through innovations, nimbler and use of smarter/best practices
Large Port New Investments / Replacements no-longer co-funded by government but by industry (user pays)
New owner incentivised to optimise existing and ultimate Port Capacity
New owner able to actively chase cargo outside of port gate / on edges of catchments through Targeted Pricing
Closer cooperation with industries to optimise supply-chains (co-invest in rail etc.) which allows leaseholders to pay more for the port lease (>multiples)

Why privatise ports – the 'grand' benefits (3)?

- **Increased Competition and Trade Capture** for 'our' local capital-city, multi-cargo port

Some Likely Future Realities
Typically 90-95% of trade at capital-city ports is captive (largely within 100km of port) making potential for Inter Port Competition & Trade Capture Growth small. Exceptions are cargoes on contestable edges, & (container) transhipment trade
Logistics industry will seek out most cost efficient operating locations given port pricing, port rail/road access, land rental costs and shipper service needs
Shipping industry may possibly not gain access as quickly as desired for larger ships if new port owner does not have option to develop new 'large ship' port or harbour at a new (more favourable) site

Some Key Positive Expectations
Greater Port Competition and Trade Capture benefiting the Local economy
Logistics, Distribution, Integrated Manufacturing Industries, and agricultural exporters will remain at the port and help grow the port. Now up to the port leaseholders to make this happen with new business plans

Why so political? – the process, & new owners*

- **Port of Darwin** – 18 month process including NT parliamentary inquiry on lease terms; final lease to Chinese owned Landbridge raises questions with US & federal government (Defence)
- **Port of Melbourne** – Process started 12/2013 (scoping); parliamentary inquiry on lease terms 9/2015; political deadlock on compensation terms 2/2016 -> admin powers route? (possibly with less value to be realised)

*** Ports viewed as Strategic National Economic Assets**

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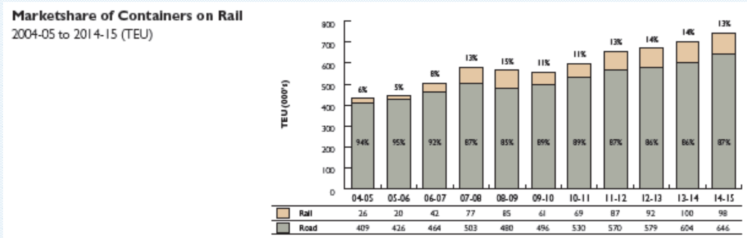
Some Possible Consequences of recent port privatisations
Channel pricing (60% incr.) dispute at **Newcastle**, no to ACCC
Container terminal land rental increases dispute at Melbourne – resolved but **not to be regulated** (commercially negotiated)
Aus. government proposed new **foreign investment rules** (FIRB)
Some Funds' shareholdings already sold at a premium – how **long-term** is the best value for the economy?

* Ports viewed as Strategic National Economic Assets

Net benefits post-privatisation? – monitor & how

- **Overseas experience of port privatisations** – not always a success (i.e. UK – some research shows slowing of port investments, less stimulation of regional economy, lost trade to Continental Europe ports difficult to get back)
- So net benefits to economy not always guaranteed which suggests need for **monitoring of performance post-privatisation**
- **Goal** – to provide advance warning of approaching possible mitigation triggers or interventions (i.e. economic impact targets, policy-fit, capacity utilisation, trade facilitation roles, mode shift targets, etc.)

- Develop State Economy KPIs – link to lease terms?
- Independent Monitoring (IA / IV, Regulator, or Audit Office)?



	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
Rail	26	20	42	77	85	61	69	87	92	100	98
Road	409	426	464	503	480	496	530	570	579	604	646

Thank you for your attention. Questions?