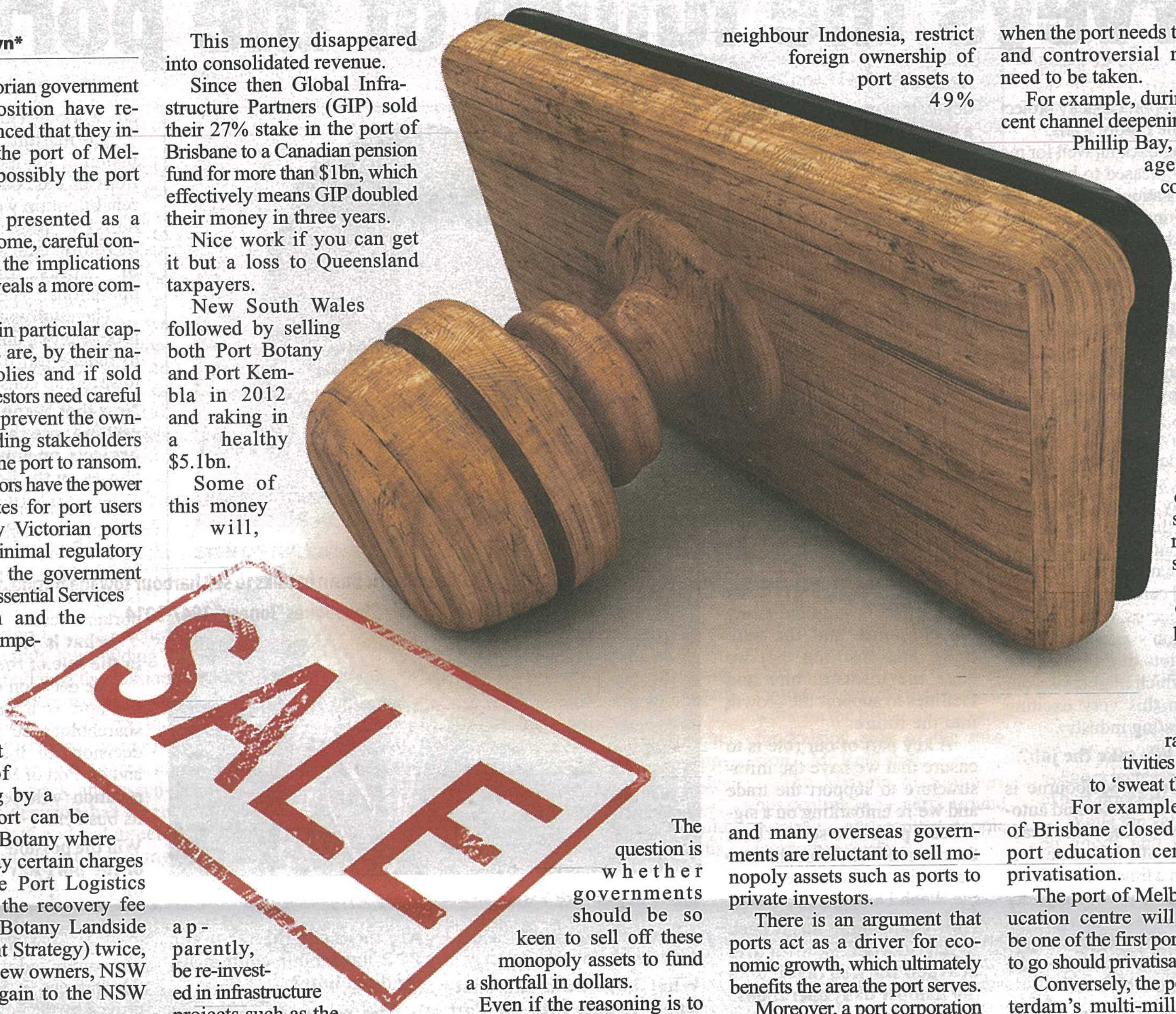
VICTORIA

SPECIAL REPORT

Should we sell our ports?



eter van Duyn*

oth the Victorian government nd the opposition have recently announced that they in-nd to sell the port of Mel-ourne, and possibly the port f Hastings.

Although presented as a in-win outcome, careful con-deration of the implications f the sale reveals a more com-lex picture.

Ports and in particular cap-al city ports are, by their na-re, monopolies and if sold private investors need careful egulation to prevent the own-rs from holding stakeholders nd users of the port to ransom.

Port operators have the power set the rates for port users nd currently Victorian ports ave only minimal regulatory versight by the government rough the Essential Services Commission and the ustralian Compe-ition and Consumer Commis-ion.

A recent xample of vercharging by a rivatised port can be een at Port Botany where ort users pay certain charges such as the Port Logistics Charge and the recovery fee f the Port Botany Landside mprovement Strategy) twice, nce to the new owners, NSW Ports, and again to the NSW government.

In response to the proposed rivatisation, Victorian exporters ave already expressed concern bout higher port charges im-acting on the viability of their xport businesses.

Queensland started the pri-vatisation process by selling he port of Brisbane in 2010, via a 99-year lease for what s now a seemingly cheap $2.1bn, to replenish its empty reasury coffers.

This money disappeared into consolidated revenue.

Since then Global Infrastructure Partners (GIP) sold their 27% stake in the port of Brisbane to a Canadian pension fund for more than $1bn, which effectively means GIP doubled their money in three years.

Nice work if you can get it but a loss to Queensland taxpayers.

New South Wales followed by selling both Port Botany and Port Kembla in 2012 and raking in a healthy $5.1bn.

Some of this money will, apparently, be re-invested in infrastructure projects such as the Westconnex Motorway and the Pacific Highway.

Both the Victorian government and the opposition think they can win votes by improving infrastructure. This is a good thing.

However, although high on the agenda of both state and Federal governments, infrastructure policies seem somewhat hasty and haphazard, with potentially dire consequences.

The question is whether governments should be so keen to sell off these monopoly assets to fund a shortfall in dollars.

Even if the reasoning is to spend the money raised on projects to ease road congestion and/or improve public transport, is it wise in the long run?

While the initial sale might be to a benign or passive investor, such as a super fund, ownership further down the track will be out of the control of the government and not all potential buyers are interested in the port as a public good.

Other countries, such as our neighbour Indonesia, restrict foreign ownership of port assets to 49% and many overseas governments are reluctant to sell monopoly assets such as ports to private investors.

There is an argument that ports act as a driver for economic growth, which ultimately benefits the area the port serves.

Moreover, a port corporation can act as a trade facilitator and play an educational role, functions considered important even if there is no direct contribution to the bottom line.

In a number of ports the educational role is clearly visible, and considered vital, given their need to communicate with the community about the importance of the port to the local economy.

This is especially important when the port needs to expand and controversial measures need to be taken.

For example, during the recent channel deepening of Port Phillip Bay, the management of community expectations and concerns by the Port of Melbourne Corporation was vital in bringing the project to a satisfactory conclusion.

Private owners of ports are less likely to undertake non-revenue raising activities and prefer to 'sweat the assets'.

For example, the port of Brisbane closed down its port education centre after privatisation.

The port of Melbourne education centre will probably be one of the first port activities to go should privatisation occur.

Conversely, the port of Rotterdam's multi-million dollar visitors and education centre, on their newly developed Maasvlakte 2, demonstrates the importance the port's owner, the City of Rotterdam, places on this role.

The proposed price, $6bn for the port of Melbourne and up to $8bn if the port of Hastings is included, seems overly optimistic.

There is virtually no infrastructure on either the landside or the water side at the port of Hastings to support a large container terminal and hence no direct cash flow for the new owner (whether the port of Hastings should be considered as an alternative container port at all is another story.).

With an expanded port of Hastings a possibility, the proposed development of Webb Dock at the port of Melbourne with a new container terminal and a potential increase of capacity by the current container terminal operators at Swanson Dock could be reviewed.

It is doubtful whether the current bidders for the Webb Dock development would like to sink $250m into a modern container terminal with the threat of the port of Hastings taking over as the main container port for the state of Victoria.

Although this threat currently exists, it can be better managed while both ports are under the control of the state government.

A private operator is more inclined to minimise capital spending and maximise the return on investment.

Proposals from both the coalition and Labor seem ill-conceived and made on the run in an effort to raise additional monies to spend on projects popular with voters in the lead-up to the November election.

It will be interesting to see what the public will think in years to come of the opportunities missed by governments to make Victoria a more liveable and prosperous state through not having the political will to take a long-term view rather than trying to score points by selling off important government-owned assets to fund popular projects.

Peter van Duyn is a maritime industry expert at the Institute of Supply Chain and Logistics, Victoria University.

Business-as-usual: industry shrugs off doubts

Cameron Boggs

If it happens, it happens. That is the sentiment at the moment from Melbourne's shipping industry in light of the state coalition government's recent announcement that it was looking at offloading the port of Melbourne.

While concerns are raised over future management and charges, at the end of the day each and every stakeholder will have to work with the organisation that manages the port of Melbourne.

As it is today, so will it be tomorrow… business as usual.

ANL Container Line general manager for business development Chris Schultz told *Lloyd's List Australia* that he has known privatisation was on the cards for a while.

"I heard [Premier Denis] Napthine on the radio the day after the opposition was talking about it last year, just saying he thought Labour's plan wasn't good – as you'd expect him to say.

"He was saying the coalition would do it for a shorter lease period and not tie up all the land for 99 years, which is what the opposition's plan was," Mr Schultz said.

He believes a big issue with Australia's privatisation of ports is how they are going to be managed in terms of the charges to the users because they become natural monopolies.

Another industry figure who is concerned about port privatisation suddenly leading to an increase in costs is Pacific Asia Express general manager Michael Horsburgh.

"We have seen various infrastructure fees and the like come in some of the other ports, but Melbourne is already a very expensive port as far as wharfage charges go," Mr Horsburgh said.

"But it is out of our hands if it happens, we don't get a say in it and just have to deal with it."

With the same conviction of today's Port of Melbourne Corporation relationship, DP World Melbourne general manager Andrew Jena is willing to work with the future landowner of the port of Melbourne.

"Whoever runs the port, we're more than happy to work with them and we will continue as we have in the past. We will work with them as we do in Brisbane and Sydney. It will be business as normal for us," Mr Jena said.

DP World recently signed a long-term lease for its Melbourne terminal.


Photo: Port of Melbourne Corporation

PORT PLAYERS PAST AND PRESENT: (Pictured at Swanson Dock in July 2012) Dr Denis Napthine, then Victorian ports minister, now premier, Ted Baillieu, then premier and Stephen Bradford,recently retired PoMC CEO.