SPECIAL REPORT

Western Australia

Port privatisation in the west in choppy waters

Peter van Duyn*

THE WA Nationals recently announced they will no longer support the government's plan to privatise Fremantle Ports.

They also halted the passage of the *Pilbara Port Privatisation Bill*, which deals with the sale of the Port Hedland Utah Point Bulk Handling Facility. They have asked a parliamentary committee to investigate the proposed sale.

The Barnett Liberal government had flagged its intention to sell a number of public assets, driven by the state's large debt and budget deficits in the forward estimates caused by declining revenue from the mining sector.

The WA Nationals' decision comes soon after political posturing delayed the privatisation of the Port of Melbourne in Victoria. After a Legislative Council select committee inquiry, Victoria's Labor government had to water down the proposed legislation to secure the support of the opposition to pass the bill.

The changes resulted in more regulatory oversight, a shorter period of potential compensation payments to the new owners, if a competing port was built during the lease period, and control measures in port pricing regimes.

Whether the delay in timing (the sale is now scheduled for late this year or early next year) and the legislative changes will affect the sale price of the port remains to be seen. Victorian Treasurer Tim Pallas is still confident that the sale price will be in excess of $6 billion.

Another obstacle in the way of privatising critical infrastructure (and achieving bigger proceeds) is federal Treasurer Scott Morrison's announcement of tighter foreign investment rules in the wake of the controversial sale of the Port of Darwin to a Chinese company.

The 99-year lease of the Port of Darwin to an entity with alleged links to the Chinese government and military did not please the US government. Washington considers Darwin's port a strategic asset in view of the presence of a large contingent of the US Navy, which uses the port for its supply chains.

From April 2016 onwards, the Foreign Investment Review Board will need to approve the sale of critical infrastructure, such as ports and airports, belonging to the states and territories.

WA Nationals leader Terry Redman previously supported the privatisation agenda. His change of heart comes after likely pressure from provincial backbenchers who still recall the sale of the WA government-owned country rail network to Brookfield, a global infrastructure company based in Canada, that left grain farmers with failing infrastructure and rising costs to get their grain to global markets.

A number of junior miners such as Atlas Iron, Mineral Resources and Consolidated Minerals who use the Utah Point facility to export their iron ore have also expressed concern about a potential increase in handling charges if the new owner was looking to improve their return on investment after privatisation.

WA Labor voted against the sale of Utah Point as well as the privatisation of Fremantle Ports; not surprising given Labor's strong links to the Fremantle electorate (federal and state).

Photo: Fremantle Ports

DEAL BREAKER: Fremantle privatisation becoming a political football.

Maritime union organiser Chris Brown was recently preselected for the seat of Fremantle for this year's federal election, but was then de-selected after it was revealed he had a couple of convictions dating back to when he was in his late teens.

There seem to be plenty of buyers circling Fremantle Ports (the state's biggest general cargo port and Australia's fourth-largest container port) with even the Port of Rotterdam's international arm showing an interest.

Last year (FY 2014/2015) the port contributed about A$68 million to the WA government and the potential sale (or long term lease) figure is reported to be in the order of $2.5 billion.

Container volumes have seen a healthy five to six per cent annual growth over the last decade; however current year to date figures have seen a decline in numbers. It is surprising to see the amount of interest given the capacity limits (restriction on vessel lengths in the Inner Harbour, limited room for expansion of the container terminals, opposition to increased truck traffic through the City of Fremantle) of the current port. The less than ideal rail link into the port, which runs along the Fremantle foreshore and past newly built million dollar apartments, could be another bottleneck for further development. The uncertainty about the funding and timeline of the Perth Freight Link (PFL) project, which intends to provide better access for trucks to the port, is also not helping the sale process.

The threat of additional container terminal facilities at Outer Harbour near Kwinana (currently partly under control of Fremantle Ports) being established in the not too distant future would also be of a concern to the potential new owners, unless of course the sale includes the option to develop and run these facilities. Road and rail infrastructure into the Outer Harbour has the potential of being far more efficient and less controversial than the proposed PFL into the Inner Harbour. A Regional Development Australia (RDA Perth) report on the PFL and the Outer Harbour development, which has not been made public, is rumoured to be less than complimentary on the viability of the PFL and describes developing a new freight hub near Kwinana as a 'game changing initiative'.

Fremantle Ports is the last capital city port in Australia to be privatised. However, a lot of water will probably have flowed under the Stirling Highway Bridge (a vital link to the port of Fremantle across the Swan River) before a deal can be done.

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Esperance iron ore facility on the back burner

Ian Ackerman

IT WAS a grand plan, but it has all but fizzled out – the Esperance multi user iron ore facility (MUIOF) shows no sign of becoming a reality at present. The $200m expansion was to expand the port's iron ore throughput into the iron ore export market, carried out by the WA Department of Transportation, and incorporating the input of various industry stakeholders.

The analysis found there was demand for such a facility and also Yilgarn miners had a preference for Esperance as the facility's location.

The facility was to be completely funded, developed and managed by the private sector.

In May 2014 a consortium, Yilgarn Esperance Solution Limited (YES), was named the preferred proponent to design, finance, build and operate the MUIOF.

YES originally consisted of As- ... ations in the region in mid-2015 in the wake of falling commodity prices.

It has been reported that the project although not dead in the water, is on hold indefinitely.

In the Southern Ports Authority's latest annual report, it is stated that the effect of rapidly declining iron ore prices on the project was considered.