Sale of the Century

Peter Van Duyn*

IT'S ALL beer and skittles at the Victorian Treasury in Spring Street as the recent sale of the Port of Melbourne to the Lonsdale Consortium delivered $9.7 billion to state coffers. The sale price was well in excess of the $7 billion indicated earlier by Treasurer Tim Pallas. No doubt the consortium's advisors, lawyers and bankers have also been popping the champagne corks as their success fees would have increased in line with the exorbitant sale price.

Why such a high price? It is an indication that private equity firms, pension funds, etc are increasingly looking for mature infrastructure assets that are in a monopoly position and unlikely to be duplicated (although a second port in Victoria will have to be built within 20 to 25 years) and whose earnings are inflation-linked and likely to grow in line with the economy. Other alternatives to park your money somewhere safe with a decent return are hard to find with bank deposits and bond rates at their lowest and global share markets volatile.

Is the port worth the sale price (the port's earnings before interest and tax (EBITDA) for the financial year 2014/15 was only $121 million) and can the consortium earn a decent return on investment over the 50-year lease period? Obviously the winning consortium thought so, and the underbidder was of the same opinion as they were allegedly only $15 million short of the successful bid. Their financial gurus must have used the same spreadsheet calculations as the Lonsdale Consortium to work out what kind of return to expect.

One assumes that the consortium partners (Global Infrastructure Partners, Future Fund, Queensland Investment Corporation and Borealis Infrastructure) have looked at the recent substantial lease cost increases for a number of port users such as the Victorian International Container Terminal at East Webb Dock, the Melbourne International RoRo Automotive Terminal, which leases the car terminal at West Webb Dock, and container stevedore DP World at West Swanson Dock. While the increase in wharfage fees has been capped at CPI for the next 15 years, port leases are subject to a commercial negotiation process between the port and the leaseholder. Patrick Terminals (now owned by QUBE and Brookfield) container terminal lease at East Swanson Dock is due for a rent review and it has to negotiate this with the new owners who will no doubt be looking to increase the rent substantially.

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It is a little known fact that Victorian Treasury donated $640m to the Port of Melbourne in June 2015 (just before the end of the financial year) to ensure the Port Corporation was debt free and to enable a clean sale. This money obviously has to be deducted from the sale price. Another fact is that a substantial part of the sale price depends on the income derived from the Port Licence Fee which currently contributes approximately $80 million p.a. to the Port's coffers and is CPI indexed. This licence fee, which was introduced by the Victorian government in 2012, was originally meant to be levied for a duration of about 10 years (or until it had raised $1 billion) and the proceeds were to be used to improve infrastructure around the port and increase supply chain efficiency. It looks like importers and exporters are now stuck with this fee for the next 50 years.

The State and Federal Governments are now also haggling over the proposed federal contribution from the Asset Recycling Fund, which states 'that if the sale proceeds are allocated to new infrastructure investment the States and Territories will receive 15% of the price of the asset sold'. Federal Treasurer Scott Morrison said that he will only hand over $877m, which was set aside in the budget and was agreed upon earlier, meaning the Victorian Government will be short-changed about $600 million.

Most commentators and industry figures have welcomed the sale result on the proviso that the money from the sale is spent wisely on projects such as Metro Melbourne, Western Distributor and the North East Link. However, while the transport industry is rejoicing the fact there is now money available to spend on transport enabling infrastructure, it remains to be seen if Victorian importers and exporters will face increased prices for moving their cargo through the port. A capital city port has a very powerful monopoly position in the supply chain and we can only hope that the Lonsdale Consortium will not abuse its power at the expense of the Victorian community.

This is a private opinion and does not necessarily reflect the views of Lloyd's List Australia.

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Norfolk Island a focus of Customs authorities

David Sexton

ACCORDING to its annual report, the DIBP is part of the joint agency taskforce coordinating the Australian Government Norfolk Island reform process, led by the Department of Infrastructure and Regional Development (DIRD).

From July 1 this year, Norfolk Island was integrated with mainland Australia.

"As a result, the Australian Government commenced delivering essential national functions such as immigration, customs and biosecurity in 2015–16," the statement read.

"The Department worked effectively with DIRD, the Department of Agriculture and Water Resources and industry to ensure trade in goods could be facilitated under the new arrangements."

As was reported by Lloyd's List Australia earlier in the year, after the advent of the Norfolk Island Reforms, Norfolk Island, is now subject to the laws of both the Commonwealth and New South Wales.

"Implementation of customs functions in Norfolk Island is consistent with the current arrangements in the Indian Ocean Territories of Christmas Island and the Cocos (Keeling) Islands," a DIBP statement read at the time.

Bandidos bikie ice bust

Industry mourns Captain Andrew