

FINANCIAL REVIEW

SE Companies and Markets
HD **Political system failing rail, says Asciano boss**
BY Tim Binsted
WC 520 words
PD 24 October 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 18
LA English
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Logistics - Talks to sell minority **stake** in Patrick Ports ongoing

Asciano chief executive John Mullen said dilapidated country rail networks are not getting badly-needed investment because politicians are hostage to a short-term electoral cycle that favours road projects over rail.

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As a ports and rail group Mr Mullen accepts he has a "huge vested interest" in promoting rail, but he said **millions** of tonnes of grain are being pushed onto roads and adding to congestion because the rail is so poor.

"The country rail lines have had no real investment for years and years. Rail is certainly being outgunned by road," Mr Mullen said.

"Most governments are struggling with budgets and upgrading of roads is highly visible to everyone immediately.

The upgrading of rail is a long-term project and often exceeds the term of an elected government."

East coast grains giant Grain Corp has been lobbying for years to get governments to upgrade country rail lines.

Mr Mullen also said talks to sell a minority **stake** in his Patrick Ports business are ongoing, but he's in no rush. State-owned conglomerate **China** Merchants has been in long-running talks about Patrick, which analysts value at \$2 billion to \$2.5 billion.

"Container ships visiting Australia are part of a global network. We would like a seat at the table where transactions are contemplated. We can't become global overnight so we've been seeking someone who'd like to invest in Australia," Mr Mullen said.

"We have an asset that's doing very well. It's not that if we don't [sell a **stake**] we are in trouble. It takes us 12 months rather than two months to do it."

His comments come as Asciano reported solid **coal** haulage volumes but weaker bulk, intermodal and terminal and logistics volumes relative to market expectations.

Asciano's Pacific National rail business hauled 40.6 million tonnes of **coal** in the three months to September 30, up 6.6 per cent on the year prior period.

Earlier this month **China** imposed a 3 per cent tariff on metallurgical **coal** and a 6 per cent tariff on thermal coal.

The tariffs followed **China**'s ash and sulphur quality restrictions on **coal**, aimed at mitigating air pollution.

Mr Mullen said he was concerned about anything that might impact his **mining** customers but haulage volumes remain strong.

“All I can say about quality control and so on is that we didn’t get any calls from our customers and we haven’t seen any big changes,” he said.

Tonnes hauled as opposed to contracted was 90 per cent for the quarter and is expected to remain high.

Morgan Stanley said in a flash note that the high ratio means “coalminers continue to use volume to offset pricing pressure”.

Asciano reaffirmed guidance for growth in earnings before interest and tax in 2014-15 to “be higher than underlying EBIT growth of 5 per cent reported in 2013-14.”

The **company** said the integration of its two rail businesses running well and its cost-cutting program is on track.

Asciano told investors in February it planned to double cost savings to \$300 **million** by fiscal 2018. Asciano shares rose 10¢ to \$6.09 on Thursday.

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