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HD **REALITY SWINGS INTO FOCUS**

BY John Durie
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Free trade deals are more than just photo opportunities john durie by

Commercial reality hit the smaller iron ore stocks yesterday as a slump in Dalian futures sent stock prices to multi-year lows, just one day after the unveiling of the China free-trade deal.

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There is not much trade officials can do about iron ore prices or macroeconomic reality.

Iron ore futures in afternoon trade were at five-year lows, which sent Fortescue down 6.6 per cent to $2.97, against a February high of $6.20. BC Iron fell 10.3 per cent to 65c against a high of $5.50 a share.

Just to add some colour, Fortescue chairman Andrew Forrest's holding of just over one billion shares is now worth around $2.97 billion, down $3.3bn from its high this year, not quite the blue sky talked up in the trade deal.

The agreement signed in Canberra is full of promises, but at this stage the projections are just that, with tourism a case in point.

Trade Minister Andrew Robb is tipping a doubling of Chinese visits by 2022 and annual expenditure of $10.2bn.

Always quick to grab a PR angle, Qantas used the FTA to unveil its plans to do a deal with Shanghai-based China Eastern.

It has nothing to do with the FTA, but Qantas boss Alan Joyce was able get himself in the centre of the action and be seen as a major beneficiary.

In terms of publicity value, Joyce has his coup in the bag, with photos of him shaking the hands of Chinese Premier Xi Jinping.

The airline already has a codeshare arrangement with China Eastern, but under Qantas plans the two airlines will co-ordinate flights and prices between Sydney and Shanghai, subject to ACCC approval.

This is similar to the deal that Qantas has with Emirates going the other way around the world, and at least offers the upside of increased Chinese tourists.

The ACCC will consider just how much China Eastern and Qantas compete and how the deal will affect competition on all routes, but so far Joyce is just in the photos, with no sight of any authorisation application for the deal.

The economists always prefer multilateral trade deals to bilateral deals because they allow markets to operate more freely.

The biggest benefits in bilateral deals, according to the Productivity Commission, are always in the country making the biggest concession. Bilateral trade deals are by definition diversionary.

Australia has already cut tariffs on many items and in January tariffs on textiles, clothing and footwear will fall from 10 per cent to 5 per cent.

Under the FTA, in the middle of next year the 5 per cent tariff on ground nuts, canned fruit, chemicals, plastics, rubber, steel, aluminium-related products and water heaters will disappear.

After another four years, the duty on a range of other products including carpets, electrical products and glass will disappear.

The 5 per cent tariff is considered meaningless when currency variations are taken into account, but most consumers would take a 5 per cent discount any day of the week, and when you apply it to plastics that means **milk** bottles and packaging, which means cheaper inputs across the **board**.

That is not the stuff that politicians talk about in spruiking trade deals when export markets loom large thanks to the expanding **Chinese** economy and the rising middle class, which opens demand for the services-based Australian economy.

Corporate copper call COPPER play Cudeco has risen some 30 per cent in the past week, including yesterday, the stock jumping 15 per cent in the last hour on heavy trading to out at $1.42 a share. The stock has been running for a week from a low of $1.10 and the talk is that it is custodian purchases to **buy** back stock which was "inadvertently" lent out to short sellers.

One for the corporate plod, but folk at the **company** were unavailable yesterday.

Quigley marks the spot THE national broadband network rollout is stepping up, with the carrier starting construction on fibre rollouts to its one-**millionth** premises this week, as opposed to the official figure for homes passed of 431,000.

Homes are passed when they are ready to be plugged in. The point being that the fibre rollout is picking up just as predicted by former boss Mike Quigley, but it will really takeoff next year after the deals are done with Optus and Telstra on the HFC cables.

Cable homes will be quickly annexed into the service.

NBN will shortly release its 18-month rollout plan, which will detail when and where it will land over the period.

The decisive deal with Telstra is due by the year's end.

NBN executives, led by chief financial officer Stephen Rue, are due to front a Senate estimates committee hearing this week.

Vesey's power play AGL has gone outside the **company** to find a new chief executive again, with AES chief operating officer Andrew Vesey to replace Michael Fraser.

On paper, US energy veteran Vesey is ideally suited for the job. He's an economist by training, with three decades of experience in the industry as both a consultant and operator, including a brief stint in Australia 20 years ago when Entergy briefly owned Citipower.

It **sold** the division to AEP after just 18 months, in the latter stages of the first round of Victorian privatisations.

The last time AGL went outside the **company** it ended in tears right up to **board** level, when Paul Anthony ran the **company** briefly before Fraser took over in 2007.

Vesey may be known for thinking outside the square, but is not quite in the same entrepreneurial mould as the likable Anthony.

The highly fancied internal candidate was Stephen Mikkelsen, who runs the **company**'s retail energy **business** and before that was its CFO.

Chairman Jerry Maycock made clear he was looking for someone who could prosecute the **company**'s case in what he sees as a big overhaul of the local energy market. "The energy market badly needs a shake up," he said.

Maycock said that “the tariff designs on the network are wrong, we need to sort out regulations around metering and the renewable energy target scheme is broken and in urgent need of a fix”.

Maycock said the **company** had talked to Vesey over the past six months and he was the ideal person for the job.

“He is a strong people person, has good regulatory skills and an ability to inform the public on what is needed,” Maycock said.

Vesey is now chief operating officer at AES, which owns a string of international energy companies and generates 35 per cent of its power from gas, 38 per cent from coal and 24 per cent from renewables.

AGL generates 75 per cent of its power from coal, and UBS analyst David Leitch said that was one of the big challenges for Vesey in just how to manage a coal-powered generating capacity when coal will be phased out.

The most immediate challenge for Vesey would be to decide whether to participate in the Queensland privatisation next year.

Vesey will earn fixed pay of $1.9 **million**, which is less than the $2.2m awarded to Fraser, but he can get better pay through higher bonus allowances.He will also receive an effective $2m sign-on bonus with $1m in cash and 73,000 shares, which must be retained for the length of his tenure.

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