FINANCIAL REVIEW

SE Supplement - Special Report

HD **Port sell-offs could mean users pay more**

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WC 821 words
PD 28 May 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 2
LA English

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The Abbott government may be fixated on developing Australia's roads, but it is the **sale** of some of the country's biggest ports that will help pay for them.

With NSW having proved that superannuation and infrastructure funds are prepared to pay hefty sums for port assets following the highly successful $5.1 **billion sale** of Port Botany and Port Kembla and $1.75 **billion sale** of the Port of Newcastle, other states are following their **lead**.

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Victoria's Napthine government is planning to start a **sale** process for a 40-year lease on the Port of Melbourne ahead of a state election in November, while Queensland's Newman government has run scoping studies on potential sales of the Port of Gladstone and Port of Townsville.

In the Northern Territory, the government is considering bringing private investors into the port of Darwin to help pay for a relocation of the port, while in Western Australia, the government is considering selling Port Hedland's Utah Point loading facility and the Kwinana Bulk Terminal.

Peter Wilkes, a Perth-based partner at Allen & Overy, says his **firm** has had discussions with participants interested in taking stakes in WA ports. "There's positioning going on to be ready to participate when expressions of interest and formal processes are kicked off," Mr Wilkes says.

Whether WA ports attract the heady multiples of between 25 and 27 times operating earnings achieved for recent east coast port sales remains to be seen, but investors are expected to be keen on Utah Point, which exports **iron ore**.

Australian port privatisations are not new – the Port of Brisbane was sold in 2010 to a group of super funds for $2.1 **billion** while the Port of Adelaide and six regional South Australian ports were sold to Flinders Ports in 2011.

But what is unusual about the current round of privatisations is the eagerness of cashed-up superannuation and infrastructure funds to invest, driving prices to unexpectedly high levels.High prices

The NSW government received double what it expected for the Port of Newcastle, while the **sale** of Botany and Kembla was more than $2 **billion** above initial expectations.

Superannuation funds have defended the high prices paid, arguing they are getting long-term investments that will provide steady returns for their investors.

The port privatisations have also provided an opportunity for local funds to team up with international investors, such as Hastings Funds Management and **Chinese** conglomerate **China** Merchants which now own equal stakes in the Port of Newcastle.

Local groups Industry Funds Management and AustralianSuper teamed up with Tawreed Investments Limited, a subsidiary of the Abu Dhabi Investment Authority, to secure Ports Botany and Kembla.

Hastings chief executive Andrew Day says the Newcastle **acquisition** is a "very strategic transaction" for the fund that reflects its commitment to big infrastructure investments. "We are going to be extremely competitive in what is going to be a very significant agenda of Australian privatisations over the next few years," Mr Day says, adding the group plans to harness both international and domestic capital in future bids.

However, the current wave of port privatisations is less popular with the stevedores who use them.

Early in May, John Mullen, the chief executive of Asciano, which owns Patrick stevedores, questioned the high prices being paid.

"Investors are falling over themselves to pay higher and higher sums for a limited number of assets … will everyone get a proper return on these outlays?" Mr Mullen told a lunch hosted by the American Chamber of Commerce in Melbourne. "It has to be questionable, I would suggest."

Mr Mullen claims stevedores have faced "dramatic" price rises after ports have been sold, arguing rental costs at one port rose 35 per cent in five years, and that the price increases were passed onto consumers.Consumers will pay more

"It could be argued that the quick financial gain taken by a government upon privatisation risks being offset over time by an increasing lack of competitiveness for Australia's manufacturers and exporters, and higher costs for the consumer," Mr Mullen said.

Meanwhile the chairman of Dubai-based DP World, which owns a minority **stake** in Patrick's competitor, DP World Australia, has raised similar concerns.

"If someone pays too much and they pass it to the tenant, it will eventually affect the consumer," chairman Sultan Ahmed Bin Sulayem recently told The Australian Financial Review.

"If it is passed from the landlord to the tenant, which is us, and then passed to the consumer, then eventually things will become more expensive."

But with the federal government having launched an "asset recycling initiative" in this year's budget that provides incentive payments of 15 per cent of the **sale** price if states spend the proceeds on infrastructure, governments will be racing even faster to put their ports on the block.

IN i763 : Port/Harbor Operations | i5020017 : Harbor Construction | i502 : Heavy Construction | iconst : Construction | icre : Real Estate/Construction | iship : Water Transport/Shipping | itsp : Transportation/Shipping

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RE austr : Australia | nswals : New South Wales | victor : Victoria (Australia) | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB Fairfax Media Management Pty Limited

AN Document AFNR000020140527ea5s0003f

