INDUSTRY IMPACTS OF AUSTRALIAN PORT PRIVATIZATION

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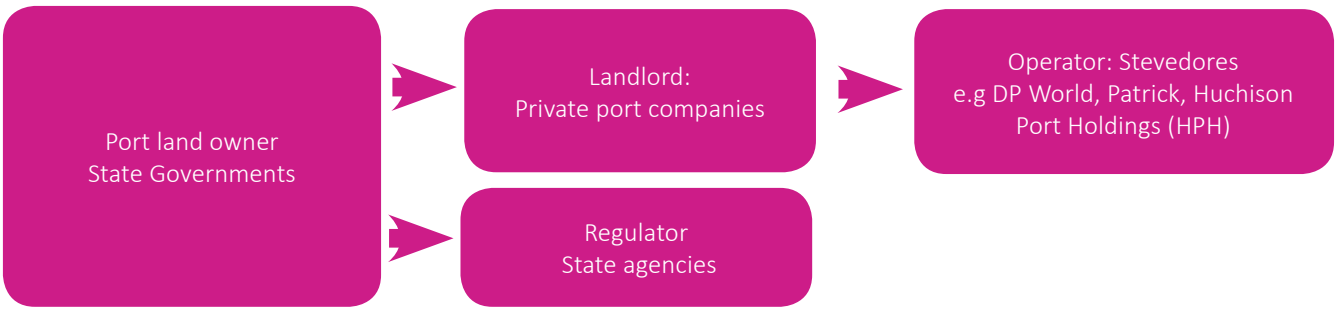
For three decades port governance reform has been a strategy adopted by governments around the world to achieve various goals, such as improving efficiency, encouraging private investments, and reducing governments' financial burden. Following commercialization and corporatisation of port authorities in 1990s, six major Australian ports have been privatized from 2011, including the Port of Brisbane, Port Botany, Port Kembla, the Port of Newcastle, the Port of Darwin and the Port of Melbourne.

The main drivers for the privatization include the government's policy of recycling capital for funding other infrastructure projects, the budgetary goal of reducing state governments' debts, and seeking growth in private investments in public infrastructure. While private sector ownership of ports in Australia is not new, generally all bulk ports are privately-owned and vertically-integrated. The recent privatization in major city ports is a significant move of port management system for Australian port industry. This article provides a snapshot of the privatization and some observed impacts on the market based on the author's recent research paper.

CHARACTERISTICS OF PRIVATIZATION

The recent Australian port privatization adopted a long-term lease sale model. The Australian state governments retain the port land title but granted about a century long-term lease (except 50 years for the Port of Melbourne) of port land and operation to the established state-owned transaction holding company, where other port assets and the liability and rights of port corporations were transferred, to be privatized through the sale of shares. The port management model at these privatized ports therefore has shifted from a public landlord to a private landlord (show in Figure 1 below). The privatization also involved sovereignty and private equity funds (PEFs) and foreign ownership. Ports with PEFs include the Port of Brisbane, Port Botany, Port Kembla, the Port of Newcastle, and Port of Melbourne. The sources of PEFs are mainly from superannuation funds and infrastructure investment funds. Major Australian ports are mature assets with growth prospects and limited threats from competition. Such nature attracts interests of investors, in particular institutional fund owners involved in the port privatization process. Of notice is that there are PE owners with shares in multiple privatized ports, which may raise concerns on the market power of these consortiums over Australian ports. Table one below outlines the details of privatized ports' duration of leasehold, investors, name of the private company (landlord) and ownership structure.



MAJOR CONCERNS FOR PORT USERS

The issues arising from the privatization include pricing; competition and future investments in ports. There are major concerns from port users including stevedores, shipping lines and shippers.

The most concerning aspect of port privatization for port users in Australia is insufficient regulatory protections against monopoly pricing. The privatized ports can be characterized as being effectively monopolies, and the significant market power of the private port company may impose a risk of increasing port charges to recover their costs and return profits to shareholders. There has been some evidence regarding the introduction of new charges for ships or cargoes and an increase in port charges and rental charges after privatization. Moreover, port privatization may make residual government services inviable and increase some charges, such as NSW Port Authority raising its navigation charge by 9.6%. Recently, stevedores have even use increased rental charge as a reason for imposing infrastructure surcharges on users.

Restriction of competition between ports is another concern by users. In fact, the lease sale of Port Botany and Port Kembla as a bundle to maximize the state government's revenue has relinquished an opportunity for competition between them. In addition, the compensation regime included in the privatization deal would negatively impact future competition and entrench monopoly power at the ports. For example, that the NSW Government, in a confidential clause, promised to pay compensation to NSW Ports for container movements at the Port of Newcastle exceeding the annual 'cap on numbers' has prevented the Port of Newcastle from competing against them by developing a container terminal. In the privatization of Port of Melbourne, the state government will compensate the private port leaseholder if the second container port is built in the state within 15 years, and if the new port removes container capacity that would have been processed through the Port of Melbourne. This will enhance the market power of the port and reduce the choice of shippers for alternative ports.

Port users have concerns that, under the private landlord port model, the private port company may access vertical integration by acquiring established downstream businesses or entering into a joint venture with existing downstream businesses. This has been evidenced in Flinders Ports, managing seven South Australian ports, privatized in 2001 with a long-term lease sale for 99 years. The private port company, imposing cost and conditions on existing two stevedores, established a logistics company to compete with the two

Port	State and Territory	Year of privatisation and sale price	Duration of leasehold	Investors and the name of Port company	Ownership
Port of Brisbane	Queensland	2011 (A$2.1 billion)	99 years	Q Port Holdings Port of Brisbane Pty Ltd (PBPL)	• QIC Limited • IFM investors • Caisse de dépôt et placement du Québec (Canada) • Tawreed Investments (Abu Dhabi Investment Authority)
Port Botany and Port Kembla	New South Wales	May, 2013 (Port Botany A$4.31 billion) (Port Kembla A$460 million)	99 years	NSW Ports	• IFM Investors • AustralianSuper • Cbus • HESTA • HOSTPLUS • Tawreed Investments (Abu Dhabi Investment Authority)
Port of Newcastle	New South Wales	May, 2014 (A$1.75 billion)	98 years	Port of Newcastle Investments	• Hastings Fund Management Group (50%) • China Merchants Group (50%)
Port of Darwin	Northern Territory	October, 2015 (A$506 million)	99 years	Landbridge Group Darwin Port	• Landbridge (80%)(China) • Northern Territory Government (20%)
Port of Melbourne	Victoria	October 31, 2016 (A$9.7 billion)	50 years	Lonsdale Consortium Port of Melbourne Corporation	• Future Fund • QIC Limited • Global Infrastructure Partners (GIP) • OMERS (Canadian pension fund)

Source: Adapted from Chen et al. [1]

Table 1 Australian privatised ports and their ownership

stevedores for the same customers. Such unconstrained vertical integration would undermine the competitive process within the industry and the efficiency of supply chains.

Following the privatization, the government's influence on the private port company's business including infrastructure investment is very limited. Therefore, the concern about future port investments emerges. It may be too early to draw conclusions on the investment impact for all privatized ports as some of them have been only been privatized for a short period of time. However, looking at the seven South Australian ports and Port of Brisbane privatized for 15 years and 6 years respectively, there are few observations available on the impact of investment. The extent of port investment is affected by the rationale for privatization and the ownership structure of privatized ports. Those ports with PEFs may have an easy exit strategy by selling port assets to others after three to five years without even making any investment for new infrastructure development.

EVALUATION NECESSARY

The Australian port privatization policy may achieve the short-term objective of state governments of the privatized ports, i.e. the government's balance sheet is improved significantly in the short term through receiving financial gain with the proceeds and shifting the financial responsibilities and risks associated with future capital expenditure requirement to private port companies. On the other hand, from long-term perspective, it may be too early to conclude the other outcomes given the short time period of post privatization. However, given that long-term development and investments are critical to the sustainability of ports, the impact of the privatization in relation to port management and operations on the market should be monitored and evaluated, as it will influence the nation's supply chain costs and trade.

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ABOUT THE ORGANIZATION

Australian Maritime College (AMC) was established in 1980 as a tertiary education institution based in Launceston. In 2008, AMC was integrated with as an Institute of the University of Tasmania. AMC is recognised globally as being a centre for providing maritime education, training and research. AMC offers study programmes from undergraduate studies to higher research degrees in the areas of maritime engineering and hydrodynamics, maritime business and international logistics, and ocean seafaring. It also provides coastal seafaring VET and short courses.

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