VICTORIA UNIVERSITY
INSTITUTE FOR SUPPLY CHAIN AND LOGISTICS

Melbourne, 12th January 2016

Committee Secretary
Senate Economics References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Thank you for the invitation to comment on the foreign investment framework review instigated by the Senate on 25 November 2015.

I would like to comment on behalf of the Institute for Supply Chain and Logistics at Victoria University based in Melbourne. The Institute's expertise is mainly in supply chain management and maritime logistics, consequently I will only comment on the 99 year lease over the Port of Darwin and leave comments on the TransGrid lease and the Treasurer's decision to block the sale of S Kidman and Co to more qualified persons.
However I will provide some commentary on recent port privatisations in Australia, which have occurred such as the Port of Newcastle, Port Botany and the Port of Brisbane, and others which are currently slated for privatisation such as the Port of Melbourne and the Port of Fremantle.

About the Institute for Supply Chain and Logistics

The Institute for Supply Chain and Logistics (the Institute) at Victoria University is a specialist research centre providing independent advice and objective industry-focused research to deliver value and support public and private sector decision making.
The Institute's capability addresses areas such as infrastructure development; policy and planning frameworks; risk and sustainability assessment and value chain analysis.
The Institute's activities are underpinned by the diverse and extensive expertise of its people and partners, including private sector managers and senior academic and government personnel.
The Institute team is from and works closely with industry and our strong relationships with businesses and organizations at each point of Australia's domestic and international supply chains ensures our research conclusions are realistic, tested, practical and sustainable.

Port Privatisation

In Australia port privatisation has become a means to achieving asset recycling for governments challenged with population growth and strong demand for new public infrastructure.
The Institute's national and international research into port privatisation indicates the ownership, management and control of most container sea-ports remains with local, state and national governments of most countries including our main trading partners. It is therefore difficult to find successful precedent to guide port privatisation in Australia.

Over the last 10 years of privatising various Australian capital city ports, these transactions indicate the complexity of the process in terms of taxpayer benefit:

- The sale price of the Port of Brisbane ($2.1 billion in 2010) appeared low when in 2013 a shareholder resold their shares and doubled their money. A potential loss to Queensland taxpayers.
- For $5.1 Billion in 2013, NSW Ports became the port manager of Port Botany and Port Kembla. A condition for compensation was established through a side letter to the contract which is to be paid by the NSW Government to NSW Ports in the event the nearby Port of Newcastle creates container terminal capacity and becomes a competitor within the 99 year lease.
- There is concern that there is insufficient oversight over access to shipping channels and services in the Port of Newcastle (which was sold to a consortium including Chinese interests in 2014 for $1.75 billion) and coal exporters could be adversely affected by this lack of oversight by an independent body. One of the port's largest coal shippers (Glencore Coal Pty Ltd) made an application to the National Competition Council seeking that these services would become part of the National Access Regime in Part IIIA of the Competition and Consumer Act 2010. However a recent media release by the Acting Treasurer The Hon. Mathias Cormann, decided (on the NCC's advice) not to declare this service.
- The recent sale of the Port of Darwin to Chinese interests presents a similar problem where access to Australian Defence Force facilities at the port are potentially under close scrutiny and control by a foreign owned entity.

Further research conducted by the Institute indicates that the general public may not be fully aware of the extent and ramifications of this shift in ownership in businesses that are critical to Australian trade. The main driver for overseas owners is to maximise return on the considerable investment they have made to acquire the assets, with perhaps little concern or knowledge of what is best for Australia's interests. The recent Senate Enquiry highlights just one of the issues, that of tax avoidance by overseas companies operating in Australia.

A number of the ports mentioned previously have increased their service charges substantially since being privatised. As these ports have a monopoly position in servicing their hinterland port users have no choice but to pay these increased charges in order to get their products to and from the port.

Many countries are grappling with how to manage the increase in foreign ownership, but in some cases public opposition has prevented a takeover going ahead. In 2006, a number of North American container terminals and logistic centres were up for sale but Dubai Ports World, one of the bidders whose ownership is concentrated in the Middle East, was ultimately excluded from the process due to the public's fear that such a sale would compromise port security.

The USA is also fiercely protective of its coastal shipping regime where all coastal cargo in North America has to be shipped by American owned and crewed vessels. This is in stark contrast to the current Australian coastal trading policy where increasing amounts of cargo on the Australian coast is being carried by foreign flagged and crewed vessels.

China is taking the security of their supply chains even further than the USA. Chinese companies, with the help of the government, are in the process of acquiring interests in ports and-port related businesses in the Indo-Pacific, East Africa and the Mediterranean along the shipping routes from China to Europe, the so-called 'Maritime Silk Road'. This project is part of the 'One Belt, One Road' policy, which is an undertaking to secure China's supply lines to and from Europe. It also includes a land-based route the 'Silk Road Economic Belt', which more or less runs along the centuries old former 'Silk Road,' and is developed in order to benefit China's landlocked western provinces and enable them to access the markets of Southeast Asia and the Middle East. The other aim of this initiative (backed by a US$40 billion fund) is to shape China's regional periphery by exercising economic, cultural and political influence.

I hope that my comments have added some insight to carefully assess the long-term harms and benefits of allowing the sale of critical assets to get a quick dollar to balance the budget and appease the voting public whilst losing sight of what is best for Australia's long-term future.

Yours sincerely

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