



Department of
Transport

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The Changing Face of Western Australia's Ports





Ports in WA

1. Impetus for Change
 - 1) Economic
 - 2) National Ports Strategy 2011
 - 3) Ports Governance Review 2012
2. Tranche 1 Amalgamations
3. Tranche 2 Amalgamations
4. Enhanced Performance
5. Port divestments



1. Impetus for Change

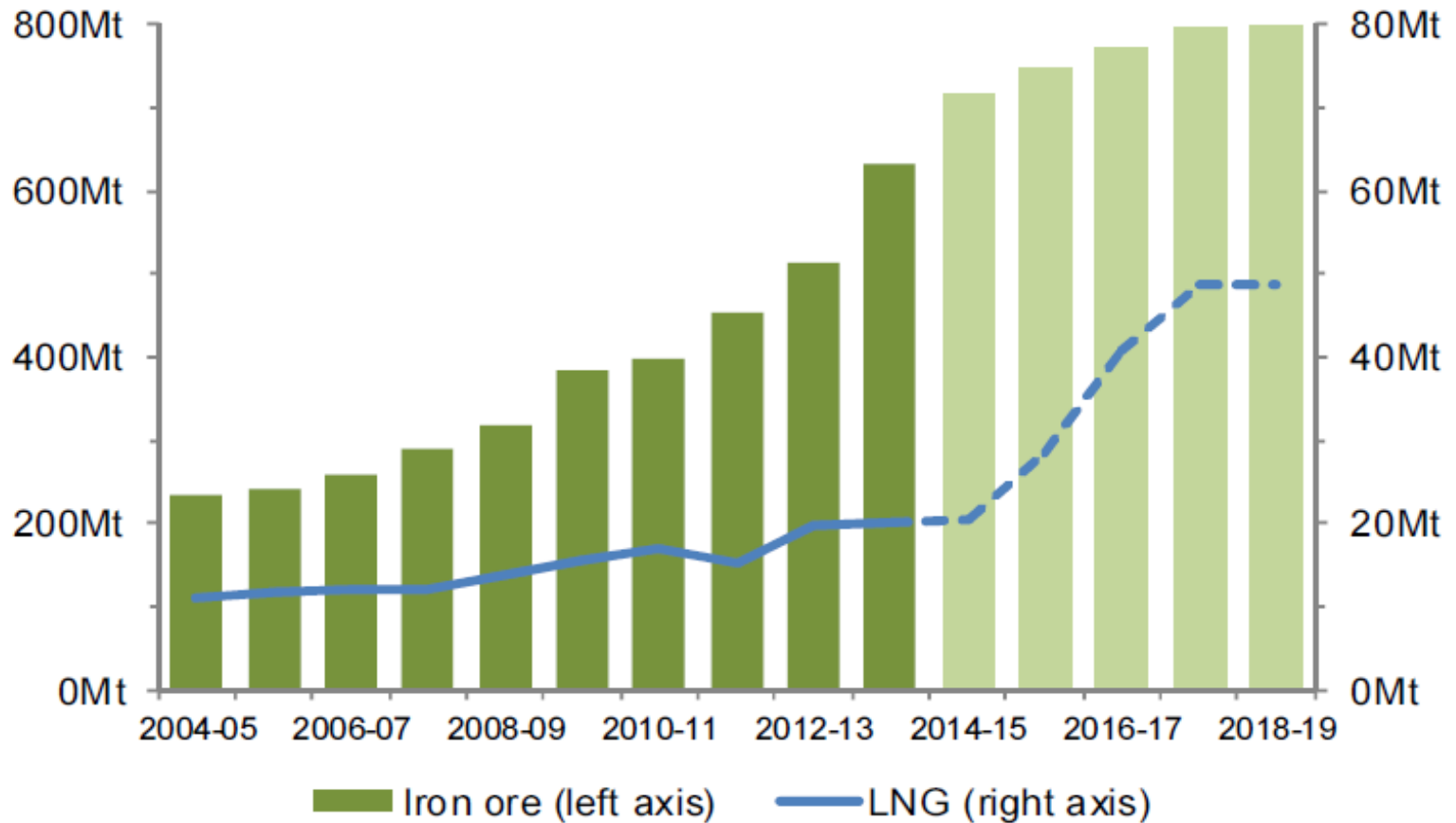
- **Economic Factors.**

- Merchandise exports have increased from \$25 bn to \$132 bn in 2014-15.
- WA's share of national merchandise exports by \$ value has increased from 26% to 44% in 2014-15. By volume, WA exports approximately 59% of merchandised exports.
- WA's economy is transitioning from construction to production
 - Need for growth/expansion at ports to meet demand from industry – Capital Intensive
 - The State's ports will import and export around one billion tonnes of commodities per annum – more than 2.5 times current volumes
 - Current State finances and focus on regaining AAA credit rating



1 Impetus for Change

Iron ore and LNG sales outlook (volume)



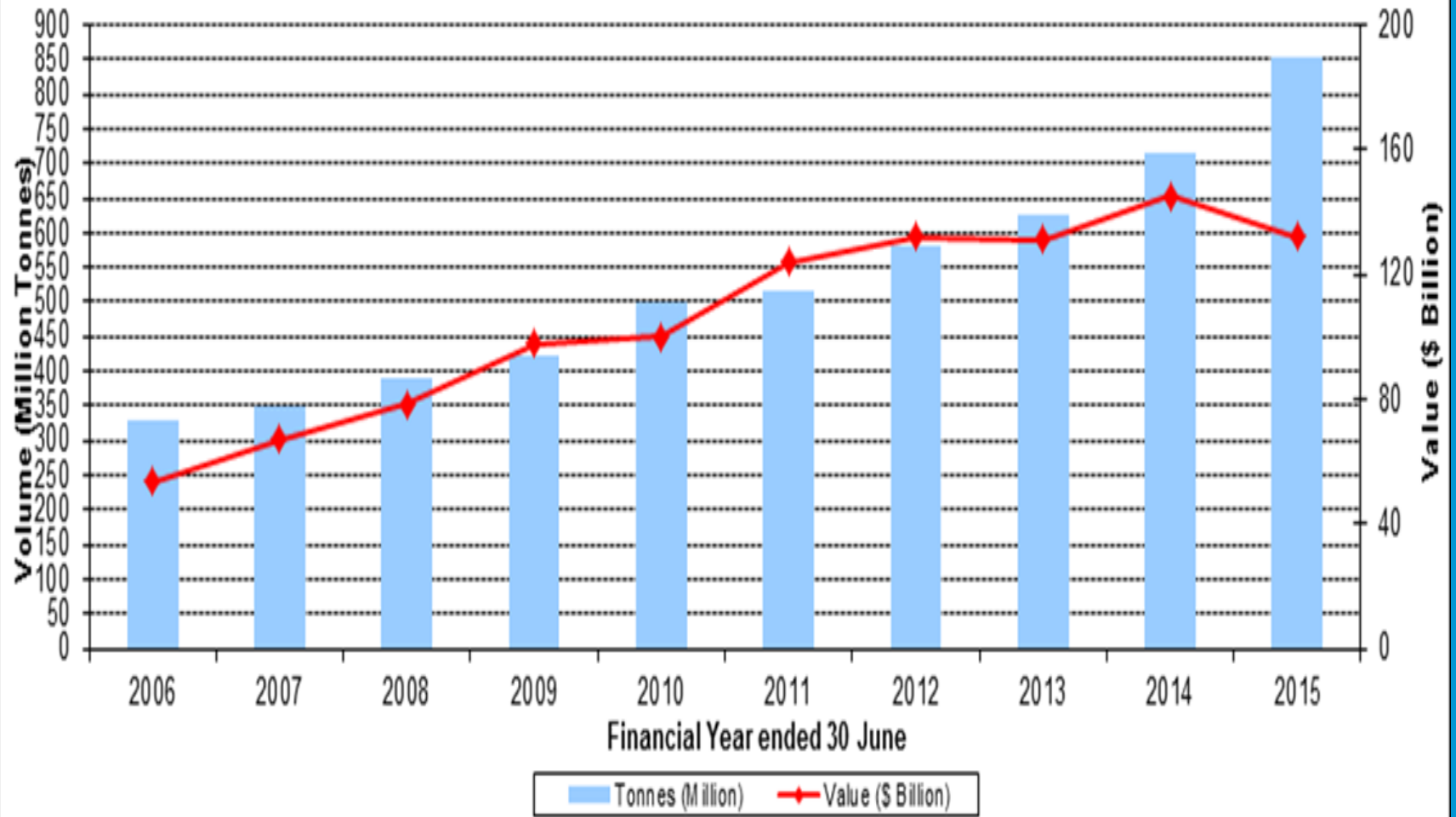
Note – Projections and/or forecasts start in 2014-15.

Source: Western Australia Department of Mines and Petroleum, Minerals and Petroleum Summary Tables; Western Australia 2015-16 State Budget; and Western Australia Department of State Development.



1. Impetus for Change

International Seaborne Trade Through All Western Australian Ports 2005/6 to 2014/15





1. Impetus for Change

- National Ports Strategy 2011
 - Australia is an island whose place in the international economy and whose productivity, living standards and quality of life depend on trade performance.
 - A nation dependent on maritime trade.
 - Drive to improve port planning and protection
 - COAG approved and state planning aligned to the NPS.
 - Establishes a framework for planning at state and regional levels



1. Impetus for Change

National Ports Strategy – The Island Nation





1. Impetus for Change

- Ports Governance Review 2012 in response to growing demands:
 - 31 Recommendations covering :
 - Strategy – NPS, Ports Directions, develop a SPS.
 - Planning – SDPs, Port Master Plans, Land use, commercial.
 - Ports WA – Stronger collegiate approach and input.
 - Legislative – Board members, amalgamation of ports, SPA ports transferred,
 - Financial – Performance RoR, capital investment planning and Strategic Asset Management Framework,
 - Environmental – consideration of Safety Environmental Management Plan, reporting frameworks, quality practices.



Why Amalgamations

- Optimising utilisation of port infrastructure.
- Improving investment decisions.
- Enhancing corporate governance, via
 - strategic, operational and financial planning;
 - risk management;
 - human resource and skills management;
 - stakeholder management;
 - safety management; and
 - environmental management.
- Reducing expenditure through efficiency gains and reduced duplication of effort.
- Improving commercial practices and skills, acumen and capability.
- Providing consistency of port views on regional issues.
- Extending economy of scale benefits for service provision



2. Tranche 1 Amalgamations

- WA Port Governance Review:
- Two phases of legislative reform:
 - Tranche 1 (amalgamate 7 port authorities into four regional ports authorities, plus Fremantle Port Authority as a stand-alone port) **COMPLETED**
 - Tranche 2 (transfer of DoT responsibility for *Shipping and Pilotage Act 1967* port facilities to regional ports authorities)
IN PROGRESS



2. Tranche 1 Amalgamations and legislative changes.

In addition to the amalgamation of 7 ports into 4:

- Remove customer rights to representation on port authority Boards
- Ministerial discretion to increase Board size from 5 to 7 members
- Duty to comply with State Budget process.
- Interim dividends payable to the State.
- Ports can operate 24/7.
- Required community consultation committees.
- Power to put new ports under existing port via regulation.



2. Tranche 1: Complete

PORT MERGERS



1 July 2014

BROOME PORT AUTHORITY

1 July 2014

GERALDTON PORT AUTHORITY

1 July 2014

DAMPIER & PORT HEDLAND PORT AUTHORITIES

10 October 2014

ALBANY, BUNBURY & ESPERANCE PORT AUTHORITIES



Fremantle Port Authority - unchanged



3. Tranche 2 Amalgamations

- Includes transfer of 13 existing ports and port facilities regulated under *Shipping and Pilotage Act 1967* (S&P Act) to the *Port Authorities Act 1999* (PAA).
- Transfer of responsibility for oversight of ports and facilities from Department of Transport (DoT) to relevant regional ports authorities.

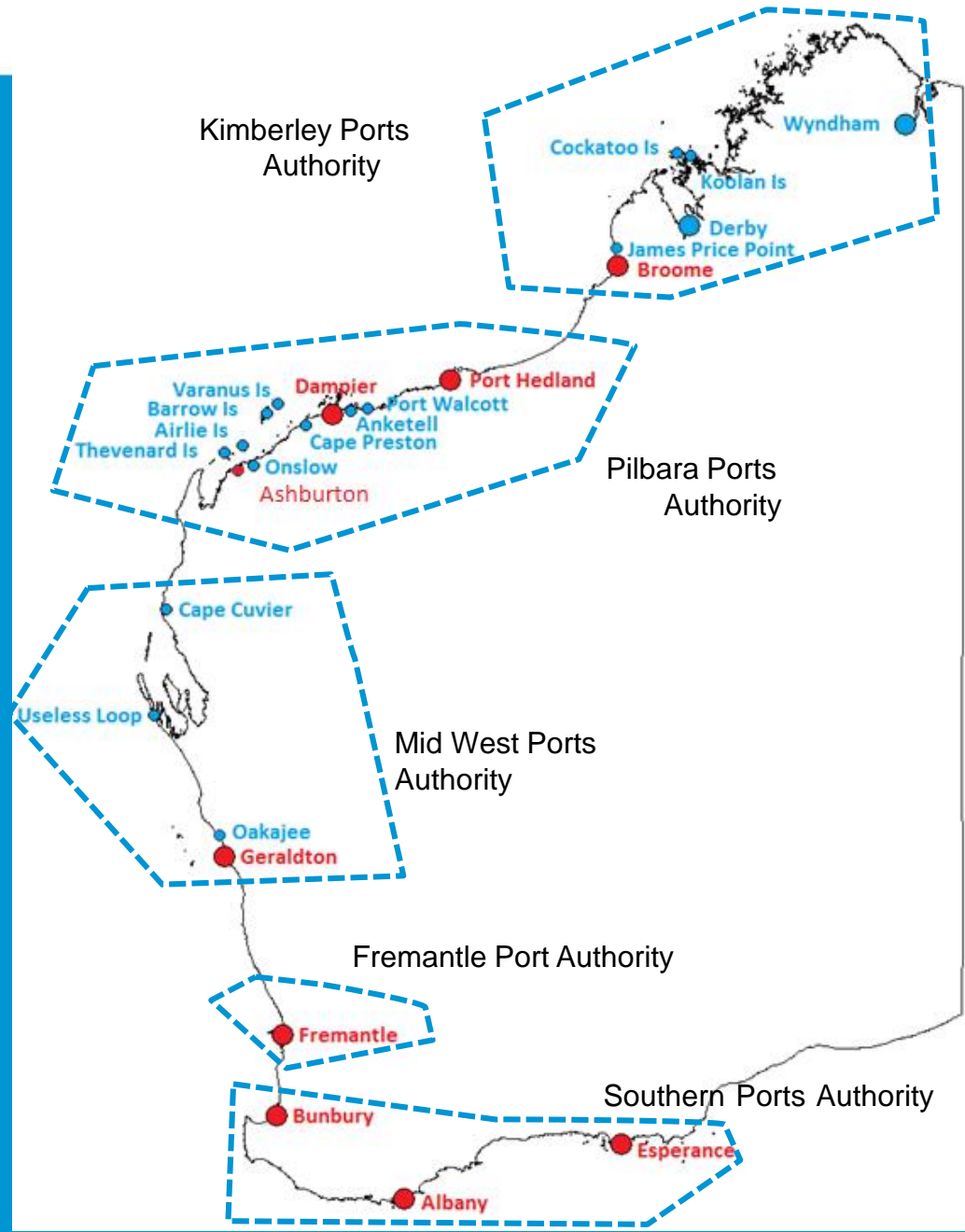






3. Tranche 2

In progress

- Responsibility for 13 *Shipping & Pilotage Act* trading ports will progressively transfer from DoT to the new ports authorities



| | |
|---|--|
|  | Port authority ports |
|  | Ports currently overseen by DoT and proposed ports |



3. Tranche 2 Amalgamations SPA to PAA

| Proclaimed port | Port facility | Facility operator | Ports authority |
|----------------------|------------------|-------------------------------|-----------------|
| Wyndham | | Cambridge Gulf Ltd | Kimberley |
| Yampi Sound | Cockatoo Island | Pluton Resources | |
| | Koolan Island | Mt Gibson Iron Ore | |
| Derby | | Shire of Derby-West Kimberley | |
| Port Walcott | Cape Lambert | Robe River Mining (Rio Tinto) | Pilbara |
| Port of Cape Preston | | CITIC | |
| Varanus Island | | Apache Energy | |
| Barrow Island | | Chevron Australia | |
| Onslow | Airlie Island | Apache Energy | |
| | Onslow | Onslow Salt | |
| | Thevenard Island | Chevron Australia | |
| Carnarvon | Cape Cuvier | Dampier Salt (Rio Tinto) | Mid West |
| | Useless Loop | Shark Bay Salt | |



3. Tranche 2 Amalgamations

- PAA allows for operation of private port terminals within area or areas controlled by a ports authority.
- Reform is expected to have minimal impact on current day-to-day operations of privately operated facilities at S&P Act ports.
- Enhanced marine safety oversight and systems is anticipated



3. Tranche 2 Amalgamations

What roles will be transferred to ports authorities?

- Approval of pilotage areas and pilots (including exemption certificates)
- Harbour master functions
- Overall marine safety oversight
- Declaration of channel depths
- Declaration of the formal closure of ports due to cyclone or other weather conditions



3. Tranche 2 Amalgamations

What roles will be transferred to ports authorities - continued

- Approval of jetties in port areas
- Management of the navigational aids for ships currently owned by DoT in port areas
- Management of current leases issued under the M&HA and port operating agreements at common-user ports
- Any other port services provided to State Agreement customers by agreement.



3. Tranche 2 Amalgamations

Implementation

- Government is currently drafting legislative amendments required to implement the reform.
- Steering Committee established to oversee 2014 amalgamation of port authorities will oversee second stage of port reform.
- DoT, the Department of State Development and the ports authorities are working with S&P Act port operators to ensure a smooth transition to new arrangements.
- Subject to passage of legislation, transition will occur progressively as issues are resolved.



4. Enhanced Performance

Total Port Authority Financial performance

- 2010/11 operating profit of \$63 million. IA accused GTE's of being lazy assets. And change in Dividends.

| | 2012/13 (\$000) | 2013/14 (\$000) | 2014/15 (\$000) |
|---|--------------------|--------------------|--------------------|
| Operating profit before tax and dividends | \$205,194 | \$300,151 | \$368,038 |
| Income tax expense | \$61,335 | \$83,644 | \$99,857 |
| Dividends | \$56,444 | \$54,484 | \$264,218 |
| Total Contribution to State Revenue | \$117,779 | \$138,128 | \$364,075 |



4. Enhanced Performance

Review of Ports Rate of Return Completed & Implemented

- WA Treasury Corporation undertook a review of W.A. Ports RoR using;
 - Moody's qualitative assessment guidelines applied.
 - Applying finance principles using the Weighted Average Cost of Capital approach for risk and return assessment.
 - Ports nominal RoR range from 11 to 14% based on a long term average.
- Deprival value approach to asset valuations applied assessing lower of economic return and Depreciated Optimised Replacement Cost.
- Ministerial approved and ports to work toward the new RoR and not to be a cap where reasonable.



5. Port Divestments

- Utah Point Bulk Handling Facility in Port Hedland
- Kwinana Bulk Terminal in Fremantle Outer Harbour has been progressed to the sale of Fremantle Port.





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THANK YOU & QUESTIONS

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