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

- Volume (Million Tonnes)
- Value ($ Billion)

Financial Year ended 30 June

- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
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.
### 3. Tranche 2 Amalgamations SPA to PAA

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

<table>
<thead>
<tr>
<th></th>
<th>2012/13 ($000)</th>
<th>2013/14 ($000)</th>
<th>2014/15 ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit before tax and dividends</td>
<td>$205,194</td>
<td>$300,151</td>
<td>$368,038</td>
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<tr>
<td>Income tax expense</td>
<td>$61,335</td>
<td>$83,644</td>
<td>$99,857</td>
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<tr>
<td>Dividends</td>
<td>$56,444</td>
<td>$54,484</td>
<td>$264,218</td>
</tr>
<tr>
<td>Total Contribution to State Revenue</td>
<td>$117,779</td>
<td>$138,128</td>
<td>$364,075</td>
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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.
THANK YOU & QUESTIONS

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