9 Ports

Key points

- The performances of 19 port government trading enterprises (GTEs) are presented in this chapter. Together these GTEs controlled assets valued at $8.8 billion and generated $1.5 billion of income in 2006-07.
- Overall, the profit before tax of port GTEs increased by $28.2 million in real terms to $462 million in 2006-07. Within the sector:
  - most of the increase in profit before tax was attributable to two GTEs (Central Queensland Ports Authority and Tasmanian Ports Corporation (TPC))
  - one GTE recorded a loss before tax
  - profits (in real terms) declined for six GTEs.
- Return on assets declined from 7.1 per cent to 6.9 per cent in 2006-07 (excluding TPC). Of the monitored GTEs, seven failed to earn a risk-free rate of return.
- Debt to assets for the sector increased from 22.9 per cent to 23.1 per cent in 2006-07. Three port GTEs operated without debt.
- Thirteen port GTEs made dividend payments to their owner-governments, totalling $137 million in 2006-07. The sector recorded an income tax-equivalent expense of $149 million.
- Only Darwin Port Corporation disclosed community service obligation (CSO) funding, totalling $5.0 million in 2006-07. CSO payments comprised 0.3 per cent of sector income.

The financial performances of 19 port government trading enterprises (GTEs) are reported in this chapter. Together they controlled $8.8 billion in assets and generated around $1.5 billion in income in 2006-07.

Financial performance summaries, including performance indicators for each port GTE monitored over the period 2004-05 to 2006-07 are presented after this introduction. Their financial performances are examined using the financial indicators defined in chapter 1.

There are some differences between measured performance for 2004-05 and 2005-06 in this and earlier reports because of changes in accounting standards, data

sources and indicators (chapter 1). Further, the set of monitored GTEs can change over time because of restructuring and privatisation. Consequently, care should be exercised in making performance comparisons over longer time periods than that covered in this report.

When making comparisons between GTEs, consideration should be given to: differences in the nature and scale of their businesses; their individual market environments; a number of issues relating to the valuation of their assets; and the level of payments for community service obligations (CSOs).

9.1 Monitored GTEs

All port GTEs monitored in this report undertake the management of port facilities (table 9.1). The nature of their involvement in other activities — such as pilotage, stevedoring and cold storage facilities — varied across GTEs.

A number of port GTEs also have interests in other areas of business, such as airports. For example, Hobart International Airport is a wholly-owned subsidiary of Tasmanian Ports Corporation (TPC), and Port of Brisbane Corporation (PBC) has a substantial interest in Brisbane Airport.[1] Cairns Port Authority (CPA) and Mackay Port Authority also own and operate airports.

Changes to the range of services should be taken into account when comparing financial performances over time. The financial performances of some port GTEs have been affected by the franchising of some activities. For example, some ports have issued exclusive or non-exclusive licences to operate or provide services, such as stevedoring, pilotage and towage.

Between 2005-06 and 2006-07, total assets controlled by port GTEs grew by $449 million (5.4 per cent) in real terms (figure 9.1). This was mainly attributable to capital works and revaluations of infrastructure. Real increases of $264 million, $215 million and $107 million were recorded for the Ports Corporation of Queensland (PCQ), PBC and Central Queensland Ports Authority (CQPA) respectively. The asset values of most other port GTEs decreased.

The size of the monitored port GTEs — in terms of revenue and the value of assets controlled — varied substantially in 2006-07 (figure 9.2). The largest four port GTEs (PBC, CQPA, Sydney Ports Corporation and Port of Melbourne Corporation

1 Port of Brisbane Corporation owned 37.4 per cent of Brisbane Airport Corporation Holdings in 2006-07. These airport investments are not consolidated in PBC's financial accounts as it does not own a controlling interest in the airport.

Table 9.1 **Activities — port GTEs, 2006-07**

Port GTE	*Activities*				
	Port facilities management	*Pilotage*	*Stevedoring*	*Cold storage*	*Airport operations*
New South Wales					
Newcastle Port Corporation	✓	✓	✗	✗	✗
Port Kembla Port Corporation	✓	✓	✗	✗	✗
Sydney Ports Corporation	✓	✓	✗	✗	✗
Victoria					
Port of Melbourne Corporation	✓	✗	✗	✗	✗
Victorian Regional Channels Authority[a]	✓	✗	✗	✗	✗
Queensland					
Central Queensland Ports Authority	✓	✗	✓	✗	✗
Port of Brisbane Corporation	✓	✗	✗	✗	✗ [b]
Cairns Port Authority	✓	✗	✗	✗	✓
Townsville Port Authority	✓	✗	✗	✗	✗
Ports Corporation of Queensland	✓	✗	✗	✗	✗
Mackay Port Authority	✓	✗	✗	✗	✓
Western Australia					
Fremantle Port Authority	✓	✗	✗	✗	✗
Bunbury Port Authority	✓	✓	✗	✗	✗
Port Hedland Port Authority	✓	✓	✗	✗	✗
Dampier Port Authority	✓	✗	✗	✗	✗
Geraldton Port Authority	✓	✓	✗	✗	✗
Albany Port Authority	✓	✓	✗	✓	✗
Tasmania					
Tasmanian Ports Corporation	✓	✓	✓	✓	✓
Northern Territory					
Darwin Port Corporation	✓	✓	✗	✗	✗

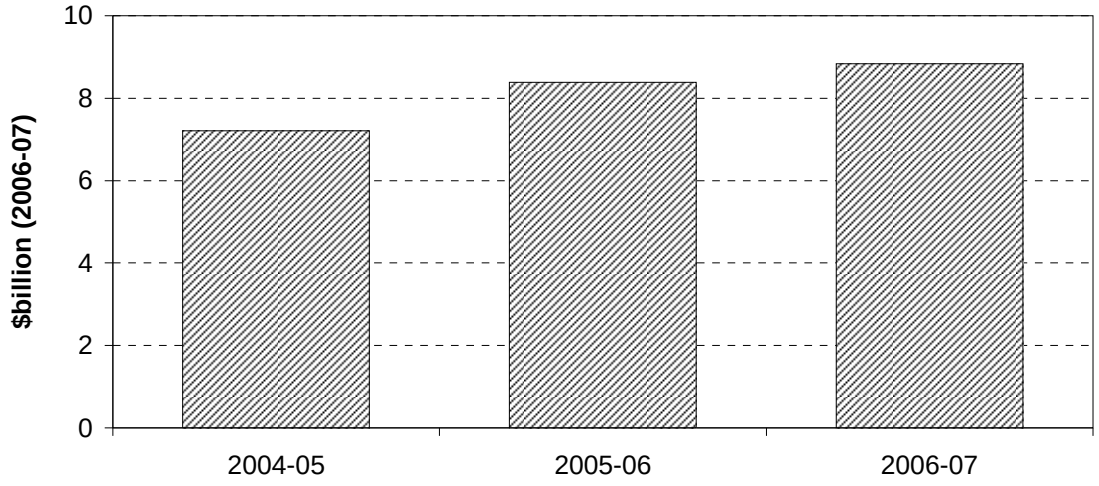
[a] Victorian Regional Channels Authority manages channels in the port waters of Geelong and oversees channel operations in the ports of Hastings and Portland. [b] Port of Brisbane Corporation holds a 37.4 per cent interest in Brisbane Airport Corporation Holdings. It is not directly involved in the operation of the airport.

(PoMC)), accounted for 63.8 per cent of sector assets and 57.4 per cent of sector income in 2006-07. PBC was the largest overall, contributing 25.7 per cent ($2.3 billion) of assets and 20.6 per cent ($313 million) of sector income.

9.2 Market environment

The financial performances of port GTEs are affected by the level and composition of trade throughput. Port reforms over the past decade have also affected performance by changing the scope and nature of activities carried out by some port GTEs and by increasing their commercial focus.

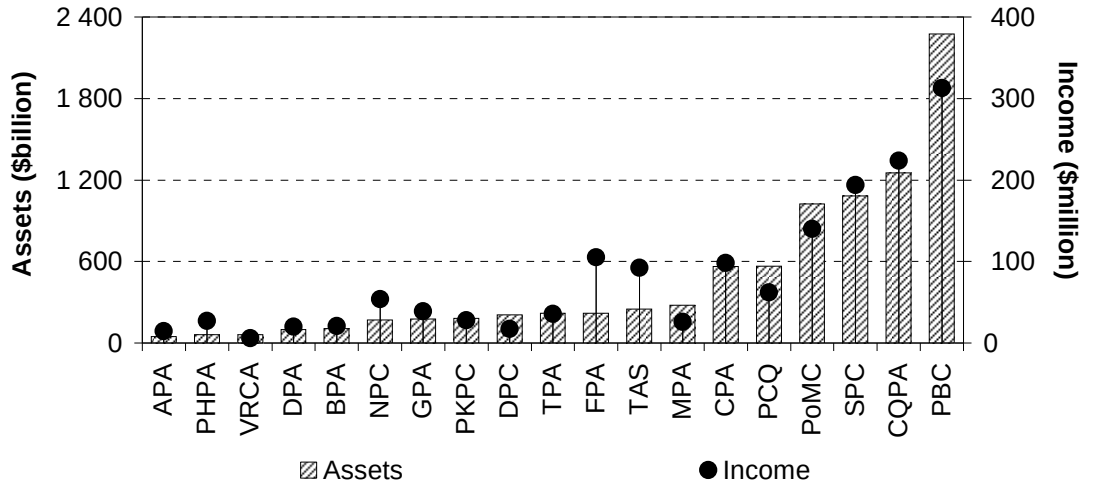
Figure 9.1 **Sector assets — port GTEs[a]**



a The value of sector assets is reported in 2006-07 dollars using the ABS implicit price deflator — gross fixed capital formation for public corporations (chapter 1).

Source: Productivity Commission estimates.

Figure 9.2 **Assets and total income — port GTEs, 2006-07**



Source: Productivity Commission estimates.

Trade throughput

Trade throughput is susceptible to both domestic and international markets, particularly shifts in demand for key traded commodities. The composition of throughput and the size of the markets served differ significantly across ports. Consequently, changes in domestic and international markets affect some port GTEs more than others.

Changes in supply conditions for traded commodities also impact on trade throughput. The agricultural throughput of many port GTEs decreased in 2006-07, because of persistent drought and other climate conditions. For example, Port Kembla Port Corporation recorded a 76.3 per cent decline in grain exports in 2006-07. Similarly, CPA's throughput decline of 67 000 tonnes was mainly attributable to reduced sugar exports caused by Cyclone Larry.

Port GTEs with a diversified range of cargoes are less affected by market trends in key commodities, but usually retain an exposure to changes in the overall level of economic activity. Port GTEs relying on a single commodity for a large share of total throughput — such as the Newcastle Port Corporation, where coal accounted for 94 per cent of throughput in 2006-07 — can be substantially affected by changes in market conditions for that commodity.

Infrastructure compatibility

As elements of a global transport network, port GTEs must maintain infrastructure that is compatible with changing global standards. With the global trend of increasing ship sizes, inadequate channel depth in some ports was identified in the Exports and Infrastructure Taskforce report (Fisher Report 2005). The Taskforce argued that without additional deepening, the Port of Melbourne, Port of Newcastle, Port of Gladstone and Fremantle Port could be unable to accept larger ships at full capacity. Moreover, this could have adverse implications for congestion and the size of vessels arriving at other Australian ports.

Corporate reforms

Government reforms in the ports sector over the past decade or so were aimed at improving the efficiency and financial performance of GTEs by making them more commercially focused. In general, the reforms were consistent with those recommended in the 1993 Industry Commission report *Port Authority Services and Activities* (IC 1993). Some of the major recommendations of this report were:

- ports should be constituted as statutory bodies, which are separate from the departmental structure of government
- ports should be exposed to an income tax-equivalent regime, be reimbursed for any CSOs and pay dividends from profits after tax
- the adoption, where cost efficient, of a landlord model of operation. This involves the port authority concentrating on the supply of core activities only, with the more contestable waterfront services, such as stevedoring and pilotage, contracted out to the private sector.

The primary aim of these reforms was to establish clear objectives that eliminate any conflicts arising out of the commercial and non-commercial activities of port GTEs, as well as replicating market disciplines. Competition in the provision of port services has increased, mainly through the competitive tendering and franchising to private operators of activities such as stevedoring, pilotage, mooring, general maintenance and ship cleaning.

Heads of government signed the Council of Australian Governments (COAG) Competition and Infrastructure Reform Agreement on 10 February 2006, which includes a commitment to undertake reviews of port regulation and competition by the end of 2007. The NSW report was submitted to COAG in late 2007, with reports from Victoria, Queensland, Western Australia, South Australia, and the Northern Territory due in 2008 (CRC 2008).

9.3 Profitability

Profitability indicators provide information on how GTEs are using the assets vested in them by shareholder-governments to generate earnings.

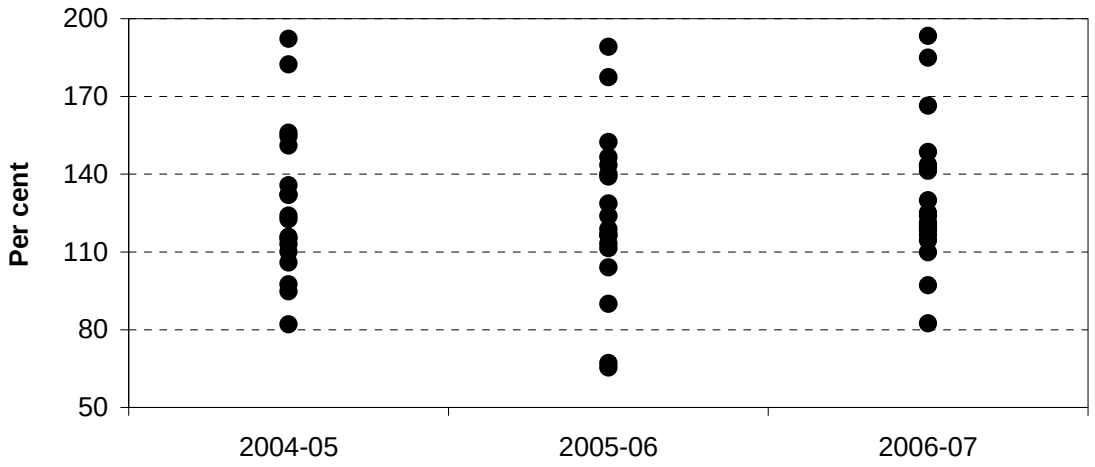
The monitored port GTEs recorded a total profit before tax of $462 million in 2006-07. Excluding TPC, total profit increased by $10.8 million (2.5 per cent) in real terms from 2005-06.[2] All port GTEs except Darwin Port Corporation (DPC) achieved a profit in 2006-07, an improvement on 2005-06 when TPC also reported a loss.

The cost recovery ratio for the port sector was 137 per cent in 2006-07, with most port GTEs able to fully recover their costs (figure 9.3). Only Dampier Port Authority (DPA) and DPC had cost recovery ratios below 100 per cent. The median cost recovery rate was 124 per cent, with the highest at 193 per cent (PBC) and lowest at 82.5 per cent (DPC). Excluding TPC, cost recovery improved by 2.4 percentage points from 2005-06.

The cost recovery ratio for port GTEs was higher than for most other sectors. However, given the capital intensity of port GTE businesses and the long-lived nature of their assets, this might not be excessive.

2 Tasmanian Ports Corporation was incorporated on 1 July 2005 and began trading as TasPorts on 1 January 2006, when it took over the assets and infrastructure of Burnie Port Corporation, Hobart Ports Corporation, Port of Devonport Corporation and Port of Launceston Pty Ltd. The change in profit does not include TPC, as it operated for only six months in 2005-06. TPC has also been excluded from the 2005-06 sector-wide calculations of cost recovery, return on assets, return on equity and interest cover.

Figure 9.3 **Cost recovery — port GTEs[a,b]**



a Each data point represents the cost recovery ratio for a government trading enterprise in that financial year. Cost recovery is the ratio of revenue from operations to expenses from operations (chapter 1). **b** Cost recovery for Tasmanian Ports Corporation has been included in 2006-07 only.

Source: Productivity Commission estimates.

The overall sector return on assets was approximately steady at 6.9 per cent in 2006-07. All port GTEs except DPC reported positive returns (up to 21.7 per cent for Albany Port Authority (APA)) in 2006-07 (figure 9.4). DPC recorded a return of -1.7 per cent.

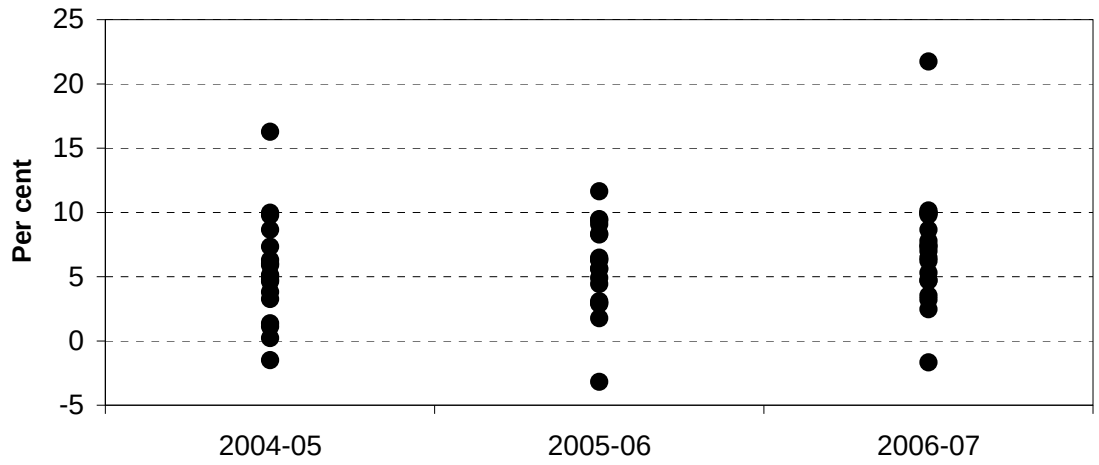
The aggregate sector rate of return on assets of 6.9 per cent in 2006-07 was greater than the risk-free rate of return.[3] The median rate of return on assets for the monitored port GTEs, at 7.0 per cent in 2006-07, was also above the risk-free rate.

The rates of return in 2006-07 are not indicative of excessive profit taking. APA recorded the highest return on assets for the sector, of 21.7 per cent in 2006-07. However, this was due to a once-off compensation payment equal to more than three-quarters of its operating revenue. The next highest returns were in the order of 10 per cent. Indeed, seven of the 19 monitored port GTEs failed to achieve a return on assets equal to or greater than the risk-free rate.

The return on equity — the GTE's operating earnings before interest and after tax for the year expressed as a proportion of equity held in the business — also held approximately steady in 2006-07. The sector return on total equity was 3.9 per cent in 2006-07.

3 The risk-free rate of return is defined as the 2006-07 interest rate on 10-year Australian Government bonds of 5.8 per cent (RBA 2008).

Figure 9.4 **Return on assets — port GTEs[a,b]**



a Each data point represents return on assets for a government trading enterprise in that financial year. Return on assets is the ratio of earnings before interest and tax to average operating assets (chapter 1). Average operating assets is the average of the value of operating assets at the beginning and end of each financial year. Where an average could not be calculated, the value of operating assets at the end of the financial year was used. **b** Return on assets for Tasmanian Ports Corporation has been included in 2006-07 only.

Source: Productivity Commission estimates.

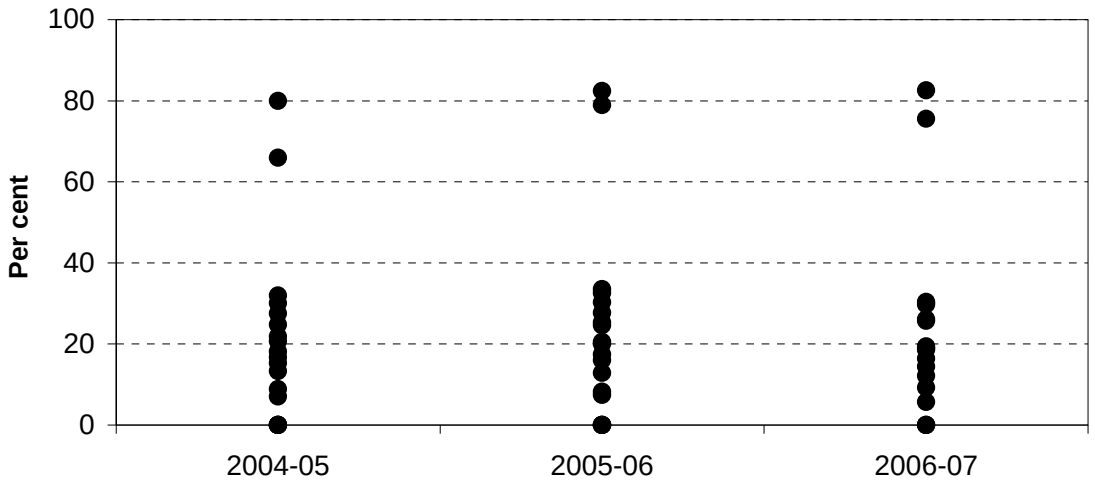
9.4 Financial management

Financial management indicators provide information about the capital structure of GTEs and their ability to meet the cost of servicing debt and other liabilities as they fall due.

There is considerable diversity in the capital structure of port GTEs, as measured by debt to assets (figure 9.5). Most port GTEs operate with a relatively low level of leverage, indeed three port GTEs operated debt free at the end of 2006-07. The median debt to assets of port GTEs was 18.8 per cent in 2006-07, and sector-wide debt to assets increased from 22.9 per cent in 2005-06 to 23.1 per cent in 2006-07. This increase was mainly the result of borrowing by two GTEs — CQPA and PCQ, with real additions to debt of $121 million and $109 million respectively.

In most cases, a decline in debt to assets of port GTEs was achieved through retirement of debt. For example, TPC reduced its debt by 53.1 per cent (in real terms) from 2005-06 to 2006-07. This contributed to a fall in its debt to assets from 30.3 per cent to 14.4 per cent.

Figure 9.5 **Debt to assets — port GTEs[a,b]**



a Each data point represents debt to assets for a government trading enterprise in that financial year. Debt is defined to include all interest bearing liabilities (chapter 1). **b** The Victorian Regional Channels Authority, Mackay Port Authority and Port Hedland Port Authority operated debt free in the period 2004-05 to 2006-07. The Ports Corporation of Queensland operated debt free in 2004-05 and 2005-06.

Source: Productivity Commission estimates.

Interest cover, a measure of the capacity to meet periodic interest payments out of current earnings, was 5.4 times for the port sector in 2006-07. Excluding TPC, this represents a decrease of 0.2 percentage points from 2005-06. Given their (generally) low levels of debt, port GTEs would be well placed to continue meeting borrowing costs in the event of interest rate increases or a downturn in trade throughput.

The ability of port GTEs to meet short-term liabilities from short-term assets declined in 2006-07, with the current ratio for the port sector falling to 133 per cent from 194 per cent in 2005-06. Four GTEs recorded a current ratio of less than 100 per cent in 2006-07. Consequently, the short-term obligations of these GTEs would need to be met from sources of funds other than current assets.[4]

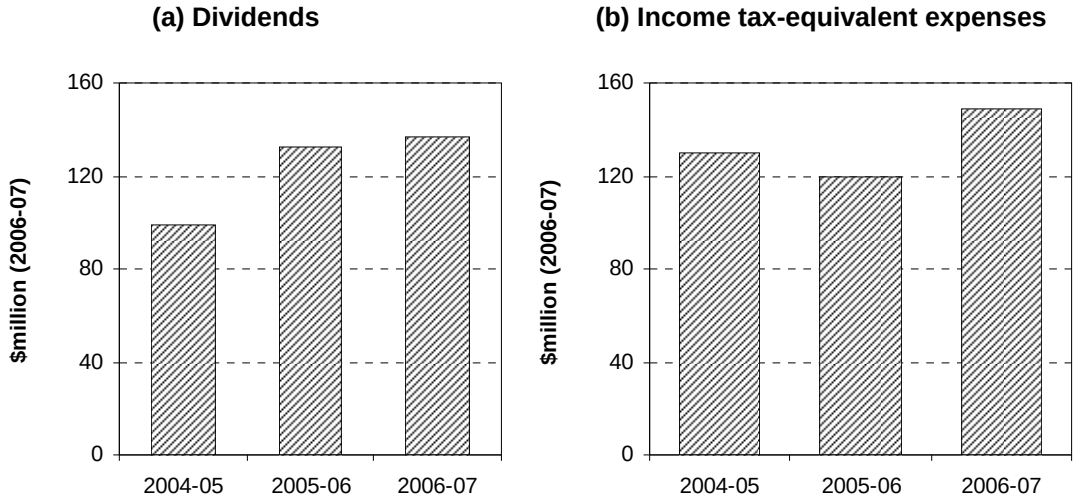
9.5 Transactions with government

Governments have sought to give GTEs a greater commercial focus and facilitate competitive neutrality by exposing them to market disciplines and regulations similar to those faced by private-sector businesses. Owner-governments generally require their port GTEs to make dividend and income tax-equivalent payments, as well as pay debt guarantee fees.

4 Current assets comprise cash and other assets that, in the ordinary course of operations, would be available for conversion into cash within 12 months after the end of the reporting period.

The level of dividends and income tax-equivalent expenses varies from year to year (figure 9.6). Port GTEs declared dividends totalling $137 million in 2006-07, representing an increase of 3.3 per cent in real terms from 2005-06 to 2006-07.[5] The dividend payout ratio of 67.4 per cent was neither particularly high nor particularly low in comparison with other sectors. This suggests that governments have not been excessive in making profit withdrawals from port GTEs.

Figure 9.6 **Dividends and income tax-equivalent expenses — port GTEs[a]**



a The value of dividends and income tax-equivalent expenses are reported in 2006-07 dollars using the ABS implicit price deflator — gross fixed capital formation for public corporations (chapter 1).

Source: Productivity Commission estimates.

Port GTEs recorded total income tax-equivalent expenses of $149 million in 2006-07. Excluding TPC, total income tax-equivalent expenses increased by 20.2 per cent.[6]

Port GTEs required to undertake non-commercial activities should receive CSO funding equivalent to the net cost incurred through these non-commercial activities. Only DPA and DPC received CSO payments. DPA does not reveal the value of this funding in its published financial statements. In real terms, DPC received CSO funding of $5.0 million in 2006-07, an increase from $2.5 million in 2005-06. This funding was for costs associated with small craft services, tourism and real estate,

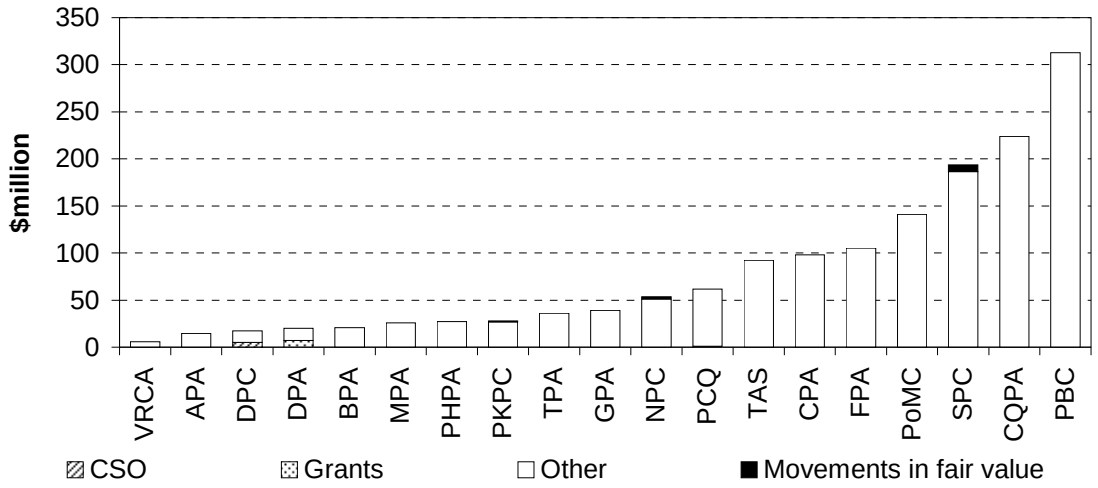
5 Tasmanian Port Corporation did not pay a dividend in either 2005-06 or 2006-07.

6 This result was partly due to tax adjustments by DPC and PoMC in 2005-06 and 2006-07. For example, DPC's income tax-equivalent expense was $9.7 million in 2006-07, despite recording a loss for that year. This was because of written-off income tax benefits. On the other hand, PoMC recorded (in real terms) an income tax-equivalent benefit of $6.8 million in 2005-06, despite a profit of $43.7 million. This represented the net effect of an $18.9 million tax concession adjustment associated with its channel deepening project.

cruise and defence facilities, security of the City Wharves, a roll-on roll-off facility and dredging at Fort Hill Wharf, and the Fisherman's Wharf facility.

A small number of port GTEs received government grants (figure 9.7). For example, DPA received $7.0 million in grants from the WA Government in 2006-07, to prevent a financial loss from operating and finance expenses associated with the Bulk Liquids Berth (DPA 2007). This amount represented 34.8 per cent of DPA's revenue in 2006-07.

Figure 9.7 **Income sources — Port GTEs, 2006-07**



Source: Productivity Commission estimates.

PORTS

Table 9.2 **Whole of sector performance indicators, 2004-05 to 2006-07[a]**

		Pre-AIFRS[b,c]	*AIFRS*[b]		
Indicators	*Units*	*2004-05*	*2004-05*	*2005-06*[d]	*2006-07*
Size					
Total assets	$m	6 415	6 505	7 709	8 838
Total income	$m	986	1 131	1 315	1 516
Profitability					
Profit before tax	$'000	247 166	363 188	398 550	461 867
Operating profit margin	%	29.1	26.8	26.8	27.2
Cost recovery	%	141.0	136.6	136.6	137.4
Return on assets	%	5.1	6.9	7.1	6.9
Return on total equity	%	4.0	3.3	3.8	3.9
Return on operating equity[e]	%	3.9	2.9	3.3	3.4
Financial management					
Debt to equity	%	27.6	27.4	29.1	29.7
Debt to assets	%	20.5	20.4	22.9	23.1
Total liabilities to equity	%	38.9	55.5	58.0	61.9
Operating liabilities to equity[f]	%	34.9	34.4	37.8	38.1
Interest cover	times	4.2	5.7	5.7	5.4
Current ratio	%	186.8	187.8	193.7	132.6
Leverage ratio	%	134.9	134.4	137.8	138.1
Payments to and from government					
Dividends	$'000	88 986	88 986	121 685	136 758
Dividend to equity ratio	%	1.9	1.9	2.4	2.3
Dividend payout ratio	%	47.8	65.2	72.2	67.4
Income tax expense	$'000	85 690	116 981	109 616	149 041
Grants revenue ratio	%	0.2	0.2	0.8	0.5
CSO funding	$'000	2 993	2 993	2 284	4 981

a Figures are nominal values. **b** Port GTEs commenced reporting under Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for port GTEs. **c** Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. **d** Tasmanian Port Corporation commenced reporting on 1 January 2006. As a result, it is excluded from the calculation of dividend and grants ratios, interest cover, and all profitability indicators except profit before tax, for 2005-06. **e** Refers to 'return on equity based on operating assets and liabilities'. **f** Refers to 'operating liabilities to equity based on operating assets and liabilities'.