

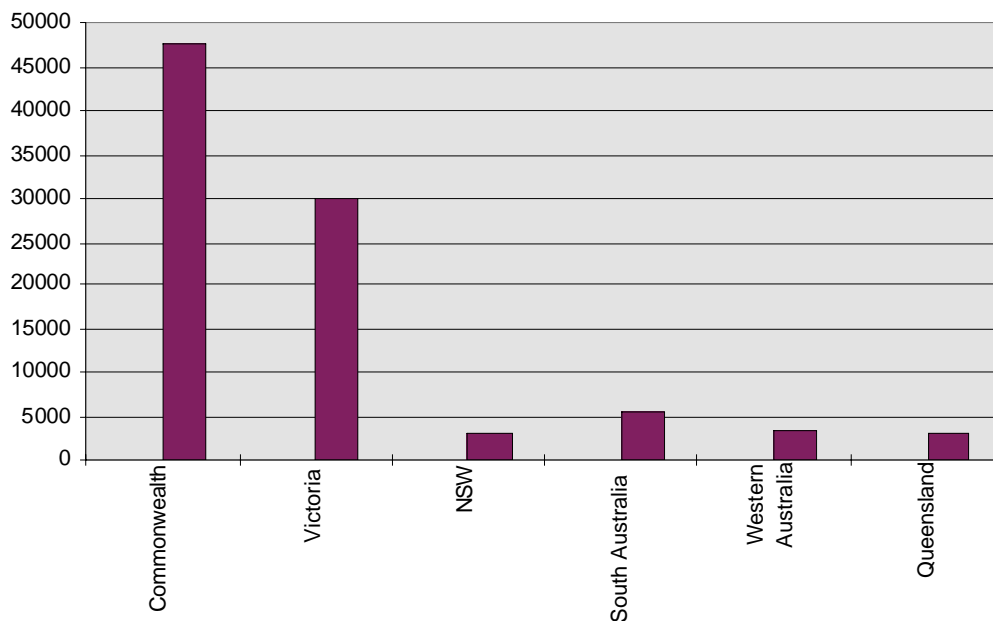
## Privatisation in Australia

### *The Big Picture*

During the 1990's Australia was among the most active privatising countries in the world. Some \$85 billion of government owned assets were sold. The level of major sales by jurisdiction are shown below.

**CHART 1**

**Australian Privatisations by Jurisdiction (\$M)**

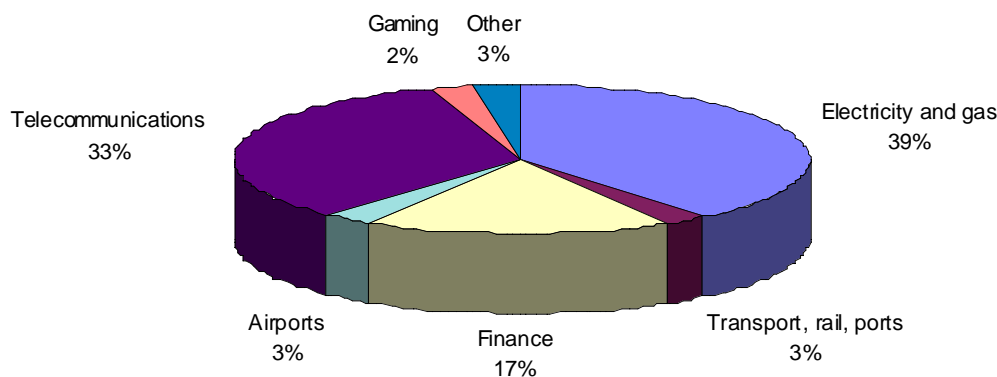


In terms of industry sectors, State electricity and gas asset sales have comprised nearly 40%, while the float of half of Telstra has comprised one third of raisings. Other major sectors have been banks and other finance sector businesses (Commonwealth and States), airports (Commonwealth) and other transport facilities (mainly State).

Chart 2 illustrates the different shares.

## CHART 2

### Australian Privatisations by Industry Sector



### ***The Commonwealth***

Over half the values realized were for Commonwealth (federal) government assets. These were dominated by the half sale of Telstra telecommunications for \$30 billion during 1997 and 1999. Other major divestments areas were:

- finance \$9 billion with the sale of the Commonwealth bank in two tranches between 1993 and 1996 comprising the most important component
- several airports, including Melbourne and Brisbane which brought in some \$4 billion
- and rail shipping and transport businesses, amounting to over \$2 billion dominated by the Qantas sale in 1992 and 1995.

Over fifty Commonwealth Government sales of major assets have taken place during the past decade. Aside from the remaining half share of Telstra (worth \$45-50 billion) the cupboard is now relatively bare. Telstra excites considerable controversy as a result of its intrinsic worth and issues of claimed political neglect of rural Australia. In order to press the sale of the latest 16% tranche, the government had to guarantee to spend an additional one billion dollars on a rag-tag-and-bobtail mix of indulgences to the green and rural lobbies. Telstra itself has also spent considerably more in services to “the bush” than its commercial interests warrant. With Opposition parties in firm control of the Senate and ideologically opposed to most privatisations a tough price would be extracted for any further sale.

A strong future privatisation bet is Sydney airport but the action on future government sales is likely to shift to the radio spectrum. Apart from the sale of the microwave spectrum to Pay TV operators, Australian governments have in the past preferred to give the television broadcasting spectrum away to businesses on the condition that they offer more local content and services to the bush than their

commercial interests would otherwise dictate. Such spectrum give-aways may also have been a lifeline to obtaining a favourable press. Future activity is largely in the same mould with the free to air television and radio spectrums controlled and allocated at give-away rentals to the incumbent players on condition that they continue full support for “the bush” and introduce the sort of Rolls Royce service that no private sector players would contemplate introducing off their own bat.

The sale process over recent years has left Australian Commonwealth debt at relatively low levels - 7% of Gross Domestic Product compared to an average of 50% in Europe and similar levels in the US and Japan. In spite of the true debt position being understated in Australia (and many other countries) due to unfunded superannuation liabilities, this eliminates any fiscal the urgency for asset sales.

Following the astonishing prices achieved for US and UK for spectrum sales revised forecasts of revenues from these assets have been made. According to the Commonwealth budget, sales this year will raise \$2.6 billion, though many consider this to be an underestimate.

Telstra will continue to be the most significant potential asset sale, though the Opposition will continue to block the sale and minor parties are likely to demand a larger ransom than the Government would pay. As in the US, there is no constituency for privatisation of the Post Office, even though there is no case for it remaining in the public sector. Some minor mopping up with the sale of the Sydney airport is likely.

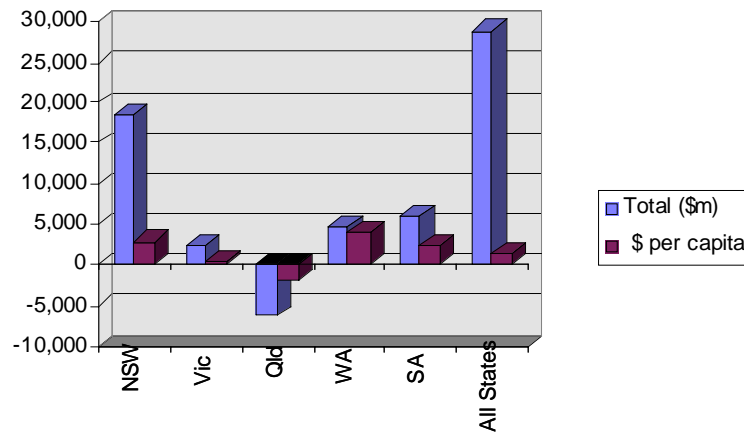
### ***The Major States***

Debt levels have been declining in most Australian States. Privatisation has been a significant factor in this, though fiscal responsibility has also been important. Debt per capita ranges from about \$4,000 in Western Australia to a negative debt of about \$2,000 in Queensland, (although in Queensland’s case the position is boosted somewhat by institutional arrangements which allow the financial assets of its superannuation schemes to be offset against debt).

Chart 3 shows debt levels of the major Australian States and Chart 4 shows debt levels as a proportion of Gross State Product.

**Chart 3**

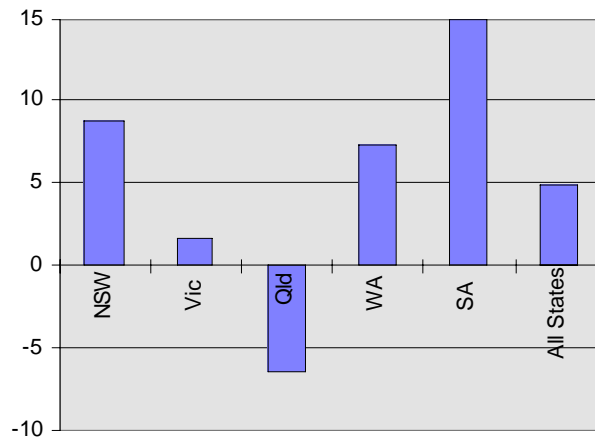
**Australian State Debt 1998**



Source: NSW State Budget 1999-2000

**Chart 4**

**State Debt as a Proportion of Gross State Product**



Source: NSW State Budget 1999-2000

### Victoria

After the Commonwealth, Victoria has been the leading privatisation jurisdiction. Under the Liberal National coalition that was defeated in the polls last September, the State sold off some \$30 billion of assets. Having previously been in a parlous financial position its budgetary position was transformed and net debt levels reduced from over \$30 billion (30% of Gross State Product) to about \$2 billion.

Victoria had some 40 asset sales. The realisations were dominated by the energy sector. The state's previous electricity and gas monopolies were broken up into some two dozen independent businesses and sold for \$28 billion.

Other sales included the TAB gaming business (\$675 million), ports, plantations and the states' share of an aluminium smelter.

The gaming business was the only major asset the Victorian government floated. Trade sales were favoured in other cases partly to ensure a management infusion, partly because of the adverse experience of the TAB sale where the Government claimed the spoiling action by the then Opposition resulted in a lower price but largely because it was considered likely that better prices could be achieved by trade sales.

The prices Victoria achieved for its energy assets are the envy of the other States' Treasurers. Second round sales of assets have proven to be difficult indicating that some firms over-paid.

In addition, to its sale process, the Victorian government also involved itself in innovative private financing of roads (the City Link), hospitals and prisons. In this respect the 1999 tram/train public transport privatisation was highly creative. The utility was divided into five different businesses. The sale was awarded to the bidder who offered the best combination of subsidy reduction, capital investment and schedule and patronage performance. Over their franchise periods (10-15 years), the five businesses committed to capital expenditure of \$1.6 billion and subsidy reduction over the levels that the government had benchmarked of \$1.8 billion.

The previous Government had plans for an extensive program of hospital privatisations if it was to be returned to office. The remaining classes of public business assets are the water authorities, which were not slated for privatisation by the previous government. Major future asset sales in the State are unlikely under the present Government.

Privatisations in all the other States combined have brought in less than half that of Victoria.

## New South Wales

The largest state, New South Wales engaged in some privatisation under a Liberal government during the early 1990s. At that time the Government Insurance Office was floated and the State Bank and superannuation businesses were sold for a total of \$2 billion. Since then only a part of the gaming business has been sold (for over one billion dollars), and sold with provisions preventing more than 5% being owned by any single shareholder.

The urgency given to the Victorian privatisations by empty State coffers is not present in NSW. State debt amounts to only a little over 8% of Gross State Product. The State Treasurer has nevertheless pushed strongly for privatisation of electricity (gas has always been privately owned in NSW) but the union dominated Labor Party councils have blocked his attempts.

A renewed privatisation attempt by the Treasurer is presently under way with attempts to have the rail freight business sold. But unless the Treasurer can persuade his political allies to have a change of heart, future privatisations may have to await a change of government (unlikely in the next few years). One catalyst for such a change of heart may be litigation between one of the State's major government generation businesses and a NSW retailer, litigation that is likely to leave the generation business with little or no net worth. A further area is the joint Commonwealth, Victoria, NSW Snowy hydro system but water allocation rights add even more complications than would be expected with a three way government owned asset.

## Queensland

Although less than half the size of New South Wales, Queensland's privatisations have been of a comparable magnitude. They have been dominated by the banking/insurance conglomerate, Suncorp (over \$2 billion) with lesser sales including a power station (\$700 million), the gaming business and a gas pipeline.

Even more so than NSW, Queensland has a comfortable budgetary situation with no pressure to sell assets to correct previous profligate state spending.

Queensland has a rapidly expanding energy demand and foreshadowed augmentations to the presently government owned system are predominantly private. Its Government owned retail businesses have racked up considerable losses as a result of politically inspired power purchases. Even so, and although ideological opposition to privatisation on the part of the present Labor Government is weaker than in NSW, it is difficult to envisage major asset sales in the near future.

## South Australia

Like Victoria, South Australia was a jurisdiction in severe financial difficulties as a result of excessive government borrowing and failed public enterprises that surfaced in early 1990s. The State has also seen a more slowly growing economy than the rest of Australia and high levels of Government debt. And although it has a Liberal Government, the Opposition and minor parties control the State's Upper House.

It embarked on a privatisation process for electricity without an apparent hope of winning over a majority in the Upper House but was saved by desertions from the Labor opposition. The Government is in the process of privatising its electricity business having raised almost \$4 billion with several major assets to go. The prices

failed to make the dizzy heights of the Victorian experience but were still respectable. Other sales have been the gaming operations, sales of which are presently underway and the government has also announced it is to sell the State ports. These sales will largely eliminate State debt.

### Western Australia

Like Victoria and South Australia, Western Australia's governments in the 1980's showed considerable excess and paid the penalty. (One State Premier was even jailed). The State's vast resources however make it possible to ride out even severe cases of poor government and there has been no imperative to engage in selling assets by the present Liberal Government. Over recent years sales of the State insurance office (floated) and BankWest preceded the sale of the major pipeline system for an astonishing \$2.4 billion.

The State is also in the process of selling its gas distribution business but is in no hurry to sell electricity assets that may be worth some \$5 billion.

### ***Epilogue***

The flurry of activity in the late 1990's that saw Australia become one of the world's most prominent source of privatisations is now over. The present period is one of consolidation. Privatisation activity on a large scale is unlikely to be reawakened until there is a move either to complete the Telstra privatisation or to sell the NSW power system (probably worth considerably in excess of \$20 billion).

Although debt reduction has often been touted politically as the reason for privatisation, the plain fact is that the assets in government hands are never likely to perform on a sustainable basis as well as in private hands. Government just has too many conflicting objectives to manage businesses successfully. Even in the case of Telstra, the chief executive is forced to appear regularly before populist parliamentary commissions. Moreover, in an era of rapid change and the need to cement alliances, and rearrange the business's portfolio, government ownership places an intolerable strain on efficient and rapid management decisions.

Introducing greater efficiency is the main objective of privatisation. But aside from privatisation of Victoria's tram and commuter train system during 1999, where it was clearly the dominant factor, governments have usually sold privatisations as a means of establishing improved budgetary health. This reflects the fact that privatisation is rarely popular with electorates but once undertaken the outcome has rarely been unsatisfactory and there are no credible Australian voices in favour of any re-nationalisations.