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Ports deliver wealth as Australia remains a trading nation

BERNARD SALT THE AUSTRALIAN 12:00AM September 29, 2016

Australia is a trading nation. We rely on our ports to deliver and to facilitate much of our wealth. The logic is simple. We produce far more than we consume, which means that we must export products and services in order to maintain our standard of living.

About 20 per cent of the Australian GDP is underpinned by the export industry. China replaced Japan as our leading trading partner in 2008. Today we export goods valued at \$91 billion to China (mostly iron ore, coal and gas) and import \$64bn of goods from China (mostly manufactured goods). This is a good deal for Australia: we sell roughly 40 per cent more than we buy from the Chinese.

I suspect that the last time we held such a relationship with our leading trading partner was with Britain in the late 1950s. Then of course Britain reaffixed its trading relationship to the European Union and Australia had to find other markets such as Japan. New Zealand was less fortunate and floundered for some years, many years, and arguably only recently has fully recovered.

All of this suggests that Australia's extraordinarily good economic fortune over the last decade has depended upon the development of a primary trading relationship with China. China's transition to a middle class-based economy has underpinned demand for Australian resources, commodities, energy and agribusiness, which all channels through ports. The demand for Australian holidays and education services, on the other hand, channels through airports.

This means that Australian ports, airports and associated commercial property connected to these "access points" must be in high demand. If Chinese visitor numbers are expected to double to two million within a decade, then airports and tourism property would be increasingly valuable assets. If Chinese exports and imports are expected to ramp up, then ports and port-related property would be an asset class to invest in. The value of ports as opposed to airports is that there are several investment-scale options outside capital cities. Most Australians know Sydney airport, but how many Aussies have seen the port facilities at Port Hedland, Dampier, Hay Point or Abbot Point?

It is in our standard-of-living interests to have ports that are clinically efficient in getting excess production to overseas markets. By my reckoning, there are 43 leading ports around Australia that manage the import/export trade although

perhaps a quarter of these handle most traffic. In the airport business, on the other hand, there are only three that stand out: Sydney, Melbourne and Brisbane.

Let's review the main Australian ports and consider property issues in relation to their outlook. This is important not so much in being able to buy ports (although that is an option for some), but in better understanding what factors might drive demand for port-related transportation, logistics and warehousing space.

Most of Australia's container traffic comes through the ports of Melbourne and Sydney, which in 2013 ranked No 58 and No 66 busiest in the world with 2.5 million TEU (twenty-foot equivalent units) and 2.2 million TEU, respectively. The Melbourne and Sydney ports have transitioned beyond the CBD's immediate proximity over the last generation, freeing up land redevelopment opportunities. But growth in container traffic has also resulted in rising demand for warehousing and hardstand space in and around ports. The corollary of manufacturing being outsourced to China is a rise in demand for industrial space near ports.

Six of the 10 busiest container ports in the world in 2013 were based in mainland China, including Shanghai with 33 million TEU, or 13 times the scale of the Port of Melbourne, followed by Shenzhen, Ningbo-Zhoushan, Guangzhou, Qingdao and Tianjin. Container flows into and out of the port of Shanghai increased sixfold over the past decade.

No Australian ports other than Melbourne and Sydney make it into the world's top 100 container ports. The port of Shanghai would be a good property to buy if ever the Chinese government decided it needed the proceeds of an asset sale. Just keep that tip in mind.

But Australia's trading strength doesn't lie in the export of containerised product through Melbourne and Sydney. It lies in the bulk handling of agribusiness and mining product coming out of ports in remote locations. Ports are like secret access points through which Australia accommodates the inflow of foreign wealth.

The port of Port Hedland, for example, loaded 364 million tonnes of iron ore in the year to June 2014, while nearby Dampier loaded a further 146 million tonnes. Without these two ports, Australia would not have an iron ore export business.

The offshore Gorgon gas project is another asset near Dampier requiring anchoring and port management services. There are no substantive military bases associated with or even near to these critical assets that deliver so much of Australia's prosperity. I think there should be.

Perth's port of Fremantle is Australia's leading agribusiness port, loading six million tonnes of grain in the 2014 financial year. The port of Albany ranks second in grain handling with a loading capacity of close to three million tonnes in the same year. Albany is half a Fremantle. Dampier is half a Port Hedland. These four ports collectively employ fewer than 1000 FTE workers.

The Pilbara iron ore deposits and the west's wheatbelt predetermine the fact that Western Australia must have outstanding port facilities. The greater the demand for Australian iron ore, gas and agribusiness product the greater the demand for Western Australian port facilities.

Australia's livestock exports are largely channelled through the ports of Darwin, Fremantle and Townsville, which collectively capture 70 per cent of the national market. And again it kinda makes sense: cattle grazed in the west, in the Top End and north of Rockhampton must have a local port to access foreign markets. There's only so far that cattle and sheep can be transported by road train.

The ports of Darwin and Townsville convert low-grade cattle grazing country into an Australian cash flow. Most of Australia's coal exports are directed through Newcastle (41 per cent of Australia's total), Hay Point near Mackay (29 per cent) and Gladstone (18 per cent).

The reason why the big coal ports are dotted along the east coast is because of the configuration of the Bowen Basin and other high-grade coal reserves. These ports will be in high demand while ever thermal coal is needed to generate energy and coking coal needed to make steel.

Some 82 per cent of Australia's wool exports are directed through the port of Fremantle. Let's recap the Freo proposition: this port dominates the nation's export of grain, livestock and wool. Western Australia has a choke point: mess with the ports of Fremantle, Port Hedland or Dampier and the whole state grinds to a halt. Although this would present an opportunity for the port of Albany.

Australia's ports deliver the export dollars, the cream if you like, that underpin the Australian way of life. Most export and import traffic links Australian ports with ports in southern China, Japan and South Korea.

We rely mightily on free and open sea lane access directly to the north, which is partly why our military posture favours military representation in Darwin, Katherine and Townsville. Although it must be said our northwestern flank remains open. Melbourne is Australia's biggest container port partially because incoming manufactured product is outsourced by Melbourne-based manufacturers. It is no

coincidence that there are direct flights between our five biggest cities and China's manufacturing heartland of Guangzhou.

Sydney is a container port and a cruise ship terminal. Fremantle is an agribusiness port. Newcastle is Australia's biggest coal-handling port. Darwin is a livestock port as well as a base for the navy vessels and a stopping off point for passing cruise ships.

I suspect that the major phase of growth in Australian port activity has already taken place as China upscaled its demand for export product (off a low base). Although with China free trade agreements in place, perhaps there is scope for further measured growth.

The port activity that could escalate over the next decade (again off a low base) would be military movements and especially in Darwin and Fremantle.

But there is also a case to say that cruise ship activity will become increasingly popular and especially out of Sydney, Melbourne, Brisbane, Perth and Darwin. Whichever way you look at this, the port of Darwin is (or was) a good buy.

From a property perspective the narrative is simple: there will be more demand for container traffic within Australia and for Australian commodities, agribusiness and energy in China.

I suppose the property play within this context is to envision what Port Botany and Port Melbourne/Docklands might look like in a decade with an even greater demand for imported product.

I'd be looking at world's best practise to see how the integration of port, transportation, warehousing and dynamic living environments can come together in a global city.

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