Corporatisation in Australia –
A Queensland perspective

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The paper is not Queensland Government policy.
1. Corporatisation of Government businesses in Queensland

Why does the Government own businesses?

Many Government owned businesses were originally established to overcome perceived shortcomings in the market, for example, to provide strategic infrastructure services that commercial businesses would not provide, deal with natural monopoly situations, support State economic development and achieve a more socially desirable outcome.1

In the early 1990s the Queensland Government commenced a micro-economic reform process to enhance the efficiency of Queensland’s industries, particularly government trading activities. There was an acknowledgement that to achieve the maximum efficiency gains, government trading activities needed to be placed as far as possible on a commercial basis in a competitive environment. The Government moved to commercialise its trading enterprises under a policy of corporatisation.2

This policy direction was given further impetus following agreement by Australian Governments on the need for a national competition policy. With the outcome of the Hilmer review recommending a national competition policy,3 implementation of this policy further pushed structural reform and the compliance of government businesses with competitive neutrality requirements.

In some cases, the historical policy drivers which resulted in the creation of these Government businesses no longer exist but the competitive neutrality drivers remain. Now, the Government’s goal from ownership of its existing Government owned corporations (GOCs) is to create value through a long term approach, economic and financial efficiency, profitability, development capacity and social responsibility.4

Corporatisation as a structural reform process aims to provide a private sector environment and governance regime for all GOCs, so that they operate, as far as practicable, on a commercial basis and in a competitive environment. Corporatisation provides for continued public ownership - it is not a step towards privatisation, although certainly the government has divested itself of some businesses which will be discussed later. It allows the State, as owner to provide strategic direction through performance targets and community service obligations.5

The objectives of corporatisation6 are to improve Queensland’s overall economic performance, and the Government’s ability to achieve its social objectives by:

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5 Queensland Treasury, above n 1, 5-9.
improving the efficiency and effectiveness of GOCs; and
improving the accountability of GOCs.

The Government’s corporatisation framework is characterised by four key principles:\(^7\):

- clear and non-conflicting objectives and specific performance targets;
- management autonomy, authority and responsibility;
- strict accountability for performance; and
- competitive neutrality with the private sector and any special advantages or disadvantages because of public ownership being removed, minimised or made apparent.

2. Overview of the GOC model

The Corporatisation spectrum

Historically, Queensland’s GOC model consisted of statutory GOCs and company GOCs, with statutory GOCs providing a staged transition to a company GOC.\(^8\) All GOCs were subject to the State’s Government Owned Corporations Act 1993 (GOC Act) and company GOCs were also subject to the company law.

Following introduction of the Corporations Act 2001 (Corporations Act), differences resulted in the governance regime for statutory GOCs and company GOCs. Following significant legislative change in 2007, all statutory GOCs converted to company GOCs, subject to the Corporations Act and its governance regime including independent regulation by the Australian Securities and Investments Commission.

Legislative and policy framework

In addition to the Corporations Act and the GOC Act, the State’s GOCs are subject to other specific legislation, e.g. the Right to Information Act 2009, the Electricity Act 1994 (energy GOCs) and Competition and Consumer Act 2010 (Cth) (formerly Trade Practices Act 1974) to name a few.\(^9\)

GOCs also comply with a range of policies which can be GOC specific policies such as:

- Corporate Governance Guidelines for Government Owned Corporations; and
- Investment Guidelines for Government Owned Corporations

or broader public sector policies such as:

- State Procurement Policy; and
- Local Industry Policy.

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\(^7\) Ibid s 16.
GOC Board of directors

Each GOC has an independent board of directors whose role includes:

1. responsibility for the GOC’s commercial policy and management;
2. ensuring the GOC acts in accordance with its Statement of Corporate Intent (SCI) and carries out the objectives outlined in its SCI;
3. accounting to shareholders for its performance; and
4. ensuring the GOC performs its functions in a proper, effective and efficient way.

The GOC’s board consists of the number of directors that are appointed by Governor in Council. Public servants and GOC executives cannot be on GOC Boards.

GOC Ownership and Shareholding Ministers

GOCs have two shareholding Ministers: the GOC Minister and the Portfolio Minister who make decisions in accordance with statutory responsibilities in the GOC Act.

Shareholding Ministers hold shares in the GOCs on behalf of the State.

The GOC Act provides powers to shareholding Ministers to provide notifications or give directions to GOCs. In most (but not all) cases, these powers require shareholding Ministers to consult with the GOC before giving the notification/direction. GOCs can advise if the notification/direction is not in their commercial interests. Notifications/directions must be published in the gazette.

The threshold for shareholding Ministers giving a direction in the public interest is high, as shareholding Ministers must be satisfied it is necessary because of exceptional circumstances. Shareholding Ministers provided public interest directions to one of the state’s GOCs during the drought, that effectively prevented the GOC from sourcing water from Wivenhoe Dam, Brisbane’s main water supply.

Shareholding Ministers are supported in their decision-making by the Office of Government Owned Corporations (OGOC) and portfolio departments. OGOC administers the GOC Act, develops and reviews GOC-specific policies and procedures, and oversees GOC performance.

Financial Arrangements and Balance Sheet Management

To ensure that GOCs’ borrowing rates reflect their cost of capital and not the creditworthiness of the State, a Competitive Neutrality Fee is applied to all borrowings and financial arrangements in the nature of debt obligations.

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11 Government Owned Corporations Act 1993 (Qld) s 88.
12 Ibid s 89.
13 Ibid s 90.
14 Ibid s 78.
15 Ibid s 80.
16 Ibid s115.
The Government is mindful of the commercial environment GOCs operate in and aims to maintain appropriate capital structures to ensure optimal utilisation of capital resources and that GOCs are adequately funded to undertake approved projects.

GOCs have their capital structure reviewed annually by Queensland Treasury Corporation. An optimal capital structure is recommended for each GOC with the aim of an appropriate investment grade credit rating. As a result of the review, Government may provide or repatriate equity to maintain credit ratings appropriate to each GOC. Government also provides equity for major projects that generate a strong commercial return.

**Community Service Obligations**

Some GOCs perform community service obligations (CSOs) which arise because of a direction, notification or duty given to the GOC by shareholding Ministers. They are obligations to perform activities that the GOC’s board establishes, to the satisfaction of the shareholding Ministers, are not in the GOC’s commercial interests to perform.\(^{19}\)

The CSOs are specified in the GOC’s Statement of Corporate Intent, along with how the GOC is to be compensated by the Government for performing those CSOs. For example, under its Uniform Tariff Policy that provides for parity of pricing for all non-market electricity customers, the Government pays a CSO to Ergon Energy Corporation Limited for the supply of electricity to remote customers.

**Returns to Government**

The Government earns returns from GOCs in the form of dividends and tax equivalent payments (TEPs). The table provides a summary of returns to Government from GOCs in the form of dividends and current TEPs and a budget for the 2011-12 financial year.

<table>
<thead>
<tr>
<th>Dividends and Current TEPs</th>
<th>2009-10 Actual $M</th>
<th>2010-11 Actual $M</th>
<th>2011-12 Budget $M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy sector</td>
<td>657</td>
<td>763</td>
<td>709</td>
</tr>
<tr>
<td>Transport sector (rail and ports)</td>
<td>212</td>
<td>455</td>
<td>268</td>
</tr>
<tr>
<td>Other</td>
<td>44</td>
<td>77</td>
<td>53</td>
</tr>
</tbody>
</table>

Notes:
1. Numbers for 2009-10 and 2011-12 drawn from *Queensland State Budget 2011-12 Budget Strategy and Outlook*, Budget Paper No.2 Table 8.2 and Table 8.3. Numbers include QIC Limited but exclude Non-GOCs. Numbers for 2010-11 drawn from GOCs’ 2010-11 Annual Reports.
2. The increase in energy sector dividends from 2009-10 to 2011-12 can be mainly attributed to ENERGEX and Ergon, reflecting the impact of the Australian Energy Regulator (AER) Final Determination 2010-11 to 2014-15 on regulated revenue.
3. The increase in 2010-11 energy sector dividends and TEPs is largely the result of one-off increases from Stanwell following the sale of a surplus mining development lease.
4. The increase in transport sector dividends for 2010-11 largely represents the receipt of a dividend from Queensland Rail Limited. In 2009-10 no dividend was paid by the former QR Limited.
5. The transport sector 2009-10 TEPs reflects the adjustments made to QR Limited’s accounts in preparation for the separation of Queensland Rail. Subsequently the 2010-11 increase of transport sector TEPs is reflective of Queensland Rail’s profitability as a separated business, offset by financial results for North Queensland Bulk Ports Corporation Limited (NQBP) and Port of Brisbane Corporation Limited.
6. SunWater Limited’s dividends for 2010-11 (in the ‘other’ category) relate only to financial performance of 2010-11 and do not include dividends provided for in 2010-11 that relate to prior financial years.

\(^{19}\) *Government Owned Corporations Act 1993 (Qld)* s 112.
In terms of dividends, GOCs have an obligation to satisfy the three part solvency test under the Corporations Act\textsuperscript{20} which restricts the payment of a dividend unless:

(a) the company’s assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient to pay the dividend; and
(b) the payment of the dividend is fair and reasonable to the company’s shareholders as a whole; and
(c) the payment of the dividend does not materially prejudice the company’s ability to pay its creditors.

In accordance with GOC Act requirements, dividend payments are approved by shareholding Ministers on the recommendation of GOC boards.\textsuperscript{21}

To ensure competitive neutrality with the private sector, GOCs are subject to the National Tax Equivalent Regime which is an administrative arrangement under which the relevant taxation laws are applied notionally to the GOCs as if they were subject to those laws. The primary objective of the National Tax Equivalent Regime is to promote competitive neutrality, through a uniform application of income tax laws, between GOCs in all States and their private counterparts.\textsuperscript{22}

The Australian Taxation Office assesses the GOCs' income tax equivalent liability annually which is paid by the GOCs into the State Government’s Consolidated Fund.

\textit{Pros and cons of the corporatisation model}

The Queensland Government has continued with its corporatisation model. Key strengths of the model include:

- continued public ownership enabling Government to receive returns which can be used for broader service provision e.g. education, health and law enforcement;
- the Government can provide broader strategic direction by agreeing key financial and non-financial performance targets and community service obligations;
- the independent GOC boards are clearly accountable for the GOCs’ performance; and
- the governance framework which sets out the relationship between management autonomy and shareholder oversight is strong.

It can, at times, be difficult to balance GOC autonomy with the expectations of Government. For example, GOCs are required to seek shareholding Ministers’ approval of investments where the investment value exceeds specific thresholds. GOCs would probably prefer to not have to obtain such approval.

The Government faces significant barriers to exit for its investments and the Government cannot diversify its investments to the degree private sector investors are able. These factors and the implications of GOC investment activities for the State’s credit rating means the shareholder becomes involved in significant investment matters, similar to the governance arrangements that apply to unlisted public companies where the owners become more directly involved in investment decisions that can significantly influence their risk/return exposure.\textsuperscript{23}

\textsuperscript{20} Corporations Act 2001 (Cth) s 254T.
\textsuperscript{21} Government Owned Corporations Act 1993 (Qld) s 131.
\textsuperscript{23} Queensland Treasury, above n 18.
While shareholding Ministers’ approval of significant investment decisions may be perceived as slowing the investment process, the Government, as a risk averse investor wants to ensure a prudent oversight of potential investments. This oversight, in conjunction with the GOC boards’ management of the GOCs, has proven to be beneficial with the State’s GOCs generally managing well the recent Global Financial Crisis.

3. GOC Governance and accountability framework

Queensland GOCs are subject to a rigorous performance management and reporting framework which establishes a clear line of sight from the Queensland public, the ultimate owners of the GOCs, through to the performance management and reporting process\(^{24}\). Key aspects of the framework include:

- Shareholding Ministers’ strategic expectations letters - outline high-level expectations of the following financial year and guidance for the next five years;
- Corporate Plans – prepared annually by GOCs and consider the medium to long term outlook for the business focussing on the next five years;
- Statements of Corporate Intent (SCI) – prepared annually by GOCs and represent a performance agreement between a GOC’s board and shareholding Ministers for the following financial year;
- Forecast report – prepared annually by GOCs after the SCI and outlines high level objectives and forecasts of the GOC for the coming financial year, for publication on their websites;
- Quarterly report – prepared by GOCs and reports on their operations for the relevant quarter and progress in meeting financial and non-financial performance targets established in their SCIs;
- Interim Report – prepared by GOCs in February and provides a summary of performance for the first half of the financial year for publication on their websites;
- Annual Report – prepared by GOCs following financial year end. Contains a comprehensive review of the GOC’s operations, governance and performance including annual financial statements. Annual Reports are lodged with ASIC, tabled in Parliament and published on GOC websites. For tabling, GOCs include their SCI for the same year with commercially sensitive material deleted.

4. GOC Performance

The Government currently has 12 GOCs:

**Energy GOCs**
- CS Energy Limited;
- Stanwell Corporation Limited;
- ENERGEX Limited;
- Ergon Energy Corporation Limited; and
- Queensland Electricity Transmission Corporation Limited (Powerlink Queensland).

**Funds Management**
- QIC Limited

**Natural Resources**
- SunWater Limited

\(^{24}\) Queensland Treasury, above n 4, 7-8.
**Transport**

- Far North Queensland Ports Corporation Limited;
- Gladstone Ports Corporation Limited;
- North Queensland Bulk Ports Corporation Limited;
- Port of Townsville Limited; and
- Queensland Rail Limited.

Some GOC financial information and their financial performance against a selection of key performance indicators is provided in the table:

<table>
<thead>
<tr>
<th>Total GOC Sector (excluding entities affected by asset sales)</th>
<th>2009-10 Actual</th>
<th>2010-11 Actual</th>
<th>2011-12 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets ($M)</td>
<td>34,513</td>
<td>35,643</td>
<td>38,260</td>
</tr>
<tr>
<td>Total Equity ($M)</td>
<td>11,717</td>
<td>12,259</td>
<td>12,453</td>
</tr>
<tr>
<td>Earnings Before Interest and Tax ($M)</td>
<td>2,066</td>
<td>1,377</td>
<td>2,218</td>
</tr>
<tr>
<td>Return on Assets (%)</td>
<td>6.27</td>
<td>3.94</td>
<td>5.99</td>
</tr>
<tr>
<td>Return on Equity (%)</td>
<td>6.11</td>
<td>4.31</td>
<td>5.71</td>
</tr>
<tr>
<td>Gearing (debt/debt+equity) (%)</td>
<td>56.39</td>
<td>55.74</td>
<td>59.67</td>
</tr>
</tbody>
</table>

Notes:
1. Numbers for 2009-10 and 2011-12 based on *Queensland State Budget 2011-12 Budget Strategy and Outlook, Budget Paper No.2* Table 8.1 and include QIC Limited but exclude Non-GOCs. Numbers for 2010-11 drawn from GOCs’ 2010-11 Annual Reports.
2. For the purposes of this table and to enable valid comparisons, the following entities are excluded: Port of Brisbane Corporation Limited (sold as part of the Queensland Government’s Asset Sales Program in 2010-11), NQBP (due to the lease of Abbot Point Coal Terminal No. 1), Queensland Rail Limited (a new entity formed in 2010-11), QR Limited (no longer a GOC as at 21 September 2010).

5. **Government’s role in sectoral/industrial development**

The 1970s and early 1980s saw the development of very significant infrastructure to support the export coal industry, which has now effectively stepped in as the major economic force in several of our major regional areas, particularly central Queensland and the Northern Bowen Basin. The Queensland Government oversaw the establishment of four deep water ports and an extensive rail network much of which was subsequently electrified in the late 1980s. A series of bilateral commercial agreements between Queensland Rail (as it was then) and the port authorities underpinned the ongoing development of these facilities.

Queensland further diversified its economic base with the construction of the State Gas Pipeline, from Roma to Gladstone in the late 1980s. This pipeline was subsequently sold to the private sector which also played a significant part in new gas pipeline developments from South West Queensland to both Mt Isa and Roma (Wallumbilla).

Government thereby took on a facilitation role, preferring to harness the capital and risk appetite of the private sector in developing those facilities.
In 2002-03, the Government’s ClimateSmart 2050 initiative included a scheme to progressively raise the contribution of gas, as a low greenhouse gas emissions fuel, to 15 per cent of electricity marketed via the electricity retailers. This policy was instrumental in encouraging some 2,700 megawatt (MW) capacity of gas-fired electricity generation, through private sector investment. Swanbank E and Mica Creek power stations owned by the State’s electricity generator GOCs are accredited generators under the gas scheme.

6. Reform of the GOC sector: some case studies

6a. Retail sales of ENERGEX Limited and Ergon Energy Corporation Limited

The Government recognised the retail aspect of the electricity businesses was mature and with the introduction of full retail contestability into the domestic electricity market in 2007, this business would be better operated by the private sector. Through the retail sales, Government removed the contestable retail side of ENERGEX and Ergon allowing them to focus on their distribution networks. The retail businesses had been a significant distraction to both entities as they tried to compete in the national market.

The retail sales involved:
- ENERGEX’s retail electricity business consisting of approximately 1.2 million non-contestable customers in South East Queensland;
- ENERGEX’s and Ergon Energy’s contestable electricity customers;
- Allgas Limited (ENERGEX’s gas distribution business); and
- ENERGEX’s retail gas business.

To ensure the success of retail contestability, Government saw the need for new entrants to have sufficient retail mass to be competitive. For this reason, ENERGEX’s non-contestable retail customers were broken into two tranches.

Ergon’s non-contestable customers were not sold as they were supported by CSOs and were unlikely to ever be contestable.

The two separate packages sold were:
- Tranche 1: Approximately 800,000 non-contestable ENERGEX retail customers, ENERGEX’s contestable customers (Australia wide), together with various sites for future power stations
- Tranche 2: Approximately 400,000 non-contestable ENERGEX retail customers, Ergon Energy’s contestable customers (Australia wide), retail customers of Powerdirect (a retailer purchased by Ergon at the end of 2005).

Tranche 1 was sold to Origin Energy in November 2006 for $1.202 billion\textsuperscript{27} and Tranche 2 was sold to AGL in February 2007 for $1.203 billion.\textsuperscript{28} Additionally, Allgas Limited was sold in late 2006 for just over $500 million\textsuperscript{29} and ENERGEX’s retail gas business was sold in November 2006 for under $100 million.\textsuperscript{30}

\textbf{6b. Cairns, Mackay and Brisbane airports sale}

In April 2008, shortly before the effects of the Global Financial Crisis became apparent, the Government announced the sale of its interests in Cairns, Mackay and Brisbane airports. Cairns and Mackay airports were owned and operated by the local port authorities – Cairns Ports Limited and Mackay Ports Limited - both GOCs, while the Brisbane Airport interest was held through another GOC, the Port of Brisbane Corporation Limited, as a 12.4 percent stake in BAC Holdings.

As the aviation markets at all three airports were well developed, the Government decided there was no longer a justification for Government ownership of airports which were generating commercial returns.

Brisbane Airport had experienced high growth rates since its privatisation by the Australian Government in the late 1990s. At the time of the sale, Cairns Airport was the country’s seventh largest airport (the largest Government owned) with a well developed domestic and international route network catering primarily for the tourism market. Passenger numbers at Mackay Airport were growing strongly as a result of the resources boom – primarily Bowen Basin coal mining – with mining fly-in/fly-out passengers and business travel accounting for a significant portion of this growth.

The State received gross proceeds of $1.028 billion\textsuperscript{31} from the disposal of its airport interests which allowed the repayment of Cairns Ports’ debt, avoided future capital requirements and the Government publicly committed the remaining proceeds towards hospital redevelopments in Cairns, Mackay and Mt Isa.

The stake in Brisbane Airport was sold to a number of existing shareholders through a pre-emptive rights process under provisions of the Shareholder Agreement.

Cairns and Mackay airports were disposed by long term leases following competitive bid processes. The State is now the owner and lessor of the land and infrastructure at both airports, but has no day-to-day operational role.

\textsuperscript{27} Deputy Premier, Treasurer and Minister for Infrastructure The Honourable Anna Bligh, Premier and Minister for Trade The Honourable Peter Beattie, Ministerial Media Statement State’s Future Growth Fund Gets A $1.3B Kick, (Queensland Government, 2006).

\textsuperscript{28} Deputy Premier, Treasurer and Minister for Infrastructure The Honourable Anna Bligh, Minister for Mines and Energy The Honourable Geoff Wilson, Ministerial Media Statement Qld Future Fund Tops $3B with AGL Sale, (Queensland Government, 2007).

\textsuperscript{29} Deputy Premier, Treasurer and Minister for Infrastructure The Honourable Anna Bligh, Ministerial Media Statement Qld Govt Announces Win-Win Sale of Allgas, (Queensland Government, 2006).

\textsuperscript{30} Deputy Premier, Treasurer and Minister for Infrastructure The Honourable Anna Bligh, Premier and Minister for Trade The Honourable Peter Beattie, above n 27.

\textsuperscript{31} Treasurer The Honourable Andrew Fraser, Ministerial Media Statement Treasurer announces successful sale of Mackay airport, (Queensland Government, 2008); Premier The Honourable Anna Bligh, Minister for Tourism, Regional Development and Industry The Honourable Desley Boyle, Ministerial Media Statement Cairns Hospital Redevelopment is Full Steam Ahead, (Queensland Government 2008).
7. The Global Financial Crisis and GOC Reform

In the 2009-10 Budget, the Queensland Government estimated that the global economic downturn had stripped $15 billion off the forward estimates of the State’s key revenue streams of royalties, taxes and GST.\(^{32}\) As at the 2011-12 Budget, this figure has been revised to a $9.2 billion reduction over the period 2008-09 to 2011-12.\(^{33}\) While the Government's response was to maintain infrastructure investment in the short term, it also recognised the importance of the Budget's fiscal sustainability in ensuring the health of the Queensland economy in the medium to longer term. As a result, a number of key initiatives were implemented in the 2009-10 Budget, including revised fiscal principles, the abolition of the Queensland Fuel Subsidy Scheme, public sector efficiency measures, a revision to the Government's wages policy and a comprehensive program of asset sales.

On 2 June 2009, the Government announced a significant infrastructure assets reform and sale program over the following three to five years, including the sale of the following government owned assets:\(^{34}\)

- Queensland Rail's above rail freight and below rail coal network businesses;
- The Port of Brisbane;
- Forestry Plantations Queensland;
- Queensland Motorways Limited; and
- Abbot Point Coal Terminal No. 1.

The asset sales program has been crucial in ensuring the sustainability of the State's balance sheet, through both a reduction in the State's borrowings and also a reduction in the State's commitment to fund capital investment in these businesses. This asset sales program generated a net realisable value of $15.1 billion and has allowed to State to hand responsibility for significant capital investment to the private sector - $2.8 billion of this capital requirement had been factored into the 2010-11 Budget.\(^{35}\) Primarily as a result of the asset sales program, total State borrowings at 30 June 2011 are estimated to be $17.5 billion lower than projected in the 2009-10 Budget.\(^{36}\)

Each of the asset sales is discussed below.


\(^{34}\) Premier and Minister for the Arts The Honourable Anna Bligh, Treasurer and Minister for Employment and Economic Development The Honourable Andrew Fraser, Ministerial Media Statement *Renewing Queensland: Future investment Plan*, (Queensland Government, 2009).

\(^{35}\) Queensland Government, above n 33, 15.

7a. Forestry Plantations Queensland

The Queensland Government established a plantation-based timber resource throughout the last century. During the last 20 years, management of this resource transitioned from a Government agency to a fully fledged commercial timber business and Forestry Plantations Queensland (FPQ) was established as a commercial corporation on 1 May 2006.

FPQ was included in the asset sales program as it was a mature plantation business supporting a well established and competitive timber processing sector.

Inclusion of FPQ in the proposed restructure program signalled the Government’s intention to transfer ownership of this business to the private sector and provide the private sector with an opportunity to further invest in the future of the forestry plantation sector in Queensland.

On 26 November 2009, the State Government announced the commencement of a two-stage competitive bid process for interested parties to bid for the assets and business of FPQ.

The State Government received a strong response from credible and reputable domestic and international plantation forestry investors.

On 18 May 2010, the Treasurer announced in Parliament the Government’s sale of FPQ Pty Ltd to Hancock Queensland Plantations (HQP) Pty Ltd, a company associated with the Hancock Timber Resource Group, for $603M.\(^{37}\) This consideration, together with a post-sale purchase price adjustment of approximately $10M in favour of the State, takes the total sale proceeds to $613M.

A 99 year licence to use Government owned state plantation forests for the purposes of managing, harvesting and re-growing plantation timber was granted.

7b. Sale of QR National Limited (QRN)

The Government saw the need to sell QRN due to the increasing infrastructure requirements of the company. This was particularly relevant in the booming coal mining sector of the Queensland economy, but also in NSW and WA where QRN had a significant presence. QRN had infrastructure costs of nearly $10 billion in the short term and the Government saw this constant demand for funding conflicting with its requirement to provide capital expenditure for social infrastructure.

The Government’s objectives in the sale were to:

- maximise sale proceeds;
- minimise ongoing risks;
- ensure a competitive market; and
- ensure sufficient funding available for future infrastructure requirements.

\(^{37}\) Treasurer and Minister for Employment and Economic Development The Honourable Andrew Fraser, Ministerial Media Statement *Forestry sale exceeds expectations*, (Queensland Government, 2010).
Government noted the options of selling QRN as separate below rail and above rail businesses but determined that a vertically integrated company would provide a sufficient mass to guarantee QRN remained a significant company. The coal companies raised significant opposition to this model and launched a separate bid for QRN’s below rail assets which was later withdrawn.

Due to the size of QRN, (approximately $7 billion value), an Initial Public Offering (IPO) was seen as the only way to sell the asset. The IPO was the largest in Australia since Telstra. The State sold a 66 per cent interest in QRN at $2.55 per share ($2.45 retail element) and the price has increased on the market from day 1 (listing date 22 November 2010). As at 21 October 2011 it was trading at $3.16. The State received proceeds of $4.6 billion, after taking into account retail incentives and employee free shares.

The Government has retained a stake of 34 per cent which it is required to hold until the release of QRN’s 2012 annual report (around September 2012). At the current share price above, these shares are valued at approximately $2.62 billion. The Government has stated that it is not a long term holder of the shares.

7c. Sale of the Port of Brisbane

Similar to the other asset sales, the rationale behind the sale of the Port of Brisbane was threefold: to improve the State’s financial position through an injection of sale proceeds, to remove future capital expenditure commitments; and to unlock the growth potential of the Port through private sector investment which is expected to result in an increase in Queensland’s economic growth.

The sale of the 99 year lease for the Port of Brisbane in late 2010 delivered $2.1 billion in cash proceeds to the State with a further estimated $200 million being committed to upgrading surrounding road infrastructure. The sale also avoided the State incurring up to $1 billion in expected future infrastructure expansion costs.

The new owner, Q Port Holdings, will continue to expand the capacity of the Port through investing private sector funds in the development of additional facilities. The growth potential of the Port as a multi-user facility is further supported by the 20 per cent port user ownership cap imposed by the State. This ownership cap will be enforced by the State to provide fair and equitable access which will ensure competition and growth of the port is not impeded.

The sale has seen the State retain ownership of the Port land and key infrastructure but transfer the expense and risk of operating a commercial shipping Port to the private sector.

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38 Treasurer and Minister for Employment and Economic Development The Honourable Andrew Fraser, Ministerial Media Statement QR National, (Queensland Government, 2010).
**7d. Queensland Motorways Limited**

In late 2010, the State Government decided that Queensland Motorways Limited (QML) would be transferred to the defined benefit superannuation scheme of the QIC Limited.\(^40\) It is anticipated that the transfer of QML to QIC will assist the State’s defined benefit superannuation scheme to remain fully funded.

In preparation for the sale, a new tolling structure, including toll prices, was introduced along with supporting legislation that protects against above-inflation toll increases. This occurred to ensure users of the motorways were not subjected to unfair price increases.

Commercial negotiations with QIC for the transfer of the 40 year leases of the QML motorways were recently finalised with a price of $3.088 billion paid to the State.\(^41\) Under the arrangements, the State continues to own the land, roads and bridges and QIC has the right to operate the road and bridge infrastructure and collect tolls, and the obligation to maintain and upgrade the motorways.

**7e. Abbot Point Coal Terminal No. 1.**

Prior to the completion of the long term lease, the Abbot Point Coal Terminal No. 1 was owned by North Queensland Bulk Ports Corporation Limited (NQBP).

At the time of the announcement of the asset sale program by the Government, NQBP had already commenced a significant expansion of the Terminal from 21 million tonnes per annum (mtpa) to 50 mtpa – the X50 Project.\(^42\) This expansion was driven by expected strong demand for increased coal export capacity and coordinated with the planned connection of the Newlands and Goonyella coal rail systems – known as the GAPE Project.

As the Terminal is a commercial asset generating a commercial return, with no demonstrable market or policy failure requiring continued Government ownership, Government considered it a suitable candidate for divestment.

Similar to previous asset disposals, the transaction was structured by way of a 99 year lease over the relevant onshore and offshore areas, with an associated sale of shares in a special purpose company which holds the relevant assets and contracts.

On 3 May 2011, the State reached agreement with Mundra Port and Special Economic Zone Limited and its Australian subsidiaries regarding the lease and share sale for the total amount of $1.829 billion.\(^43\)

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\(^{40}\) Premier and Minister for the Arts The Honourable Anna Bligh, Treasurer and Minister for Employment and Economic Development The Honourable Andrew Fraser, Ministerial Media Statement Toll roads stay in public hands as Qld moves further along the path to AAA, (Queensland Government, 2010).

\(^{41}\) Treasurer and Minister for State Development and Trade The Honourable Andrew Fraser, Ministerial Media Statement QML transfer finalised, (Queensland Government, 2011).

\(^{42}\) Treasurer and Minister for Employment and Economic Development The Honourable Andrew Fraser, Ministerial Media Statement Abbot Point Coal Terminal sale process begins, (Queensland Government, 2010).

Following the recent floods and cyclone Yasi, the Government has announced that proceeds from this transaction will directly fund Queensland’s share of the recovery effort.

8. Recent Reform of the GOC Sector

In its December 2008 Major Economic Statement44, the Government announced a shareholder review to:

- consider the GOC Generators’ position as dominant providers of electricity; and
- foreshadowed target of reduction to 50 per cent of aggregate capacity owned or operated by the State.

The shareholder review commenced in February 2009 and examined “the structure and preparedness of the GOC generators to meet the new challenges facing those businesses.”45

Key driver for the review being undertaken46 was underperformance of the Government’s investment in its generation assets, primarily as a result of:

- the emergence of vertically integrated retailers;
- Australian Government proposals associated with carbon pollution reduction and other climate change policies;
- Development of a liquefied natural gas (LNG) industry in Queensland;
- Substantial private sector investment in generation capacity;
- An oversupply of generation capacity; and
- Low electricity pool prices and increased input costs since the 2006 to 2008 drought.

The review recommendations announced on 25 November 2010 were:

- Change focus to one of cost / performance of existing asset base, rather than new business development. New assets to be predominantly driven by the private sector
- Manage the portfolio under a two generator structure: Stanwell Corporation Limited/Tarong Energy Corporation Limited and CS Energy Limited
- Redistribute the portfolio across the two generator structure to achieve maximum sustainability
- Target date for commencement of 1 July 2011. The aggressive implementation timetable was due to commercial considerations and to minimise change impact on employees.

The benefits of a two generator business structure include:

- Creates synergies by allowing lowest cost plants to be dispatched, with higher cost plants to be operating in an intermediate role, improving overall returns;
- Facilitates improved management of asset maintenance schedules;
- Allows existing intermediate and peaking assets to be allocated to both portfolios which will facilitate improved contract and trading strategies; and
- Two portfolio structure would increase the capacity available for contracting.

45 Ibid.
As at 1 July 2011, the state has two generator GOCs: Stanwell Corporation Limited and CS Energy Limited.

9. The future of corporatisation in Queensland

So where to from here? What are shareholding Ministers’ expectations of the State’s GOCs in the future?

Shareholding Ministers expect that GOCs will focus on:

• their core business;
• managing costs and finding new ways to fund major new projects sought by customers with the private sector; and
• enhancing efficiency and productivity to leverage good shareholder returns;

whilst at the same time ensuring they maintain:

• high ethical standards and corporate governance practices;
• good workplace health and safety practices; and
• appropriate employment conditions and industrial relations practices.

GOCs will continue to be involved in the further development of projects in existing industries and the development of new industries. Commercial partnerships with the private sector are also expected to occur. I will briefly touch on some of these.

9a. Facilitation of Mining and Coal Seam Gas Projects

SunWater Limited is involved in a number of large commercial water projects and proposals that will support mining and coal seam gas projects in the Bowen, Galilee and Surat Basins.

The total capital cost of identified projects is estimated to be $3.9 billion over the next ten years. Major projects include construction of a new dam to supply water for mining customers in the Bowen Basin, construction of a pipeline to supply water for the development of coal mines in the Galilee Basin and construction of pipelines to transport treated water by-product from coal seam gas production for use by coal mining, residential, commercial and agricultural customers.47

In addition to providing commercial returns on investment, SunWater’s projects will also underpin projects that support other developments such as Surat Basin Rail, Wiggins Island coal terminal, Abbot Point coal terminals and multi cargo facility, liquefied natural gas at Gladstone, and Galilee Basin rail projects.

9b. Involvement in commercial Partnerships with the private sector

Development of LNG in Queensland

Six Liquefied Natural Gas projects using coal seam gas from the Surat Basin (South West Queensland) and Bowen Basin (Central Queensland) as feedstock have been proposed for the Port of Gladstone. These projects vary in size and are at various stages within Commonwealth and State Government approval process.

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The Gladstone Ports Corporation Limited (GPC) is facilitating the LNG industry’s development by project managing the dredging associated with the deepening and widening of existing channels and swing basins, and the creation of new channels, swing basins and berth pockets in the Western Basin that support the LNG proponents.\(^{48}\) The total project cost is currently estimated at up to $1.474 billion.

It is estimated that a local LNG industry exporting at 28 mtpa could add more than $3 billion - or around one per cent to Gross State Product - and offer around $850 million a year in royalties.

**Wiggins Island Coal Export Terminal**\(^{49}\)

The proposed Wiggins Island Coal Terminal is to be located on Golding Point at the Port of Gladstone.

Wiggins Island Coal Export Terminal Pty Ltd and WICET Holdings Pty Ltd (collectively the WICET Group) will own and finance the new terminal with Gladstone Ports Corporation Limited (GPC) as operator. The terminal will be a common user facility under agreed open access and terminal expansion arrangements.

Initial capacity is planned to be 27 million tonnes per annum, with total terminal capacity of approximately 80 million tonnes per annum to be delivered in stages.

Financial close for Stage 1 of the $2.5 billion project occurred on 30 September 2011.\(^{50}\) The WICET Group expects first shipments through the terminal in 2014-2015. A range of preparatory activities for construction are underway.

**Abbot Point**\(^{51}\)

Beyond the long term lease of the Abbot Point Coal Terminal No. 1 mentioned earlier, the State is facilitating broader private sector funded development of new coal terminals within the Port of Abbot Point to meet the ongoing strong demand from coal mining companies for additional export capacity. This includes appointing BHP Billiton Ltd (BHP Billiton) and Hancock Coal Pty Ltd (Hancock) as preferred proponents for the new Terminals 2 and 3 at the Port of Abbot Point.\(^{52}\)

BHP Billiton anticipates that exports from its terminal will commence in 2015, while Hancock anticipates exports from its terminal will commence in 2013-14.

North Queensland Bulk Ports Corporation Limited (NQBP) has been working with BHP Billiton and Hancock to develop framework agreements for Terminal 2 and Terminal 3.

\(^{48}\) Ibid 166.  
\(^{49}\) Ibid.  
\(^{50}\) Minister for Finance, Natural Resources and The Arts The Honourable Rachel Nolan, Ministerial Media Statement Major Coup for Qld Economy as WICET reaches financial close, (Queensland Government, 2011).  
\(^{51}\) Queensland Government, above n 47, 164-165.  
Both BHP Billiton and NQBP have indicated they will utilise NQBP’s proposed Multi Cargo Facility (MCF), provided they are not financially disadvantaged. The MCF is proposed as a sheltered harbour at the Port of Abbot Point designed to accommodate multiple trades.

NQBP is currently in the planning stages of the project. Stage 1 will involve up to four berths and a common user tug facility to accommodate Terminals 2 and 3.

NQBP is also considering further expansions at Abbot Point. Terminals 4 – 7 could involve up to an additional four coal terminals with a nominal capacity of 120 million tonnes per annum in aggregate, and NQBP has recently sought expressions of interest from potential private sector proponents for which it has received a very strong response.

**Dudgeon Point**

Dudgeon Point is located at the Port of Hay Point approximately 5 kilometres northwest of the Hay Point Services Coal Terminal and Dalrymple Bay Coal Terminal.

Dudgeon Point is a potential location for the export of coal from mines in the Galilee and Bowen Basins.

Following an Expressions of Interest process in mid 2010, North Queensland Bulk Ports Corporation Limited (NQBP) selected two companies as preferred proponents for the development of Dudgeon Point – the Adani Group (an Indian conglomerate) and Dudgeon Point Project Management Pty Ltd, a wholly owned subsidiary of the Brookfield Infrastructure Group and sister company to Dalrymple Bay Coal Terminal Management Pty Ltd (DBCTM).

The preferred proponents will work with NQBP to prepare a Master Plan for the development of coal terminals at Dudgeon Point.

**North West Queensland Energy Review**

The final report of an independent review of energy delivery in the North West Queensland Minerals Province (NWQ Minerals Province) recommended a customer-led competitive process during which proponents would negotiate with customers to confirm a long-term energy solution for the north-west and its growing resources sector.

The customer-led competitive process engaged with energy supply proponents of local gas-fired generation or transmission line connection to the national electricity market.

On 6 October 2011, Xstrata publicly announced that it had entered into a 17 year contract with the Diamantina Power Station consortium, comprised of the APA Group and AGL Energy Limited, effectively concluding the process.

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53 Queensland Government, above n 47, 165.
54 Ibid 161-162.
The Xstrata load would have underwritten a significant level of alternative transmission provider Copperstring’s load, and, as a result, Copperstring has announced it is reviewing its transmission project.

10. Conclusion

This paper discusses why Queensland has the corporatisation model, the reform that Queensland has undertaken in the GOC sector both before and after the global financial crisis and the role that GOCs are having in the further development of existing industries and the development of new industries.

Currently the State has 12 GOCs. It is expected that these GOCs will continue to be subject to shareholding Ministers’ oversight in terms of their performance, governance and accountability, given the State’s significant investment in the GOCs.

As discussed in the paper, GOCs are likely to undertake more commercial partnerships with the private sector. Private sector funded development of new coal terminals at some of the ports to meet customer demand is already occurring and further development is expected.

Some of the State’s GOCs will undertake projects that will support other projects, such as those proposed for the Surat and Galilee Basins, or facilitate the development of industries such as liquefied natural gas.

It is the integrated response to infrastructure development by GOCs, which is possible with a GOC model, that is expected to help facilitate Queensland’s economic growth and maximise the benefits of development for Queenslanders.
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