



## Roll Up, Roll Up

*Stephen Mayne analyses the greatest public fire sales in Australian history*

Wanna buy something? You could do worse than look around for some government asset on the chopping block, if a rain check of privatisation performance over the past decade is any guide.

The former NSW Premier and federal finance minister John Fahey prided himself on flogging more assets than any other minister in history, yet the Order of Australia is undeserved if you believe some of these numbers. Fahey is the clown, helped by then chief of staff Joe Hockey, who thought banning foreigners and the Big Four banks would help him sell the NSW State Bank. When the deal was done in 1994, then Colonial finance director Paul Batchelor declared it to be "the greatest bank heist in history" – and he wasn't wrong. NSW taxpayers received a net \$250 million, and the business was on-sold to the Commonwealth Bank for a valuation of \$2 billion just six years later.

There are a handful of deals where taxpayers have prevailed and counter-parties in privatisations have done their dough – but they are few and far between. Victorian taxpayers cleaned up a group of US and UK power companies who went way over the top in paying a collective \$30 billion for the state's energy assets in the 1990s. The original buyers of the brown coal-fired power stations lost their shirts on the \$10 billion-plus invested.

After that, you struggle to find good examples. Sure, One.Tel and Hutchison never recovered from paying \$1.3 billion for telecommunications spectrum worth about \$200 million in 1999, but there aren't too many other losers.

As for the privatisation winners' ledger – it's a long and sorry list. Every toll road in Melbourne, Sydney and Brisbane over the past 15 years has been a bonanza for the private owners, and Macquarie Infrastructure Group has used its Australian expertise to become the world's biggest toll road company.

As you can see from the accompanying table, licensed banks and gaming companies have provided the biggest windfalls for investors and this is where governments of all persuasion have badly underestimated the worth of these heavily regulated companies. Treasurer Peter Costello is largely responsible for the windfall profits enjoyed by

shareholders in what is now an enormously powerful and profitable banking cartel.

But why did the Howard government sell control of the Commonwealth Bank in June 1996 before all the cost cutting and fee increases dramatically increased its value? The government had clearly learned its lesson by the time it came to sell Sydney Airport in 2002. Bidders were promised a free-for-all on pricing regulation and Macquarie Bank's \$5.6 billion purchase now looks cheap with valuations of \$7 billion-plus supported by the market.

Telstra shareholders are break-even overall, but for those who paid \$7.40 a share in the 1999 T2 offer, the collective loss is still \$5 billion on a \$16 billion investment. That said, when Fahey was handling T1 in 1997 the collective profit for those lucky investors who paid just \$3.30 a share is about \$5 billion on a \$14 billion investment.

All this provides food for thought as the government, its advisers and the investing public contemplate the \$30 billion-plus T3 sale. Will the government allow consumers to be ripped off by rejecting the ACCC's push to control Telstra's pricing – or will they allow a pricing free-for-all to maximise sale proceeds? With Telstra already trading on the mark, the scope for windfall gains are reduced, but investors will be reluctant to stomp up the cash if there is any suggestion T2 could go the way of T3.

### Bonanza!

#### *10 biggest government giveaways in history*

**NSW State Bank:** Sold to Colonial for \$250 million in 1994, then bought by CBA in 2000 with estimated value of \$2 billion.

**CSL:** Floated in 1994 for \$2.30 a share or \$300 million. Now worth \$35 a share or \$7 billion.

**Tabcorp:** Floated in 1994 for \$2.25 a share or \$675 million. Now worth \$17 a share or \$8.8 billion.

**Commonwealth Bank:** Floated from 1991-96 for \$8 a share or \$8 billion. Now worth \$35 a share or \$44.8 billion.

**Queensland TAB:** Floated for \$2 a share or \$268 million in 1999. Now worth \$14.20 a share or \$1.9 billion.

**Bankwest:** \$900m trade sale in 1996. Mopped up by HBOS in 2003 with \$5.6 billion valuation.

**Suncorp – Metway:** \$1.5 billion float and trade sale in 1996-97. Now worth \$10.77 billion.

**Alinta Gas:** 55% floated in 2000 at \$2.30 a share. Now worth \$8.80 a share.

**National Rail Corporation and Freightcorp:** \$1.05 billion received in 2002, current value \$2 billion

**Broadcast Australia:** \$650 million received in 1999, now owned by Macquarie Bank vehicle and worth \$1.2 billion.