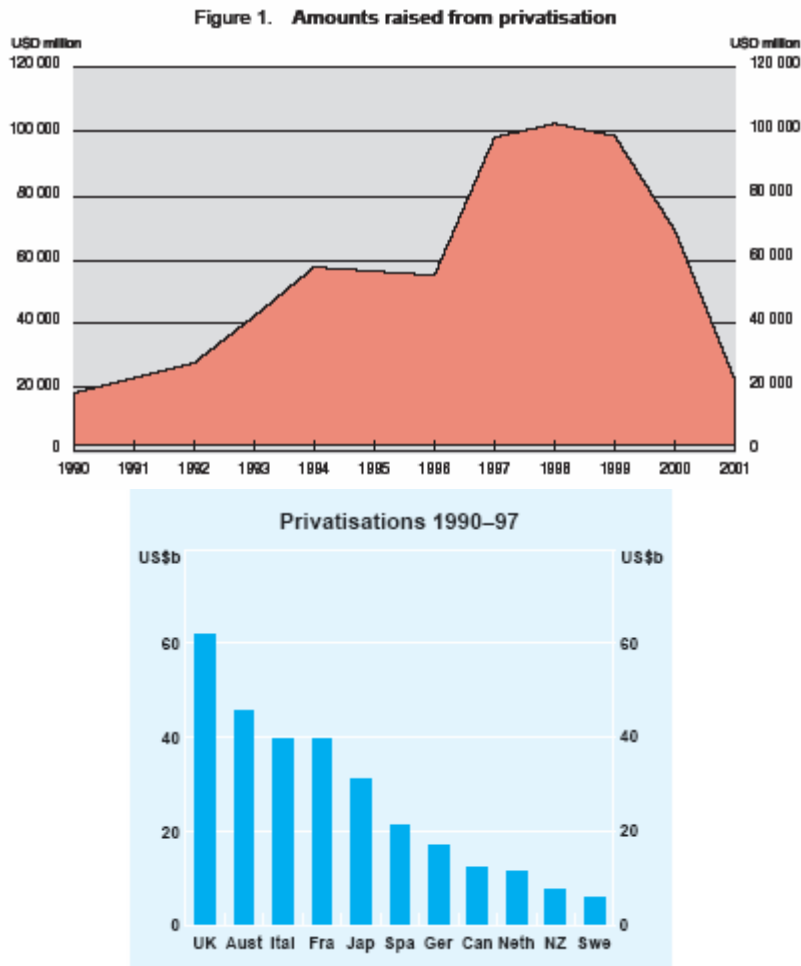


Privatisation

a) Privatisation is the full or partial transfer of ownership of public assets to the private sector. This commonly involves complex contractual structures to be put in place, and the industries concerned are usually closely regulated. Privatisation does not cover activities such as contracting out, leasing and private financing of infrastructure projects.

b) Before the 1980's there were few privatization programs in place. The earliest main one was in the UK in the early 1980's. After this many other countries followed in their lead. According to the OECD (Organisation for Economic Co-operation and Development), global privatisations totaled about US\$30 billion in 1990 and reached nearly US\$100 billion in 1998. Since then privatization has been dropping steadily, two of the reasons being, firstly the continuing decline in equity markets and secondly the deterioration of economic performance.



c) The advantages of privatization are as follows:

- Due to the profit motive, it is said that privately owned firms are usually more cost efficient than public ones.
- The public sector is considered to lack flexibility to respond quickly and efficiently, to use new technologies and produce new products.
- Privatisation eliminates the unfair advantage government businesses have over private competitors and the situation where the government is both the “player

and the umpire.” GBE’s have the guaranteed payment of bills, are not subject to the discipline of the capital market, shareholders, or the threat of takeover.

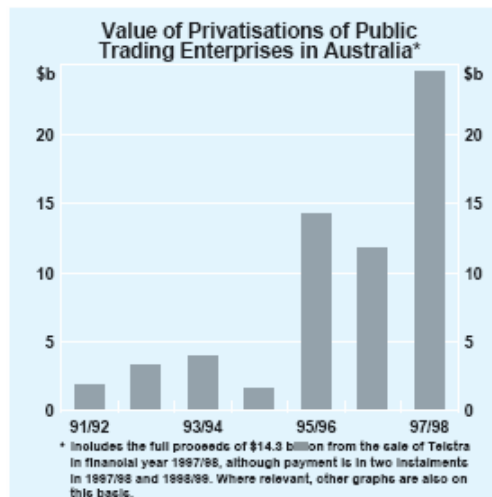
- Competition and economic freedom. A free private sector market would end monopoly pricing and promote the most efficient ways of doing things at the lowest cost.
- The once-off advantage: the sales add to the year’s revenue.
- The public sector uses more resources- if private sector takes over a greater range of commercial activities it would use less resources, therefore leaving more resources for other purposes.

Disadvantages:

- Some believe that a strong public sector is essential for a healthy civil society. Some services should be undertaken by public sector agencies because of their community service obligations and essential nature. Such services are often natural monopolies because a single well coordinated distribution system is more efficient. These include, but are not limited to, public water supply, key electricity services, employment, education, social and cultural services, phone and postal services, health, judiciary, town planning, environmental management, policing and custodial services, the ABC/SBS radio and television services, public transport and interstate rail services, national parks, and defence.
- Privatisation can put at risk the equitable and sustainable provision of services where rigorous regulation cannot be imposed and enforced.
- The public may have less say about the direction of the company if public assets are transferred to private owners
- May lead to loss of employment if owners of private company decide it is inefficient.

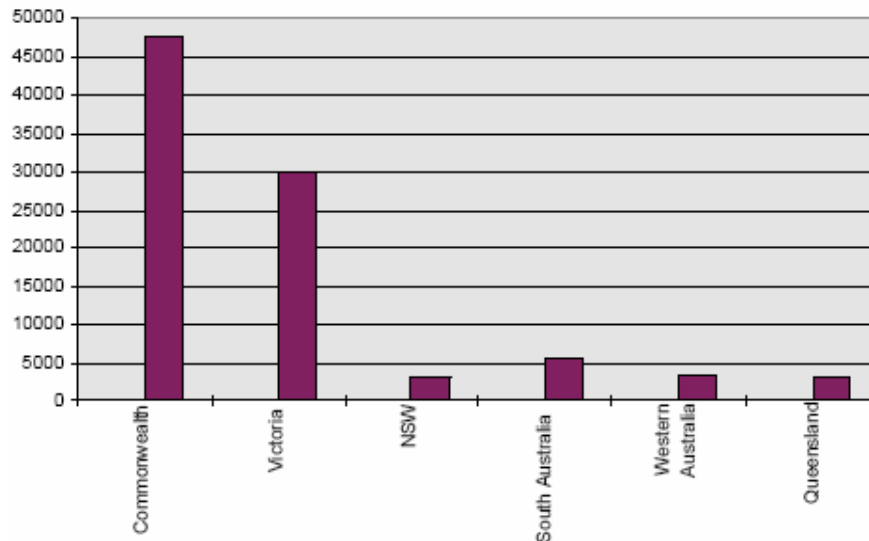
As you can see there many advantages and disadvantages, I think that privatisation can be a good thing, but some essential services are better left in the public sector as they are not profitable as a private firm and would not provide the service the way the government does.

d) There has been an increasing amount of privatization in Australia as the 90's have progressed. In dollar terms, Australia had the second largest amount of privatisations in the world and raised over \$95 billion from sales. Post-sale profits have been approximately \$48 billion to shareholders. Privatisation has occurred in three main sectors – financial services, electricity and gas, and transport and communication. Governments have sold assets both by offering equity to the public and through trade sales. Privatisation one-off sales has been greatly used to reduce government debt. It has also been useful in spreading direct ownership of shares more widely.



This graph shows the big increase in privatisations Australia has experienced in the 90's.

Privatisations in Australia (\$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).

Over half the money raised were for the Commonwealth (federal) government assets. The first major privatization of the 90's was the sale of the first tranche of the Commonwealth Bank, an enterprise already operating in a commercial environment. The government had just recently introduced new capital adequacy guidelines for the banking industry. This meant that for the bank to expand they would have to increase their equity base, which would then mean continuing calls on the Commonwealth budget. This was one factor in favour of the privatisation. The progressive sale of the Commonwealth Bank, with proceeds in three tranches

totaling \$8.1 billion, was the largest finance sector privatisation.

For many other GBE's, privatization came after they passed through a phase of corporatisation, where they were maintained by public ownership, but were required to achieve certain commercial goals, pay tax, borrow funds without a government guarantee and have any regulatory advantages removed.

One of the major privatisations in the 90's was the half sale of Telstra telecommunications for \$30 billion during 1997 and 1999.

The high level of activity in the late 1990's that saw Australia become one of the world's most prominent source of privatisations is now over. Now Australia is just consolidating.

Privatisation activity on a large scale is unlikely to start until there is a move either to complete the Telstra privatisation or to sell the NSW power system (probably worth over \$20 billion). Although debt reduction has often been used politically as the reason for privatisation, the 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. Aside from that it is true to say that privatisation is successful in reducing government budgets and debt.

The following is a table showing all major privatizations in Australia in the 90's, both federal and state.

