



CROWN OWNERSHIP
MONITORING UNIT

Treasury Report: Privatisation in New Zealand: An assessment of a series of company experiences

Date:	21 December 2010	Report No:	T2010/2642
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Refer this report and the attached paper to the Prime Minister and the Associate Minister of Finance (Hon Joyce).	None.
Minister for State Owned Enterprises (Hon Simon Power)	Read this report and the attached paper.	None.

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Nic Blakeley	Manager, Sector Performance & Balance Sheet, COMU	[withheld s9(2)(a)]	[withheld s9(2)(a)]	✓
[withheld s9(2)(g)(i)]	[withheld s9(2)(g)(i)]	[withheld s9(2)(a)]	[withheld s9(2)(a)]	

Minister of Finance's Office Actions (if required)

Refer a copy of this report and the attached paper to the Prime Minister and the Associate Minister of Finance (Hon Joyce).

Enclosure: Yes ([Short history of post-privatisation in NZ - John Wilson \(Treasury:1982752v1\)](#))

Treasury Report: Privatisation in New Zealand: An assessment of a series of company experiences

This report provides you with a paper we commissioned analysing the experience of asset sales in a series of New Zealand companies, titled "Short History of Post-Privatisation in New Zealand" (see attached). It was written by John Wilson, a semi-retired former Treasury employee with considerable experience advising on SOEs and asset management.

The conclusions drawn in the paper are based on assessments of the outcomes associated with the privatisation of nine New Zealand companies and of the post-privatisation performance of these companies. These assessments are based on a counterfactual of continued government ownership, a range of indicators (including share price movements and indicators of trends in productivity and efficiency), and evaluations of whether relevant objectives were achieved. The paper draws from a mix of publicly available sources, and the knowledge and experience of the author and other Treasury officials. (We explicitly requested the author not engage with external parties). Since the conclusions drawn are based on a selection of companies, they cannot be considered to be aggregate conclusions about New Zealand's experience in privatisation. Any such history will have an element of subjectivity.

The conclusions set out in the paper reinforce a number of points raised in our recent advice on Crown ownership of assets [T2010/2513 refers]. In particular, they support:

- our view of the importance of good quality regulation in seeking to ensure privatised companies, particularly those facing low competition and/or with monopoly characteristics, deliver efficient economic outcomes;
- our view that privatisation may offer benefits in the form of greater efficiency, though we recognise that comprehensive, comparative efficiency assessments were not a particular objective of the commissioned work; and
- our findings in respect of specific methods of sale (e.g. trade sale is likely to serve to maximise sale price) and reinforce our view that method of sale should be carefully matched to the asset or portfolio and objective.

Further points made in the paper are:

- the level of commercial success has varied greatly across the companies;
- the results of the analysis do not support a view that the Crown received consistently poor prices for the sales of these companies;
- with the possible exception of the Ports of Auckland case, there does not, in general terms, seem to have been much loss from linkages with the public sector resulting from privatisation (though it is noted alongside that the 4 company structural model in electricity remains a subject of some debate);
- transfers of skilled functions outside of New Zealand have only occurred in some cases and appear to be the result of competitive pressures rather than private ownership *per se*;
- while some cases may have contributed to negative perceptions of privatisation resulting in poor sale prices, under-investment and excessive profits for some shareholders, other cases do not support these views;
- the privatisation of these companies appears to have led to substantial contributions to local equity markets, with the five companies in the series that remain listed on the NZX (Auckland Airport, Air New Zealand, Contact, Telecom, and Trustpower) making up over a third of the market capitalisation of the NZX50. The BNZ case is, however, highlighted as representing part of a set of experiences that appear detrimental in its impacts;

- the Forestry Corporation and Air New Zealand offer examples where the exposure of the government balance sheet to financial risk was successfully reduced through privatisation, but there has been mixed success in the avoidance of government support to re-capitalise privatised companies facing financial difficulties; and
- the proceeds of these sales made an important contribution to our position of relatively modest debt entering into recent financial turmoil.

We do not have any current plans to publish the attached paper.

Recommended Action

We recommend that you **refer** this report and the attached paper to the Prime Minister and the Associate Minister of Finance (Hon Joyce).

Agree/disagree.

Nic Blakeley
**Manager, Sector Performance & Balance Sheet, COMU
for Secretary to the Treasury**

Hon Bill English
Minister of Finance

Hon Simon Power
Minister for State Owned Enterprises