

Financial markets slam Australian government over its rejection of Shell takeover bid

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International financial markets delivered an instantaneous verdict on the Howard government's rejection of a \$10 billion takeover bid by Royal/Dutch Shell for Woodside Petroleum, operator of the North West Shelf liquefied natural gas development, Australia's largest natural resource project. Even as Treasurer Peter Costello was announcing the decision on Monday, the Australian dollar plunged nearly a cent against the US dollar in three minutes, in one of the most rapid currency slides dealers could recall.

Costello, who has been considering the bid for 10 months, declared that the decision was "one of the hardest" he had undertaken. The Foreign Investment Review Board, the body responsible for making recommendations on foreign investment, gave no clear advice, advancing two options: outright rejection or acceptance with a series of conditions.

Costello vetoed the bid, arguing it was not in the "national interest." There could be no guarantees, he said, that Shell would actively push liquified natural gas (LNG) from the North West Shelf on international markets as opposed to LNG from its projects in Malaysia, Brunei, Oman or Russia. Last year the North West Shelf joint venture exported 7.6 billion tonnes of LNG as well as supplying the domestic market in Western Australia (WA) with gas, condensate and crude oil. Costello claimed "in time [it] could be our biggest export earner." Woodside is the only Australian-owned company of the six stakeholders, including Shell, which wanted to lift its current Woodside stake of 34 percent to a controlling 56 percent.

Both Shell and the financial markets expected Costello to approve the bid. Under Australian laws governing takeovers, the Treasurer is solely responsible for deciding whether or not a bid can proceed. That Costello privately supported Shell's move was an open secret. A former member of the right-wing economic rationalist think-tank, the H.R. Nicholls Society, he has positioned himself as one of the Liberal government's strongest advocates for the "free market" and global investment.

But another open secret was that the Prime Minister, John Howard, was vehemently opposed to the takeover. Following a series of electoral reversals for the Coalition government in the

past few months—in the WA and Queensland state elections and the Ryan federal by-election—the bid by Shell became a political hot potato. WA Liberal party backbenchers seized upon the issue to launch a nationalist campaign in "defence" of Woodside, the largest WA-based corporation, railing against "foreign interests" and "globalisation." Howard and the Liberal Party were threatened by an internal revolt if Costello allowed it to proceed. The Prime Minister privately made it known that their demands should be accommodated. In the end, Costello opted to avoid an open conflict and backed down, in light of the potential for a split in the party just months before the next general election.

Mindful of how the markets would react, however, the Treasurer delayed announcing his decision for two weeks, timing it to coincide with a rally in the Australian dollar in an attempt to minimise the fall-out. On Monday the dollar reached US51.95 cents, an eight-week high. Within an hour of Costello's press conference it fell to US50.42, while Woodside Petroleum shares dropped 12 percent, wiping nearly \$1 billion off the company's market value. The extent of the plunge reflected the markets' view that the government had caved in to domestic "anti-globalisation" sentiment.

At the press conference, a clearly uncomfortable Costello took pains to insist that he had made his decision on the basis of economic considerations alone, with the sole aim of guaranteeing the maximum return to Australia. Capitulation to political pressure was simply not a factor, and Howard had wielded no influence. Costello emphasised that the government remained firmly pro-foreign investment. "Australia has a very liberal foreign investment regime. International investors know that. There's been no change of policy here," he declared.

Since the announcement, both Howard and Costello have continued to insist that the Prime Minister played no role in the decision-making process. Legal questions are involved, because if Shell could demonstrate that he influenced the outcome, it would provide them with grounds to sue.

The sharp divisions within the Liberal Party, expressed in at least one fiery party-room conflict before the decision was taken, were mirrored in the opposition Labor Party. Labor

leader Kim Beazley distanced himself from the veto, expressing support for Shell's bid "with conditions." Labor's shadow Treasurer, Simon Crean, on the other hand, refused to indicate either way, while WA's new Labor Premier Geoff Gallop was delighted, even trying to take some of the credit for Costello's decision. "I am pleased that Mr Costello has taken the State's concerns on board," he gloated.

The Labor Party's former national secretary, Gary Gray was employed as Woodside's major lobbyist, encouraging the WA Liberal Party MPs nationalist scare campaign for a reported retainer of \$10,000 a day and a "success fee" of up to \$1 million.

Reactions in the press were also divided. The *Sydney Morning Herald* adopted a rather mild tone, maintaining that the Treasurer had insisted "reasonably, that Australia's national interest lies in the nation's largest developed energy resource being managed and marketed so that it is developed to its full capacity and its export sales maximised."

It cautioned, however, that Costello needed "to persuade the big money men overseas, not to mention the currency and share markets, that the Woodside decision was a special case—not another sign that the Howard government has lost its political nerve." This was a reference to the government's recent accommodation to grievances within the electoral constituency of its rural-based coalition partner, the National Party. A series of policy retreats—cuts to the fuel excise, changes to reporting duties for small businesses under the new Goods and Services Tax, a delay in proceeding with the full privatisation of the telecommunications giant, Telstra, among several others—has been the result.

But the financial press was scathing. On Tuesday, London's *Financial Times*, in an editorial suggestively entitled "Howard's End", branded Costello's decision "foolish," "wrong" and warned it "may harm Australia's fortunes." "It also sets a bad example to developing economies across Asia as they struggle to reconcile the need for growth with a resurgence of anti-globalisation sentiment," the article stated.

Murdoch's national daily, the *Australian*, commented, "Voters, foreign investors, shareholders and workers have every right to ask what the government stands for. The fear is that it stands for the same thing it stood for when backflipping on petrol prices, the business activity statement, Telstra and beer excise. It stands for nothing more than winning the next election against the national interest."

The editorial lashed the government for maintaining that "it decides the national interest in foreign investment by 'having regard to the widely held community concerns of Australians.'" This is dangerous in itself, ensuring that those who lobby loudest to place a foreign investment issue in the public arena are most likely to win the day..."

The *Australian Financial Review*, the mouthpiece for corporate Australia, observed: "No matter how the government attempts to justify its decision, the truth is that it has buckled

under populist pressure."

A comment in the same paper called the government's "knockback" of the Shell bid a "stunning rejection of free market forces that will make foreign investors increasingly wary of venturing into Australia in the months leading into the federal election."

Furthermore, the comment continued: "With Australia suffering a savings shortage and record levels of foreign debt, the decision risks limiting future capital inflows..."

Executive director of the Institute of Public Affairs, Mike Nahan, lamented that the government's decision was "a sad day for Australian capitalism." "The fact is," he wrote, "that Australia cannot afford to shut out foreign investment... After all, we have one of the lowest rates of saving and one of the highest current account deficits in the developed world."

Shell's takeover bid for Woodside Petroleum has served to highlight the political crisis increasingly enveloping Australia's political establishment. While a limited social layer has benefitted handsomely from the free market agenda implemented by Labor and Liberal governments alike, opposition is building up from several different directions. Sections of Australian business, both big and small, which have been more closely aligned to the national state and its former regulatory powers, face being sent to the wall by international competitors. Insecurities and discontent among more backward elements, especially in rural and regional areas, have erupted in the form of xenophobia and racism. At the same time, masses of ordinary working people identify, however confusedly, the growing domination of global corporations and the market over every aspect of their lives with escalating social inequality—reflected in declining living standards and poverty at one pole, and extravagant luxury at the other.

Both political parties face the same dilemma. Implementing international market-driven policies virtually guarantees electoral defeat. But adapting to popular sentiment, in whichever form, leads to economic marginalisation by the flows of global capital.



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