

# Australian prime minister embroiled in ethanol scandal

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Recently released documents proving that Australian Prime Minister Howard lied to parliament last year over a secret meeting he had with a prominent ethanol producer have demonstrated the increasingly arbitrary and autocratic manner in which his government operates.

The prime minister met with Dick Honan, chairman of the Manildra Group, on August 1, 2002, just weeks before a highly significant government decision to change taxation and subsidy arrangements for the ethanol industry. The changes were effected to protect the company from foreign competition.

On three consecutive days, beginning September 17 last year, Labor MPs asked Howard in federal parliament whether he had met with Honan prior to the introduction of the new subsidy scheme. On September 19, 2002 the prime minister told parliament that there was no such meeting and directly denied speaking with the Manildra Group chief about ethanol excise arrangements.

When Labor resumed its questions on August 11 this year, citing minutes from the meeting released under Freedom of Information, Howard, despite clear-cut evidence against him, denied deliberately misleading the parliament.

The origins of the sordid controversy go back to the founding of the ethanol industry in Australia in the early 1990s. Ethanol, or ethyl alcohol, is a petrol additive derived from wheat, sugar and other vegetable matter. In the aftermath of the petroleum crisis of the 1970s, biofuels such as ethanol were promoted as a potentially environmentally friendly substitute for petrol.

Ever since its commercial development, ethanol has been a matter of dispute and controversy. The fuel's benefits have never been scientifically proven and automotive groups have warned against the effect on car engines if an excessive level of ethanol is mixed with petrol. Not unexpectedly, Australia's major oil companies have actively opposed the ethanol industry since it threatens to undercut their revenues.

The Manildra Group, which had developed in the 1960s as a grains processing company, first began producing ethanol in 1992 as a waste product of its manufacture of industrial starch. The company now produces 87 percent of all Australian ethanol, and supplies its own ethanol-petrol fuel blend to independent petrol stations.

Manildra Group chairman Dick Honan is one of Australia's wealthiest individuals, with an estimated personal fortune of \$272 million and close personal ties to senior figures in the Howard government. Bob Gordon, the company's chief lobbyist in

Canberra, was chief of staff for John Howard in the 1980s. Honan and former departmental head Max Moore-Wilton are close friends, with ties that date back to Moore-Wilton's position in the Australian Wheat Board in the 1980s.

Honan has also been a major donor to the Liberal and National parties. Electoral Commission records show that for 2001-2002 alone, Manildra gave \$145,350 to the National Party and \$95,741 to the Liberals. Thousands more was given to the coalition parties in New South Wales, Manildra's home state.

In return, Manildra's ethanol production received ongoing government protection. All ethanol sales were exempted from excise, providing the company with a vital competitive advantage over the heavily taxed petroleum industry. In 2002 the Howard government made a further commitment to support an increase in local production from the current level of about 80 million litres per year to 350 million litres by 2010.

While the government provided strong backing for domestic production, Manildra still faced the threat of competition from foreign producers. Honan repeatedly pressured the government to block ethanol imports by introducing a production subsidy. At his August 1 meeting last year with Howard, the minutes record Honan requesting "the payment of a producer credit to ethanol producers to compete with the cheaper Brazilian product."

Shortly after the meeting, Honan learnt that a large shipment of ethanol from Brazil was being prepared for export to Australia. The ethanol imports had been organised by two Australian companies, the Newman Group and Trafigura Fuels.

On August 21, 2002 Manildra's Bob Gordon wrote to several government ministers warning of the ethanol shipment on its way to Australia. "Our association has, for some time, been advocating moving biofuels such as ethanol and biodiesels from the existing excise scheme to a producer credit scheme funded by fuel excise revenues," Gordon wrote. "We have reliable advice from Brazil that a significant shipment of fuel ethanol from Brazil is scheduled to be delivered to Australia in September. We would be grateful for an opportunity to discuss the issues and options associated with imports of biofuels, preferably this week."

The Howard government responded to Gordon's request by contacting its diplomatic staff in Brazil and instructing them to monitor the pending ethanol shipment. Max Moore-Wilton spoke with Dick Honan and initiated an interdepartmental committee, chaired by Moore-Wilton himself.

In line with Honan's proposal to Howard on August 1 and

Gordon's August 21 letter, the government granted a 38.143 cent per litre production subsidy to the domestic ethanol industry. This was designed to offset the introduction of an equivalent excise charge and effectively placed a prohibitive tariff on imported ethanol.

Not only was Manildra given complete protection from all future competition, but the Brazilian ethanol, en route as the new legislation was being formulated, had suddenly become unprofitable. The shipment was diverted from Australia and the ethanol reportedly sold with a net loss of \$1 million.

As Newman Group CEO, Paul Moreton, told the *Age*: "I've heard of the visible hand of government; I've heard of the invisible hand; now it strikes me we've got the perfidious hand of government. The reason we went to Brazil in the first place was not because of price—although it was a competitive price—it was because we couldn't get any ethanol in Australia."

In the 10 months since the introduction of the subsidy, the Manildra Group has received \$20.86 million in public funds. This amounts to 96.1 percent of the total amount paid in subsidies thus far to the ethanol industry.

In addition to this, on July 25, 2003 the government announced an additional subsidy package worth \$37 million. This money is to be distributed to new and expanded production at ethanol plants at the rate of 16c per litre. Small outlets producing less than five million litres of ethanol will not be eligible for the new subsidy, which means the vast majority of these funds will go to Manildra.

The grubby character of these decisions is a reflection of the prime minister's increasingly presidential methods and his government's willingness to use the public service in its manoeuvres with corporate friends. Of particular significance are the government's directives to diplomatic staff to spy on Manildra's competitors in Brazil.

The Labor Party has denounced the Howard government over its subsidies to Manildra and attempted to use the scandal to further demonstrate its rightwing, free market credentials to Australian business.

In a speech to the International CEO Forum in Canberra earlier this month, Labor shadow treasurer Mark Latham denounced the Manildra controversy as an example of the government's encouragement of "crony capitalism".

"I want an economy governed by private sector competition and corporate social responsibility," Latham declared. "The Liberals lean towards crony capitalism, a corporatist state in which some firms receive subsidies and special deals from government ... My only interest is in good economic policy and the integrity of economic markets."

But Labor's attempt to gain political mileage from what it has dubbed "Manildra-gate" has been undermined by revelations about its own close relationship with Honan. Manildra's first public subsidies were granted by the previous Labor government, after it created the "ethanol bounty" in 1994, paying the company 18c for every litre of ethanol it produced.

As well as providing funds to the coalition, Honan has also been a generous contributor to the Labor Party and in 2001-2002 donated more than \$55,000. Labor made great play last week of its return of Honan's last donation of \$50,000. Writing to Honan,

Labor's national secretary claimed that the return of the money was necessary to demonstrate that the "Labor Party will always pursue issues on the basis of ALP policies and its judgement of the public interest." Labor, however, is not returning the other \$106,000 it has received from Manildra since 1996.

In the absence of a credible Labor Party opposition, Howard feels he can personally manipulate taxation arrangements to suit favoured business contacts, and then lie to the public and parliament about his secret dealings. And, with the assistance of a compliant media, he sees no reason to concern himself with any form of accountability and remains determined to brazen out the latest revelations.

But there are indications that the government may face ongoing political pressure over the ethanol affair.

While Howard has misled parliament and the Australian people with impunity over the "children overboard" scandal in 2001, the sinking of the "SIEV X" boat that same year, leading to the drowning deaths of 353 refugees, and the false allegations of Iraqi weapons of mass destruction—the ethanol case may prove somewhat more difficult.

The government's dealings with the Manildra Group have met with strong opposition from more competitive sections of Australian business, which regard its blatant interference in trade matters as setting a dangerous precedent.

Reflecting these sentiments, an editorial in the *Australian Financial Review* on August 16 attacked the ethanol policy changes.

"It is difficult to think of a foundation principal of trade and economics that is not flouted by the Howard government's decision to use taxpayers' money to mollycoddle fuel ethanol producers," the newspaper declared. "That the decision was taken as a tanker of ethanol was being loaded in Brazil after clandestine bureaucratic meddling inspires little confidence that citizens can go about their business free of arbitrary interference by the state."

By manipulating legislation to benefit one favoured company over another, Howard may well find himself in a serious conflict with key sections of the Australian corporate elite.



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