

Australia: Howard abandons Snowy Hydro sale to save the National Party

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Much to the chagrin of the money markets, Australian Prime Minister John Howard last week performed a cynical about-face in order to rescue the rural-based National Party, his Liberal Party's junior coalition partner. After pushing the \$3 billion privatisation of the Snowy Mountains hydro-electricity scheme for six months, Howard pulled the plug on it at the last minute, when it became obvious that the sale would be another nail in the Nationals' coffin.

The investment bankers managing the sale—Goldman Sachs, JB Were, Macquarie Bank and UBS—had already launched a multi-million dollar advertising campaign, and more than 200,000 investors had pre-registered for the float prospectus. Last Friday, however, Howard announced that his government had abandoned the sale of its 13 percent stake in Snowy Hydro Ltd.

The two state Labor governments that hold the majority stakes—New South Wales with 58 percent and Victoria with 29 percent—were left with little choice but to follow suit, even though they had enthusiastically boosted the sale and banked on its proceeds, \$1.7 billion for NSW and \$800 million for Victoria, to promise various spending projects. NSW Treasury estimates that the sale's cancellation will cost the three governments a combined \$20 million in brokerage, advertising costs and compensation.

Howard claimed to have bowed to public sentiment, declaring that he had been “surprised by the level of public disquiet”. In his formal announcement, he said: “For whatever combination of reasons, there is overwhelming feeling in the community that the Snowy is an icon. It's part of the great saga of post-World War II development in Australia.”

The publicly-funded Snowy scheme, constructed between 1949 and 1974, was one of the largest engineering projects undertaken in Australia. More than 100,000 workers, mostly immigrants from at least 30 different countries, toiled on it, and it claimed the lives of 120. The flows of the Snowy River were diverted westward to generate electricity and provide water for farm irrigation throughout the Murray-Murrumbidgee River basin. With 16 major dams, 7 power stations, a pumping station and 225 kilometres of tunnels, pipelines and aqueducts, it remains one of the most complex hydro-electricity schemes in the world.

Howard's references to the scheme's “iconic” character and public concerns, however, are completely fraudulent. Only a week earlier, he had told parliament that his government was committed to defying the “majority of public opinion” against the sale. Just as ludicrous are the efforts of others to depict the outcome as a victory for “people power”. Liberal Senator Bill Heffernan, a close Howard confidante, proclaimed: “This is a really good demonstration of democracy at work.”

The truth is that a number of typically cynical political calculations drove Howard's backflip. One was the benefits that would accrue to his state Liberal counterparts from the financial and political damage inflicted by the reversal on the two state Labor governments, especially that of NSW Premier Morris Iemma, who initiated the sell-off last December.

Legal and constitutional challenges were also looming because Howard pushed the sale through federal parliament without any authorising legislation. Instead, he cooked up a House of Representatives resolution, which Labor backed and only two Independent MPs voted against.

More fundamentally, Howard was concerned that the Hydro sale would further shatter the electoral base of the National Party in rural and regional areas, which have been devastated by the government's free-market program. Many of the opponents of the sale, who eventually included influential right-wing Sydney radio host Alan Jones, were resorting to the kind of nationalist-populist rhetoric that Howard has made his own forte in railing against refugees and Muslim immigrants.

Howard was particularly concerned to avoid re-kindling the levels of disaffection in rural and regional areas that were exploited by Pauline Hanson's right-wing populist One Nation Party between 1996 and 2001. Throughout that period, Howard was preoccupied with trying to prevent the disintegration of the Nationals in the face of the Hanson phenomenon. In the lead-up to the 2001 election, while orchestrating the destabilisation of her party, Howard wooed Hanson's constituency by adopting many of her policies.

At the 2004 general election, the Nationals obtained only 5.3 percent of the national vote—about half their average vote over the four decades before the Howard government took office in 1996.

Leading the opposition to the sale were the farm lobbies, such

as the National Farmers Federation and the Ricegrowers Association, that represent the irrigators who depend on the Snowy flows. They were joined by residents in the Snowy Mountains, where hundreds of Hydro jobs were threatened.

Three rural-based Independents, Tony Windsor, Peter Andren and Bob Katter—who hold former “safe” National Party seats—also began to agitate against the sale. Coalition MPs in the region, notably Senator Heffernan, Liberal parliamentary secretary Gary Nairn and National Party MP Kay Hull, felt compelled to criticise the privatisation or demand foreign ownership restrictions.

In the final days, Queensland Nationals Senator Barnaby Joyce threatened to join right-wing Family First Senator Steven Fielding in blocking the sale in the Senate. Other National Party figures came out against it, including the Victorian party leader Peter Ryan and former federal party leader Ian Sinclair, who chairs the inter-government Snowy Darling Basin Commission. Sinclair revealed that he had written to federal Agriculture Minister Julian McGauran (a National) in January raising concerns about the sale’s impact on deals with irrigators, water sharing agreements, and water entitlements in droughts.

Already, the program of privatisation, deregulation and dismantling of national protectionism has driven tens of thousands of family farmers off the land since the 1970s, gutted basic services in rural and regional towns and created high levels of joblessness and poverty throughout many country areas.

The Liberal-National Coalition’s crisis was highlighted earlier last week when Howard and his deputy prime minister, National Party leader Mark Vaile, stepped in to halt a merger between their two parties at a state level in Queensland. The proposal threatened the continued existence of the Nationals federally, ending the arrangements by which the Nationals, by maintaining a separate identity, have delivered rural votes to conservative parties since the 1920s.

Many small farmers and working people, both rural and urban, may hope that the Snowy sale’s abandonment will provide some protection against corporate price-gouging over electricity and water supplies. These hopes will soon be dashed.

None of the media coverage mentioned the fact that the same three governments—the Howard federal government and the Victorian and NSW state governments—corporatised Snowy Hydro in 2002 and gave it a 75-year licence to release and sell water into the Murray and Murrumbidgee Rivers. Because of low running costs—\$20-25 million a year—Snowy Hydro is a cash cow, making pre-tax profits of around \$250 million a year. In order to obtain capital for modernisation and expansion, however, the company increasingly will have to exploit its monopoly position over water, and its capacity to produce large amounts of peak-demand electricity, to make super-profits, just as any private owner would.

Corporate commentators savaged the prime minister’s about-face. An *Australian Financial Review* editorial lambasted

Howard for retreating “in the face of a populist campaign of misinformation and xenophobia”. Its Chanticleer column denounced his “lies and deceit” and “the deplorable lack of political leadership in Australia”.

Partly, these comments reflect bitterness over lost profits. Southern Cross Equities head of institutional dealing Charlie Aitken told the *Australian Financial Review* that investors would have enjoyed an immediate 30 to 40 percent windfall on the expected share price. “Without doubt it would have been a fantastic float,” he lamented.

More broadly, fears were voiced about the impact of the decision on the other major privatisations in the pipeline—Telstra and Medibank Private—and the message that Howard’s performance sent to global markets. “It makes Australia look as risky as India or Thailand,” stockbroker Ivor Ries said.

Howard immediately sought to reassure the markets that the Telstra and Medibank sales would proceed, regardless of anti-privatisation sentiment, and that the government’s underlying pro-business agenda would not falter.

Nevertheless, the Snowy fiasco has underscored the government’s deep-going instability. It has to accelerate an economic program that has already fractured much of its social base, especially of the National Party.

The government largely survives through the lack of any alternative provided by the Labor Party, which is equally committed to satisfying the needs of big business. Not only did the NSW and Victorian Labor governments back the Snowy sell-off, so did the Kim Beazley-led federal Opposition. After all, during the 1980s and 1990s, it was the federal Labor government of Hawke and Keating that launched the privatisation onslaught, starting with other “Australian icons” such as the Commonwealth Bank and Qantas.



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