

Australia: Labor's NSW power privatisation—a no-lose deal for big investors

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It is little wonder that New South Wales (NSW) Treasurer Eric Roozendaal was able to secure the Australian state's AAA credit rating last month when he flew to New York to present the Moody's ratings agency with the details of the \$5.3 billion privatisation of part of the state's electricity network.

The outline of the deal so far revealed before a NSW parliamentary upper house committee inquiry into the sell-off shows that the private investors were not only handed lucrative state assets for a song. They were also provided with substantial concessions, including guarantees against potential multi-million dollar losses. Media reports claim that the proceeds from the sale, after costs, could be as low as \$400 million.

Under the deal, rammed through by Roozendaal's appointees at board meetings of the state-owned power companies a little before midnight on December 14, Origin Energy will pay \$3.25 billion for electricity retailers Country Energy and Integral Energy, and the trading rights to the power generation output of Eraring Energy. China's TRUenergy will pay \$2.1 billion for the Energy Australia retail business, plus some Delta trading rights. The state's power stations, currently managed by state-owned Eraring Energy and Delta West, will remain publicly-owned utilities, for now.

Testimony before the Legislative Council inquiry that began on January 17, however, revealed that under the complex arrangements on which the sale is based, more than \$360 million is assigned to cover risks to the new owners. Origin Energy and TRUenergy will be financially protected against unplanned power outages, power failures and other possible interruptions to supply during the life of the generators.

Another \$1.5 billion is to be invested to establish Cobbora, a new state-owned coal mine near Dunadoo in the state's mid-west, to provide a cheap supply of coal to the power generators so as to reduce costs to the private

electricity purchasers. There is a further \$1 billion in coal price subsidies over the life of the Cobbora mine, which will produce 30 million tonnes of coal a year, beginning in 2013.

Another \$1.2 billion will be used to pay off the debts of Eraring Energy and Delta West—a move no doubt connected to privatising the generators in the not-too-distant future and making them more attractive to potential investors. Moreover, the legal and administrative expenses for negotiating the deal totalled an estimated \$300 million. Nearly \$60 million went to a major accounting company, Ernst and Young, and a big law firm, Baker and McKenzie.

NSW Treasury secretary Michael Schur told the inquiry the state government would also lose about \$600 million over the next four years in state taxes paid by the generators and about \$750 million in annual dividends.

The deal, pushed through by the government even as it faces a devastating defeat in state elections scheduled for March 26, is designed to signal to potential international investors that there are lucrative concessions and rich pickings to be had in NSW. Electricity privatisation has been central to Labor's pro-business agenda since it took office in NSW in 1995, but two previous sell-off attempts, in 1997 and 2008, foundered because of overwhelming public opposition.

While the details of the current sale are freely available to credit rating agencies and corporate investment bodies, the Labor government has gone to extraordinary lengths to keep the public in the dark for fear the information may re-ignite political opposition.

NSW Premier Kristina Keneally has done her utmost to intimidate potential witnesses and stop them appearing before the inquiry. Last month, she prorogued state parliament to formally shut down proceedings three months before the state election and deny committee witnesses the legal protection of parliamentary privilege.

Eight Eraring Energy and Delta Electricity directors who resigned over the terms of sale refused to appear before the inquiry, fearing they could face legal action. This week, Labor's president of the Legislative Council, Amanda Fazio, effectively brought the inquiry to an end by refusing to seek court orders to force the directors to testify.

Labor's determination to secure the sale, even in its dying days, demonstrates that it remains under all conditions the ardent advocate of a pro-market agenda and will continue to serve the interests of big business, in or out of government. Moreover, the federal Gillard government has fully supported the privatisation process.

By driving through the power sale on the basis of massive concessions to the private buyers, Labor has set a benchmark for future privatisations. It has also provided the pretext for an incoming Liberal-National Party Coalition state government to sell off the remainder of the state's electricity assets.

This was made clear during the testimony of Treasurer Secretary Schur. He stated that the present deal was not his "preferred sale option" because it failed to "de-risk" the state against the vagaries of power generation. Schur declared: "The only way we can get rid of this unplanned outrage risk is to enter long-term leases of the assets (power generators) or sell them."

While the Liberal-National Party Opposition has opposed the current sell-off model, this has nothing to do with reversing the privatisation process. Liberal leader Barry O'Farrell has pledged to establish a judicial inquiry into the sale, thus providing a mechanism to defuse the opposition and fashion the next stage in the process.

The Greens, who hold the balance of power in the state upper house, have backed the proposed judicial inquiry. Despite posturing as opponents of privatisation, they have worked from day one to divert the popular hostility into the dead-end of the parliamentary arena.

Reports emerged this week that several leading union officials, including Australian Workers Union state secretary Russ Collison and Electrical Trades Union boss Bernie Riordan, were working to oust Roozendaal by lobbying to have him demoted from the number one position on Labor's upper house ticket for the March 26 election.

This in-house operation has nothing to do with opposing the power privatisation. In fact, Roozendaal has endeavoured to execute the so-called "plan B" option devised with the help of the unions in 2008 after Labor's original plan was torpedoed by the public hostility to it,

including that of their members in the electricity industry. Desperate to head off the working class movement against the government, the unions claimed in 2008 that they had secured the defeat of the privatisation plan, only to then collaborate with the government in trying to impose an alternative partial sale model.

In a further damage-control operation, Keneally this week backed away from attempting to push through the second tranche of "plan B"—the selling off the electricity generation rights from Delta Coastal and Macquarie Generation, two of Australia's largest generators, for around \$2 billion—before the March election. Keneally said the government would probably not be able to complete the sale before going into pre-election "caretaker mode" in early March, and would therefore leave it in the hands of the next government.

Such is the depth of the public hostility over the blatantly favourable terms given to Origin Energy and TRUenergy that Labor is effectively stalling the second tranche in the hope of somehow clinging to office after the election. At the same time, Labor has refused to abandon the plan, seeking as always to deliver on the demands of the financial markets. An unnamed government source told the *Sydney Morning Herald* that the two options were to "kill off" the second tranche or to "faff around" so that it would be impossible to evaluate the sale bids before the caretaker conventions began. "There were senior ministers who wanted out [of the sale] but they were not prepared to kill it off," the source said.

Labor's manoeuvre has been condemned by the Murdoch media, which is demanding that the government ram the second tranche through before the election, regardless of its political implications. Imre Salusinszky, the *Australian's* NSW political reporter, today declared that "the political heat got too much" for the Labor government, and accused it of leaving NSW with a "half-pregnant" electricity industry that would not attract further corporate investment. Salusinszky also railed against the Liberals for opposing Labor's scheme, giving voice to fears in ruling circles that an incoming Coalition government will also prove incapable of suppressing the widespread resistance to the privatisation process.



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