Australian budget reviews reveal impact of plunging commodity prices

Terry Cook
8 January 2015

Mid-financial year budget reviews in the mining-dependent states of Queensland and Western Australia last month revealed steep declines in state revenues, underscoring the sharp reversal in the entire Australian economy because of collapsing global prices for iron ore, coal, oil and gas.

Australian capitalism was only able to avoid the worst immediate effects of the 2008 global financial crisis due to the demand for mining and energy commodities from Asia and especially China, largely driven by massive stimulus measures by Beijing. Now, export prices are plunging under the impact of the worsening world economic breakdown, with devastating consequences for jobs, living standards and government budgets.

Around the world, commodity prices fell 30 percent last year, including a 47 percent plunge in iron ore prices and a 41 percent drop in oil prices, the biggest reversals since the 2008–09 global financial crisis. The plunge has only intensified in 2015. As a result, in Australia, in addition to mine closures, there are thousands of job losses and severe downturns in tax revenues. And the survival of giant liquefied natural gas (LNG) projects is in doubt because gas prices are linked to those for oil.

The Queensland state government has called an almost unprecedented snap election for January 31, in the middle of the traditional holiday period, in a desperate and cynical bid to cling to office before the situation deteriorates even further. Its mid-year review, released just before Christmas, showed that the state's 2014–15 budget deficit is now expected to blow out to $2.842 billion, or $571 million higher than forecast last June.

The government's original promise to the financial markets to produce a budget surplus by 2014–15, primarily by slashing public services and 14,000 public sector jobs, has been abandoned, ending hopes of restoring the state's AAA credit rating. The surplus pledge has been postponed until 2016–17, but even that new deadline is based on obviously over-optimistic forecasts, and a planned $37 billion sell-off of public assets.

The record plunge in coal prices, which have fallen to as low as $62 a tonne from $120 three years ago, contributed to a $1 billion write down in revenue for 2014–15. A sharp fall in payroll tax returns, driven by subdued economic growth and the suppression of wage increases, is predicted to wipe a further $372 million from revenue over the next four years.

Queensland Treasurer Tim Nicholls claimed that economic growth, downgraded to 2.75 percent this year, would suddenly jump to 5.75 percent in 2015–16, due to the commencement of LNG exports from central Queensland coal seam gas fields. As today's *Australian Financial Review* reported, however, the LNG industry is now "in shock," facing asset write-downs, project delays and job losses.

BG Group last month flagged a write-down on its new $US20.4 billion Queensland Curtis LNG project, which only started producing gas in December. Credit Suisse analysts reported that Australian oil company Santos, which still has six to nine months to complete a $US18.5 billion LNG export project in Queensland, could be worthless at the current oil price. RBC Capital Markets analyst Andrew Williams told the newspaper: "What's taken everyone by surprise is the severity of the pullback in such a short time."

Under the banner of making "tough choices," Queensland's Liberal National Party government of Premier Campbell Newman is insisting on the privatisation of a raft of state-owned assets, including industrial water pipelines (SunWater), power generation facilities (CS Energy), electricity distribution and transmission businesses (Energex, Powerlink), and the ports of Gladstone and Townsville.

Inevitably, power and water bills would rise, accompanied by thousands of more job losses, on top of those already being destroyed throughout the mining and mining-related industries.

Western Australia's budget review produced an even greater shock, unveiling an estimated $1.287 billion deficit for this financial year, the first deficit since 2000. Collapsing iron ore prices are expected to produce a $7.1 billion plunge in revenue from royalties alone over four years.

Last May, Premier Colin Barnett's Liberal government forecast a $175 million surplus for 2014–15, largely based on iron ore royalties, but the price has since fallen from $US122 to $US70 a tonne. The state's debt is now forecast to reach $30.8 billion by 2017–18, up from the $29.4 billion in the May budget estimate.

In response, the government announced a further assault on social and working conditions to fund a promise to big business of a $304 million surplus in 2016–17. State Treasurer Mike Nahan announced $1.8 billion in public sector cuts, on top of $2 billion announced in October. Included is a wage-cutting scheme, which will see departing public sector workers replaced by new hires who will be paid only 60–90 percent of previous salaries.

The Labor Party oppositions in both states are equally committed to satisfying the dictates of the financial markets by imposing the burden of the crash on the backs of the working class. They have no fundamental differences with slashing wages, cutting social services or imposing sweeping privatisations.

Western Australian Labor leader Mark McGowan complained that the Barnett government had ignored the volatility in the resources market and "spent like drunken sailors." In other words, the cuts should have been made sooner and gone deeper.

Queensland Labor leader Annastacia Palaszczuk called the Newman government's privatisation plan "a nightmare for Queensland families." But the previous Labor state government, in which Palaszczuk was a senior minister, implemented $15 billion in asset sales, resulting in 10,000 job losses and stoking the widespread opposition that saw it swept from office in the 2012 state elections.

As a result of the commodity price collapse, Australia has already entered an "income recession," with national income falling for two consecutive quarters. This has intensified the corporate pressure on Prime Minister Tony Abbott's government to push stalled austerity measures through parliament, despite overwhelming public opposition.

The country's two "mining boom" states have become barometers of a worsening economic, social and political crisis, with discredited federal and state governments, Labor and Liberal alike, seeking to impose deeply unpopular cuts in living conditions.