

The Potential Cost of PICL

John Hyde

*O what a tangled web we weave
When first we practice to deceive*
Sir Walter Scott.

The West Australian Government's attempts to deceive its public over government involvement in Rothwells is having a mounting political cost. Already charges have been laid against two of its *apparatchiki*---Mr Edwards and Mr Lloyd--- and those charges are unlikely to be the last. Already there are calls for the ministers most directly involved to resign or at least stand down, and they are unlikely to be the last. The political cost will rise further---quite possibly destroying a minister or two. The Legislative Council could even stop supply. These are the sort of circumstances when an Upper House ought to force an election---but don't hold your breath while waiting for its members to find the courage.

Nevertheless, WA taxpayers may come to regard the political cost of its Government's meddlings in fringe finance as a side show, when they come to appreciate the financial cost. The WA Inc. affair must already be the most expensive State Government scandal in Australia's history. The known losses per capita of state population must be 10 times greater than those of Victoria Inc. and, unless the WA Government cuts its losses with the petro-chemical plant, they could be even greater.

So far, the WA government---for which, read taxpayers, people insured with the State Government Insurance Corp (SGIC), civil servants and users of government services---has suffered major losses as a result of: \$125 million paid into the Teachers Credit Society, \$91 million paid by SGIC into Rothwells, \$15 million paid into the Swan Building Society, the underwriting of Bell convertible bonds---at least \$50 million, \$12 million lost by Government Employees Superannuation with the Danbury Group, \$6.6 million injected into Mr Connell's companies by the sale to him and repurchase of the Perth Technical College site, and \$30 million invested by SGIC in Spedleys. And there are other items.

Then there is the \$150 million guarantee made to the National Australia Bank when NAB, at the government request,

put \$150 million into Rothwells. The WA Government now says it will welch on this deal---do a Jack Lang. It may have found a legal loophole to do this, but, sadly, its action has put a small dent in the financial standing of all Australian governments.

Finally, there is the \$175 million with which the government purchased 43.75% of Petrochemical Industries Company Limited (PICL). Bond Corporation purchased the remainder. It is easy to demonstrate that the government paid too much. PICL had been owned in equal shares by Mr Dempster and Mr Connell. Mr Dempster accepted \$50 million for his half-share, thereby placing an absolute maximum value on the project of \$100 million. In addition to the other favours, therefore, the Government paid its mate, Mr Connell, at least \$131 million of taxpayers' money for nothing. Bond Corp, on the other hand, got its money back when Rothwells repaid loans that could not otherwise have been repaid. I can think of no Australian example of a more blatant breach of a government's fiduciary responsibilities than this.

Moreover, that is not the end of the matter. In consequence of this manoeuvre, the fledgling PICL starts life with at least \$300 million of needless up-front debt. There is no way that it can compete with other producers in Saudi Arabia and elsewhere which do not bear similar burdens. For PICL to be viable, the \$300 million must somehow be written off or PICL must be subsidised. Neither option bodes well for the WA taxpayer. But the point to remember about the \$300 (or more) million is that it is already lost---if the project were to be wound up tomorrow the loss would become apparent on the Government's and Bond's books, but it would become no more real than at present.

The National Party's Eric Charlton has been unfairly criticised for a courageous decision to vote against the third reading of a bill to manage the Government's interest in PICL. The good reason for reconsidering the project is that, with the \$300 million liability, it is not viable without subsidy. The government's involvement in PICL has been defended with the *non sequitur* that the government took advantage of a "window of opportunity" presented by high petro-chemical prices. If there had been anything to this argument, we would now have to say that the window is closed---prices have fallen.

The State has guaranteed, and is paying the interest on, PICL's current borrowings of up to \$100 million---a guarantee that must be somewhat devalued by the one it withdrew from the NAB. This undertaking lapses at the end of the year, by which time the loan must be refinanced. The Government is already blaming the Opposition for the fact that funds are hard to raise---which sounds like the government trying to weasel out.

It may not be significant, but construction was temporarily suspended by PICL management during late March. The suspension order has been lifted, but construction is proceeding at a reduced pace and, of course, has been put

back. The cost of this was born by PICL. Costs are said to have blown out by some \$30 million so far? Even the most basic division of management responsibilities between Bond and the government has not yet been sorted out.

The greatest danger for the Western Australian citizen, however, is that PICL will proceed and that the inefficiencies inherent in the way it was established will be covered up with cheap feedstock gas and electricity. The State Energy Commission (SECWA) has a so-far-undisclosed contract with PICL to supply electricity and gas into the operational phase of the project. SECWA would like to vary the contract. Is it concerned that other users of gas and electricity will be forced to cross-subsidise PICL year-in, year-out? If so, PICL could become a hidden drain on the State's prosperity which could make the Government's gambling losses look like chicken feed.

The Government should immediately test the value of PICL by putting it on the market. In short, it should cut the losses before PICL becomes the sort of drag on the State economy that uneconomic railways were during the Great Depression.

ENDS