Labor struggling to harness the mining boom monster

Is the Carpenter government laying the ground for sustained growth, using the huge mineral boom booty? **Cathy Bolt** reports.

'Carps the Builder. I was quite pleased with that little line in *The West Australian.*"

When he made that remark a few weeks ago, West Australian Premier Alan Carpenter – "Carps" to most – was speaking to a big audience at a Committee for Economic Development of Australian forum examining the outlook for Australia's fastest growing state.

He had just used the event to commit to the WA government's third major infrastructure project in a week – a $300 million transformation of the sleepy Perth city river foreshore into a platform for a bold Dubai-esque development of high-rise apartment and office towers, shops, bars, restaurants, boardwalks, artificial inlets and a swan-shaped island.

It followed hard on the heels of equally long-awaited commitments to a new $1.1 billion major sports stadium in Perth and a $500 million museum on the site of the derelict, riverside East Perth powerhouse.

It is a safe bet it is one of the few lines in *The West Australian* that the Premier has liked since he took over two years ago after Geoff Gallop's shock resignation due to depression.

The state's only local daily newspaper has been merciless in its scrutiny of the Labor government and is likely to remain so in the lead-up to the election due by February.

Despite that, Carpenter looks well placed to win that election, promising to extend the term of the current Labor government from 2001 to about 2013. The Liberal opposition, which has recently elected its fourth leader in four years, remains deeply troubled by disunity and its challenge has been made tougher by a one-vote-one-value redistribution since the last election, which means it needs to gain about 11 seats from Labor or a 4 per cent swing to take government.

Nevertheless, the outbreak of new infrastructure projects announced in February, most of which will not be taking shape until the election after next, is part of a move by the government to head off mounting criticism it is botching the extraordinary boom engulfing WA.

Specifically, its critics say it has not prepared adequately for it, is not coping with the huge challenges as well as opportunities it is throwing up, and is not doing enough to create a lasting legacy with the rivers of extra money flowing into the treasury coffers as a result of WA's rapid growth.

There is no shortage of staggering statistics which attest to the extraordinary times in which WA finds itself as its abundance of mineral wealth aligns with the race towards industrialisation by two of the world's most populous countries, China and India.

Late last year, WA broke through the $100 billion barrier of resource projects committed or under consideration, led by Chevron's Gorgon LNG project, estimated to cost $15 billion to $20 billion by the time it gets final approval.

The total figure rises to more than $140 billion if possible projects are included, on top of the WA government's record $25 billion plus capital works program. Resources production has doubled from $27.8 billion in 2002-03 to $53.4 billion last financial year but will take another quantum leap within a decade, taking into account planned ramp-ups by the big iron ore producers.

Rio Tinto is working to lift its output of the steel ingredient from about 100 million tones to 320 million tonnes within five years, BHP Billiton is planning to ramp up from 100 million tonnes to 300 million tonnes in seven years. Andrew Forrest's Fortescue Metals Group, which plans to make its first shipments in May, is planning initial annual production of 45 million tonnes rising to 200 million tonnes over the long term. On top of that, iron ore producers in the emerging midwest region are eyeing about 40 million tonnes a year.

The resource industry's desperate demand for workers – and willingness to pay them generously – is rebounding through to almost every sector of the economy and drawing new residents to WA at the rate of about 500 a week.

While the market has cooled in the past year, median house prices in the Perth metropolitan area have almost doubled in just three years from $275,000 to $470,000 – with higher growth in regional areas closest to the mining boom like Karratha, Port Hedland, Geraldton and Esperance.

Contributing to that has been a surge at the elite end of the housing market. Mansions in Perth's well-heeled riverside suburbs are close to breaking the $20 million barrier.

The unofficial record for an apartment in Perth was broken again late last year when Mirvac sold a penthouse off-the-plan from a new development at Leighton Beach near Cottesloe for $8.95 million. But that seems almost certain to be broken again in coming months with a clutch of other proposed luxury apartment complexes offering penthouses at $15 million or more.

Traffic through Perth Airport, arguably the isolated city's most vital piece of transport infrastructure, has been soaring. A record 4.5 million passengers went through in the six months to December 31 – almost a million more than in the same period two years earlier – as the increased number of business people and holidaymakers travelling to and from WA compounds the phenomenal growth in intrastate traffic to the remote mines and resource projects by workers on fly-in-fly-out rosters.

In its mid-year budget review in December, the WA government revised its forecast growth rate for the state this financial year from 4.5 per cent to 7 per cent, on top of 6.3 per cent last year.

It also revised up its expected surplus this year by $400 million to $1.8 billion, but results since released for the first six months suggest it could well top last year's record $2.3 billion surplus as bounty continues to flow from payroll tax, mining royalties and motor and property stamp duty.

But there is no doubt the local euphoria that greeted the onset of the boom in WA several years ago has to a large extent been replaced by discussion of its downsides.

The afflictions and strains are everywhere: huge blow-outs in public and private project costs, severe and chronic labour shortages in almost every job category, a general pick-up in wages pressure, a housing affordability crisis as mortgages and rents soar, worsening traffic, lack of taxis, a health system under pressure, appeals to households to reduce their air-conditioner use at peak times to avoid power outages, and a desperate shortage of commercial property space in Perth which has caused office rents to jump 48 to 70 per cent in a year and shop rents rise almost 20 per cent.

For all its impressive figures, the airport's domestic terminal has become one of Perth's unfunniest jokes, its car parks regularly full to overflowing, long queues for baggage check-in and security screening and too common flight delays.

There is growing concern that environmental and heritage considerations are being pushed aside in the determination to get resource projects up and running while the economies of Asia are so hot. Nowhere is this concern more evident than on the north-west's Burrup Peninsula, where historians, archaeologists and anthropologists are looking on in horror as one of the world's biggest and most pre-eminent collections of ancient rock art is endangered by the promontory's use as an expanding hub for LNG processing and other heavy industry.

In the last week of February, the WA government confronted a bout of industrial action by those who claim they are missing out or being penalised by the boom, including teachers and public sectors wanting more pay and taxi drivers angry over the government's decision to issue more peak hour plates.

More generally, regulatory bottlenecks are building as public servants are poached by the better-paying private sector and those who remain proceed more cautiously amid a blaze of publicity over the past two years surrounding investigations into misconduct by the powerful Corruption and Crime Commission.

And of national consequence, the continuing robust outlook for the WA economy – the fundamentals remain "very strong", says the state's senior finance bureaucrat, under-Treasurer Tim Marney – is a major contributor to the inflation nightmare confronting the Rudd government and the consequent upward march of interest rates.

Marney says the incredible pace of the WA economy means price pressure is everywhere.

The same factors driving the government's increased surplus, such as WA's increasing wages bill and higher prices for minerals, are also increasing its expenses, including the cost of steel, copper and labour in its own projects.

"When people talk about the $2 billion surplus and say you have plenty of money, well, we have plenty of pressures as well," Marney says. "It's really a story of exceptional growth versus a capacity constraint. In economics 101 terms, we are at the outside edge of our production possibility frontier."

His boss, Treasurer Eric Ripper, also wants it known that it's not all milk, honey and iron ore trying to run a budget in a booming state.

He says he is grappling with demands from every direction from people and groups, including within the government, who want to get their hands on his surplus.

"Everyone looks at the increased financial capacity," Ripper says.

"I am trying to ask people to please also look at the competing demands for the use of that capacity. I really think it has to be a wholistic debate."

Build or bust

- Labor has committed more than $100 billion in resource projects plus a record $25 billion in the capital works program.
- There are huge blow-outs in public and private project costs, chronic labour shortages, wages pressure, a housing affordability crisis as mortgages and rents soar, and other problems.

'It's really a story of exceptional growth versus a capacity constraint.'

State of optimism