



West Australian Premier Colin Barnett says he wants to fast-track the massive \$30bn Gorgon project. Photo: ERIN JONASSON

Resourceful Barnett shields the West

Colin Barnett is the odd man out in Australian politics.

The 18-year political veteran was the last man standing for the controversy-plagued West Australian Liberal Party a year ago. The party desperately needed new leadership but had only one person left to turn to — the man who lost them the previous election.

Barnett clinched an unlikely victory in September, transforming himself from an imminent political retiree to an all-conquering hero who led the Liberals out of the wilderness.

WA's new Premier has his hands full managing the state's looming downturn, writes **Julie-anne Sprague**.

But after notching up his 100th day as WA's 29th premier at the end of December, Barnett's shock victory, stitched up through an alliance with the Nationals, has quickly become a distant memory.

The euphoric win against a backdrop of economic prosperity has been replaced by the harsh

reality of managing a resources-based economy that has just had the rug pulled out from under it.

Chinese ships are no longer queuing up for WA's iron ore, and property prices are nosediving, two events that have sucked the wind out of the state's revenue-rich sails.

But Barnett is moving forward on a range of initiatives, including the \$30 billion Gorgon project, to offset a slowdown in economic growth.

"I will be pushing hard to get the Gorgon project to proceed," he tells *The Australian Financial Review*.

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Resourceful Barnett moves to shield the West

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“[That will involve] getting approvals and encouraging them corporately at senior levels, in the US if that is what it takes.”

In a little more than two years the state's finances are forecast to plummet to their deepest deficit in more than 25 years as net debt more than doubles to \$16.7 billion. Falling revenues and increased costs have put it on track to post a \$361 million deficit in 2011-12.

The state's economic growth in the next financial year was slashed from 6.25 per cent to 1.5 per cent in Treasury's mid-year review in November, largely due to a big decline in business investment, and falling consumer confidence. Unemployment was projected to climb to 4 per cent next year.

On his 100th day in office Barnett signalled that the global financial crisis was biting and that an election pledge to deliver \$250 million in tax cuts was under review.

For a state heavily reliant on mining revenue, the commodities boom has cooled abruptly. Treasury has projected a 25 per cent decline in iron ore prices next financial year and 10 per cent price falls in each of the two following years. Despite this, state mining revenues are expected to rise by \$879 million over the next four years.

Barnett is prepared to deal with the downturn. He is an old hand in the management of the resources sector after an eight-year stint as resources and energy minister with the Court government.

Add to that his economic and business pedigree after stints as an economist and five years with the Chamber of Commerce and Industry of WA as its executive director.

Barnett, who has been criticised for failing to consult colleagues and is often aloof, has a no-nonsense approach to government. His decision to move swiftly in selecting a site — James Price Point in the state's far north-west Kimberley region — to develop a proposed liquefied natural gas (LNG) production hub, without embarking on widespread community consultation, is a case in point.

The former Labor government had languished on the issue, with Japanese oil

giant Inpex eventually abandoning the state in favour of the Northern Territory, which will pick up the lion's share of the \$25 billion project despite its capital being about 900 kilometres from Inpex's Kimberley gas field. “We have had an emphasis on making decisions,” Barnett says. “That has been a top priority across all portfolio areas. At every cabinet I tell them that their job is to make decisions. They won't always be what people want but my instruction is that you must make decisions. That is what you are elected for. That is your job.”

But so far Barnett's pace has been slow. Confronted with an inexperienced cabinet — 12 of the 17 members are first-time ministers — Barnett has spent the bulk of his first three months playing captain/coach, largely consumed with helping his ministers get acquainted with their portfolios and departments.

This year Barnett hopes to up the ante by getting big-scale developments off the ground to provide an economic backbone to support the state during what he has described as the toughest year it will have experienced in almost two decades.

Those developments include Australia's biggest resources project — the \$30 billion Gorgon project — which is still awaiting the green light from operator Chevron. Barnett has become the project's champion and intends to lobby the oil and gas giant while making sure government approvals happen as timely as possible.

Other economy boosting projects on his agenda include the \$400 million Ord River stage two development, the construction of the Oakajee deep-water port near Geraldton and the sinking of a metropolitan rail line that now divides the CBD and its neighbouring entertainment precinct, Northbridge.

Barnett believes that, along with federal funding, the projects will be completed or substantially completed by the time he returns to the polls, which could be as late as March 2012 if legislation to fix four-year terms passes through parliament and as a consequence delivers the Barnett government an additional six months in office.

Barnett reckons the three infrastructure

projects, along with working with the state's large resources players to keep long-term expansions on track, will provide the shot in the arm WA needs.

"That would carry Western Australia through this difficult period," Barnett says. "That would see us through."

On the flip side, publicly popular projects such as a \$1.1 billion sports stadium and a \$500 million museum that formed part of former premier Alan Carpenter's empire-building plans have been put to the back of the infrastructure cupboard.

"There have been some things that there have been expectations about but the state, in this environment, can just not afford," Barnett says.

"[They] are worthy projects but the focus that I will take is on economic development."

While the decision has been justified on the back of deteriorating financial conditions, the infrastructure spending shift highlights where Barnett's passions lie.

The Ord River expansion, which would double the amount of irrigated area for agricultural development in the far north of the state, and the Oakajee port in the midwest region are projects for which he has fiercely campaigned for more than a decade.

His passion for Oakajee, for example, has led to the state committing funds and putting its hand up for federal funding despite Japan's Mitsubishi-backed Oakajee Port and Rail securing a tender for its development from the previous government.

Taking back some control and incurring the cost is good for the state according to Barnett, who thinks it would be "foolish" to let an international group own a mine, rail and port and be the customer at the same time.

"He is less about populism and more about good policy and what he thinks is right for the state," says a former colleague.

But it is the "Colin's way or the highway" approach that has some government insiders concerned.

"He is very hard to work with, almost

impossible," says one source. "How is he going to lead a team?"

One of Barnett's biggest challenges in the new year will be to rein in spending in the public service, which has expanded in recent years.

Government spending, of which 40 per cent is wages, is forecast to climb a staggering 12 per cent to \$18.9 billion this financial year, up more than 5 per cent on government estimates in August following new pay deals for teachers, bus drivers and hospital workers.

A razor gang has been called in to find solutions, and job cuts appear to be inevitable.

"Their [Economic Audit Committee] recommendations will be tough, the test will be whether Colin's decisions are tough," says one senior government insider.

"If he doesn't take tough decisions in the initial years we will pay for it in the years ahead. It's not that hard to say a project can't go ahead or has been delayed but this [public service cuts] is a big test."

The Barnett government's whopping 20 per cent pay rise to the state's teachers over three years — an election commitment that delivered \$120 million more than the Labor Party had promised — has made them the highest paid in the country.

Barnett is pleased with the outcome and says he is not under any undue pressure to replicate the pay rises for other public servants — especially given the deterioration in revenues.

"We made a special case for education and said it would be our highest priority [at the election]," Barnett says.

The new year is also likely to herald increased discussion about developing the state's links to Asia.

A resident of the affluent seaside suburb of Cottesloe, Barnett is keen to further develop links to Asia. "As an export-driven economy we depend more on what happens in export markets more than what happens within Australia. I look over the horizon, not over the Nullarbor."

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WA PREMIER COLIN BARNETT

CHEVRON GETS PREMIER TREATMENT

West Australian Premier Colin Barnett plans to personally lobby oil and gas giant Chevron to push through development of the \$30 billion Gorgon project. It's part of a concerted campaign to facilitate major new developments to offset a projected sharp slowdown in the state's economic growth.

Barnett, who has already held two meetings with Chevron Australia managing director Roy Krzywosinski since becoming Premier in September, wants the American-based oil giant and its joint-venture partners, Shell and Exxon Mobil, to give the project the green light by mid-next year.

A former resources minister, Barnett says he will not be "cutting corners" but has personally taken ownership of the project within government and wants to ensure regulatory approvals proceed as "expeditiously as possible".

"We need to do what we can to make sure that projects do continue. This is a good time to build a project," Barnett says, because the falling Australian dollar and easing labour costs have significantly brought down the cost of construction.

"I will be pushing very hard to try and get the Gorgon project to a decision to proceed. [That will involve] getting approvals and encouraging them corporately at senior levels – in the US if that is what it takes."

Barnett also identifies the \$400 million second-stage Ord River scheme and the construction of a new port at Oakajee in the state's mid-west region as his other main priority projects for 2009. "Those two projects would give great confidence to this state because they are export-orientated projects," he says. "They bring on major new areas of regional development."

The Ord River project will proceed early this year after the federal government agreed to fund just under half of its development as part of its \$4.7 billion nation-building plan, while the Oakajee port has been recommended by the federal government's advisory body to receive part of \$20 billion in infrastructure funding.

Barnett says the Ord River and Oakajee projects, along with Gorgon, will provide much-needed economic benefits at a crucial time. WA's finances have been radically reshaped since the Liberal government won office last September, but the state's AAA credit rating is at significant risk by 2010-11 as debt balloons and revenues plummet.

Waning Chinese demand for commodities has forced the mining sector to scale back or delay its projects, leaving thousands out of work and providing another drag on an already depressed property sector, which used to be an important income earner for the state.

This year's budget surplus has been slashed by more than \$700 million to \$1.2 billion, and by 2011-12 the state is expected to slip into its first deficit in more than a decade.

Fortuitous it would seem is a major overhaul of government approvals for the resources sector, a sector that had been highly critical of growing red and green tape under the former Labor government.

Perhaps the best example of how stagnant the state's processes had become was the decision by Japanese oil giant Inpex to abandon WA and move its \$25 billion project to Darwin in the Northern Territory – 900 kilometres away from its Kimberley gas field.

The Barnett government, which labelled the loss to the state as highly embarrassing, has selected James Price Point in the Kimberley as the preferred site for an LNG hub in an effort to provide certainty for oil and gas companies and encourage new development. This comes after a series of changes within government that are designed to drive efficiencies for the resources sector and lift the state's reputation within the international mining community.

A dedicated minister for mines was installed along with a dedicated department for the sector.

The government has also embarked on an overhaul of the state's approvals process.

It is state environmental approvals that Chevron is currently awaiting after adding an additional third LNG train to the project in February 2008.

The Gorgon gas field was discovered in the 1980s and is Australia's largest known gas resource, containing 40 trillion cubic feet of gas, which Chevron says is enough energy to power a city of 1 million people for 800 years.

Chevron needs environmental approvals followed by state and federal approvals but it also needs to complete engineering work before it can make a final investment decision.

If it proceeds, it is estimated to generate 6000 jobs at the height of its construction and deliver about \$40 billion in royalty revenues over 30 years.

At this stage Chevron's Krzywosinski is giving nothing away other than to say that his company welcomes "the support and encouragement of the government as we progress these significant natural gas projects".

UBS energy analyst Gordon Ramsay agrees that increased government support is a positive development for Chevron, but says: "This will be a joint-venture decision and the economics have to be there. They have to get a return on capital."

Julie-anne Sprague

Losing steam

