

Inside Canberra

Rob Chalmers - bringing you the latest business intelligence from inside Federal Government

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From the Gallery

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- A long line of famous ships in the Royal Navy proudly bore the name *HMS Indefatigable*. John Howard personifies the meaning of this word. Our Navy one day could well have the *HMAS John Howard*. The PM puts all the members of his Cabinet to shame (including Peter Costello) when it comes to get up and go.

- Just look at his recent peregrinations starting from Sunday 9 July with a dinner at the Marconi Club. Then Monday 10 July at a function at the Sydney Opera House; 11 July, Cabinet meeting in Sydney; 12 July, Blacktown Workers Club; 14 July, presided over COAG in Canberra; 17 July, Sydney Convention Centre for speech to CEDA; 18 July, visits East Timor before Darwin on the way home.

- But there's more - the day after East Timor and Darwin Howard is in Cooma with the local member, Gary Nairn, just so this important town in Eden-Monaro remembers how Gary was instrumental in persuading the PM not to privatise Snowy Hydro.

- As far as physical ability to do the job as Prime Minister, Howard could well go on for another ten years. Only electoral defeat might stop him doing just that. No wonder Costello is frustrated.

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PM and Costello spat not hurting - yet

The flare up between John Howard and Peter Costello did little damage to the Coalition, according to latest polling. This is not surprising. Most voters are not interested in the machinations of rival groups within political parties. This explains the fact Labor did quite well earlier in the year even though Kim Beazley's leadership was under attack within the party and was front page news. The Howard/Costello feud will matter in the longer term if it continues to dominate politics in the run up to the election, expected in the second half of next year.

Labor winning polls this year

This week's Newspoll shows the Coalition primary was 42% (up 2% on a fortnight earlier). The ALP primary at a healthy 42% (up 1%) was good news for Beazley. The Liberal primary jumped 3% to 38%, but it trails Labor by 4%. Two-party preferred the ALP was on 52% (down 1%), and the Coalition 48% (up 1%). The most likely explanation for the improvement in the Coalition's position is that the poll a fortnight earlier over-stated Labor's lead. Nevertheless, Labor would have won an election on the latest outcome. Since Australians got back to work in February the ALP has won seven Newspolls, the Coalition three, and one poll was a dead heat.

Beazley makes ground in bush

It is a long way to the next election, but there is no question Labor is well in the contest. This week's ACNielsen poll, published in the Fairfax press, agrees with Newspoll on the two-party outcome. According to ACNielsen the Labor lead is stronger than the bare figures reveal. Labor's two-party lead in the cities, where most of the seats are, is solid - ALP 53%, to Coalition 47%. Also, surprisingly in rural areas Labor has pulled up and is now running 50-50 with the Coalition. One explanation for Labor's improvement in the bush is that high petrol prices are hurting voters more than they are in the cities. Morgan, taken before Costello called Howard a liar, had Labor with a huge lead, 55.5%, to the Coalition's 44.5%. Malcolm Mackerris having taken account of redistributions says the swing Labor needs at the next election is 3.3%, down from 4.4%.

How the voters perceive the Leaders

Newspoll's survey of how the voters see the leaders was good for Beazley. This has been undoubtedly driven by the rising concern among workers about the Work Choice legislation. Beazley has cut back Howard's lead as *Decisive and Strong* which is now 80% Howard, to Beazley's 57%. Similarly, Beazley is closing in on *Vision for Australia* - 77% Howard, 69% Beazley; and on *Understands the Issues* - 75% Howard, 69% Beazley; On personal issues Beazley wins hands down on - *Cares for People; Likeable; In Touch with Voters* and (this is important); *Trustworthy*. Similarly Beazley wins easily on the question of *Who's best to handle Education and Health and Medicare*. These are the two top issues for voters. Labor's lead on *Education* seems to suggest it has succeeded in overcoming the odium left to it by Mark Latham's education policies

of penalising wealthy schools. Yet Howard still has an enormous lead over Beazley on *Who's best to handle the Economy and National Security*. Beazley can't do much about *National Security*, but if interest rates rise, as experts are tipping, this opens up a golden opportunity for Labor to portray Howard as breaking the election promise which won him the last election. A problem with the polls on the *Economy, National Security, Education and Health* is that although they measure support in terms of Coalition or Labor voters, they don't show the views of the all important swinging voter or Greens voter.

Voters prefer Howard

The strong voter preference for Howard over Costello, in the wake of the upheaval over the Howard and Costello blue, is unsurprising. Newspann has it as Howard 66%, to Costello 25%, with uncommitted on 14%. Beazley is preferred as PM by 48% when compared to Costello, who scored 40%, with Others/Don't know at 12%. This is all meaningless because nobody knows how Costello would be seen if Howard did retire and hand over to him in adequate time for the Treasurer to assert his leadership. That is not going to happen, and while Beazley is claiming he wants to fight Howard to punish him for the Work Choice legislation, everyone in Labor would much rather Beazley face Costello. Dennis Shanahan of *The Australian* is regarded as the journalist "closest" to Howard in the press gallery, and this week he declared Prime Minister Howard will stay to fight the election.

What will Costello do?

Shanahan bases this on Howard's big lead over Costello. This has nothing to do with the PM's future. Howard always intended going to the next election, as we have been saying for years. Janette likes Kirribilli House too much and Howard could not possibly give up playing the role of host when APEC meets in Australia next year. We have long maintained Howard will either be carried out of Parliament House in a box, or he will be defeated. There will be no gracious departure from the Prime Ministership as did Menzies (see *From the Gallery*). What is Costello going to do? We think he will simply stay in his Treasury portfolio and stew. He could mount a challenge (although not expecting to win) and go to the backbench. He could then assess his position after the election. Whatever the Treasurer does, if Howard loses, Costello will most likely retire rather than seek the Opposition Leader's role. If Howard wins, Costello may make it up with Howard and return to the Ministry in a role other than Treasurer. He will be anything but a certainty to make the Leadership.

Heffernan accused of dirt pedalling

On the subject of which journalists are closest to Howard, it once was Glenn Milne, particularly when he ran the SEVEN bureau in the press gallery. He has frequently had dinner with Howard, and earlier this year the PM wrote him a letter of congratulations on the birth of his baby boy. Milne is no longer "close" to the PM and is perceived as a supporter of Costello. Milne this week reported on dirt digging against Costello by one of Howard's principal spear carriers, Senator Bill Heffernan. Milne claims Heffernan last week rang media outlets to pass on allegations of hypocrisy against Ian McLachlan, in whose wallet was kept the details of Howard's 1994 "deal" with Costello on the leadership. Milne, in Monday's *The Australian*, said Heffernan was pedalling a story that when McLachlan ran for pre-selection in the seat of Barker in 1989 he gave preselectors "an indication" that he would only serve for two terms. He later changed that to mean two terms in government.

Gerard appointment raised

Milne wrote he can name at least one of the media outlets Heffernan contacted and to whom he spoke. Milne also reported that Piers Akerman (who he referred to as "the Prime Minister's columnist of choice") used the material pedalled by Heffernan to smear McLachlan. Further, Akerman also alleged there were South Australian Liberals who might be prepared to reveal further damaging allegations against Peter Costello over his controversial appointment of SA businessman Rob Gerard to the Reserve Bank board. The point about the Milne claims is that the anti-Costello forces are prepared to go after the Treasurer despite Howard asserting all was now sweetness and light. Akerman denied he had obtained smear material from Heffernan and then got very personal.

What was Howard's role?

Akerman relied on material from Rampaging Roy Slaven to suggest Milne had ambitions to be Costello's press secretary when he became PM. He also quoted the Latham Diaries referring to Milne as "the dwarf" who was just a frustrated politician. Latham claimed Milne told him Circa 97 how he backed Keating over Hawke and would do the same thing for Costello over Howard. Milne believes this material came to Akerman from Howard's office. Further, Akerman claims Milne called him a "fat c-" which Milne denies, saying he would not have used that word because his children were in his office at the time. On what Milne has reported we have not heard the end of tension and bitterness in the Parliamentary Liberal Party and long term this will impact on the polls. The big question is did Howard know of the Heffernan campaign? If he did, was he in favour of this pursuit of Costello?

Concern about Reef authority

There is alarm in North Queensland at what is perceived as a threat by the Howard Government to close down the Great Barrier Reef Marine Park Authority (GBRMPA) and hand over its work to a branch of the Department of Environment and Heritage in Canberra. Since its formation GBRMPA has been headquartered in Townsville where the senior executives and technical directors live. Col McKenzie, Executive Director Association of Marine Park Tourism Operators, told *Inside Canberra* - "We are concerned the decision making will revert to Canberra where people will not have any kind of affinity or empathy with the people who have to work in that region. We are worried that it will just become part of a department in Canberra so that when a tourist operator comes up with a good idea and he wants to discuss it with someone he will have to get on a plane and go to Canberra. He will be talking to someone who doesn't understand what the operator is talking about."

Lavish payments to fishing

McKenzie believes the move comes from the Queensland commercial fishing industry, which is furious that the GBRMPA closed down 33% of the reef for fishing in July 2004. He says in practical terms it is a lot less than that, since much of the 33% designated area covers waters where nobody fishes or visits. McKenzie believes the fishing industry is being lavishly compensated for the reef closure. He says the original quote for compensation sought by the GBRMPA was for \$10 million and this came from recommendations from the Department of Agriculture, Fisheries and Forestry, and the Productivity Commission. The Qld Seafood Industry Association on behalf of commercial fishermen, claimed \$23 million was required. According to McKenzie the Commonwealth has already signed cheques for \$87 million and officials believe the bill will reach \$120 million. McKenzie believes it could reach \$200 million. His Association of Marine Park Tourism Operators represents, according to Access Economics, an industry worth \$5.8 billion and employs 63,000. In employment terms it is the biggest industry in Queensland.

Stem cell problems

There could be trouble ahead on stem cell research for both political parties. John Howard told Premiers at COAG last week the Commonwealth will not allow lifting of the ban on using human embryos for stem cell research. Queensland and Victoria have reserved the right to legislate to allow such research in Australia. (Unlike legislation of the NT and ACT, the Commonwealth has no power to overturn such state legislation). A number of Liberal backbenchers, including Dr Mal Washer (WA), want the ban on stem cell research lifted. They are supported by the AMA, which says Australia should be involved in such research, and in any case other countries will do so. President Bush has used his veto to block a Senate bill to increase government funding of human embryonic stem cell research, so once again Howard is in lockstep with Bush and like Bush, out of step with public support for such research.

Stern Vatican warning

In The Vatican late last month Cardinal Alfonso Lopez Trujillo, head of the Pontifical Council for the Family, said - "Excommunication will be applied to the women, doctors, and researchers who eliminate embryos, (and to the) politicians that approve the law." Mal Washer wants the PM to agree to a conscience vote (Here we go again). As *Inside Canberra* has explained on several occasions, the PM does not have it within his power to give or not give Liberal backbenchers a conscience vote. They are entitled to vote however they choose. In the ALP it is different. There will be considerable support in caucus for the Government position not to allow lifting of the ban. There could be a conscience vote on the issue and only Caucus can decide whether or not to declare a conscience vote. In the absence of such a vote all Caucus members must support in Parliament any decision made by the Caucus majority.

Head in sand on trade

At the end of May Trade Minister Mark Vaile issued one of his cheery press releases, this one headed "Record Exports for April". A fortnight later came reality - the trade deficit in May doubled to \$2.3 billion, marking 50 consecutive monthly deficits. Exports in May fell 6%, while imports rose 3%, mostly because of skyrocketing costs of importing oil. Once again the shaky nature of Australia's trade position was revealed: with the terms of trade at the most favourable in 30 years we continue to trade in the red. No matter, say some economists, the floating dollar will always save the day. Yet will it as our own oil reserves run down, the world price of crude continues to climb and China resources boom eventually comes of the boil? As recently as the May Budget Treasury forecast a growth (in money terms) of exports in 2006/07 of 7%. Yet in the past five years Treasury has been hopelessly optimistic about export growth. In the five years since 2000, on average Treasury has forecast exports to grow by 5.5%. It was wrong by an average of 5.5 percentage points.

Bluescope boss warns on China

Bluescope CEO, Kirby Adams, has broken the comparative silence of the business community on the prospect of a free trade deal with China to warn against it. Addressing the American Chamber of commerce last week he said the government had to do something to halt the decline in manufacturing. This is a theme *Inside Canberra* has been hammering for some time. Adams said the manufacturing sector had shrunk to 13% of GDP, as against 19% in New Zealand, 17% UK, 14% US, and 39% China. Warning that the slide should not continue he said it was "virtually unprecedented for an advanced OECD economy" to have manufacturing at less than 10% of GDP. He said the Australian Government had been naïve to cut all trade tariffs and had left Australian manufacturing at the mercy of countries which protected their manufacturers. "We are caught up in an ideology in the fantasy we can lead the world to a free-trade nirvana by unilaterally dropping our tariffs."

Ideology and tariffs

How true. The Hawke and Keating Governments accepted the view of the free traders that, firstly, it was in our own interests to lower tariffs and secondly, this would encourage world free trade. The latter is patently wrong. The former is looking less convincing every day. Since the Howard Government came to power the economy has been largely driven by the property market and consumer spending based on (comparatively) low interest rates. Meanwhile, with the Nationals driving trade policy, the concentration has been on expansion of agricultural exports and more lately mining exports, both sectors dwarfed in importance when measured by employment compared to manufacturing and the services sector. As for the FTA with China, Adams is correct. There is no net gains to be made by Australia. It would further lower what limited protection manufacturing has against Chinese imports. Concessions on agriculture by Beijing are likely to be of little value, and whatever concessions are made on services will not be significant to employment in Australia.

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