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# Federal police join News probe

- Statement after TV piracy claims
- Allegations 'serious', says Labor

Laura Tingle and Gemma Daley

**PAY TV PIRACY**

**'Rupert Murdoch's media empire was ready to fight back against claims that it promoted television piracy against its rivals, and the emails were flying back and forth between News Corporation executives in Britain and the office of the chairman in New York.'** Neil Chenoweth, page 14

- ➔ The DirecTV sting, page 13
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The Australian Federal Police has revealed it is working with UK police investigating the News Corporation phone hacking scandal in a statement hours after *The Australian Financial Review* exposed News's role in high-tech piracy that sabotaged its pay TV rivals and damaged Australian operators such as Austar.

The Gillard government described the pay TV piracy claims raised in the *Financial Review* yesterday as "serious" and called for "any allegations of criminal activity" to be referred to the AFP.

The *Financial Review's* investigation comes as the competition regulator examines the proposed takeover of Austar by Foxtel, which is 25 per cent owned by News, in a \$1.9 billion deal that would cement its dominance of pay TV in Australia.

The *Financial Review* articles immediately raised pressure on News Corp's UK and international operations as a British MP referred the matter to the UK regulator, which is examining whether members of the Murdoch family can meet the "fit and proper" person test to hold broadcasting licences in Britain.

It is alleged News Corp subsidiary NDS promoted a wave of high-tech piracy that undermined the revenue of its pay TV competitors.

Pay TV pirates crack the codes of legitimate customers' smartcards used to access a pay service then sell them on the black market.

The *Financial Review's* investigation involved 14,400 emails from a hard drive in a laptop used by Ray Adams, who was the European chief for NDS Operational Security from January 1996 to May 2002.

Thousands of these were published through afr.com yesterday.

A spokeswoman for the AFP told the *Financial Review* yesterday: "The AFP can confirm that it received a referral in relation to News Corp on 12 July 2011."

This was during revelations of phone hacking at News's now defunct newspaper *News of the World*.

"The AFP is assisting the UK police with their inquiries," the spokeswoman said yesterday. "As this is an ongoing matter, it is not appropriate to comment further."

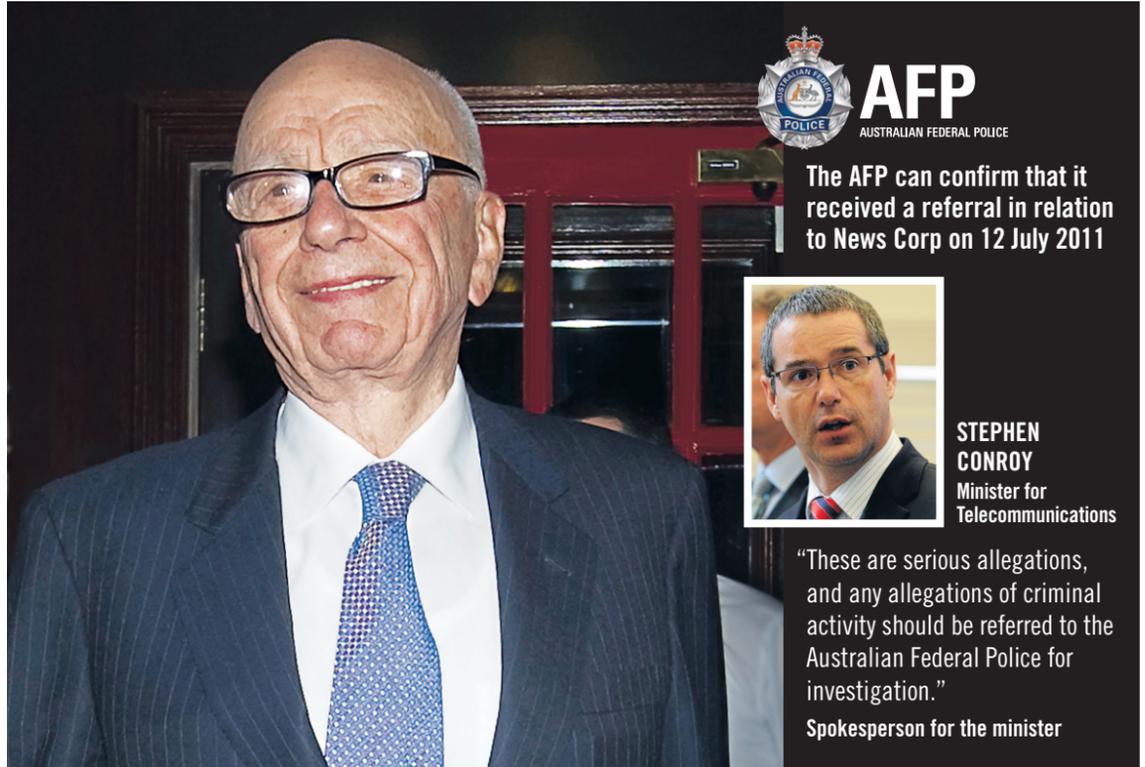
The *Financial Review* understands it was not the government that referred the matter to the AFP.

The *Financial Review* has also not alleged any criminal activity. At the time the piracy operations were taking place, they did not break any broadcasting laws.

However, the *Financial Review* revealed that the secret pay TV piracy unit within News Corporation sought to obtain the phone records of an Australian illegally.

In the emails, Mr Adams suggested spying on a Sydney engineer

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The AFP can confirm that it received a referral in relation to News Corp on 12 July 2011



**STEPHEN CONROY**  
Minister for Telecommunications

"These are serious allegations, and any allegations of criminal activity should be referred to the Australian Federal Police for investigation."  
Spokesperson for the minister

## How NDS made the price right

Neil Chenoweth

When Rupert Murdoch set out to buy US satellite broadcaster DirecTV in early 2000, the arm of his international media group that provided security for DirecTV had just developed a "silver bullet" that could drastically cut the runaway piracy at the broadcaster.

But executives at NDS Ltd, the controversial arm of News Corporation caught up this week in a new round of hacking allegations, decided not to use the fix. "Due to the politics of the

DIRECTV situation, [NDS operations manager] Raffi Kesten has prohibited any future kills. Therefore, this idea will probably never be implemented," an NDS engineer wrote in an email. The email is one of 14,400 seen by *The Australian Financial Review*, some of which can be accessed via the internet at afr.com.

Instead NDS sat on the fix for 15 months, a decision which cost their client, DirecTV, an estimated \$120 million in lost revenue.

The result was that DirecTV's value continued to be depressed as

General Motors began the sale process for its DirecTV stake, held through Hughes Communications – while Murdoch prepared a multibillion-dollar IPO to float News Corp's pay TV businesses in a new vehicle called Sky Global.

As the prospective sale price for DirecTV would be valued as a multiple of its earnings, the piracy had the potential to cut the market value of the broadcaster by an estimated \$1 billion.

The secret decision by senior NDS executives in October 1999 adds to

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## Budget to bite as tax take falls Green 'guerillas' flayed

Laura Tingle  
Political editor

**ECONOMIC OUTLOOK**

**'Slow lending growth and a likely rise in debt defaults will hurt profits at commercial banks, according to the Reserve Bank, which cautioned the industry against chasing unsustainable returns.'** Report, page 7

➔ Govts naive: McClintock, page 9

Treasurer Wayne Swan says the federal government will need to cut and cancel whole spending programs to return the budget to surplus next financial year, as it fights a structural decline in the tax base that will keep revenue at depressed levels for years.

Federal tax receipts, including GST, are forecast to stay at historically low levels – below 23 per cent of gross domestic product – for at least the next three years, partly as a result of a record level of tax losses depressing receipts.

Mr Swan is set to give a major speech in Sydney today in which he will outline the parameters of the May 8 budget. He will confirm that

there have been further revenue write-downs since the mid-year budget review in May.

The surplus is a "vital economic objective and because [revenue is] being written down, we need to find even more substantial savings in the budget than we had earlier anticipated", Mr Swan will say.

"I'm not talking about slash-and-burn. I'm talking about responsible additional savings."

Mr Swan will tell the Australian Business Economists there were one-off factors boosting tax collections in areas such as capital gains tax last decade. And although the economy has recovered from the global financial crisis, these revenue collections have not, he will say.

The worst bout of global financial instability in the years since the GFC – during the December quarter last year – has had a big impact on government revenue, he will say.

But beyond contemporary risks, government revenue is also being hit by "structural changes to the tax base over time".

Continued page 8

Perry Williams, Dan Hall and Angela Macdonald-Smith

Resources Minister Martin Ferguson has hit out at tactics used by "guerilla" environmental groups, warning a decline in productivity could mean Australia misses out on new resources projects.

His comments came as major investors Rio Tinto, Shell and ConocoPhillips warned that coal and coal seam gas projects could be marginalised and investment pushed overseas as Australia became an expensive place to do business.

Mr Ferguson told *The Australian Financial Review's* National Energy Conference in Brisbane yesterday that green groups were wrong to think there was a fossil fuel conspiracy "which starts in my office" and

attacked them for trying to stifle investment. "We must also recognise there are some who seek to manipulate those concerns, and use guerilla tactics through regulatory processes to frustrate economic development and job creation," he said.

Mr Ferguson's defence of the industry came as he weathered a storm from big investors who told the conference that red tape and high costs were a handbrake on the industry.

"Five years ago, Australia was the cheapest place for Rio Tinto to do business, now it is the most expensive," said Bill Champion, Rio Tinto Coal Australia managing director.

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National Energy Conference: further coverage, pages 28, 29  
Prices spark blame game, page 63

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