

## FINANCIAL REVIEW

## Power derails states' reform agenda

Australia's four biggest states representing 90 per cent of both the economy and our population are now ruled by conservative governments, making it an opportune time for Coalition parties to articulate a clear, compelling and united vision for the nation's future.

Campbell Newman's spectacular success in last weekend's Queensland election and a similar result for Barry O'Farrell a year ago in NSW delivered huge parliamentary majorities, but the conservative parties in both states went to the polls without strong reform agendas and they are now captured by the lesson that Prime Minister Julia Gillard and former Queensland premier Anna Bligh learnt about breaking promises.

That means any major reform proposals in Queensland and NSW will be put off to the next election for second-term implementation after only modest first-term steps and trust building.

Yet the question is, how such a strategy will go down with sceptical voters, and even more importantly whether the Queensland and NSW governments can afford to wait out another parliamentary term before they start tackling the economic

problems that both states face.

Labor destroyed the trust of voters because it is no longer able to present the electorate with a meaningful vision for our future.

As former prime minister Paul Keating pointed out this week, Labor no longer understands the aspirations of a burgeoning middle class that it was in part responsible for creating by opening up and reforming the Australian economy in the 1980s and 1990s.

Labor has abandoned its centre-left social democratic roots and is now run by poll-driven apparatchiks who stand for the vested interests of the party's trade union base and rent-seekers ever on the lookout for another government handout.

Conservative leaders need to ensure they do not fall into the same economically damaging trap.

Australia has entered the current millennium in a privileged position. Our abundant mineral bounty is bringing unprecedented wealth to a modern, aspirational and multicultural society that is the envy of other nations.

The biggest resources boom in more than a century has resulted in extraordinary benefits, but there are also significant challenges due

to accompanying structural changes occurring in the economy.

These challenges require what former NSW cabinet secretary Gary Sturgess, writing in this newspaper last weekend, described as a reinvention of government to

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improve service delivery areas such as health and education.

Unfortunately, none of the conservative parties that now hold office in NSW, Victoria, Western Australia and Queensland has laid out compelling, market-focused blueprints for change.

There is no coherent message coming from the conservative political leaders who have cut a swathe through Australia's electoral map. Australia's four largest states have divergent interests, with resource-rich Western Australia and Queensland confronting

different issues to the more densely urban NSW and Victoria.

Mr Newman has promised to shake things up in Queensland after last weekend's massive electoral victory, although his promise to hand development powers to local councils could prove problematic. The new Queensland leader is also caught between farmers and the state's coal seam gas boom.

WA Premier Colin Barnett talks up the case for reform, but his can-do approach has overtones of a Charles Court style of heavy state direction of resource development.

Victoria Premier Ted Baillieu and Mr O'Farrell seem reluctant to push ahead with big-picture reform, even though the audit reviews they both commissioned after being elected called for further privatisation to release funds for infrastructure, less government handouts and industrial relations reform.

Both also favour more urban sprawl rather than boosting urban density to take advantage of existing infrastructure. And Mr Baillieu recently caved in to pressure from Victorian nurses in a pay deal that could cost the cash-strapped government \$1.7 billion.

A politically charged stoush is building between the states and the federal government over who should take the blame for rising electricity prices. Having campaigned hard on the rising cost of living, Mr Newman and other conservative states will want to blame the Gillard government's carbon tax for higher power bills for consumers.

The federal government, locked into a \$23-a-tonne and rising carbon tax, well above the global price, wants states that haven't already done so to lift their caps on retail power prices in order to develop a functioning national energy market. This would allow more peak pricing to encourage appropriate investment. The biggest component of higher electricity prices has been the cost of investment, and the regulatory regimes for monopoly state-based electricity distribution companies favour excess capital expenditure and a guaranteed rate of return.

There are still hopes that the new conservative bloc will grasp the opportunity to address some of Labor's mess and get the nation's economic reform agenda back on track, but politics may muddy any conservative state fight-back.

## Global perspective

## Mound of evidence difficult to contradict



Tony Walker

Colleague Neil Chenoweth's remarkable reporting of the undercover activities of a secretive "operational security" unit supervised from News Corp's Office of the Chairman and charged with fighting pay TV piracy is a reminder of the stakes involved in what was, and is, a multimillion-dollar war conducted in cyberspace.

Clandestine activities, in which computers were hacked, encryption codes for set-top boxes pirated and distributed via paid hackers through UK piracy site the House of Ill Compute to damage rivals represented war by another means, ruthless in its intent and deadly in its execution.

News Corporation's pay TV rivals may not have been felled by these undercover activities co-ordinated by shadowy News operatives, but they were weakened to the point where, as Chenoweth reports, they became fodder for predators.

Speaking of predators, the Australian Competition and Consumer Commission is close to ruling on Foxtel's \$1.9 billion takeover of regional pay TV operator Austar.

Indications are that provided conditions are met on content sharing with Foxtel's internet protocol TV (IPTV) and other such rivals, the ACCC will wave through the creation of a pay TV monopoly.



After his 'most humble day', Rupert Murdoch, with wife Wendi Deng, during the phone-hacking inquiry. Photo Bloomberg

Might we suggest the consumer regulator hasten slowly in light of these latest revelations? Other shoes may drop. News owns 25 per cent of Foxtel in partnership with Telstra's 50 per cent and James Packer's 25 per cent, but has management control.

In their deliberations, ACCC commissioners might reflect on the fate of OnDigital, a UK rival to News's BSKyB that collapsed in 2002 with losses of more than £1 billion, and 1500 jobs.

News denies involvement in the proliferation of OnDigital's encryption codes, but emails in the *Financial Review's* possession cast doubt on such denials.

The pay TV business is not for the squeamish – or those with shallow pockets. Sky Television in the UK, which Rupert Murdoch launched in

1989 and merged the following year with its rival BSB to form BSKyB, made substantial losses initially.

Foxtel has been in the red for much of its existence and so, too, has Austar.

No one pretends this is anything but a capital-intensive cut-throat business in which companies owe it to their shareholders to do all in their power to protect their intellectual property and investment.

However, the question in all of this is whether News exceeded what might be regarded as ethical and legal boundaries in defending its commercial interests in a raw environment in which pay TV and encryption processes were in their infancy, and under assault by pirates and rivals.

This was the Wild West in

cyberspace in the 1990s – as opposed to the "Wild East" now that China has achieved gold medal status in the hacking business – when Murdoch set about creating a global pay TV footprint on which the sun would not set and which would deliver content generated in his Fox Studios and from tying up sporting rights.

All of this was accomplished with extraordinary persistence, to the point where Murdoch was close to persuading a friendly UK government to allow him to take out the 61 per cent of BSKyB he did not already own.

Not only is that not going to happen, but Britain's broadcasting regulator, the Office of Communications (Ofcom), has embarked on a review of whether News Corp and James Murdoch

qualify as "fit and proper" to run a broadcaster in the UK in light of the hacking scandals that have engulfed the company.

Although Ofcom seems unlikely to rule against News and its officers under present circumstances, these latest revelations – in a BBC *Panorama* program and in the *Financial Review's* voluminous reporting – could hardly have come at a worse time for the company.

It is under pressure in the UK in a spreading stink over allegations that not only did it hack dozens of phone accounts, News's reporters and their facilitators suborned the police with gratuities that verged on bribery.

Meanwhile, in America, the authorities are looking into whether News Corp has contravened the Foreign Corrupt Practices Act, which is intended to curb payment of bribes by US companies to police might fall foul of the FCPA.

In light of these threats to reputation that are barely contained, it's not surprising that News has begun to hit back. Murdoch himself took to Twitter to warn he would respond.

"So bad, easy to hit back hard, which preparing," he tweeted.

But Murdoch and his lieutenants will have their work cut out for them.

The 14,400 emails the *Financial Review* has relating to the activities of News operatives involved in fighting – and promoting – cyber piracy represent a mother lode of evidence that is proving difficult to contradict.

News's denials of wrongdoing are not convincing.

Tony Walker is the *Financial Review's* international editor.