

The very big whale in the room

Politicians and policy-makers the world over seem powerless to stop the oil price shock. If they can't stop fuel costs rising, who can? **PETER MARTIN** reports

If, like most of us, you are worried about the price of petrol, I am the bearer of bad news. You are likely to worry more. The reason has a lot to do with whales.

But before turning to the creatures that used to provide our oil for heating in the days before petroleum, it's worth looking at how we're coping now.

In a remarkably successful attack on the Government in recent weeks the Coalition has claimed both that the high \$1.50-plus per litre price of petrol is hurting us and that it is not cutting our use of the stuff.

This is, on the face of it, an odd position to come from the side of politics that says it believes in the workings of markets.

But its environment spokesman Greg Hunt has been arguing it with apparent sincerity.

Tackling the Government over the proposed emissions trading scheme which will push up the price of petrol, he has asked how "whacking a great new 20-cent tax" on petrol would decrease emissions.

"We have serious reservations and scepticism about petrol tax, given that prices have increased four-fold in the last decade and petrol volume hasn't changed at all," he said, asking further, "Can they explain how a

20-cent tax will decrease emissions?" The economics team at Westpac is able to explain it fairly well.

Economist Matthew Hassan has examined how our behaviour has changed over the past three years - when the price of petrol has really been climbing.

He has found that our spending on petrol as a proportion of our total spending has remained relatively steady at around 3 per cent.

That means that we are now spending more on petrol than we used to - \$16.90 per week instead of \$13.50.

But the amount of petrol we have bought per person has slipped, from 13.5 to 12.9 litres per week.

Figures on the distance travelled per vehicle bear this out. In 2001 the average car drove 14,600 kilometres per year. By 2006 that average had fallen to 13,800km and has probably fallen further since.

Hassan cautions that the cut in distance driven per person may not be as big as the cut

in distance driven per vehicle because we have more cars, but he believes that even that has fallen.

He also notes that we are still buying more fuel per week than we were in the low years of 2001 and 1991 when we bought only 12.5 litres.

Our consumption has further to fall, which is just as well.

For some people on high incomes or who live near their place of work, the price increases to date "haven't even touched the sides".

For others, the high

prices are biting. It is the outer suburbs of Sydney, Melbourne and Perth in which families are most likely to be falling behind in their mortgages, the suburbs in which people need to travel long distances and lack access to public transport.

"While it would be surprising if fuel price rises were the key factor behind the rise in arrears, they will clearly be adding to the stress on already stretched households in these areas," he says.

Our petrol price has roughly doubled in the past four years from around 77 cents per litre to more than \$1.50 a litre.

The bleak news, delivered to both the Treasury and the Reserve Bank this week, is that it isn't going to go back.

Professor Marvin Goodfriend, an adviser to the US Federal Reserve for 25 years, is visiting Australia as a guest of the United States Studies Centre at the University of Sydney.

Over tea and scones at the Canberra Hyatt on Wednesday after speaking to officials from the Australian Treasury, he sketched out the dimensions of the change that he believes is taking place.

It has very little to do with speculators pushing up the price of

oil and nothing to do with oil producers attempting to cut supply as they did during the oil price "shocks" in 1974 and 1979.

"China and India are going through a transition that is a one-off in the history of the planet Earth," he told me.

"Roughly half the planet is becoming modern.

"We have never had it before in thousands of years of planet Earth and we are not going to have it again in thousands of years.

"Let's put this in perspective, it has to happen: the relative prices of food and fuel have to adjust."

Goodfriend thinks we are in the middle of a fundamental shift, a bit like tectonic plates moving as a result of China and India moving quickly toward Western standards of living.

As he puts it, "The scarcity of the goods that nature produces is rising, relative to the scarcity of the goods and services that man produces."

He adds: "Let me repeat that," and then says that the price of food and fuel has to rise relative to the price of most other things and that there is nothing that anyone can do to stop it.

"Speculation is adding to that, but the basic fact is that China and India are beginning to modernise very quickly.

"Nature's ability to produce food and fuel is limited in the short run, so we are facing a fundamental change in the scarcity of those two products compared to almost everything else."

He says that, unlike with other forms of inflation, Australia's Reserve Bank and its kindred organisations are powerless to act against rising food and fuel prices.

If they push up interest rates and try to contain the overall rate of inflation they "have to create deflation somewhere else in the economy so that the aggregate inflation rate is stable."

"When central banks create deflation it is almost always associated with unemployment. That will in turn push down wages and other prices and in the end you will

still get the reduction in the standard of living and the shift in relative prices that has to flow from higher fuel and food prices.

"The fact is that countries have to live with the rising prices of food and fuel compared to the prices of the industrial goods that they produce."

Australia is probably in the best position of any developed country to cope with rising fuel and food prices. We export both fuel and food (although we import oil).

The Australian dollar is being pushed up by the tectonic shift and it is shielding us from the full horror of the adjustment.

If the Australian dollar had stayed still rather than risen since the start of last year, the petrol sold at Australian pumps would already be costing \$2 a litre.

It is likely to head there.

The US Federal Reserve has examined spending patterns in almost 180 countries and concluded that a doubling of per capita income more than doubles per capita use of oil.

As it puts it, "Big nations moving quickly up the income ladder have huge implications for oil markets."

Not surprisingly, the rapid changes in India and China have caught oil producers by surprise. They are unable to keep up.

Believers in "peak oil" who contend that worldwide supplies have already peaked argue that producers will never catch up.

People concerned about climate change who actually want to cut the use of carbon-emitting fuels argue that producers never should catch up.

So what's going to happen?

That's where we might be able to learn from what happened to whales.

Before petroleum there was whale oil.

Writing in the London *Financial Times*, the British historian and author Edward Chancellor quoted Herman Melville as noting that at the mid point of the 19th century - not that long ago - whale oil was used for

"almost all the tapers, lamps, and candles that burn around the world".

In 1851, the year *Moby Dick* was first published, more than 10,000 whales were killed and output peaked at around a third of a million barrels.

"Chasing whales was big business. But they became scarcer over time. This drove up the price of whale oil which made it profitable for voyages to extend further from port and also induced whalers to take greater risks.

"In 1859, Colonel Edwin Drake struck oil at Titusville, Pennsylvania. In a few days, Drake extracted as many barrels of oil as a whaling ship could gather on a four-year voyage. The price of petroleum soon fell far below that of whale oil. Whaling became unprofitable and was only carried on for the bones which went into ladies' corsets. Eventually, even these were substituted with flexible spring steel."

He says that while whales are living creatures and unlike crude oil a potentially renewable resource, the course of the whaling industry provides a guide to the future.

"The history of whaling shows that when demand rises faster than supply, prices rise in real terms. This provides an incentive to search for substitutes. It is hardly a coincidence that the US crude oil industry got going within a decade of the whale oil production peak.

"As fresh supplies of whale became harder to find and a substitute appeared, the smartest whale merchants left the business and invested their capital in the new crude oil industry.

"Even without whales, lamps carried on being lit and tapers burnt."

It's an optimistic message. But at its heart is the absolute necessity for the oil (and the petrol) price to rise before we are freed of the need to use it.

It looks as if it will keep rising. Nothing - not even FuelWatch or tax cuts - will be able to stop it.

■ Peter Martin is Economics Editor.



It's tough drying up leaks

The AFP is trying to discover who leaked details about FuelWatch. It's a hard task, **PHILIP DORLING** writes

The bloodhounds are on the case. More than two weeks have passed since the Secretary of the Department of Prime Minister and Cabinet, Terry Moran, called in the Australian Federal Police to investigate the leak of cabinet papers on the Rudd Government's FuelWatch scheme.

As a matter of policy the AFP won't comment on current investigations, but sources have confirmed to *The Canberra Times* that the hunt is well underway.

Immediately following the May 27 publication of Resources Minister Martin Ferguson's letter opposing the FuelWatch scheme, senior figures within the Government privately pointed to Ferguson as the source of the leak.

The subsequent disclosure to Nine Network journalist Laurie Oakes of departmental coordination comments on the FuelWatch cabinet submission then led to speculation that the source must be a bureaucrat, possibly a Liberal sympathiser or else a public servant angered by the Prime Minister's approach to work-life balance.

In a rare disclosure Oakes indicated his source was not a minister, and Rudd let it be known he thought a public servant was responsible.

Elements within Labor's New South Wales Right faction still blame Ferguson for the leak, but this has more to do with factional agendas and animosities than any reasoned analysis.

Ferguson has categorically denied responsibility and it is very difficult to see how his interests were at all advanced by the controversy.

More considered analysis within the press gallery, notably by Alan Ramsey, suggests that the Opposition was the conduit to the media for both Ferguson's letter and the cabinet papers.

It would hardly be the first occasion in his long career that Oakes has been served up a leak by an opposition politician. In 1997 it was a Labor frontbencher who provided Oakes with one of his biggest scoops, the disclosure of irregularities in Transport Minister John Sharp's travel claims.

The frontbencher went directly to Oakes without consulting the Labor tactics committee because he rightly feared that some of his colleagues would resist opening a can of worms that could also embroil Labor MPs (as indeed subsequently was the case).

If it is correct that Oakes got his latest leak from the Coalition, then the leaker was certainly highly motivated and knew very clearly what he or she was doing. More likely than not they have an established relationship with an Oppo-

sition MP or staffer and consequently had confidence that their material would be handled with discretion and for maximum effect.

The FuelWatch controversy has died down, at least for the moment, but the AFP is certainly working on the case. An initial investigation conducted by the Department of the Prime Minister and Cabinet focused on who had access to the documents. This could be done quickly because the distribution of cabinet papers is done electronically by the CABNET system, which incorporates audit mechanisms that will have instantly provided investigators with a list of all personnel who have read or printed the electronic version of the leaked documents.

The problem for the AFP is that this is probably a large number of people.

For starters, there are 20 cabinet ministers and the *Cabinet Handbook* provides that up to three staff in each ministerial office can be approved access to cabinet documents through the CABNET system. That's 80 people for a start.

Then there is the question of access within departments. It is for ministers to determine whether their departmental secretaries need to know the contents of cabinet papers and it is not known which secretaries were asked to provide departmental briefing on the FuelWatch proposals, but it's likely that as many as 10 departments did so. Given the likely distribution of material within agencies, this might have involved between 100 and 200 people having access to the leaked cabinet documents.

No surprise that Terry Moran has ordered an internal inquiry by his department into arrangements for the distribution of cabinet papers.

It is clear that the AFP face a difficult task. In recent years leak investigations have resulted in relatively few prosecutions and even fewer convictions.

According to one AFP document, a leak investigation is a painstaking process of "identifying and following up likely connections between people with access to the documents and those who made public use of the classified information, such as journalists".

Investigators might first seek some pointers from senior public service managers to identify disgruntled or

politically motivated staff in order to narrow the investigation. They will also be looking for direct evidence of contact or association between a staffer thought to be the recipient of the information.

The AFP have one powerful weapon at their disposal - easy access to telephone call-charge records. Interception of telephone conversations cannot be legally employed in an ordinary leak investigation (if foreign espionage is suspected it's a different matter), but access to telco records of who telephoned whom is a different matter.

No warrant is required. All that is needed is certification from a senior police officer and the phone company is obliged to hand over records that may extend back as far as five or more years. This is a very commonly used investigation tool. The most recent annual report of the Australian Communications and Media Authority reveals that in 2006-07 there were no less than 870,588 disclosures of personal telecommunications records to Australian law enforcement agencies.

Once phone-call records have been obtained, the data can be quickly sorted by sophisticated software to reveal patterns of contact or else disclose a brief contact that took place years before. In past AFP leak investigations, investigators have accessed the telephone records of Members of Parliament, political staffers and journalists.

Once investigators have triangulated on a particular individual, other techniques can be brought to bear. Departmental computer logs and email traffic can be examined with the consent of the agency in question. Covert access to workstations and files may be obtained. Physical surveillance might be employed if it is thought the source is active and there is a chance of catching the leaker passing on information.

In one lengthy investigation in the late 1990s the AFP and the Department of Defence were struggling to narrow down the list of suspects until a further disclosure of a highly classified and very narrowly distributed intelligence report prompted them to focus on a particular officer. They then checked phone records, tracked the movement of the suspect's mobile phone and covertly

entered his home before executing a search warrant. Even then, however, the police came away empty-handed and no prosecution took place.

Journalists and opposition politicians love leaks. Leaks are big news. More often than not they expose a gap between what governments tell the public and the private reality within the corridors of power.

On occasion a big leak can shift the political landscape. The "travel rorts" leak of 1997 secured the resignations of three ministers and then prime minister John Howard's chief of staff.

In 1999 the disclosure of highly classified Defence intelligence documents put intense pressure on the Howard government to change policy in relation to independence for East Timor.

Prime Minister Kevin Rudd, Treasurer Wayne Swan, Finance Minister Lindsay Tanner and Cabinet Secretary John Faulkner have all in the past gleefully seized on leaks that are to their political advantage.

Opposition politicians and journalists call foul when the police turn up on their doorstep, but are usually pretty keen to have those who might harm their interests tracked down and punished.

Sometimes the purpose of the investigation is simply intimidation - to tell public servants that the police are on the case and that everyone had better toe the line.

All in all, the hunt for leakers can be a costly and frustrating business. One abortive 18-month investigation in 1999-2000 cost in excess of \$1 million.

The personal and professional costs can be considerable for persons who have fallen under suspicion merely through association in what is in many ways a small town. Certainly the Federal Police are not in the habit of giving apologies when they get it wrong.

In the end most leakers are never identified, let alone caught, for the simple reason that the advent of photocopying machines in the 1950s has made it possible to make copies in seconds - and to do so anonymously.

If there is a patron saint of leakers and whistleblowers, it is perhaps Chester Carlson, the little-known inventor of the Xerox machine.



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