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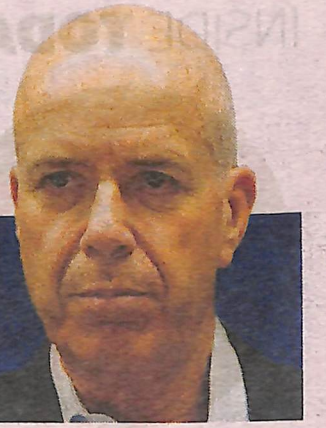


**SUMMER CLASSICS**  
Fresh take on favourite treats  
**GOOD FOOD**

**BACK FROM THE BRINK**  
The little bird that could  
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## China in new spy attacks

EXCLUSIVE

Nick McKenzie  
Angus Grigg  
Chris Uhlmann

China's peak security agency has directed a surge in cyber attacks on Australian companies over the past year, breaching an agreement struck between Premier Li Keqiang and former prime minister Malcolm Turnbull to not steal each other's commercial secrets.

A Fairfax Media/Nine News investigation has confirmed that China's Ministry of State Security is responsible for what is known in cyber circles as "Operation Cloud Hopper", a wave of attacks detected by Australia and its partners in the Five Eyes intelligence-sharing alliance.

A senior Australian government source described China's activity as "a constant, significant effort to steal our intellectual property".

The cyber theft places intense pressure on the Morrison government to respond either via law enforcement, diplomatic channels or public advocacy, in order to uphold the cyber security pact signed between the two countries only last year.

### CYBER WARS



Too close for comfort

PETER HARTCHER  
COMMENT PAGE 20

The US Department of Justice has ramped up its investigation and prosecution of Chinese cyber hackers this year, and over the weekend US Vice-President Mike Pence again accused China of "intellectual property theft".

The Australian Federal Police and Australian Security Intelligence Organisation have stepped up cooperation to respond to the threat, according to a senior police source, although they are many months behind the US operation.

Without enforcement, there was no effective deterrence, said one national security source.

Other sources said the Australian Signals Directorate has detected multiple attacks on Australian companies, although the names of the affected firms have not been made

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Matt Mullins, Andy Mullins and Doug Maskiell of Sand Hill Road at The Esplanade Hotel in St Kilda. Photo: Joe Armao

### 'Southside is back'

A mix of the old and the new is on the cards as The Espy reopens.

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## CBA: We put profit ahead of customers

Clancy Yeates  
Sarah Danckert

Commonwealth Bank chief executive Matt Comyn has admitted to a broken culture at the bank that saw it repeatedly prioritise profits over the interests of its customers, including the charging of inflated mortgage broking commissions and unjustified fees and the sale of dud insurance to tens of thousands of customers.

In an historic appearance before the Hayne royal commission, Mr Comyn conceded there had been a string of cultural failings within the country's biggest bank, which he said had been too "complacent," "legalistic," "defensive" and "insular".

Mr Comyn, the first big bank chief to front the inquiry, outlined a raft of occasions where the bank held concerns about products or practices, but it failed to stop them, amid concerns about the impact on its bottom line.

Senior counsel assisting the commission Rowena Orr told commissioner Kenneth Hayne that this round of hearings was not aimed at extracting yet more apologies from bankers over past failings, but getting to the heart of what caused misconduct in the sector.

Some of the most senior bankers in the country, including Commonwealth Bank chair Catherine

Continued Page 10

## Treasurer's push on energy firms Call for huge tram boost

EXCLUSIVE

David Crowe

Treasurer Josh Frydenberg is seeking vast new powers to order energy companies to sell their assets, according to a draft law that has been leaked to reveal his wide discretion under the contentious new plan.

Parliament will be asked to give the Treasurer the personal power

to force the big energy retailers to restructure their companies and sign financial contracts, in a government bid to pressure the industry into cutting prices.

The draft law, obtained by *The Age*, includes a provision that allows the Treasurer to issue a "divestiture order" to tell companies to dispose of any assets while restricting the potential buyers.

The legal power is vital to the government's energy policy after two years of clashes with the in-

dustry, including demands from some Coalition backbenchers that AGL must sell its Liddell coal-fired power station in NSW.

While the government announced the divestiture powers in October, the scope of the Treasurer's personal discretion has provoked concerns among lawyers and company executives being consulted on the changes.

Australia does not have a law

Continued Page 2

Melbourne needs 25 new trams every year - more than double the present intake - but trams are yet to figure in the political race to pledge multibillion-dollar road and rail projects.

Trams are the forgotten election issue, according to an exclusive analysis by the Rail Futures Institute, calling for the number of new trams to be turbocharged.

About \$300 million to \$400 million must be spent on new trams each year to allow for a fleet of

about 640 low-floor trams by 2034, according to the analysis.

This growth of the fleet would help ease overcrowding and prepare for a spike in patronage. By 2020, 90 new E-Class trams will have been delivered to the network since 2013, about 12 a year.

This average is far below the 25 new trams needed yearly until 2025, the rail group's president, John Hearsch, warned.

REPORT Page 6

### WEATHER

Today Cloudy. High chance of showers  
Tomorrow Showers at times  
Thursday Showers  
Details

22-27  
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9-15  
Page 32

### ODDSPOT

A homeless man in Virginia who managed to borrow \$US41,000 (\$56,000) after stealing another man's identity put his ill-gotten gains to good use, getting his misshapen teeth replaced with shiny implants and buying a \$10,000 French bulldog. The thief, Timothy Powell, 60, is in jail. There is no plan to repossess his new teeth.



### BUSINESS

Hayne urged to break up big banks  
SARAH DANCKERT  
Page 22

# Calls for boost to tram numbers

Timna Jacks

Melbourne needs 25 new trams every year – more than double the present intake – but trams are yet to figure in the political race to pledge multibillion-dollar road and rail projects.

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About \$300 million to \$400 million must be spent on new trams each year to allow for a fleet of about 640 low-floor trams by 2034, the Rail Futures Institute has said.

This growth of the fleet would help ease overcrowding and pre-

pare for a spike in patronage. By 2020, 90 new E-Class trams will have been delivered to the network since 2013, about 12 a year. (About 70 are currently in service.)

This average is far below the 25 new trams needed yearly until 2025, the rail group's president, John Hearsch, warned.

Between 2025 and 2034, 35 new trams would be needed every year as patronage grew, he said.

"The existing network is under extreme pressure in handling the current and forecast traffic volumes, both within the CBD and the inner suburbs.

"Ongoing [residential] densification is placing extreme demands on the system, which it is not currently well equipped to handle.

"The rate of tram delivery has slowed down largely ... that's no good either for the supplier or the customers. They need to be coming through a lot faster," said Mr Hearsch, formerly a senior bureaucrat at V/Line.

Tram patronage has more than doubled on some routes in the past decade, with chronic overcrowding on peak services on busy routes.

The Andrews government has ordered 40 new E-Class trams since 2014, while the previous Baillieu/Napthine government did not order a single new tram.

The first batch of 50 E-Class trams were bought under former Labor premier John Brumby.

Minister for Public Transport Jacinta Allan criticised the Coali-

tion for failing to expand the tram fleet and said the government was working on a business case for the new design, rollout and number of next-generation trams.

"Whether it's building new trams, accessible tram stops or adding hundreds of additional services – Labor is building the tram service that will get Victorians where they need to go," she said.

The Coalition's public transport spokesman, David Davis, said trams would play a role in the party's plans to manage population growth.

"Trams, including different light-rail models, will play an important part in getting back in control of population growth."

The Greens recently pledged

\$700 million for new tram routes over eight years and 300 high capacity trams on Melbourne's streets in the next 10 years.

The low-floor E-Class trams carry 210 people, more than double the capacity of most trams. As much as 40 per cent of the fleet only carry between 65 and 90 people.

Three-quarters of the tram network is shared with cars, making tram speeds among the world's slowest – down to 11km/h in the city and 6km/h on busy roads such as Sydney Road and Chapel Street.

The increased capacity would see trams carry up to three times the typical capacity of a freeway traffic lane.

COMMENT Page 20

# China breaks deal with new cyber attacks

From Page 1

public. The ASD works with the other Five Eyes countries – the US, Canada, UK and New Zealand – on cyber security issues.

One major irritation, raised by several police and intelligence officials, was that Australian companies and universities failed to heed repeated warnings to harden their security against both criminals and attacks directed by nation states.

These state actors are called advanced persistent threats because they work over months or years, adapt to defences and often strike the same victim multiple times. One of the most active Chinese adversaries has been dubbed "APT10", while "Cloud Hopper" refers to the technique used by this group as they "hop" from cloud storage services into a company's IT system.

In this case the Chinese hackers penetrated poorly secured IT service providers, to which Australian firms had outsourced their IT. The targets include cloud storage companies and help desk firms in North America and Asia. The initial penetration by the Cloud Hopper team allowed the hackers to enter the IT systems of Australian companies.

Adrian Nish, a cyber hacking expert from British Defence contractor, BAE Systems, said the APT10/Cloud Hopper attacks had focused on the mining, engineering and professional service companies.

"It is still active. We have evidence of [Cloud Hopper] again actively compromising managed service providers," he said.

The theft of intellectual property is part of China's broader industrial policy to match the US's technological edge by 2025. The theft can shorten the research and development process and potentially give Chinese companies a crucial market edge. They can also acquire sensitive information around pricing and corporate activity.

A national security official said the Turnbull-Li agreement had initially led to a significant reduction in cyber espionage from

China. The US experienced a comparable drop-off in attacks after former president Barack Obama struck a similar agreement with Chinese President Xi Jinping in 2015.

A former senior government official familiar with the cyber security agreement said: "The way these things usually go with the Chinese is they behave themselves for a while before they go back to being bad".

The attacks on Australian firms since the start of this year, including Cloud Hopper activity, showed the bilateral agreement was being ignored, according to officials.

Security officials and cyber experts, including Mike Sentonas a

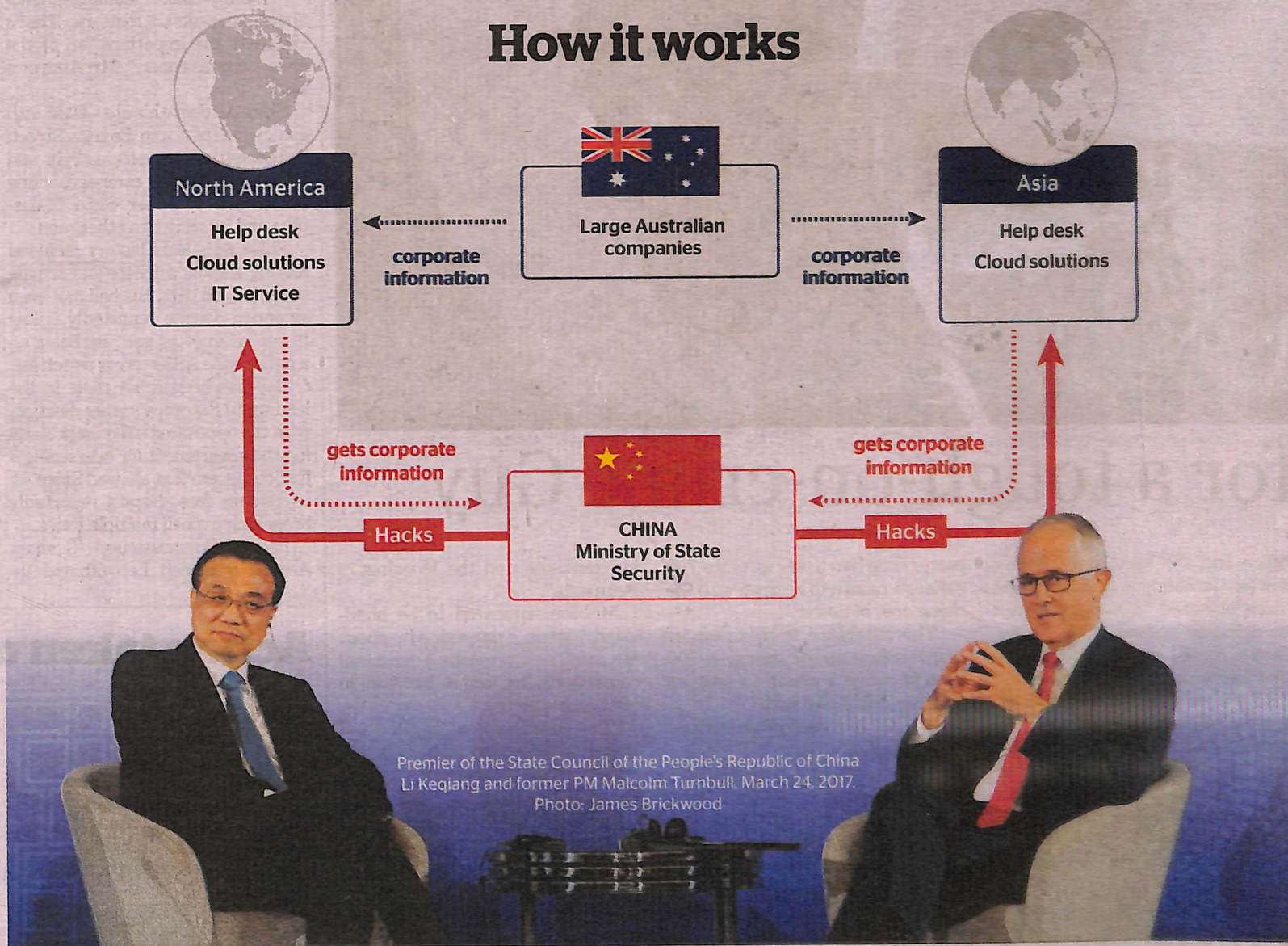
vice-president at US firm CrowdStrike, have linked the Cloud Hopper hackers to the Ministry of State Security (MSS).

"We noticed a significant increase in attacks in the first six months of this year. The activity is mainly from China and it's targeting all sectors," he said.

"There's no doubt the gloves are off." He said there had been a drop off in China's global hacking operations after the Xi-Obama deal.

Mr Nish, who has published the most comprehensive report on Cloud Hopper, said he discovered attacks on multiple clients appeared to be part of the same campaign of "Chinese espionage activity".

## How it works



Premier of the State Council of the People's Republic of China Li Keqiang and former PM Malcolm Turnbull, March 24, 2017. Photo: James Brickwood

allowing a back door into their clients' IT systems.

In October, the US Department of Justice provided a case study on Chinese hacking within a 21-page indictment naming the MSS and accusing it and its provincial counterparts of hacking an Australian domain name provider to access computer systems at aviation companies in the US and Europe.

The MSS is headquartered in Beijing but has extensive provincial operations and is regarded by Western intelligence services as a sophisticated outfit able to combine human intelligence with the advanced cyber capabilities.

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# Way too close for comfort

The US-China quarrel has moved decisively into our neighbourhood.

Peter Hartcher



The last time there was an imperial-scale contest for power over Australia's sphere, its land advance was halted in Papua New Guinea. That was 1942 on the storied Kokoda Trail. The contemporary Kokoda campaign was engaged on the weekend. It is also occurring in Papua New Guinea. It is not a hot war, of course. But one by one all elements short of war are being arrayed.

To now, the imperial-scale contest between the US and China has occurred at safely abstract distances from Australia. In the South China Sea, the East China Sea. The new line of resistance is a country whose closest point is just five kilometres from Australian soil.

The most obvious forum was the annual Asia-Pacific Economic Cooperation summit. It accordingly became an economic non-cooperation summit.

"APEC was always an area where we could reach some common agreement with China on economic matters," says Mike Green of the Centre for Strategic and International Studies in Washington. Instead, for the first time in a quarter-century, the summit broke up without agreement on a communique. Why? "You know the two big giants in the room," the summit host, PNG Prime



Minister Peter O'Neill, said. Says Green: "This shows two things. The Trump administration doesn't care about multilateral forums. They're happy to blow APEC up. And China is happy to blow it up too."

But first, four members of the official Chinese delegation to APEC tried to force their way into the office of the PNG Foreign Affairs Minister to insist on getting the communique rewritten to their liking.

The Pacific campaign in World War II was an allied US-led effort to halt the apparently unstoppable advance of the Japanese Imperial Army on its mission to establish the Great East Asian Co-Prosperty Sphere. Today's campaign is an allied US-led effort to halt the apparently unstoppable Chinese Communist Party on its mission to create what its leader, Xi Jinping, calls a Community of Common Destiny.

The US-led campaign failed in the

South China Sea. Barack Obama told Beijing to stop using "sharp elbows" to seize disputed maritime territories from the Philippines, Vietnam and others. Beijing took what it wanted with impunity and built substantial military outposts on what had been rocks and reefs.

Now the US is trying again, under a different president, and with tougher tactics. The US Vice-

those days are over." While the US has already imposed punitive tariffs on Chinese imports, there was plenty of scope for more, he added.

He sneered at China's globe-encircling Belt and Road infrastructure program as a "one-way road" carrying Chinese money and power. The US has armed its official agencies with an extra \$US60 billion for infrastructure lending to compete.

And the US joined allies Australia, Japan and New Zealand in announcing that the group jointly would build Papua New Guinea's first national electric and communications grid.

It's shameful, of course, that Australia can only find the energy and interest to help upgrade PNG's basic infrastructure under the goad of Chinese competition and US encouragement. Until now it's been content for its former colony to languish in a long miasma of Third World poverty.

## Scott Morrison tried to put a cheery face on the situation.

President, Mike Pence, accused China of imperial ambitions in his speech in PNG on the weekend.

There should be no place, said Pence, for "empire and aggression" in the region. Pence said that "China has taken advantage of the United States for many, many years and

This sudden new energy has direct military manifestations, too. After learning that China was discussing with Port Moresby the possibilities for building four ports in PNG, Australia quickly struck agreement to help the O'Neill government redevelop the PNG navy port of Lombrun.

On the weekend it was announced that the US would also participate in this project. It's just like old times. Lombrun was originally built as a US naval base in 1944 after the Japanese had been driven out.

"The kettle" of US tolerance for Chinese advances "has boiled over", observes Mike Green, formerly the top Asia official in George W. Bush's White House. "It would have happened under Hillary Clinton or Jeb Bush - it would have looked different, but it was going to happen."

Xi Jinping wasn't impressed with the Americans, either:

"Unilateralism and protectionism will not solve problems but add uncertainty to the world economy," the Chinese leader said at APEC, a criticism of Trump's tariffs. "History has shown that confrontation, whether in the form of a cold war, a hot war or a trade war, produces no winners."

But while there is a lot of loose talk recently about a new "cold war" between the US and China, today's situation is no such thing. The US and Soviet Union were strategic rivals, but also existed in entirely separate, hermetically sealed economic spheres.

Scott Morrison tried to put a cheery face on the situation at APEC.

"Every day brings us closer to a resolution" between Washington and Beijing, he bluffed.

True, but it's what happens between now and then that has serious observers worried.

Peter Hartcher is international editor.

# Give us more trams over freeways and trains

John Hearsch



Both major parties in Victoria have made extensive election promises to invest in public transport. They recognise that our city and state can't manage expected population growth without the connectivity and ease of movement enabled by investment in public transport, especially trains and trams.

The Melbourne promises differ. Labor's centrepiece is its \$50 billion orbital railway around Melbourne. Also promised are suburban train extensions to Wyndham Vale and Melton and more level-crossing removals. The Coalition has packaged outer suburban train extensions to Clyde and Baxter. Both support early building of a Melbourne Airport railway, via Sunshine.

But both have overlooked

Melbourne's iconic tram network, failing to recognise why much more should be invested in upgrading and extending one of the world's most extensive tram systems. For many parts of Melbourne, trams are the most effective means of moving people.

As new apartment blocks appear, population density rises in the CBD and inner and middle suburbs, making the need for improved tram services increasingly more critical.

Last year, trams carried 207 million passengers compared to 240 million across the suburban rail network. The system is under serious pressure. In the peaks, tram after tram is full on routes through Brunswick, Preston, Moonee Ponds, South Yarra, Prahran and St Kilda. Many are the 40-year-old Z class, groaning with overcapacity. Packed passengers, too, are groaning, without airconditioning in the warmer months.

Melbourne is among the fastest-growing cities in the developed

world. Apart from building booms in Melbourne's sprawling outer west, north and south-east, apartment development has intensified in the CBD and fringes and the middle ring suburbs.

Promises made by Labor and the Coalition address some outer growth area needs, but without major tram investment, people in the inner and middle suburbs will find it increasingly difficult to access jobs and services. Roads in these suburbs are already as congested at weekends as on weekdays. As residential densification marches on, their future is gridlock.

Buses, while necessary for feeder services to stations and local access, are rarely a solution - without dedicated lanes, buses become part of traffic hold-ups. Melbourne's bus system is losing patronage and needs a major revamp.

From 2025, Melbourne Metro will free up City Loop capacity and allow more trains on nine of our 15 suburban lines - but trams are doing

the heavy lifting in many inner and middle suburbs.

Importantly, the tram system offers an opportunity to increase its capacity and connectivity without the massive investment involved in freeway construction or underground railways.

A recent study by Rail Futures estimates major upgrading and near-doubling capacity of the tram system could be achieved in the next 20 years for about \$13 billion. That's about 12 per cent of the overall investment necessary over that period in rail-based public transport (heavy rail and new light-rail routes) to address Melbourne's predicted population of 8 million by 2050.

The priority is to accelerate acquisition of new high-capacity trams. The present drip feed of about 10 new trams a year must triple for the next 15 years. This would replace more than 300 high-floor trams not accessible to all passengers, offer a fully airconditioned fleet, and provide the capacity uplift critically

needed on most routes. Upgrading of power supplies and expanded tram depot facilities is also required.

For about \$400 million, early improvements can occur through route re-structuring and modest infrastructure works that complement the new fleet. These include disability access, enhanced tram priority on busy thoroughfares and better coverage of expanded employment areas on the city fringes. Added peak supplementary services and better frequency, especially at night and weekends, are other short-term imperatives.

In many ways, trams are the unrecognised jewel in the crown of Melbourne's public transport.

Our decision-makers need to look hard at the remarkable benefits that tram investment will contribute to Melbourne's liveability. It would be popular. It's the big gap in the political offerings so far.

John Hearsch is president of the Rail Futures Institute.