
Straws in the Wind

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SECRET
THE TREASURY
MINUTE PAPER

Mr. Latham
Mr. Hay - BA
Mr. Hardman

Mr. Daniel,

Middle East Loan → *Mr. Bailey*

I refer to Hardman's note for file on the Ministerial meeting (with officials in attendance) which took place at the RBA Civic commencing noon Saturday 21 December 1974.

2. After the meeting I had a private word with the Treasurer who was then on the point of departure for Melbourne.

3. I suggested in addition to the Minister's message to the Prime Minister through Hewitt he, the Treasurer, should as soon as possible talk in person with the Prime Minister. The Treasurer said he would do so.

4. I also referred to the agreement between the three Ministers that there was no need for the Ex-Co Minute to be revoked. I said I had not intervened on this point during the Ministerial discussions because I felt it would have upset the manner in which he, the Treasurer, was conducting the discussions. However I emphasised to the Treasurer that the Ex-Co Minute was broad and large in terms and did in fact give the Minister continuing authority to handle any further approaches by Khemlani at a later date or approaches from other parties. In line with my earlier expression of view to the Treasurer that as soon as the Khemlani exercise was out of the way control of these matters should revert entirely to the Treasurer, I went on to press the view that in the period ahead an appropriate occasion should be found in order to obtain a formal revoking of the Ex-Co Minute. The Treasurer expressed his agreement of this view.

5. For information and attention.

Dictated by Mr. Hartley
F. H. Wheeler
for (F.H. WHEELER)
Secretary to the Treasury
22 December 1974

SECRET

Copies to:
Mr. Garrett,
Mr. Stone,
Mr. Daniel,
Mr. Bailey,
Mr. Moore,
Mr. Taylor,
SEA.

SECRET

Note for File

Middle East Loan

I spoke with Mr. Townsend, Acting Head of the Department of Minerals and Energy this morning and asked him if he would please make available to this Department and to the Attorney-General's Department copies of all telex or other communications between his Minister's office (and the Department) and Mr. Khemlani on the one hand and the Union Bank of Switzerland on the other on Friday 20 December and prior to the meeting at noon on Saturday 21 December.

2. I said to Mr. Townsend that I was making this request following the agreement at the meeting between Ministers on Saturday 21 December that the question of whether any liability might arise, in the event that Mr. Khemlani might make a claim on the Commonwealth for his expenses in connection with this operation, might be further examined. I said that I had been asked by the Secretary to request this further information from Mr. Townsend.

3. In reply Mr. Townsend asked me to submit the request formally. (This has now been done under signature of a hand delivered minute from Mr. Daniel to Mr. Townsend with a copy going to Mr. A. Menzies of Attorney-General's Department.) Townsend said that it would be difficult for him to obtain the messages as these were held in the Minister's office and he would have to arrange to gain entry to the office. I find that explanation distinctly strange to say the least as Mr. Hardman was informed last Saturday afternoon by Mr. Jennings (Acting Private Secretary to the Minister) that Mr. Townsend was in possession of copies of all telex messages sent and received on Friday and Saturday morning. Mr. Hardman did obtain from Jennings late on Saturday copies of the messages which were sent after the meeting at noon.

Copies to:

The Secretary
Mr. Stone
Mr. Wark
Mr. See
Mr. Hill
Mr. Gilbert
Mr. Beetham
Mr. McBurney
Mr. Bailey
Mr. Taylor
Mr. Short
Mr. Davey
Mr. Stokes

Ganett Daniel

4. I did not refer to the advice Mr. Hardman was given by Jennings when speaking with Townsend.

A.P. Bailey
(A.P. BAILEY)
Acting First Assistant Secretary
23 December 1974

SECRET

THE TREASURY
MINUTE PAPER

SECRET

Mr. Bailey,

Middle East Loan

Mr. P. Moore to do

Mr. Hay

Mr. Kilham

ATT.

At 10.30 a.m. today Mr. Freney telephoned the Secretary and said he had had a call from Mr. Lynch's Private Secretary who, at Mr. Lynch's request, was checking out some information that had been given to them by various people. The information alleged that Australia had agreed to enter an overseas loan contract to borrow \$4 billion. *MS 27/12*

2. The information Mr. Lynch had was that the loan *AC* had been agreed to; Exco had agreed to it; negotiations had been carried out by UBS; AG's Department was unhappy *AC* about the procedures; the loan was for 20 years with interest payable at the end of the 20 years and it was petrodollars from Middle East sources.

3. Mr. Lynch was asking for verification of this information. Mr. Freney said he had mentioned the matter to Dr. Cairns who had asked him to check whether a statement he thought Senator Murphy and Mr. Connor had prepared, had in fact been put out. If the statement had not been put out Dr. Cairns asked that it be treated urgently and be released straight away. Any response to Mr. Lynch should simply be in terms of what Mr. Connor and Senator Murphy had to say as had been discussed at the meeting at noon on Saturday 21 December.

4. Mr. Freney told the Secretary he had not been able to contact Mr. Connor but had spoken to Mr. Townsend and had given him the above information. Mr. Townsend had undertaken to consult with Mr. Connor and had said that he thought the statement had not been released but had only been prepared to be held against the possibility of an inquiry. Mr. Townsend said he would have something cleared with Mr. Connor which Mr. Freney could then pass on to Mr. Lynch. Mr. Freney asked Mr. Townsend to do that as urgently as possible as Mr. Freney felt he should answer Mr. Lynch as soon as possible.

5. The Secretary agreed with this and read to Mr. Freney the two sentence contingency Press Statement that had been drafted on 21 December. The Secretary said he left the matter to Mr. Freney and Mr. Townsend.

6. In conclusion Mr. Freney said to the Secretary that the Treasurer had been most adamant that it was Senator Murphy's and Mr. Connor's words that should be used.

7. For information.

J Selby
(J.V.A. SELBY)

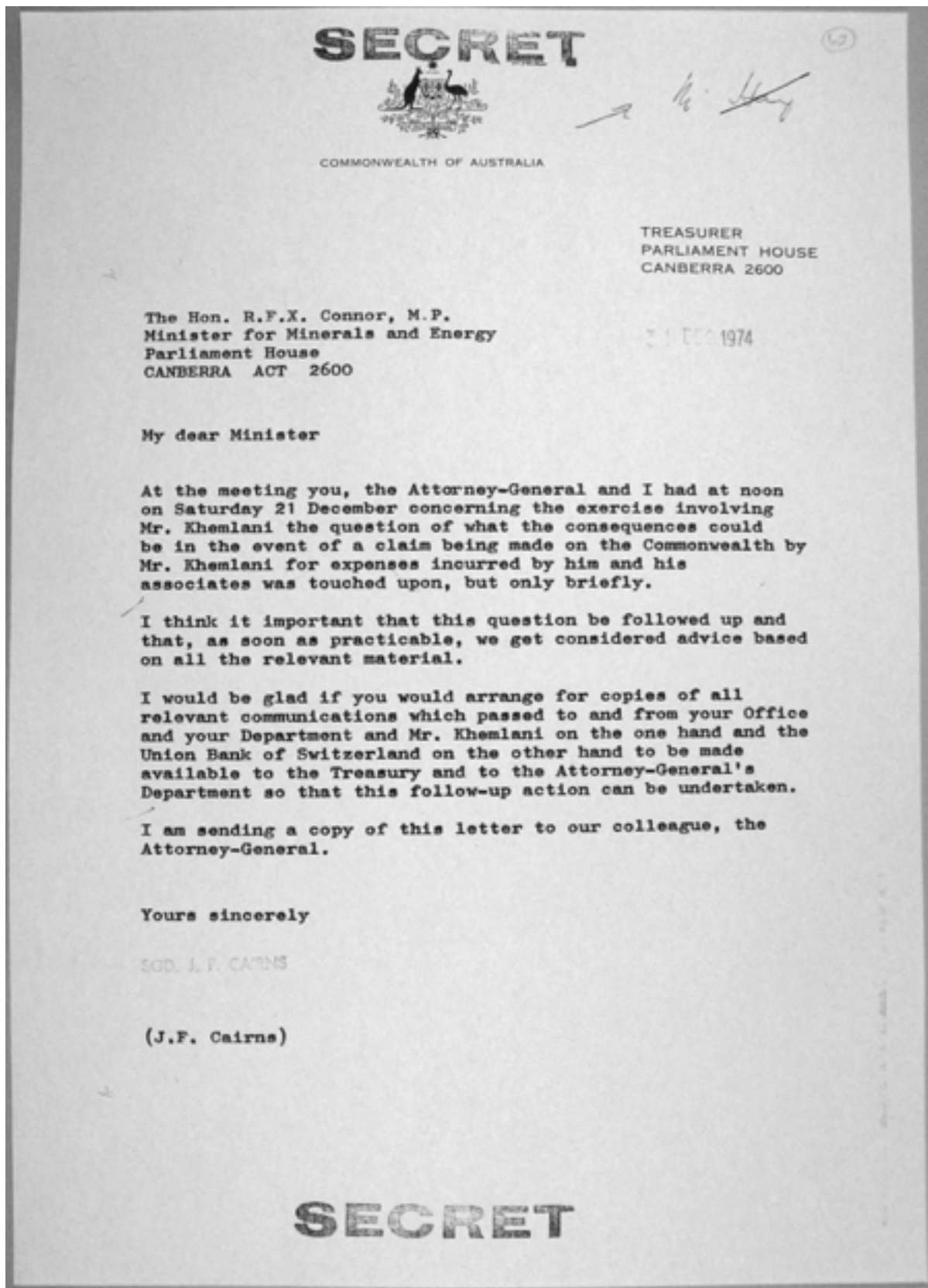
24 December 1974

copies to:

Mr. Garrett
Mr. Stone (OR)
Mr. Daniel
Mr. Wark
Mr. See
Mr. Cole
Mr. Whitelaw
(OR)
Mr. Gilbert
Mr. Besley (OR)
Mr. J. Moore
(OR)
Mr. Prowse
Mr. Taylor
Mr. Short
Mr. A. Moore
Mr. Beetham
Mr. Hay
Mr. Hardman
Mr. McBurney

SECRET

Letter from Mr J F Cairns to Mr R F X Connor, 31 December 1974
[A571, 1974/96 Part 4; f. 62]



Minute, 'Proposition re Overseas Loans: Karco Nominees Pty Ltd' from Mr R Daniel to the Treasurer [A571, 1975/38 Part 1; ff. 5-3]

DEPARTMENT OF THE TREASURY
3064
MINUTE PAPER

Tring
Letter signed &
despatched
1975

The Treasurer, *→ Mr. Danby*

Mr. Nagy
ATF

Proposition re Overseas Loans:
Karco Nominees Pty. Ltd.

I proffer below some comments on a letter (copy attached) addressed to you on 17 December 1974 by Mr. George H. Harris, a Director of Karco Nominees Pty. Ltd.

2. Mr. Harris has sought from you an indication that Treasury and Reserve Bank approval would be forthcoming in the event that he and his partner (Mr. Les Nagy of Sydney) can successfully negotiate overseas loans ("through a Swiss Bank") for State Government authorities and these authorities are prepared to accept their own forward exchange risk.

3. I suggest that this kind of proposition needs to be treated very circumspectly.

4. Overseas borrowings by statutory authorities are governed by the Gentlemen's Agreement between the Australian and State Governments. The procedures laid down in that Agreement require that:-

(a) a proposed overseas borrowing by an authority should be submitted for consideration by the Loan Council by the Premier of the State Government within whose jurisdiction the authority falls (or by the Treasurer in the case of an Australian Government authority) and negotiations for the borrowing should not be entered into without the approval of the Loan Council; and

(b) in the event of the Loan Council giving approval for negotiations to be entered into for such a borrowing the negotiations are to be conducted through the Chairman of the Loan Council and the terms of the loan and the underwriters or brokers through whom it is to be issued, are to be subject to the approval of the Loan Council.

5. While Mr. Harris states that he and his partner have established that several State Government authorities are "extremely interested" in borrowing the overseas funds which he claims to be able to tap, no proposition for an overseas

borrowing by any particular State authority has been submitted by any Premier. Some of the State Governments and their authorities were very much concerned earlier in this financial year about whether the authorities would be able to raise locally the full amount of their approved borrowing programs for the year, but there was a very considerable improvement in their borrowing performance and prospects from October. (This reflected, inter alia, a substantial increase in the margin between rates on shorter term Commonwealth bonds and those on semi-government issues and also a big increase in lending in this area by the Commonwealth Savings Bank and other savings banks.) The situation is to be reviewed again early in the New Year, in consultation with the State Treasuries.

6. Even if some authorities were to be facing a prospective short-fall in their raisings, there would be alternatives other than overseas borrowings by them to be considered.

7. Successive Australian Governments have seen advantages in having overseas borrowing for financing public sector expenditures undertaken by and in the name of the Australian Government itself, rather than having a proliferation of approaches to the international capital markets, with borrowings being made by authorities of lesser standing.

8. Next, I turn to Mr. Harris' advice that amounts of up to \$US200 million would be available through a Swiss bank on a ten year basis for rates between 8.3 per cent and 8.8 per cent. I find it difficult to reconcile this with the hard facts, as we know them, of the terms on which funds are available overseas, through Swiss banks or otherwise. In this regard, I mention that we keep closely in touch with developments in the various capital markets overseas and have frequent contact with a very wide range of underwriting groups, banks and other institutions involved in these markets. In the case of the Swiss banks, we have had close relations with the leading three of these for many years. Within recent weeks, we have had visits from top management people of two of them and also from a representative of the other.

9. Thirdly, there is Mr. Harris' request for an "indication" from you that Treasury and Reserve Bank approval would be forthcoming in the event that the loans he speaks about could be successfully negotiated. Not only would this be inconsistent with normal procedures, but the consequences for the Government's own standing as an international borrower could be embarrassing, and indeed quite serious. I am not expressing here any judgment as regards Mr. Harris, but it would be at least possible for any such "indication" to be trailed before potential lenders as "evidence" of authority

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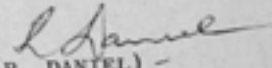
from the Australian Government to borrow on official account and before potential borrowers as "evidence" of Government endorsement of the bona fides and capabilities of the holder as a borrowing agent.

10. Governments, if they are to retain respect and keep in good standing on the international capital markets, need to avoid allowing their names to be associated with any operators in these markets other than those whose reputation and standing are beyond question. Moreover, any negotiation by the Government itself for an overseas loan could be quickly soured if it came to the notice of the underwriting group or potential lender that other parties were at the same time "shopping" for funds on behalf of the Government or with its backing, especially in the same market.

11. I attach for your consideration a draft reply to Mr. Harris.

12. Going beyond this particular case, I mention that previous Treasurers, including your predecessor, found it useful to adopt a general practice of having persons who approached them about possibilities of arranging overseas borrowings for the Government or for Government instrumentalities referred at least in the first instance to the Treasury, especially if they did not directly represent a major underwriting group or bank well-known to the Government. Experience over the years has demonstrated that, when tested, the propositions that come forward from what I might call the "fringe" operators - and there is a suprisingly large number of them - almost without exception fall to the ground or are of a kind with which no reputable borrower, especially a Government, should be associated. If you wish, I could give you a more detailed story in this regard, and I would of course be happy to talk with you on the subject at any time convenient to you.

13. Submitted for consideration.


(R. DANIEL) -
Deputy Secretary
(Supply and General)
31 December 1974