2

THE LOANS AFFAIR

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DURING 1974, THE Whitlam Labor Government became aware that as a result of OPEC's four-fold increase in oil prices, large petro-dollars surpluses were becoming available on the international money markets to governments wanting to borrow. This possibility presented a number of attractions to a government frustrated by an opposition-controlled Senate's refusal to pass the Australian Industry Development Corporation Bill[1] and by a High Court ruling which invalidated the newly created Petroleum and Minerals Authority.

Secondly, and more importantly, because the Arabs do not have the same sorts of multi-national corporations as the Western world, loans were available with fewer strings attached than the traditional sources of Chase Manhattan, Morgan Guarantee and other finance capital corporations were willing to allow. Ted Wheelwright states that 'America has always said in effect that we aren't going to lend money to people to buy out our companies'.[2] This didn't deter American multinationals from buying out Australian enterprises though. On this very subject one American executive declared, 'Now you tell me that there may be some obstacles. Well they'll have to be big ones to stop us. No outburst of blind nationalism is going to make us change our minds.[3]

It was this 'blind nationalism' that inspired Minerals and Energy Minister, Rex Connor, in late 1974, to seek a loan from Middle East sources in order to mount a massive programme of mining and natural gas development including the upgrading of deep sea harbours and the electrification of freight rail areas to increase export earnings.[4]

Moreover the possibility of a 'buy back the farm' operation, resulting from the financial difficulties being experienced by a number of overseas owned mining corporations, wouldn't have escaped the attentions of so astute an industry observer as Connor. The Burmah Oil Company, in deep debt, had to be rescued by the British authorities and its share of a natural gas consortium could have passed under Australian control. In Queensland, the Peabody coal assets looked like coming on to the market as a result of a U.S. anti-trust order against its major shareholder, Kennecott Copper.[5]

Although none of these intended projects were costed, it seems reasonable to suggest that the $4 billion loan Connor was seeking could easily have been absorbed.

The 'unconventional sources' of overseas loans obtainable in the Middle East had already been tapped by a number of countries. 'Leading international borrowers such as the United Kingdom, France, Japan, Italy and Denmark had arranged large government-to-government loans on a bilateral basis, amounting to $6.3 billion during the second half of 1974'.[6] Moreover, Middle East financiers were becoming increasingly aware of their potential as challengers to the traditional finance institutions of New York and London by declaring that 'The time for SAMA (Saudi-Arabian Monetary Authority) or its counterparts in other oil-producing nations to replace Chase or Morgan as a prime direct source of finance is very near, we predict'.[7]

The purposes for which the loan was to be used were in Australia's best interest and for its long-term benefit. The same cannot be said for the actual loan-raising operation that followed. On 11 November 1974, Tirath Khemlani, a London-based Pakistani commodities dealer arrived in Canberra to discuss with Rex Connor the raising of a $4 billion loan. From the outset the Treasury and Reserve Bank were suspicious of Khemlani, as a result of a multitude of previous approaches by 'funny-money' men offering loans that on subsequent investigation Treasury found they could not obtain.

Both Connor and his departmental head, Sir Lennox Hewitt, interpreted this atttitude as a reflection of Treasury conservatism and attachment to traditional financial institutions. This was a view also shared by Prime Minister Whitlam who, as Laurie Oakes points out, 'recognised that there was a risk involved, but he had always been contemptuous of people afraid to take risks. He would have seen the stakes as worth the gamble'.[8] He gave Connor his full support. Additionally Whitlam's relationship with Treasury had distinctly soured as a result of the advice his government was receiving concerning the economy, and he was seriously considering replacing Sir Frederick Wheeler as head of Treasury, with Hewitt.[9]

On 7 December 1974, following negotiations overseas, Khemlani arrived back in Australia. A meeting was convened that day with officers from Connor's Department, the Attorney-General's Department and representatives from merchant bankers Darling and Co. and their legal advisers. As well, Whitlam held meetings with officers from the Treasury and Attorney-General's Department, the Governor of the Reserve Bank and the Chairman of the Commonwealth Banking Corporation, while the Board of the Commonwealth Bank was also told of the loan-raising plans. Obviously, a number of people including some from outside the public service knew of Khemlani's activities before a meeting of the Executive Council was ordered to authorise the loan raising. It is no great surprise, therefore, to learn from Andrew Clark that 'Opposition Leader Phillip Lynch was tipped off within four days of the Council's meeting',[10] or indeed from Oakes that 'Lynch had heard about the loan even before the meeting'.[11]

The Executive Council meeting was hastily arranged, as Whitlam was leaving Australia on the following day, 14 December. A meeting of the A.L.P. Federal executive being held simultaneously was continually interrupted by ministers ducking in and out between the two meetings. Amazingly, the Deputy Prime Minister and Treasurer Jim Cairns hadn't been informed of the Executive Council meeting and was asked by Whitlam to sign the minute after the meeting concluded.[12] The Governor-General Sir John Kerr whose signature was also required was attending a ballet in Sydney and he too signed the minute some time later.

On 20 December, Connor sent copies of the Executive Council minute and a copy of the Draft Acceptance to Khemlani and the Union Bank of Switzerland where the funds were to be mobilised.[13] On the following day Connor informed Khemlani that 'The loan proposals have been examined by the Australian government and in the light of information now available to it, it will not further pursue the matter'. What accounted for Connor's abrupt termination of the negotiations at this late stage?

It certainly wasn't, as Wheelwright suggests, 'revoked at the insistence of bureaucrats in the Treasury'.[15] It was revoked by Connor himself after the Union Bank informed him that it knew nothing of the loan referred to.[16] Reports from officers of the Treasury and Minerals and Energy who were in Switzerland during this period reached Australia and indicated that Khemlani was not telling the truth.[17] A meeting was arranged by Cairns with Connor, the Attorney-General Lionel Murphy, Wheeler and other officials. At that meeting, according to Cairns, Connor 'quickly agreed that the matter should not be proceeded with and the authority to borrow $4b. was revoked on 7 January 1975'.[18]

The Minister for Minerals and Energy did not table any documents in the Parliament during the special sitting of 9 July, relating to those events (except the telex informing Khemlani that the deal was off) because it would have made a mockery of the contact he continued to have with Khemlani following the debacle of December.

On 28 January 1975, Connor was again given an authority to seek a loan this time of $2,000m. He had frequent contact with Khemlani right up until 20 May, when Whitlam revoked the authority.[19] During this five months period no evidence appeared that a loan would be secured. The interchange between Connor and Khemlani degenerated into farce as both Bob Sorby, Connor's press secretary, and his departmental head warned him of the consequences of continuing the Khemlani negotiations.

By the time Whitlam revoked the authority it was too late—the damage had been done. In the intervening months, the 'fringe operators' and 'carpetbaggers' of the international money market became aware of Australian loan raising efforts and alleged letters of communication between Australian officials and intermediaries were given widespread publicity in the media. The opposition and the media, keen to force a federal election at the earliest possible opportunity, sought to extract as much political advantage as possible from a situation that was clearly damaging the government's morale and credibility.

But if Whitlam believed his May decision would see an end to the painful loans exercise he was wrong. A new crisis emerged involving Deputy P.M. and Treasurer, Jim Cairns.

In the middle of December 1974, Cairns received a letter from George Harris, a Melbourne businessman, concerning the possibility of overseas loan raisings. On 31 December 1974, Treasury submitted to Cairns a minute pointing out the dangers of approaches of this kind[20]—less than a fortnight after Treasury's predictions of the Khemlani loan were proved correct. In his book *Oil in Troubled Waters* Cairns omits to mention this minute. Indeed his chapters on the loans affair are more important for what they do not contain than the contrary. Humphrey McQueen may well be correct in describing parts of Cairns' book as 'brilliantly lucid'—he is not correct in suggesting, however, that 'It is packed with information and details not to be found in the gaggle of books by journalists'.[21] Much of what Cairns has to say was already in Hansard almost twelve months earlier, or in the accounts written by Laurie Oakes and Paul Kelly and published in book form in early 1976.

The Cairns crisis stemmed from a letter he had given to Harris on 7 March 1975 in which, a legal opinion concluded,[22] he established a client relationship between the Treasurer and Harris. Cairns makes much of the point that 'It was fully within my authority as Treasurer to give to Mr Harris the letter... of 7 March even if those letters had established an agency between the Australian government and Harris. At no time did the Attorney-General's Department, or anyone else, ever suggest otherwise'.[23]

This may well be the case but it wasn't the point at issue. Whitlam's decision of 2 July to advise the Governor-General to terminate Cairns' commission stemmed both from a discrepancy between a reply given by him on 4 June and the letter written on 7 March 1975, and from reported activities of a Cairns staff-member, his son-in-law Phillip Cairns, which would have made it possible for the latter to make a profit from his position on his minister's staff and from whom Whitlam believed he had not received satisfactory explanations. In his speech to the Parliament on 9 July 1975, a week following his dismissal of Cairns, Whitlam said. 'The explanation I sought from the minister did not concern the proprietary or prudence of any activities he had entered into as Treasurer concerning petro-dollar raisings'.[24]

Had Cairns followed the instructions that he gave to his own staff-members to refer all loan-raising offers to Treasury it is likely that the debacle would have been avoided. He seems to reach the same conclusion himself and now says. 'I was never keen to try to do business with intermediaries. I do not like shrewd money dealers of any kind. Perhaps the only one I took seriously, and it was a mistake, was George Harris.'[25]

Ironically the only petro-dollar loan that appeared likely to become available was a loan from the Saudi Arabian Monetary Authority being

negotiated by those who had vociferously opposed Connor's efforts—Cairns and in particular the Treasury.

The deal fell through, however, when Whitlam sacked Cairns as Treasurer on 3 June 1976. It is a measure of Whitlam's total ignorance of loan-raising methods that he unwittingly sabotaged the government's only likely source of success. The only reason he offered the Parliament on 9 July for dismissing Cairns as Treasurer a month earlier was a 'belief in the unwisdom of his (Cairns') action'.[26] The more likely reason was that he wanted to clear the decks of a Treasurer who he knew would oppose the deflationary economic strategies that Whitlam was being persuaded to adopt by Treasury in the August budget.

Tirath Khemlani re-appeared again in Australia in early October 1975 and in a statutory declaration declared that Connor had continued loan negotations with him after his authority had been revoked by Whitlam on May 20.[27]

Khemlani's allegation conflicted with Connor's July 9 speech tabled in the Senate where it was revealed that 'The Executive Council authority of January 28 was rescinded on May 20 to permit the finalising of a $100m loan to Australia in New York. Matters have not been further pursued with Mr Khemlani'.[28] Connor clearly had misled the Parliament, and Whitlam asked for Connor's resignation. Connor refused. When caucus convened the following morning, a motion 'accepting Connor's resignation was passed by caucus following a ballot in which Connor supported the motion. The Prime Minister had called for the resignation of his minister on the basis of a speech *tabled* in the Senate—a chamber which was later to prove instrumental in the destruction of his government.

Much of the detail concerning the 1975 Loans Affair remains obscure, particularly the role played by the institutions which dominate the international money market. The following broad conclusions may, however, be drawn.

1. A large loan to the government would have enabled the A.L.P. to implement its proposals for greater local ownership of the Australian economy and an expansion of the productive public sector. In 1974-5 such policies would, in addition, have provided some stimulus to an economy experiencing its worst post-war recession.

2. Such a loan was clearly available as the other loans have demonstrated. It may, however, have been the case that a large loan for the purposes that the A.L.P. had in mind was less acceptable to the international finance market.

3. It is not clear why the Labor Ministers—Connor in particular—used intermediaries in their loan-raising efforts when government-to-government negotiations would appear to have presented a more logical channel. These intermediaries provided the occasion for the spectacular allegations raised by the Opposition and the press concerning financial maladministration.

4. The publicity campaign, secrecy and administrative mistakes made

by Cairns and Connor permitted their removal on grounds of parliamentary and administrative incompetence. Those Ministers most concerned to alleviate the recession and to introduce structural reform to the Australian economy were thus most easily removed in the interests of the introduction of economic rationalism.

5. The legacy of the Loans Affair is most certainly going to make any future efforts to break out of the central economic plank imposed during the Liberal era—private foreign investment, largely uncontrolled—that much more difficult. Of the lost opportunities of 1974-5 the Loans Affair may prove to have been the greatest.

NOTES

1 This Bill was designed to allow a degree of Government participation in new development projects; although it was passed at a joint sitting of both Federal Houses in August 1974, the Senate was likely to refuse finance to fund the AIDC.
2 Ted Wheelwright, 'The Loans Affair', *Arena* 39 (1975), p.77.
3 'Conglomerate Trip—Its Aquisitions in Australia.' Mr. Bobby Smith, ITT Vice-President, *Age*, 3 May 1972.
4 See Connor's speech to the House of Representatives—*Hansard*, 9 July 1975, p.3611-12. See also Cairns' list of projects requiring developmental funds in *Oil In Troubled Waters*, (Widescope, (1976), p.163-6.
5 See *Nation Review*, Editorial, 11-17 July 1975.
6 Bill Hayden, *Hansard*, House of Representatives, 9 July 1975 p.3641.
7 Mr. Kikmat Nashashib, Investment Manager of the Arab Fund for Economic and social Development in *Euromoney* (August 1974), p.49.
8 Laurie Oakes, *Crash Through or Crash* (Drummond, 1976), p.58.
9 *Ibid*, p.58.
10 Andrew Clark, 'Hay: First Away on the Funny Money Trail', *National Times*, 7-12 July 1975, p.6.
11 Oakes, *op. cit.*, p.62.
12 See Jim Cairns, *Oil In Troubled Waters* (Widescope, 1976) p.93-4.
13 Copy of the telex in *Hansard* (House of Representatives, 9 July 1975), p.3617.
14 Copy of the telex in *Hansard* (House of Representatives, 9 July 1975), p. 3619.
15 Ted Wheelwright, in *Arena* 39 (1975), p.82.
16 Paul Kelly, *The Unmaking of Gough* (Angus & Robertson, 1976), p.165-6.
17 Oakes, *op. cit.*, p.63-4.
18 Cairns, *op. cit.*, p.94.
19 *Hansard*, House of Representatives, 9 July 1975, p.3621 ff.
20 A copy of the minute appears in *Hansard*, (House of Representative, 9 July 1975), pp. 3568-9.
21 Humphrey McQueen reviewing *Oil In Troubled Waters*, in *Nation Review*, 6-12 August 1976.
22 *Hansard* (House of Representatives, 9 July 1975), p.3565, for opinion of Attorney-General's Department.
23 Cairns, *op. cit.*, p.99.
24 *Hansard* (House of Representatives, 9 July 1975), p.3556.
25 Cairns, *op. cit.*, p.71.
26 *Hansard* (House of Representatives, 9 July 1975) p.3557.
27 See *Melbourne Herald*, 13 October 1975.
28 Oakes, *op. cit.*, p.131.