

STRICT EMBARGO FOR FRIDAY MORNING'S PAPERS.

MOUNT ISA RAILWAY.

ARTICLE BY THE PRIME MINISTER (MR. MENZIES).

I have gathered from practically all of my Queensland Commonwealth Parliamentary colleagues, and also from some communications I have personally received, that there is a great deal of propaganda current in Queensland to the effect that the Commonwealth Government has not made genuine efforts to secure the financing of the new rehabilitated railway; that, on the contrary, it has impeded the project; and that it has no proper interest in the development of Northern Queensland.

The Queensland Government is familiar with the facts, and therefore cannot be held responsible for this propaganda. My Government has no quarrel with the Queensland Government on these matters, our interests are completely in common, and we share a great enthusiasm for this great mining and railways enterprise. To avoid foolish controversies, and to put the record straight, I have written this statement, which is designed to be objective and clear, and as brief as is practicable.

As I have had more to do with the negotiations than any other Commonwealth Minister, most of what I have to say will have my own first-hand authority.

What I will call "the project", which includes a dramatic development of the mining output of Mt. Isa so as to make it one of the greatest mines in the world, with large consequential additions to Australia's internal activity and export income, and a vastly improved railway link between Mt. Isa and the East Coast, began to be discussed some years ago. The then Queensland Government sought a report from a great firm of American railways consultants, Ford, Bacon and Davis. In what is still regarded as an authoritative examination, these engineers made it clear that should the company develop its daily production to 14,400 tons (and more so should this be increased to 19,000 tons), the projected cost of the railway (£29m) could be comfortably amortized, over a period of 20 years, by the resultant freight revenues from Mt. Isa.

The company clearly would be undertaking a vast capital expenditure on the mine. From the point of view of Government, the question was how to raise the £29m. for the railway and its associated expenditure.

When Mr. Nicklin became Premier, he promptly investigated the matter, in close collaboration with Mr. Hiley, his Treasurer. He took the matter up with us before and at the Loan Council Meeting in June 1958. His proposal was that the Queensland Government should, out of its own resources during the period of construction, find £7m., and that £22m. should be borrowed abroad. We thought that a World Bank borrowing would have a triple benefit; one was that it would add to our capital resources for the carrying out of a great work; the second was that it would improve Australia's overseas balances; the third was that it would not impair ordinary borrowing for the States' works programmes.

It was, however, necessary to secure Loan Council approval for a borrowing by the Commonwealth in the specific interest of one State. We undertook to do everything in our power to secure this approval, and it was in fact given.

The proposal which the Premier formulated for purposes of the Loan Council, was that Queensland envisaged entering into a contractual agreement with the Mt. Isa Company, whereby the Queensland Government would agree to rehabilitate the railway between Mt. Isa and Collinsville by June 1963 to the standard proposed by the expert consultants, Messrs. Ford Bacon and Davis; and the company would agree to guarantee sufficient earnings on the carriage of inwards and outwards traffic to Mt. Isa, to meet the cost each year to Queensland of rehabilitating the line within a period of, say, 20 years from 1st July, 1963. It will at once be seen that, at that time, the proposal was that the company would amortize the total cost.

We thought the proposal had great merit, and believed that it would commend itself to the World Bank as a borrowing for a specific and self-liquidating developmental project.

From that day to this, firmly persuaded as I am of the great value of the project, nobody has worked harder to bring it off.

But, quite early in the subsequent negotiations, it transpired that the Company was not prepared to guarantee the full amortisation. I am not criticising the company; it formed its own business judgment. But the change did present difficulties in securing the money from the World Bank. That bank is one of Reconstruction and Development. It does not lend money simply for the purpose of getting interest on it and securing a repayment of the principal. Its prime function is to finance some economic development which will, so to speak, pay for itself. In the case of applications for loans relating to specific projects, the World Bank has made a practice of requiring a complete guarantee from the principal user.

After preliminary exchanges with the bank, which it is unnecessary to particularise, we had a three-cornered conference at Canberra, in which I pointed out that I did not think there was any real chance of a World Bank loan unless there was a freight contract between the Queensland Government, which had a proper interest in securing the economic success of the new line, and the company, which had much to gain by a long-term freight contract in respect of a railway adequate for the ultimate expansion of the mine. Our discussions lasted until 3 o'clock in the morning, and ended with a broad and no doubt tentative agreement by the company to guarantee (on various conditions) a substantial proportion of the amortisation, of the order of about 70 per cent, which we thought would provide a basis for negotiation with the bank.

Upon subsequent reflection, the company did not feel able to confirm this. Alternative proposals were considered, but for various reasons, they later came to nothing.

Just before I went off on my recent journey to America and Europe, we had a further conference at Canberra. Queensland Ministers had with them a revised draft agreement. We once more discussed the possibilities of a World Bank loan. Having once more explained the bank's method of approach, and the purposes

for which it had been established, I was asked whether, as I had had great personal experience with the bank in the securing of earlier loans, I would be willing to take the matter up in Washington with the President of the Bank, Mr. Eugene Black, with whom I was known to be on close and friendly terms. I replied that I would be willing to do so, though unless there was some very material change I was by no means sanguine of success. In effect, I said:

"The bank will consider that this business is primarily a matter between the Queensland Government and the Mt. Isa Company. The bank has made it clear that it wants a freight contract between the company and the Government of such a kind as will make a very expensively re-constructed line not a liability to the Queensland Government, but an asset. They will want to strengthen the position of Queensland at the same time as they facilitate this enormous mining development."

That was a perfectly fair statement, not of our requirements - our function was to become the borrower from the bank and to re-lend to Queensland - but of the requirements, as we understood them, of the bank.

We had a good deal more discussion, which I need not rehearse, about the desirability of including in any freight contract adequate provisions to protect the company in the event of such events as a partial collapse of the mine, or some Government action, or war. But, in the broad, we agreed that a suitable freight contract would be necessary if we were to do business with the bank.

I went to Washington and saw Mr. Black and some of his top men. Knowing that no loan could be actually secured in a day or two, I set out to establish, if I could, the essential pre-conditions of a useful negotiation. First, was the bank genuinely interested in the Mt. Isa project? Did it see it, as I saw it, as something of immense importance both for the development of Queensland and for the improvement of export earnings?

The answer to that was unhesitating: "You can take it that this bank would be pleased to be associated with this project. But of course we have our own standards and practices." "Anyhow," I said, "you are keen?" Mr. Black said, "Yes."

We then discussed the fact that the Australian Government would be the borrower. It was once more made clear - as I had tried to make clear at Canberra - that the proposal did not turn upon our credit-worthiness, which the bank regarded as unquestionable, but upon the freight arrangements which could be made between the Queensland Government and the Mt. Isa Company.

"Well," I said, "I think it would be useful - though they are not the direct borrowers - if I could get the Queensland Government to send their Treasurer, Mr. Hiley, to Washington, and the company to send Mr. Fisher. Would you and your officers be prepared to have discussions with them if they came over?" He said "Yes."

I then said, "Before I do anything about this, I want to know one more thing. The bank has heretofore said that it requires a 100 per cent amortisation guarantee from the principal user, the company. Is that inflexible?"

After discussion, the answer was "No. We are prepared to negotiate on a basis of less than 100 per cent, because we think this a valuable project."

I then dictated, in the presence of the bank's representatives, the relevant passage of a cable to my colleagues at Canberra on these two points. The bank agreed. I think it necessary to set this out, because, although thereafter I made no statement at all on the subject of the loan, it has been, I gather, freely said by some people in Queensland that I "oversold" the prospects of a loan.

Mr. Hiley and Mr. Fisher in fact went to Washington and had negotiations first with Mr. Black and then with officials which were in fact terminated by Mr. Hiley on the ground that he felt no adequate progress was being made. This was naturally a matter for Mr. Hiley's own judgment, and I have no right or desire to criticise it. I did, however, receive in London a letter from

Mr. Black in which he said he was sorry that the negotiations had terminated. (Mr. Black was himself in Toronto when the talks ended.) He repeated that the bank was very interested. He pointed out, quite accurately, as I subsequently learned, what the differences were, and added "I didn't think any of them were insoluble."

On my return to Australia I was shown the documents, which included, by courtesy of the Queensland Government, reports which Mr. Hiley had made to Mr. Nicklin during the discussions. In these I read that the company, through Mr. Fisher, had at Washington offered, on certain conditions, to guarantee 70 per cent of the amortisation of the cost of the railway.

As this seemed to me, with my knowledge of the bank, to provide a basis for a further loan negotiation, but as the Commonwealth Treasury officer who had attended the Washington talks had expressed doubts as to whether such an offer had been made in terms (this being, of course, a matter of interpreting the language used), I decided to invite Mr. Nicklin, Mr. Hiley and Mr. Fisher, once more to come to Canberra.

This they most willingly did. The conference began with a short statement by me on my own talks at Washington, followed by a question from me about the company's preparedness to guarantee 70 per cent. Mr. Fisher at once rejected any such idea. Speaking to Mr. Hiley, he said, in substance, "I have never guaranteed 70 per cent. What I said was that we were prepared to accept a surcharge on the freight rates to build up a fund of £5m. which could be drawn upon if, in any year, the amount of freight was insufficient, and that that might, over a period of 20 years, produce 70 per cent of the total amortisation." In answer to a question by me, Mr. Fisher agreed that if for any reason the volume of freight fell for some time, the 10 per cent surcharged freight rates might not produce anything like 70 per cent of the amortisation figure.

As, in a matter so complex, there was clear room for misunderstanding, and as the 10 per cent surcharge proposal had, I learned, been rejected at Washington, I was proceeding to ask

some more questions about it, when Mr. Fisher said: "Feeling under some pressure, I advanced the 10 per cent surcharge proposal at Washington, but it is now withdrawn." Well, I said, "What offer are you making?"; to which Mr. Fisher replied, "None. The company will guarantee nothing in respect of the railway rehabilitation. Why should we? We are mining people. We will develop the mine. The Government can develop the railway. That is its business, not ours."

This statement was subsequently repeated several times, after which I made the obvious remark that, in the absence of any guarantee from the company, all talk about a borrowing from the bank fell to the ground, and that we could forget about it. This conclusion was accepted around the table.

I am not quarrelling with the company or Mr. Fisher, who are admirably competent to decide their own business, or with the Queensland Government, which had pursued this matter with great activity and zeal.

But I have stated the bare essentials of the negotiations, because it clearly appears that a proposal which began at the time of the Loan Council meeting of 1958 as one which involved a complete guarantee by the company, ended with a decision by the company to give no guarantee at all.

Clearly, therefore, the failure to secure a World Bank loan arose from circumstances over which the Commonwealth Government had no control, and for which we can in no sense be fairly blamed.

Mr. Nicklin and Mr. Hiley, I am sure, agree with this.

Before our last conference ended, Mr. Hiley opened up the possibilities of a borrowing from some other source or sources. I am in close correspondence with Mr. Nicklin about this matter.

All that need be said at this stage is that the Queensland Government and my own are both active and co-operative, since we are both enthusiastic about the project, and will do all that we can to see it completed as a whole, in the interests of both mineral and pastoral development in Northern Queensland.

CANBERRA,
August, 1959.