

COPY OF LETTER TO PREMIER OF QUEENSLAND
THE HON. G.F.R. NICKLIN, M.M., M.L.A.
DATED 26TH OCTOBER, 1959.

Dear Mr. Nicklin,

Mr. Holt having now returned and given us an account of his very extensive enquiries into the possibilities of overseas borrowing, I am now able to convey to you our considered views as to the part the Commonwealth is prepared to play in financing the rehabilitation of the railway from Collinsville to Mt. Isa in North Queensland.

First, I should say that we have concluded that there is no immediate prospect of raising finance overseas specifically for the Mt. Isa Railway project. We do not by any means rule out the possibility of obtaining some overseas money for the purpose at a later stage, and that is a consideration we have had to keep in mind in framing the proposal I am about to put to you. It is clear, however, that no such opportunity is likely to occur for some time ahead and that, even then, we could not rely upon obtaining more than a part of the total sum required.

In the light of this conclusion we have turned our minds to the problem of finding sufficient money from other sources to enable the comprehensive railway project to go ahead and be carried through to completion in a satisfactory manner.

You told me in your letter of the 24th July last that your Government had decided to proceed with the limited project of re-building the line from Richmond to Duchess at the standard envisaged by Ford Bacon and Davis in their report. The advice you obtained from that firm was that the cost of that work would be from £8 million to £10 million and you said that, spread over five years, this would be within the financial resources of your State.

On this, I said in my reply to you that, while the more limited proposal was naturally quite unobjectionable from our point of view, I could not help feeling that it was a relatively temporary expedient, and that I would like to see the whole line done, thus bringing about a development of great importance to Queensland.

That is a view to which I have held steadily. My colleagues and I have always seen the comprehensive railway project as a means of promoting the immense and varied possibilities of development which undoubtedly exist in Northern Queensland. This is indeed an aspect of the matter which may have had too little emphasis. We all started thinking and talking about the railway primarily in relation to mining at Mt. Isa and, of course, it probably remains true that the prospective mining and smelting expansion at Mt. Isa itself constitutes the chief immediate need for the railway work. But, as we know from what you and others have told us, and from our own investigations, the whole of the North-Western region is rich in possibilities of other developments, some of them perhaps being likely to materialise in the not far distant future. I have therefore come to think of the railway as being vital not only for the Mt. Isa expansion itself, but for the whole future of Northern Queensland.

Hence, it is clear to us that the financial problem to which we should look is that of meeting the cost of re-building and re-equipping the whole Collinsville-Mt. Isa railway at an adequate standard. That, at any rate, is the basis on which we have worked, and I know that you see eye to eye with us in this.

Coming now to details, I remember that the estimated cost of the railway project as a whole, as originally conceived, was of the order of £29 million to £30 million. Those

figures, I believe, allowed fairly substantially for increases in construction costs that might occur during the time the railway was being built, for interest on capital during the construction period, and for certain improvements of a general nature which the Queensland Railway System would, sooner or later, have had to face.

Next, as I recalled a little earlier, you said that your State would be able to find from its own resources, over a period of five years, from £8 million to £10 million towards the cost of the railway. You thought that this might entail some sacrifice of work elsewhere but you plainly rated the importance of the railway improvements so highly that you were prepared to face up to this.

It appears, then, that your essential unsatisfied requirements is for a sum of £20 million over the period it may take to carry out the railway rehabilitation work. My colleagues and I have now decided that the Commonwealth will offer to underwrite the provision of this sum on the terms and in the manner I shall now state.

We would provide the money initially by way of advances from the Commonwealth to the State of Queensland as the railway work proceeds and pro rata to expenditure on the project by Queensland during that period from its own resources.

The Commonwealth would charge interest on these advances, as from the date at which each advance was made, during the construction period but it would not expect repayment of the principal to begin until the designated date for the completion of the railway work. Thereafter, it would require equal annual instalments of interest and principal sufficient to pay off the total amount advanced over twenty years from the designated date of completion of the railway.

While not wishing to become involved in details of the project, the Commonwealth would naturally desire to be satisfied that it would be carried out at an adequate standard of construction and equipment. We envisage, in effect, that in essentials, though not necessarily in all particulars, it would follow the broad lines set out in the Ford Bacon and Davis reports. On this basis there would have to be an initial estimate of total cost to which your Government and ours would work in providing finance pro rata as expenditure on the job required. In determining the standards, your Government would naturally be guided by the knowledge that the Commonwealth's contribution would be £20 million.

I may say that in making this offer we have had very much in view that it was just such an arrangement we had under discussion when, last year, we were negotiating for a loan from the International Bank. I believe I am quite right in saying that you then regarded such an arrangement as both suitable for the financing of the railway and as acceptable to your Government. Hence it seemed to us that we could not do better than to revive the arrangement which had so much thought at that time, and on which both your Government and ours were agreed both as to broad principles and as to the main details. If I could put it so, we are now proposing to place ourselves in the position we would have occupied had we been able to secure a loan from the International Bank but with the substantial difference that we ourselves will now be assuming in addition the obligations which earlier we had hoped would have fallen upon that institution.

The same consideration has guided us in determining the matter of interest rates. While it is not easy to find a

generally satisfactory criterion for this, we think it fair to propose that the rates of interest the Commonwealth should charge on the advances made from time to time to Queensland should be the same as those currently set by the International Bank for new loans to member countries. You will readily appreciate that the Commonwealth will still have ahead of it the job of raising money for the advances it makes to Queensland, and we will certainly be following up all possibilities of raising such money abroad. This is for the very good reason - of importance to the States as well as to the Commonwealth - that anything we can raise abroad over and above what might be called normal loan raisings will enable us to avoid any diminution of the amounts that would otherwise be available to the Commonwealth and the States for other developmental purposes. It is, of course, quite impossible to foresee what any money raised abroad will cost but, as a broad judgment, the rate currently charged by the International Bank ought to provide a fair reflection and index of the cost of international loans to Governments. Should it subsequently prove that some part of our advances to you can be recouped from special borrowings overseas on better than International Bank terms, we should be prepared to negotiate an adjustment on the interest charges to give you the benefit of any advantage so obtained.

You will have observed that we wish to make no condition about the terms of any freight agreement that may be made between the Queensland Railways and Mt. Isa Mines Ltd. for the carriage of their goods on the railway. As I said to you in my letter of 28th August the Commonwealth regards the ultimate responsibility in this matter as belonging to the Government of Queensland and we for our part are not disposed to insist upon specific legal undertakings from the Company as a condition of our helping to finance the work on your railway system. However, I am sure you will have very much in mind the importance of securing such terms and conditions for the carriage of goods upon the railway as will guarantee that the large financial outlays on the re-building of the line will produce an adequate return of revenue.

The main points in the Commonwealth offer are re-stated in the Annexure. There will be numerous matters of detail to clarify between your Government and ours. I am bound to say, however, that in making the above proposal to you we feel that we are fully recognising the great national interest involved in the projected work and that the terms I have set forth are, in all the circumstances, both fair and practicable.

Yours sincerely,

(Sgd) R.G. Menzies

PRIME MINISTER.

ANNEXURE

SUMMARY TERMS OF THE COMMONWEALTH OFFER

- (1) The State will, as soon as practicable, determine the nature and extent of the works to be undertaken and the estimated total cost thereof.
 - (2) The State will provide the Commonwealth with a general description of the works and an estimate of the phasing of expenditure within each year of the construction period.
 - (3) In the light of this information, the State and the Commonwealth will agree upon a designated date for completion of the project.
 - (4) The Commonwealth, provided it is satisfied that the works to be undertaken conform generally with its present understanding of the nature of the project, offers -
 - (a) to underwrite the provision of funds to the State aggregating not more than £20 million for expenditure on the project;
 - (b) to make advances in each year of the construction period equal to that proportion of actual expenditure in that year on the project which £20 million bears to the initially estimated total cost of the project.
 - (5) The State will agree -
 - (a) to carry out the project as described to the Commonwealth;
 - (b) to pay interest during the construction period on each advance at the lending rate of interest (and commission) determined by the International Bank from time to time for new loans of not less than twenty years currency;
 - (c) to repay, in equal annual instalments over the twenty years commencing from the designated date for completion of the project, the amount necessary to amortize the aggregate amount of the advances made up to that date, including (subject to paragraph 6(a) hereof) interest on the outstanding balances at a rate which shall be equal to the weighted average rate of interest payable on advances made in each year of the construction period.
 - (6) The State and the Commonwealth agree -
 - (a) to negotiate a reduction in the rate of interest specified in paragraph 5(c) if the Commonwealth is able to borrow the whole or part of the advances overseas on more favourable terms than the average rate specified above;
 - (b) to negotiate the terms of any further advances if the advances made before the designated completion date fall short of £20 million and the project is still uncompleted.
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