

# The Lapstone set-up: how MI5 tricked Ben Chifley into creating ASIO

When the British and American establishments kicked off the Cold War, intending to replace overt colonialism with a new form of supranational control ostensibly based on 'guarding against the communist menace', they found to their dismay that they had a continent-sized fly in their ointment: Australia, where Prime Minister Ben Chifley determinedly pursued independence from Britain in matters of economic and foreign policy, including maintaining cordial diplomatic relations with WWII ally the Soviet Union. To bring their wayward (and geopolitically crucial) colony back to heel, they conspired to force upon Australia a national intelligence agency that would function as a branch of Britain's Security Service MI5—accountable not to Australia's Parliament but to 'Head Office' in London. Ironically, the incident that brought about Chifley's grudging acquiescence occurred at an event intended to promote the kind of international economic co-operation that was anathema to the proponents of the Cold War: the conference of the UN Economic Commission for Asia and the Far East (ECAFE), which commenced on 29 November 1948 at the Lapstone Hotel in NSW's Blue Mountains.

The push for ASIO had begun more than two years earlier, when "VENONA", a US Army Signal Intelligence Service (forerunner of the NSA) project to decode Soviet diplomatic communiqués, allegedly indicated espionage by the Soviet embassy in Canberra. "Unlike any other group of VENONA messages," wrote NSA historian Robert L. Benson in his 2001 report *The Venona Story*, "some KGB messages on the Canberra-Moscow communications link were decrypted in near real-time, that is, close to the date of transmission. Further, the Canberra material ... is readable (if intermittently) for the longest period of time, 1943 to 1948. ... [W]e see typical KGB coverage: their agents inside government departments and interesting places in the private sector; those agents were drawn from the Communist Party [ACP]." MI5 had briefed Chifley on the highly-classified VENONA in 1946, but had convinced him not to discuss it with his intelligence officers until the allegedly 'high-level' leak was identified. Australia's existing security intelligence agency, the Commonwealth Investigation Service (CIS), had failed to identify this leak, and the British and Americans seized upon this failing to justify an embargo on the sharing of classified information with Chifley's government, beginning in mid-1948. They used this embargo to pressure Chifley to agree to an Australian MI5. Australia's conservative political establishment—led by the "British to his bootstraps" Robert Menzies—had a field-day whipping a gullible public into a 'reds under the beds' frenzy, aided by a friendly press and also by high-ranking military officials including Col. Charles Spry, who as Director of Military Intelligence (DMI) was intimately involved in preparing the Cold War, including by importing Nazi collaborators to Australia to serve as 'anti-communist' propagandists.

To demonstrate the CIS's competence, and that Australia didn't need an MI5-style agency, as well as to



The former Lapstone Hotel, venue of the 1948 UN ECAFE conference, and the 'Lapstone experiment'. It is now the officers' mess of RAAF Base Glenbrook.  
Photo: NSW Dept. of Environment & Heritage.

allay fears of communist infiltration, Dr John Burton, Secretary of the Department of External Affairs (DEA), proposed the operation that would come to be known as 'the Lapstone experiment'. "The Soviet Union sent 15 delegates to the ECAFE conference making it the largest delegation", wrote Laurence W. Maher in *Labour History* (no. 64, May 1993). "This was interpreted by Australian defence and intelligence officials and the MI5 men as indicative of the delegation having espionage functions. Burton, ... suspicious of MI5's motives, suggested to Chifley that [the Soviet delegates] be subjected to CIS and DEA surveillance. Burton believed that the necessary surveillance could be carried out within the existing framework of security resources, that it was unlikely to reveal the existence of an espionage ring, and that it would, therefore, undermine the case for an Australian MI5." Under the supervision of MI5 liaison officer Robert Hemblys-Scales, CIS and DEA personnel watched the Soviets' every move, read all their mail and, assisted by technicians from the Postmaster-General's Department, listened to every phone call, intercepted every telegram, and installed listening devices in their rooms which were monitored around the clock. Just as Burton had predicted, no evidence of espionage was forthcoming; but, because the VENONA intercepts (of which Burton was not aware) ostensibly indicated otherwise, MI5 twisted this lack of evidence into support for its own argument, that Australia's existing agencies weren't up to the job. As Maher wrote, the "gist of the assessment embodied in the MI5 report was clear: a truly professional intelligence and counter espionage agency ... would have uncovered much more at Lapstone about the serious security threat posed by the ACP."

Despite his misgivings, Chifley agreed that a new organisation was necessary. MI5 proposed that they should run it; however, Burton warned that Australia's interests were "in many ways incompatible with the policies and interests of other Western Countries and, in particular, the United Kingdom" and therefore the new agency "should contain only Australians in the service of the Australian government, and they should be instructed, in turn, to be

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cautious in their relations, not only with liaison officers, but with other Australians working in conjunction with the United Kingdom Government.”

Defying London, Chifley appointed politically-independent South Australian Supreme Court Justice Geoffrey Reed as inaugural Commonwealth Director-General of Security (DGS); but, as Maher noted, when ASIO was officially formed on 16 March 1949, “The new organisation bore no resemblance at all to the body which Burton had argued for in his report. Nor, despite Reed’s appointment, was ASIO effectively controlled by Australians. Having regard to its genesis and structure, ASIO was a mini-MI5 out in the antipodes established at the behest of the British Government primarily to help serve its interests.” Significantly, the VENONA files were kept locked in a special safe, accessible only to new MI5 liaison Courtenay Young and his private secretary (also from MI5).

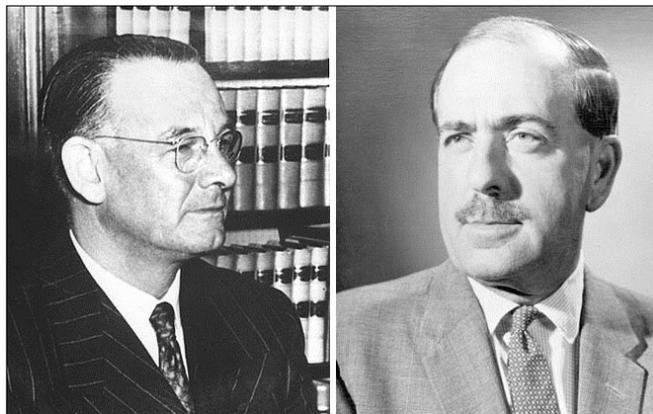
The Truman administration in response offered a partial lifting of the US embargo that would let Britain continue developing missiles at Woomera—but would *not* give Australia access to nuclear and other high technologies—which the British pressed Chifley to accept. Chifley responded with an angry telegram instructing Australian representatives in Washington that “If the parties concerned are not, repeat not, prepared to enter into full reciprocal arrangement . . . tell

them to go to Hades, repeat Hades, and let us know the date of their going.” The British pleaded with Chifley not to make any rash judgements, claiming that the Americans were only concerned that Australia’s national security arrangements were not yet adequate. After six more months of deadlock, they suddenly *became* adequate—five days after Chifley’s 10 December 1949 election defeat (and before Menzies had

even formed his cabinet). As PM, Menzies set about purging ASIO of Chifley loyalists and independent thinkers, and in July 1950 installed DMI Charles Spry as DGS, a post he was to occupy for twenty years—during which time ASIO did not apprehend, let alone convict, even one Soviet spy, the standard explanation being that it could not prosecute for fear of revealing the source of its intelligence.

The final chapter of this saga came when the NSA declassified VENONA in 1995. Shortly thereafter, Russian sources revealed that a man named Bill Weisband, a Soviet intelligence

agent inside US Signals Intelligence, had told Moscow all about the project in 1945. This meant that the VENONA files that MI5 had claimed proved Soviet espionage in Australia, to which only MI5 had access, were based on ciphers that the Soviets supposedly used despite knowing for three years that they had been compromised—an entirely ridiculous proposition. ASIO, it appears, was born of a lie, and it has been living up to that heritage ever since.



Left: Justice Geoffrey Reed, Australia’s first Director-General of Security (1949-50), appointed by Ben Chifley. Right: Robert Menzies replaced Reed with fanatically anglophile military intelligence officer Col. Charles Spry, cementing Britain’s control over ASIO. Source: NLA.