

How MI5 created ASIO

(Based on “The Lapstone set-up: how MI5 tricked Ben Chifley into creating ASIO”, by Richard Bardon, *Australian Alert Service* 23 September 2015)

When Winston Churchill sought to launch the Cold War in 1946—to preserve British imperial power through a special relationship with the USA that the Brits dubbed “British brains, American brawn”—Australia under Prime Minister Ben Chifley proved to be an obstacle. Chifley, like the late American president Franklin Roosevelt, had hoped to maintain cordial relations with the Soviet Union. The British conspired to force upon Australia a national intelligence agency that would function as a branch of Britain’s shadowy Security Service, MI5, accountable not to Australia’s Parliament but to “Head Office” in London. Chifley didn’t see the need for such an agency, confident that Australia’s existing security intelligence agency, the Commonwealth Investigation Service (CIS), was adequate for Australia’s security needs. The British therefore arranged an incident that would convince Chifley to acquiesce to their demands.

The push for ASIO had begun in 1946, when a US Army Signals Intelligence Service (forerunner of the NSA) project to decode Soviet communiqués allegedly indicated espionage by the Soviet embassy in Canberra. MI5 had briefed Chifley on this highly-classified VENONA project in 1946, but convinced him to not discuss it with his intelligence officers until the alleged source of the Soviets’ intelligence was identified. Crucially, Australia’s CIS had failed to identify this leak, which the British and Americans seized upon to justify not sharing classified information with the Chifley government, beginning in mid-1948. They used this embargo to pressure Chifley to agree to an Australian MI5.

To demonstrate the CIS’s competence and that Australia didn’t need an MI5-style agency, as well as to 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”, conducted at the 29 November 1948 conference of the UN Economic Commission for Asia and the Far East (ECAFE) held at the Lapstone Hotel in NSW’s Blue Mountains.

In *Labour History* (No. 64, May 1993), Laurence W. Maher described the experiment: “The Soviet Union sent 15 delegates to the ECAFE conference making it the largest delegation. 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



The former Lapstone Hotel, where MI5 oversaw a rigged espionage experiment that led to the establishment of ASIO. Photo: NSW Government

predicted, no evidence of espionage was found. However, because MI5 had the VENONA intercepts (of which Burton was not aware) that showed the Soviets were spying, MI5 chose to interpret the lack of evidence from the experiment as proof 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 [Australian Communist Party and its alleged Soviet controllers].”

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 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).

It now makes sense that MI5 kept the VENONA files away from their Australian counterparts, because it turns out they were a lie. In 1995, the NSA declassified VENONA, at which time Russian sources revealed that 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. It was an MI5 set-up, to bring Australia under the control of the British-centred intelligence umbrella now known as Five Eyes.