The money makers

May 25, 2009

Read later

Tweet 0 | Digg this story | 0 | Submit

Email article | Print | Reprints & permissions

A company half-owned by Australia's Reserve Bank has engaged in questionable dealings in its pursuit of the "license" to print money. Nick McKenzie and Richard Baker report.

THE din of scooters in Hanoi's old district could barely be heard inside Vietnam's Ministry of Culture and Information.

It was 2000 and neatly dressed government officials were looking for newspaper stories critical of the controversial role of the Vietnam Central Bank governor in a deal to replace the country's paper banknotes. When the deal was first announced, it appeared to be much like the new plastic banknotes: clean, neat and shiny.

Indeed, the formula for the special polymer material used to make the new notes was owned by a company, with a reputation for integrity. Based in Craigieburn, Securency Pty Ltd was half-owned by the Reserve Bank of Australia, the guardian of the nation's financial system.

This, however, had not stopped questions being asked in the Vietnamese press about the integrity of the currency deal? particularly as the bank governor's son was involved with a company Securency had engaged as its local agent. In 2007, an official Vietnamese government inquiry found that irregularities in "the objectivity and transparency of the (banknote) project" had damaged the bank governor's reputation.

This finding meant little for the local journalists who had, a year earlier, posed questions about the deal. According to a US Government report into human rights abuses in Vietnam, the Ministry of Culture and Information had "reportedly threatened (the journalists) with sanctions for their publication of criticisms of the Government, including revelations of alleged official corruption". Two editors were stood down and seven newspapers cautioned by government officials. As a result, fewer and fewer questions were asked.

Only now ? after revelations in *The Age* on Saturday ? are fresh inquiries being made. But this time they are focused on Securency and how it excels at doing business not only in Vietnam but in some of the most corruption-prone countries in the world. Chief among them is why the Reserve Bank and a host of Australian politicians and government officials have given their backing to a company paying large commissions to several disreputable overseas middlemen, as well as doing some of its business in offshore tax havens known for their secrecy provisions?

They are questions familiar to Prime Minister Kevin Rudd, who made his mark as opposition foreign affairs spokesman probing the Iraq kickbacks scandal involving the Australian Wheat Board. Now, a different company with impeccable Australian government connections is under the spotlight. And the PM is being asked some of the same questions he was once so adept at posing.

A SHADY BUSINESS

THE world's money makers have long favoured secrecy over scrutiny. American journalist Murray Bloom discovered this in 1963, when he published *The Brotherhood of Money*.

According to Klaus Bender, a German author who also attempted to chronicle the work of currency companies, banknote firms banded together to bulk-buy Bloom's book, only to have it pulped. The few who have managed to thumb its pages are treated to a historical expose of the tricks of the money makers' trade, including the use of dubious agents to win deals and the corrupting of foreign central bank officials, who decide which company should win a contract to make a new note or coin.

Bloom's book revealed the close ties between the British, European and American currency printing companies and their respective national governments and intelligence agencies. He also exposed the willingness of some within the industry to lie, intimidate and bribe in order to secure the extraordinarily lucrative right to print a country's currency.

Henry Keith, a former legendary sales executive for American Bank Note Company in Latin America between the 1930s and 70s, told Bloom that bribery was common. "When a competitor gets his first hook into your account ? you know damned well he's going to move heaven and earth ? and bribe God knows who ? to get more business to entrench himself," Keith said. He also spoke of the "necessary and controversial" role of middlemen in foreign countries who were able to help secure deals for currency companies. According to Keith, the best agents were from "well connected, prominent local families".

Bloom discovered that some of the world's biggest banknote companies had engaged senior politicians and central bank figures as agents who would receive commissions on the completion of successful deals. Said Keith: "In one case (our agent) was an ex-minister of foreign affairs. In Ecuador, it was an ex-general named Cobo, Comandante Cobo, who made a fortune from his 5 per cent commission."

Since Bloom penned his book, currency companies have continued to run into trouble. British banknote printer De La Rue is under investigation by London's Serious Fraud Office over claims of corruption in Africa. Germany's Giesecke and Devrient stopped supplying money to Robert Mugabe's regime in Zimbabwe after a request from the German Government. The American Bank Note Holographics Company was fined a few years ago after it was accused of breaching the US corruption laws in connection to a payment to a Swiss bank account that was aimed at influencing Saudi Government officials.

Over the past two decades, there have also been some major changes in the industry, including the introduction of new international business standards prompting some companies, including Giesecke and Devrient, to ban the payment of money into accounts in offshore tax havens. Another change involved the entry of a new competitor in the market. It had government backing, swish new technology and a fierce desire to win contracts.

THE NEW PLAYER

ALONG with the Hills hoist and the lawn mower, the development of polymer banknotes rates as one of Australia's most innovative offerings to the world.

After a large-scale counterfeiting attempt in 1967, the RBA decided Australia's currency needed greater protection. It eventually turned to the CSIRO, Australia's premier scientific research organisation and the bank's fully owned subsidiary, Note Printing Australia, began work on the project in the 1980s. The team's focus "soon moved to a plastic polymer material".

Australia began the switch to the durable and more secure plastic notes in 1988. Eight years later, the RBA and Belgian plastics firm UCB became joint venture partners in a company called Securency.

Over the next decade, nearly 30 countries, including Romania, Nigeria and Guatemala, switched to or tested the polymer notes.

While the company's operations, as well as its partnership with the Reserve Bank, is relatively unknown in Australia, Securency's success has been increasingly noted in the boardrooms of its overseas-based competitors. An executive from a competing firm says one question that is regularly pondered is: "How can a company that is owned 50 per cent by the Reserve Bank be so successful in some of the most corrupt countries in the world?"

Securency's employees mostly respond to that question by describing the superiority of polymer notes when compared to the paper products produced by many of its rivals. But Securency's network of overseas agents have also been making a difference.

Stane Strauss, a Frankfurt-based banknote expert and former marketing consultant to Securency's sister company Note Printing Australia, says agents still play a critical role in the industry.

"There is more to getting a printing order than merely having the best possible product or the lowest price for a given standardised product," Strauss says. "Long-term relationships, trust, political influence, international relations all play role in this highly complex business. Secrecy is imperative for both printers and the central banks."

In Mexico in 2004, Securency employed the country's former central bank chief cashier, Raul Sierra. Sierra's replacement as chief cashier at the Banco de Mexico, Jaime Pacreu, who was in charge of introducing polymer notes, became Securency's Mexican manager in October 2007. Pacreu's integrity has never been questioned. His hiring by Securency raises questions about the practice of government officials jumping ship to a private company able to profit from their past connections (a practice that happens the world over, including in Australia). But nothing about it was illegal.

For Securency and the Mexican Government, Pacreu's involvement made sense; last year, Securency unveiled its new printing plant in Mexico, owned 20 per cent by the Banco de Mexico. In doing so, it signalled its intentions to conquer the region's currency market.

But if the Mexican operations were above board, what about Securency's activities in other more corruption-prone countries?

TRICKS OF THE TRADE

AS A a cluster of islands surrounded by the deep blue waters of Indian ocean, Seychelles is a dream location for honeymooners. Lying 1500 kilometres off the east coast of Africa, the country is also a sought-after tax haven.

Company insiders say that Securency has made large payments, including "commissions", to accounts in a number of countries regarded as tax havens by Australian authorities, including the Seychelles. The reason for doing this remains unclear, partly due to the haven's strict secrecy provisions, which make it difficult to unravel those behind the offshore accounts. Asked whether it makes payments to tax havens, Securency told *The Age* that "it does not make payments to any tax havens or jurisdictions which have not committed to the internationally agreed tax standard developed by the OECD".

According to the OECD, scores of tax havens and financial centres have pledged to reform their standards, but are yet to do so. Twenty-two countries ? including 18 considered tax havens ? have "committed" to making changes, but have "not yet substantially" done so, says the OECD. Securency has done business in at least a few of them.

Paying monies into offshore accounts appears to sit uneasily with the OECD's anti-corruption guidelines, which instruct companies to "adopt financial and tax accounting and auditing practices that prevent the establishment of 'off the books' or secret accounts".

If suspicion is aroused by the dealings with offshore accounts, some of the businessmen whom Securency has engaged across the globe also do not inspire confidence.

One company active across Africa, Contec Global, which is owned by an Indian businessman and honorary consul to Burundi, Benoy Berry, has reaped lucrative payments from Securency as their agent.

In 2006, the Ugandan Government inspectorate investigated a contract process involving Contec Global and found that a Government minister appeared to be improperly lobbying for the company. While it could not confirm an allegation raised in a report by Uganda's intelligence services that the minister had received a hefty bribe, it did find that he had abused his office, "had a personal interest in the outcome of the procurement process (and) ? was fronting and or lobbying for Contec Global".

In South Africa, Securency has had dealings with at least two very colourful businessman. For a period, it was dealing with casino magnate Vivian Reddy, who has been embroiled in a corruption scandal involving his close friend and now president, Jacob Zuma.

In India, a company insider believes Securency made a political donation of $100,000 but listed it on the books as a "marketing expenses". Securency has denied making payments to any political entity.

A company source also alleged that Securency was paying its agents commissions of 10 per cent or more, which are well above those paid by at least two other major currency companies, who told *The Age* their commissions are between 2 and 6 per cent. Securency says it pays commissions after "taking into account advice from other organisations (including Australia) on the appropriate commission levels for each country".

The risk inherent in using agents in corruption-prone countries has not escaped Securency's attention ? indeed, it has been a topic at company meetings and ethics workshops. The company says its agents must sign a code of conduct that prohibits bribery. It also says it has, "on a number of occasions, terminated or not renewed" agents' contracts due to poor performance.

Securency's sister firm in Melbourne, Note Printing Australia, has taken a different approach. NPA's business development manager, Danel Reid, told *The Age* that his firm believes that, rather than using agents, "it is a more responsible approach to deal directly with central banks".

Londoner John Burbidge-King, a former executive at British banknote firm De La Rue who now runs an anti-corruption consultancy, also says that caution must be taken when dealing with agents in corruption-prone countries. "Companies need to ensure that they have selected an agent with care and independent due diligence. If a country is below 50 on the Transparency International index we advise companies to dig a little deeper before appointing their agent," he says. (Transparency International is an NGO that rates the corruption levels in countries.)

Securency says it applies "due diligence" when hiring all of its agents. Some of its staff are also careful when communicating with them. An email sent by one of the firm's former senior sales chiefs to colleagues advised them to use an instant messaging service that leaves no records.

But the company's dealings in corruption-prone regions has not always gone without notice. In 2002, Vietnam's central bank governor was overseeing the country's project to switch to polymer notes. Securency stood to make millions out of the deal and engaged as its Vietnamese agent a firm called the Company For Development and Technology or CFTD. CFTD's offices are close to the Ministry of Culture and Information, whose officials in 2006 targeted local journalists who had queried the central bank governor's handling of the deal.

One of the issues revealed by journalists concerned the identity of a director of a CFTD company involved in the currency deal. He was the central bank governor's son. According to newspaper reports in Vietnam, the state's corruption watchdog found in 2007 that the involvement of the bank governor's son in the deal in 2002, however brief, was "irregular in terms of the objectivity and transparency of the project and has an impact on the state bank governor's reputation". What was never uncovered by the inspectorate's investigation were any details about the commission payments made to CFTD from Securency. A company source told *The Age* they run into the millions. While this may tally with any percentage deal agreed to between Securency and CFTD, the destination of some of the commission payments appears unusual. A source close to the company says at least some of the payments were directed into an account in Switzerland. The country is one of the financial centres that the OECD said last month had "not substantially implemented" appropriate tax and secrecy standards, despite committing to do so.

WITH A LITTLE HELP FROM OUR FRIENDS

LAST December, outside Securency's new plant in central Mexico, a notable cast gathered. Mingling with the governor of Mexico's central bank was the assistant governor of the Reserve Bank of Australia, Dr Robert Rankin, and Katrina Cooper, Australia's ambassador to Mexico. They were there to cut the ribbon to launch the new plant and, in doing so, send the message that Australia's Government and central bank were firm backers of Securency's work.

In 2004, during a presentation in Canberra, Securency CEO Myles Curtis extolled the virtues of this support: "One should not underestimate the extremely high level of trust and integrity that must be established before a (currency) project ? can even be considered. As in all the countries we are working in, the support we received from the embassy and the Department of Foreign Affairs and Trade has been extremely helpful."

Just how much the RBA knows about the company it half-owns, regularly audits and on whose board sits several Reserve Bank officials is unclear, although the bank's deputy governor, Ric Battellino, reacted with surprise when told about the allegations last week and said he would demand an immediate explanation.

What is known by Department of Foreign Affairs and Trade, and Austrade, about Securency's activities is also unclear. (Acc ording to one source, an Austrade-recommended consultant in South-East Asia actually advised Securency managers that they would need "someone to hand out the white paper envelopes" if they wanted to do business in a certain country.)

Securency says it advises the Reserve Bank about all agent "appointments and terminations" and that it also takes advice from Austrade about making commission payments.

The issues that arise from Securency's overseas operations, including the support from the Australian Government, are similar to those raised persistently by Kevin Rudd in opposition when he probed into government knowledge of the commission payments being made by the Australian Wheat Board to the regime of Saddam Hussein. Rudd campaigned tirelessly for an inquiry into government negligence surrounding the wheat board scandal. How hard the Government will push for answers about Securency's behaviour ? and what the Reserve Bank and government officials know or should have known ? remains unclear. But the spotlight is now on Securency's activities. And the money makers hate that.

Nick McKenzie and Richard Baker are with *The Age*'s investigative unit.