

OUTGOING TELEGRAM Department of State

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FYI Crow Flight project among others being reviewed by SECDEF in context balance of payments. If Embassy deems desirable may use info below in negotiations GOA. However US Govt makes no firm commitment at this time. No personnel or cargo will move to Australia until Embassy advises. **END FYI**

Hope to have response to proposed Australian changes to CROWLIGHT Agreement in few days. Meanwhile, pressing problem has arisen with respect to requirement imposed by proposed change to paragraph 2(c). GOA change would require U.S. make advance payment for construction projects. Air Force reports construction projects essential for 57th WRS at Avalon/Laverton cannot be started until advance payments made. We prefer settle this problem now if possible rather than make advance payment for current projects and thus set precedent we might not always be willing or able to follow in future.

Advance payments by USG for work under a contract are closely restricted under U.S. law and are not favored as matter of policy. In making such payments the government is paying for something it has not

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received. U.S. statutes and regulations that authorize advance payments are intended to provide financing for government contractors who are unable to obtain working capital or to meet emergency situations. Statutory authority is not adapted to providing advance payment, especially in the full amount required, for projects undertaken for us by a foreign government under international agreement. In such case where advance payment is to be made to contractor, approval on at least Deputy Assistant Secretary level must be obtained; contractor must provide security, such as liens on a special bank account in which the funds are deposited and also on materials and supplies; contractor submits to close supervision of expenditure of the funds advanced; and generally U.S. is paid interest on the advance. Amount advanced is ordinarily based on study of recipient's cash-flow and financing requirements and is not usually for full cost of project. Obviously, doubtful that GOA would accept such conditions in connection advance payment by U.S.

We would be prepared give sympathetic consideration to GOA request for advance payment should funding for first stage of a project from its own sources be difficult to obtain. This might occur, for example, when work must be started near the end of GOA fiscal year. Advance payment would be limited to amount required to carry on first stage, and would probably not be for full cost of job unless it was a small one. However, we desire resist blanket requirement that U.S. must provide advance funding for all CROWFLIGHT construction projects. If necessary, financing these projects out of GOA funds on short term basis with subsequent full reimbursement seems reasonable.

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contribution by GOA for these facilities, some of which will be available to GOA during CROWLIGHT, and all of which will ultimately belong to GOA.

GOA would not necessarily have to finance any of construction costs. If GOA not required make advance payments to its contractor, it might receive U.S. progress payments (payments made as specified stages of the project are completed), or even a lump sum final payment, before it was obliged to pay the contractor. Might also be possible to work out arrangement for USAF to pay contractors' bills directly if properly certified by GOA or reimburse GOA for payments on expedited basis. GOA outlay can certainly be minimized by progress payment arrangement. If GOA concerned that USAF may order construction without having funds to pay for it, USAF can provide at time construction is agreed upon a statement that funds are available for project and have been ~~dedicated~~ exclusively for it. Arrangements for these techniques could be worked out at service level and would not be appropriate subject for inclusion in government-to-government agreement. If necessary - and we would prefer not to do so - US could carry on its own construction, using local contractor under para 2b of the draft agreement. Believe we have mutual interest in not using this arrangement.

END

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