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A decade to fix bank 'culture'? Unacceptable—break them up!

The chairman of NAB and former Secretary of the Treasury, Dr Ken Henry, has given the banking royal commission the best argument for the banks to be broken up.

Under questioning from Senior Counsel Assisting Rowena Orr, QC, Dr Henry stated that it would take 10 years to fix NAB's "culture".

This is unacceptable. Dr Henry used the amorphous corporate-speak term "culture" as a smokescreen to obscure what is a very simple issue—following the law and not ripping people off. If it will take 10 years to get NAB staff to follow the law and not rip people off, then it proves that NAB is too big and complex, and must be broken up.

With that answer, and the contemptuous arrogance of his full testimony, Dr Henry displayed the true face of Australia's major bankers. Despite all of the revelations from the royal commission, of their years of misconduct and criminality, the bankers don't get it. They do not regret their crimes, only getting caught. The integrated structure of the major banks has made the financial system highly complex, and hard to regulate even if the regulators wanted to (which they haven't). The banks have gamed this complexity to develop business models based not on serving customers, but exploiting them at every turn for the banks' profits and their executives' bonuses. They intend to keep that system going: in their submissions to Commissioner Hayne's Interim Report, each of the big four banks categorically rejected any suggestion that they should be broken up.

From the attitude Dr Henry displayed at the royal commission, it would seem that he and his fellow bankers assume the government and regulators will continue to protect their financial racket. For his part, Dr Henry took the revolving door from Treasury to join NAB's board in 2011, and has been chairman since 2015. For NAB's culture to require a decade to fix, it must have been very bad for a long time, yet at no time as a director or chairman—before the royal commission exposed its misconduct—did Dr Henry object to its culture, and in fact he happily approved full

bonuses despite the bank being embroiled in massive scandals.

(The revolving door between Treasury, the regulators and banks includes Henry's successor as Treasury Secretary, John Fraser, who came from the disgraced LIBOR-rigging bank UBS, and former Treasurer Joe Hockey's two senior advisers, chief of staff Grant Lovett also from UBS and chief economist Tony Pearson from NAB; most of bank regulator APRA's top management are former investment bankers.)

In the opinion of one banking expert, Dr Henry's statement provides the best opportunity to achieve banking separation. The banks, regulator and Treasury would like the public to think that they have the problem in hand: yes, they say, the royal commission has identified serious problems, but we are already taking steps to fix it. However, the expert told the Citizens Electoral Council, Dr Henry's view proves that NAB management isn't up to the job—they should all resign their positions and let new management take over.

And the government should break them up. The CEC's Banking System Reform (Separation of Banks) Bill 2018 that Bob Katter introduced into Parliament in June will impose a Glass-Steagall-style separation of commercial banks with deposits, from speculative investment banking and all other financial activities, including financial advice, wealth management, stock broking, insurance and superannuation. It will:

- set clear boundaries that banks must follow and regulators can easily enforce;
- stop banks from gambling in derivatives, to protect deposits and ensure financial stability;
- stop banks from luring customers into other financial services to be fleeced; and
- stop banks from profiting from bad loans through securitisation and derivatives.

Anything less than full separation retains the massive conflicts of interests that enable banks to exploit their customers—demand it now!



NAB chairman and former Treasury Secretary Dr Ken Henry couldn't hide his contempt of the royal commission.
Source: Screenshot

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CALENDAR

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- * Melbourne and regions call CEC office 03 9354 0544
- * Nightcliff, weekly, call Trudy 0414 677 968
- * Parap Market Saturday weekly 8:00 AM–2:00 PM
- * Perth suburbs weekly, call Jean 0409 954 320 or Barry 0412 443 893
- * Sydney, weekly, call Ann 0428 686 297 for when and where
- * Toowoomba area call Jim 0418 728 240

NOVEMBER

26-30 (M-F) Melbourne—Royal Commission, CEC teams deployed. Call 1800 636 432 to volunteer to activate.

DECEMBER

- 1 (Sat) Melbourne, VIC—Victorian state seminar, Mercure North Melbourne, Hotham Room, registration \$50, 9:00 AM–5:00 PM
- 6 (Thu) Toowoomba, QLD—Table site organising cnr Ruthven & Margaret Sts., 10:00 AM–2:00 PM
- 8 (Sat) Manjimup, WA—Cherry Festival, CEC stand
- 11 (Tue) Beenleigh, QLD—Table site in the market place 10:00 AM–2:00 PM

Call your State Secretary for more details or to notify of upcoming events.

QLD Jan Pukallus on 0427 508 008 or janpuk@cecaust.com.au
NSW Ann Lawler on 0428 686 297 or alawler@cecaust.com.au
WA Jean Robinson on 0409 954 320 or jeanr59@bigpond.com

VIC Noelene Isherwood on 1800 636 432 or nwi@cecaust.com.au
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Governments should learn from the Victorian election— build infrastructure!

By Robert Barwick

Although a rival political party, the Citizens Electoral Council is happy to acknowledge that the Labor Party's extraordinary win in the Victorian election was well-earned and for the right reasons.

Daniel Andrews' victory went against the grain of election results in Australia in the past decade, by winning a second term with an increased majority.

He achieved that victory not just from his campaign but also from his record in government for the previous four years, both of which had one over-arching focus: public infrastructure.

And as part of that focus, Andrews took the lead among Australian governments and signed Victoria up to participate with 90 other countries, including New Zealand, India, Indonesia and Israel, in the biggest cooperative infrastructure vision in history, China's Belt and Road Initiative (BRI). For his efforts, he weathered extraordinary attacks from the federal government and the shadowy Five Eyes intelligence network through which MI6 and the CIA influence Australian governments, which effectively accused him of treason. The voters displayed their attitude to such accusations.

Failed neoliberalism

While the CEC does not endorse many of the Andrews Labor government's policies, we applaud its emphasis on public infrastructure. For decades, the CEC has fought for public infrastructure projects against the neoliberal consensus of privatisation, user-pays, cost-benefit analyses distorted by profiteering motives, and short-term penny-pinching, under which Australia slipped further and further into an infrastructure "deficit" approaching a trillion dollars—the amount of money that should have been spent on infrastructure but wasn't. In collaboration with the late engineering giant Professor Lance Endersbee AO, the CEC in 2002 produced the "Infrastructure Road to Recovery" blueprint for nation-building infrastructure around Australia.

Hitherto the major parties have turned their backs on such visionary nation-building, and the only real infrastructure they have pursued has been the Macquarie Bank model of Public-Private Partnerships (PPPs), which are primarily built to profit investors, not benefit users, and so feature inadequate capacity and huge charges, which detract from the productivity benefits of the projects.

(The Macquarie Bank-PPP model of infrastructure is epitomised by the following boast from Dennis Eager, then Macquarie Infrastructure Group [MIG] external affairs manager, who in May 2003 boasted to investors of the expected profits from MIG's new \$2 billion M6 Midland Expressway in Britain: "We can put up the tolls by whatever we like and, almost as importantly, we can start the tolls on day one by whatever we like.... If [motorists] don't complain about it being too high, then we won't have done our job".)

By historical standards, what Andrews has done is hardly revolutionary or even exceptional—before the 1980s governments naturally built infrastructure to develop Australia for future generations. But measured against the past few decades, it stands out.

Labor's record

First, Andrews pledged to address a major cause of Melbourne's peak-hour traffic congestion problems, railway level-crossings, and he over-delivered. He pledged to replace 25 level crossings, but after four years had replaced 29, and therefore had credibility when he promised in the election to replace the rest of Melbourne's level crossings, which voters recognise will, despite the short-term disruption, make an enormous difference to their morning and evening commutes.

Second, he has started upgrading Melbourne's and Victoria's rail network, with rolling stock built in Victoria. Labor is planning fast trains from Melbourne to Geelong and Ballarat, and, finally, a railway link to the Melbourne Airport, Melbourne being the only major city in the world without one. The program includes a visionary, multi-decade plan for a suburban ring railway that will enable Melbournians to travel across the city more efficiently, the type of long-term project that governments haven't done for decades due to their obsession with short-term considerations.

By actually delivering on needed infrastructure, and not just talking about it, Labor's election pledges were credible, and they caught their Liberal opponents flat-footed, able only to snipe about the state debt that Labor was incurring. But Andrews was correct when he pointed out that as the debt was generating infrastructure, the resulting economic growth would enable it to be repaid.

That's not to say that Andrews is doing everything right in infrastructure, by any means. The CEC has real concerns about some of his major policies, including the consequences of his ideological shut-down of the Hazelwood Power Station and expanded push for "renewable" energy, which puts Victoria at risk of power failures. But the public infrastructure that he has delivered, and the way he has delivered it, must be acknowledged, which the voters did in the election.

A decade after the global financial crisis proved that the neoliberal free market ideology of deregulation, privatisation and financialisation had failed, governments and political forces all over the world are starting to break with the neoliberal consensus and get back to policies that work. Jeremy Corbyn for instance is leading a political revolution in the UK Labour Party away from neoliberal Blairism and back to a public investment focus to revive British industry and its northern industrial heartland. That's the irony about China's success: it has raised nearly 800 million people out of poverty in a generation by emulating the public investment policies which were pioneered by countries like the United States and Australia, but abandoned under neoliberalism; now that a government like Victoria's is going back to those policies, it can see the value in what China is doing, and wants to participate.

If other Australian governments wish to rescue their electoral fortunes, they should heed the lesson from Victoria and focus their efforts on delivering the infrastructure the country needs to grow and prosper decades into the future. If they need ideas, they should consult the CEC's "Infrastructure Road to Recovery".

RBA in damage control for the housing bubble

By Richard Bardon

27 Nov.—As the response of government officials to falling housing prices makes it ever more obvious that they had pinned their hopes for “economic growth” on a never-ending bubble, major bank lending data released by the royal commission have confirmed a far greater proportion of risky sub-prime mortgages than the banks or regulators have previously disclosed.

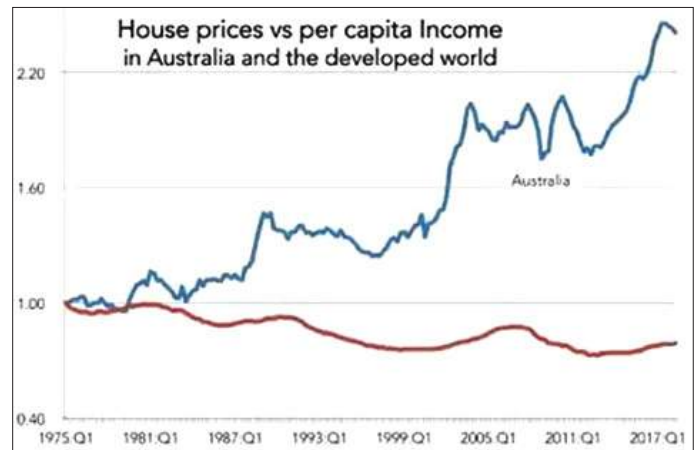
According to market data firm CoreLogic, housing prices in Sydney and Melbourne (which between them comprise 40 per cent of all Australian homes and 60 per cent of total “value”) fell 7.9 per cent and 5.6 per cent respectively in the 12 months to the end of October. The *Australian Financial Review* reported 15 November that Reserve Bank of Australia (RBA) Deputy Governor Guy Debelle believes that things have already gone too far. “We’ve seamlessly moved from a housing affordability crisis to now it’s just *too affordable*”, Debelle bizarrely told a FINSIA (Financial Services Institute of Australia) conference in Melbourne. (Emphasis added.) It is the RBA’s view, he said, that “regulatory measures” have “meaningfully reduced vulnerabilities associated with riskier household lending and so increased the resilience of the economy to future shocks”. RBA Governor Philip Lowe got in on the act a few days later, warning at the Committee for the Economic Development of Australia’s (CEDA) 20 November annual dinner, also in Melbourne, that “A few years ago credit standards were way too loose, there has been a correction of that, but I am starting to be a bit concerned the pendulum might be swinging a bit too far the other way”, *Business Insider* reported. “I am hoping in time it will come back to the centre”, Lowe said, adding: “We need banks to be prepared to make loans in the full expectation that some borrowers will not be able to pay them back. ... If they become afraid to lend simply because of the consequences of making a loan that goes bad, our economy will suffer.”

Debelle’s comments are simply nonsense. The drop in Sydney and Melbourne prices in the past year has still been smaller than the price *rise* in the previous 12 months, while according to the authoritative Demographia International Housing Affordability Survey, published each January based on data from the end of the previous September, both cities have been “severely unaffordable”—defined as having a median housing price in excess of five times median household income—ever since the survey began 14 years ago. Sydney’s median multiple for 2017 was 12.9, and Melbourne 9.9—which is to say, Sydney prices would have to drop by more than three quarters, and Melbourne prices by over two thirds, to meet the “affordable” standard of three times median income. Not one city or regional property market in Australia meets this standard. As for Debelle’s “regulatory measures”, a.k.a. Lowe’s swinging pendulum, they amount only to a bare minimum of compliance with existing lending law forced upon the banks, and their protector the Australian Prudential Regulation Authority (APRA), by the spotlight of the royal commission.

Does my sub-prime look big in this?

Furthermore, as Debelle himself acknowledged, whatever tightening of lending standards there might have been applies only to new borrowers, while “existing loans are no different to how they were the day before”. And whilst Lowe is correct that banks do need to expect losses now and then, filling a quarter—let alone half—of one’s loan book with sub-prime mortgages seems somewhat excessive.

Yet according to evidence tendered to the royal commission, Commonwealth Bank (CBA) and Westpac have done just



Based on ratio of house price index to disposable income per capita index.
Source: Dallas Federal Reserve.

that. In April, an APRA-ordered review of major bank lending standards by auditing firm PricewaterhouseCoopers found CBA has used the Household Expenditure Measure (HEM) benchmark—which represents median spending on essential items and the 25th percentile (top of the bottom quarter) spending on discretionary goods and services in a given locality—in 75-80 per cent of loan approvals. In its 19 November coverage of the royal commission, however, ABC News reported CBA chief executive Matt Comyn’s admission that given the HEM is a relatively low-ball estimate, “only 40-50 per cent of loans should be approved using the HEM as the measure of living costs.”

Economist David Llewellyn-Smith noted in a 20 November column for *Macro Business*: “All by itself, that is the bubble’s pin right there. The nation’s bellwether bank just confessed that roughly one quarter of its book is unexpectedly sub-prime and, worse for house prices, that that lending will no longer be available. In Westpac’s RC loan data the number was as high as 50 per cent sub-prime. Add the other banks and it implies that at least one third of Australian mortgage lending is liar loans [loans based on fraudulent income/expenditure figures] that will never be repeated, rolled over nor renewed. This is conservative. Other estimates are *much* higher.”

In fact, though, the only thing “unexpected” from the banks’ perspective was that they would get caught. As APRA admitted in its initial submission to the royal commission, banks “typically use the Household Expenditure Measure or the Henderson Poverty Index [HPI] in loan calculators to estimate a borrower’s living expenses”. Sydney University emeritus professor of political economy Dick Bryan, writing 26 April in the *Sydney Morning Herald*, called the HPI “a measure of consumption described by [its creator Prof. Ronald] Henderson as so austere that it was unchallengeable”, whose application as a lending policy benchmark “claim[s] so much household income for contract payments that borrowers are left without enough money to fund basic consumption levels”. Or as Banking and Finance Consumers Support Association president Denise Brailey has described it, the banks demand that borrowers “live on bread and water for 30 years to pay off their mortgage”. As for “liar loans”, Ms Brailey—who estimates the level of sub-prime lending at close to 80 per cent—has proven in thousands of cases that the banks themselves are the liars: borrowers never see the “calculator” that approves their mortgage applications, nor are they shown the eight pages of their 11-page application forms detailing the terms and conditions under which they are signing their lives away.

This is the system the RBA is trying to protect? The pendulum has not swung nearly far enough.

Morrison aids and abets terrorism by demonising Australian Muslims

By Richard Bardon

Prime Minister Scott Morrison's attack on Muslim leaders for failing to prevent the 9 November Bourke Street "terrorist" attack marks him down as an opportunist and a coward. Were Morrison serious about preventing terrorism, he would sever ties with our "ally" Saudi Arabia, and denounce it for exporting the perversion of Islam known as Wahhabism—the official religion of Saudi Arabia, al-Qaeda and ISIS—to Muslim communities in Australia and around the world. But this would also require Morrison to break with the Anglo-American empire that deploys Wahhabi terrorists as geopolitical chess-pieces the world over—and to rid Australia's own national security establishment of the agents of that empire, beginning with a purge of the Australian Security Intelligence Agency (ASIO), the local branch of London's MI5. The perpetrators of every headline-grabbing terrorist incident from the December 2014 "Sydney siege" onwards have all been on ASIO's watch list, if not—like Sydney siege hostage-taker Man Haron Monis—working for it as informants. Yet all have somehow "slipped through the net" to commit attacks, which the government has seized on to justify new police-state laws that give ASIO sweeping new powers and tear up Australians' civil liberties, in the name of protecting us from terrorism.

Morrison is the latest prime minister to front this agenda. He has chosen to provoke further hatred and division by demonising Muslims for political gain, a tactic he advocated at least as long ago as 2010. Records of a Shadow Cabinet meeting in December 2010, leaked to Fairfax Media the following January, showed that then-shadow immigration minister Morrison had advised Opposition Leader Tony Abbott that rousing anti-Muslim sentiments would be a sure vote-getter in the 2013 federal election. Morrison is therefore at least partly to blame for the pressure-cooker atmosphere of suspicion and social alienation that drives some young Muslims into radicalism and jihadism.

Another 'known wolf'

"Lone wolf" Bourke Street attacker Hassan Khalif Shire Ali, who stabbed one man to death and wounded two others before being shot down by police, had a long history of mental illness which had apparently devolved into full-blown paranoid psychosis—according to the 17 November *Australian*, he had told his siblings that "people were chasing him with spears". His complaint that he had been followed in his vehicle by drivers who harassed him with their high-beams is actually plausible, however, given he too had been on ASIO's watch list for several years, and had had his passport cancelled in 2015 when it was suspected that he intended to travel to Syria to join ISIS. His father-in-law told the *Australian* that Shire Ali had in fact booked tickets to Somalia so he could introduce his wife to his extended family, only to be told at the airport that their travel documents were no longer valid. This is consistent with ASIO's method—as applied to Sydney hostage-taker Monis—of picking a psychologically unstable target and winding him up until he snaps; the American FBI has also been exposed for this practice.

It is a *modus operandi* ASIO and the FBI share with ISIS. As Deakin University's Professor of Islamic Politics Greg Barton told the *Australian*, both Shire Ali and Yacqub Khayre, another Somali immigrant who was killed by police after a hotel siege in the Melbourne suburb of Brighton last June, "appear to be [cases of] suicide by police. Suicide is being dressed

up as going out in a blaze of glory, being shot down by police, where you will be the hero and posthumously remembered as such. ... What is different with ISIS compared to previous terror groups is they actively prey on this [mental illness]. They seek out damaged goods. They look for people who are on a self-destructive, suicidal path and encourage them."



The FBI is known to target mentally unstable young Muslims to orchestrate terrorism, and there is evidence that ASIO has done likewise.

'Lame excuse' for a Prime Minister

According to Morrison, however, any reference to Shire Ali's untreated mental health problems is a "lame excuse" to avoid blaming his violent outburst on "extremist Islam", and on imams and other Muslim elders who he said "look the other way" while extremists infiltrate their communities. "Leaders, ... and particularly religious leaders, have a duty of care to be pastorally looking at what's going on in their own communities", Morrison said during a 12 November appearance on Channel Ten's Studio10 program. He continued. "Let me put it this way: ... My pastor in my church would know if there was a local, you know, bible study group leader who was teaching things in our church that were completely against what we thought was okay. ... And that person would have no role in our local church." That is quite a statement from a man whose former pastor and mentor at Hill-song Church, Brian Houston, for years claimed not to know that his own father and senior pastor Frank Houston was a serial paedophile—one of the few crimes as reprehensible as terrorism—and then covered it up when he found out. He even dared blame the victims for their suffering, telling one man who was raped by Frank Houston as a seven-year-old: "It's your fault all of this happened. You tempted my father."

That cynical double-standard aside, Morrison's demand that imams et al. do more to assist authorities to weed out extremism obviously implies no reciprocity from the government. As Sheikh Isse Musse, former imam at Werribee's Virgin Mary Mosque and a long-time friend of Shire Ali's father, told the *Australian*: "You want us to do more? We could have done more if you came to us when you cancelled his passport. We could have reformed him but we didn't know about him. If they said, 'Go to this imam for three weeks or three months', I think this act would not have happened."

And that is the point. ASIO, and the broader Anglo-American intelligence establishment it represents, do not *want* men like Hassan Khalif Shire Ali, Yacqub Khayre and Man Haron Monis redeemed and rehabilitated. They want them available to commit terrorist attacks—and then usually be shot dead by police, so they can tell no tales—to frighten the public into accepting a police state and more geopolitical misadventures like Afghanistan, Iraq, Libya and Syria.



Belt and Road empowers Pacific Island nations

By Elisa Barwick

Although most Pacific Island nations are not members of the Asia-Pacific Economic Cooperation (APEC) forum which includes 21 nations from the Pacific Rim, a number of them attended the 26th summit on 17-18 November in Papua New Guinea as observers. On the sidelines, Chinese President Xi Jinping met with leaders of Micronesia, Samoa, Vanuatu, the Cook Islands, Tonga, Niue and Fiji. All nations present welcomed collaboration on China's Belt and Road Initiative (BRI); Vanuatu, Fiji, Tonga and the Cook Islands all signed Memorandums of Understanding (MOUs) for cooperation with the BRI, joining Niue and PNG as signatories to the grand continent-connecting, ocean-spanning development scheme.

The Philippines has also signed an MOU on the BRI. During Xi's visit to the Philippines on 20 November, 29 agreements covering trade, investment, agriculture and culture were signed. Two Chinese companies also signed a deal with the Philippines province of Cagayan to build a maglev train factory that includes a research and development facility.

The introduction of the BRI MOU recognised that China "seeks to take its remarkable economic progress and development even further by offering to assist in the development of other countries, to help build stronger economies, and therefore more and richer markets for the commercial and cultural exchanges along the ancient Silk Road Route". It stated that "the most sustainable growth of a country should not be at the expense of another, and that national progress is not a zero-sum game".

Prior to the APEC summit, in an article for the *Papua New Guinea Post-Courier*, Chinese President Xi Jinping stressed China's history of working with nations based on mutual respect, including respect for Pacific Island nations "pursuing development paths suited to their national circumstances", and supporting an increased role for them in international affairs. He invited Pacific Island countries to chart the course for future growth of relations with China, describing the new pathways that can be opened up for Pacific Island countries by participating in the BRI.

Samoa Prime Minister Tuilaepa Sailele Malielegaoi agrees Pacific Islands should take a greater role in world affairs, telling SBS they should all be full members of APEC: "We are also the custodians of the biggest ocean in the world with all the marine resources."

Cook Islands Prime Minister Henry Puna commented on the anti-China sentiment and alleged ulterior motives for assisting Pacific Island nations: "China has been our friend for 20 years now. All this talk about China stepping into the region is misguided and we certainly don't see it as a threat to any of our friends in the region. ... Yes we are signing on to the BRI and once the media has had a good look at it, they will find all the negative talk is without basis."

Western nations regularly declare China a threat, and admit they are acting to counter China in the Pacific, yet when it comes to particular initiatives they claim they are only seeking to help Pacific nations. During the summit period Australia showered PNG with promises of gifts, aid and partnerships, in conjunction with its decision to build a joint military base with the Americans on Manus Island. The Australian government was criticised, however, by Manus Governor Charlie

Benjamin for securing the deal without consulting local leadership.

The Lowy Institute's Jonathan Pryke put his finger on the intention of the Australian and American governments when he told ABC News, "I think [the Chinese] were left flat-footed by the announcements that came out of these Western partners. While the dust is still settling, China missed an opportunity to really cement themselves as the new major power in the Pacific region." It would not seem to worry China in the slightest; China's intention to uplift the region is only enhanced by the competitive development offers that the BRI has provoked.

While much was made of the fact that APEC was not able to issue a joint statement fully endorsed by all leaders, neither did the forum of the so-called "Quad" countries—a failing effort to unite Australia with the USA, Japan and India to rival China's influence in the "Indo-Pacific". After senior officials met in Singapore on 14 November each country issued their own individual statement. India is maintaining distance from the formation, which briefly existed previously in 2007, and Japan has agreed to work on BRI projects with China in third countries, as has Australia.

While China is concerned about earning the trust of local nations, it is clear from the comments of former US Deputy Assistant Secretary of Defence David Ochmanek, reported by news.com.au, that the USA is concerned about something quite different. Ochmanek asserted that if America fails to "project conventional power" into the regions of its key allies, those allies will lose confidence in the US role as a lynchpin of peace and stability. So the United States must aggressively take on threats such as China and Russia, he said, which "war gaming and analysis show" are America's main adversaries. It is this implacable hostility to adversaries based on theoretical analysis that Australia is captive to under the current "dangerous" alliance, as the late Malcolm Fraser characterised the US relationship.

Enhancing the role of smaller nations is crucial in this climate, as pointed out by Senior Editor of *The Jakarta Post*, Endy Bayuni, on 22 November. Bayuni recounted ASEAN nations' creation of the Zone of Peace, Freedom and Neutrality (ZOPFAN) to guide the region through the last Cold War. Today ASEAN is negotiating a code of conduct for the South China Sea with China and is acting to broker an "Indonesian initiative for a more inclusive Indo-Pacific regional architecture that involves China—compared to the more exclusive American concept. And there is the longstanding Indonesian proposal for an Indo-Pacific treaty of amity and cooperation." This is all Pacific nations want also—their independence and a role in regional and world affairs. Building strong economies, in collaboration with their neighbours, including China, is key.



The Chinese President's article in PNG press before APEC. Photo: Twitter/Natalie Whiting, ABC



How to end Brexit chaos

By Elisa Barwick

If UK Prime Minister Theresa May's 25 November Brexit deal with the European Union fails to win the support of the parliament, the Labour opposition is demanding the chance to form a government. Speaking to business leaders at a Reuters event in London, Shadow Chancellor John McDonnell said it was time for the uncertainty and instability to come to an end. If May's proposal fails again, he said, "At that stage, we will be saying give us the opportunity. You're a minority party, give us the opportunity to take over and see if we can form a government ... If that's denied us then we will be pressing for a general election...."

May's Brexit proposal was opposed by her own party when it was tabled in mid-November, leading to the resignations of four ministers (two from the cabinet) and two parliamentary aides, including Brexit Secretary Dominic Raab. Raab had replaced David Davis, who in July had also resigned over the government's Brexit strategy. Now that the EU has agreed, the proposal is expected to be brought to the parliament on 12 December for ratification. Opposition leader Jeremy Corbyn has said the Labour Party will vote against it.

Northern Ireland's Democratic Unionist Party (DUP), on which May relied to form government, has spoken out against the deal, calling for "a third way, a better way". The party's Westminster leader, Nigel Dodds, in an article for the *Telegraph*, wrote: "We have ended up with the worst possible outcome. Leave voters are outraged at the betrayal of Brexit and Remain voters are asking what on earth is the point of losing all our say but still taking the EU's rules."

A 19 November report in *The Times* said there are 25 letters from conservative MPs formally expressing no confidence in Prime Minister May, which could reach 50 within days. A vote of no confidence, to challenge May's leadership, requires 48 MPs.

Raab was the twentieth minister to resign from the two-year old May Prime Ministership, with Foreign Secretary Boris Johnson one of the more prominent, along with Davis and his Parliamentary Under-Secretary, following May's 6 July "Chequers Agreement" on Brexit. The Chequers plan was ultimately rejected by the EU. Raab said of the new Brexit deal, which binds the UK to EU rules, that "no democratic nation has ever signed up to be bound by such an extensive regime".

A false choice contrived by May, EU

May has declared her negotiation with the EU is "the only possible deal" and European Commission President Jean-Claude Juncker affirmed this, telling BBC: "I am never changing my mind ... if the House [of Commons] would say no, we will have no deal." Labour leader Jeremy Corbyn told the Confederation of British Industry on 19 November that May has set up a "false choice" between her Brexit deal and a hard Brexit (no deal), to scare people into backing her plan. Explaining that May's botched deal leaves the UK "in an indefinite halfway house without a real say", he went on to insist that as the Brexit vote was delivered by a population protesting "a political system that simply wasn't delivering", a good Brexit plan must include "a radical programme of investment and real change across our regions and nations. Brexit must be the catalyst to invest in our



Bank of England Governor Mark Carney has warned a Treasury committee that the UK is not prepared for Brexit. Photo: Screenshot

regions and infrastructure, bringing good jobs and real control to local communities and people."

Decades of failed economic policy has resulted in rising poverty and gross inequality, he pointed out. Describing Labour's comprehensive Industrial Strategy, which includes a National Investment Bank and network of Regional Development Banks to reduce the nations' reliance on "the financial sector centred in London and the South East", Corbyn declared: "It could not be clearer, business as usual isn't working. And when the rules of the game aren't working for the overwhelming majority, the rules of the game need to change."

He concluded that only deep-seated change, using Brexit "as a catalyst for economic transformation", will prevent a crisis next March when the UK is finally out of the EU.

One of the primary factors dooming May's Brexit strategy is her subservience to City of London financial interests, which dominates financial flows not only EU-wide but worldwide. It was the City of London that fashioned the supranational EU in the first place. (*The British Empire's European Union: A Monstrosity Created by the City of London and Wall Street*, CEC, May 2016.) It is the perpetuation of that financial grip over policy that Corbyn is seeking to break.

In an interview with Sky's Sophy Ridge, Corbyn answered questions about the EU, given that he voted to leave the European Economic Community in a 1975 referendum and opposed the 1992 Maastricht Treaty which set up the European Central Bank and created the euro and EU.

Corbyn clearly enunciated his opposition to the anti-sovereignty aspects of the European Union, along with his support for social collaboration. As Canary reporter James Wright described it, "the Labour leader wants to regulate money, not people".

Corbyn: "I opposed the Maastricht treaty because it was bringing in an unaccountable central bank and it was moving in the direction of a free-market Europe ... By parallel, I strongly supported the social measures that was brought in by the European Union which Mrs Thatcher so strongly opposed ...

"I've always been in favour of social cooperation across Europe, I've always been in favour of better workers' rights. I strongly supported the whole social chapter agenda that was brought in, in the European Union. What I opposed

was the development of free-market economics in Europe, what I opposed was the state aid rules which limit to differing extents the ability of a government to intervene on its own economy, like we would want to" (emphasis added).

EU rules against state intervention appear to be reinforced by May's deal.

Financial services has been one of the most difficult areas to negotiate, given its pervasive cross-border nature. The race to establish a common regulatory framework has been happening in earnest given that some £20 trillion of derivatives contracts will be invalid once Brexit is in force if they are not renegotiated. (below; "Brexit could vaporise £20 trillion in derivatives", AAS 25 October 2017.)

Under May's latest agreement, the UK will have continued access to European markets under a framework known as "equivalence", whereby the UK's financial regime is acknowledged to be equivalent to the EU's. This is the system used by the USA, but differs from the current UK arrangement where banks enjoy privileged access to all EU states under a single licence (known as passporting).

Bank of England Governor Mark Carney warned MPs on the Treasury Select Committee on 20 November that despite two and a half years of trying the UK was still unprepared for Brexit, and that a "substantial proportion of companies don't have contingency plans for a hard Brexit", the shock of which could take years to recover from. Carney said the central bank would provide analysis of how Brexit scenarios would affect "financial stability", a euphemism for protecting the financial system itself.

Military intervention?

Asked during a BBC interview on 11 November what the government had asked him to do in the event of a no deal Brexit, Chief of Britain's Defence Staff General Sir Nicholas Carter answered that if there's no deal "we stand ready to help in any way we can".

Later that day MP and Government Minister at the Ministry of Defence, Tobias Ellwood, clarified this on Sky News's Ridge on Sunday show, saying, "There are contingency plans being made, there are discussions being held behind the scenes as to what support our armed forces will do."

"With the transition from Brexit, if there is a requirement to provide assistance we're looking right across the full spectrum of requirements to make sure that we are prepared." In contrast to Corbyn demanding the rules of the game change, Ellwood stressed the importance of countries like the UK enforcing the rules-based order, which refers to maintaining the status quo of neoliberal economic policy and established geopolitical aims.

According to British media on 18 November an army source revealed that 20 officers responsible for overseeing Operation Temperer, where soldiers assist police in terrorist incidents, are preparing plans for a no-deal Brexit—to keep public order, assist with traffic problems and keep hospitals supplied with medicines, etc. Such a move mirrors other police state actions to defend the City in case of a financial meltdown, all justified by the threat of terrorism or foreign interference. ("EU plots imperial response to financial crisis", AAS 21 November.)

Brexit derivatives fear hits London Clearing House, banks

By Paul Gallagher, EIR News Service

A 19 October Bloomberg article reported excitedly, "Some of the world's biggest banks are selling their stakes in the largest clearinghouse for interest-rate swaps, a sign London's global dominance in derivatives is ending."

"Deutsche Bank AG, Commerzbank AG and Nomura Holdings Inc. are among the firms selling out of London Stock Exchange Group PLC's LCH clearing unit [London Clearing House], while banks including JPMorgan Chase & Co., Société Générale SA and Barclays PLC are reducing their ownership, according to an LSE [London Stock Exchange] statement on Friday [19 October]. In all, LSE is raising its stake in LCH to more than 80 per cent from around 65 per cent currently." The presumption is that LSE is being forced to do this, to make up for big banks pulling out.

But is it London's role declining, or is it fear of being part of the capitalisation and liability of the LCH Group Holdings clearing house when a "hard Brexit" may hit the derivatives markets in March?

The derivatives clearing houses, new creations after the 2008 crash to "make derivatives safe", are in fact additional centres of risk, and potential points of failure in a derivatives implosion, because they are not sufficiently capitalised. The clearing houses are partnerships of big systemic banks which create and deal in derivatives, and they would suffer the losses if a clearing house failed in a crisis.

Bloomberg reported, "LCH is at the centre of a Brexit battleground, with trillions of derivatives contracts at stake. In the event of the UK leaving the EU without a deal on future trading arrangements, Europe's banks may have to move many of their interest-rate swap contracts to rival Eurex, which is owned by Frankfurt-based Deutsche Börse AG."

This move is exactly what Bank of England Governor Mark Carney has repeatedly warned that dealers will *not*

be able to do quickly; he has noted that in that case, these derivatives will become void, causing chain reaction losses. Bloomberg writes that three months' notice is required for banks moving derivatives transactions off the LCH, and in fact, none of the big banks have given this notice with March just over four months away.

Stress tests: Trouble in London banks

Even the mildly stressful stress test on major banks released by the European Banking Authority on 2 November, found significant bank problems among the biggest megabanks in London. Barclays, Lloyd's Bank, Royal Bank of Scotland, and Deutsche Bank—all of which have their operations centred in London—were found to be "troubled banks", along with Germany's large regional NordLB and Italy's Banco BPM SpA. Barclays and Lloyd's were in the worst shape, liable to have their Tier 1 capital buffer wiped out in the stress test scenario, which featured a drop in Europe-wide GDP of -2.7 per cent over three years. During and after the 2008 crash, German, Italian, and British GDP all dropped by roughly twice that much.

All these London-centred banks are standing before the potential of a "hard Brexit" with no new financial services agreement—not included in the "stress" test—which will cause them large derivatives losses and possibly large trading losses as well. The stress test, by contrast, focused on the spectre of loan losses of about US\$400 billion across Europe, but counterparty (derivatives) losses of only about US\$100 billion, and "operational" (trading) losses of just US\$90 billion.

This meant the stress test was designed to look away from the big losses threatening London banks in a hard Brexit or otherwise-triggered new financial crash—which is now close—and to look at only the kind of losses threatening banks in Italy, for example, from a collapse in corporate and credit card debt.

Mass production of modular nuclear reactors to industrialise developing countries

By Ramtanu Maitra

This article appeared in the 16 November 2018 issue of Executive Intelligence Review.

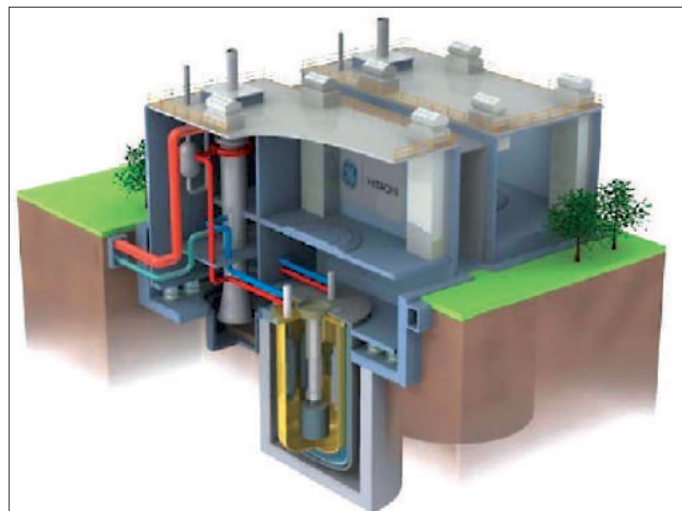
10 Nov.—There are many apparent reasons why the United States has virtually abandoned its nuclear power generation growth. One of the reasons is that the US attitude to industrial development has undergone a sea-change over the last three to four decades. In the 1950s, electricity consumption grew at an annual rate of almost 12 per cent. Throughout the 1960s through 1970s, that growth rate hovered between 5 to 8 per cent before it collapsed to zero and below zero, resulting in the cancellation of new power generation plants with the approach of this millennium. All this happened because the powers-that-be in the United States chose to move the nation's focus away from maintaining the country as an industrial powerhouse through modernisation and innovation, to instead become increasingly a financial hub—pursuing the British model.

Adopting such an active de-industrialisation policy—and allowing basic heavy industries to ebb and wither—coupled with a steady infiltration of anti-nuclear activists at various policy-making levels into the US government during the same period, took a heavy toll on the growth of the nuclear power sector. The stagnation of the industrial sector in this country that dragged down the nation's overall productivity, as well as the interrelated decline of the power sector—nuclear in particular—was perhaps an important reason why the nuclear industry did not diversify to usher in other, and equally important, ingredients.

One of the key areas of nuclear development that has been largely ignored during the recent decades has been the development of small modular nuclear reactors (SMRs), a technology which would rejuvenate the nuclear sector and establish a future for the nuclear power sector worldwide. One may argue that the United States does not need small reactors since it has the basic transportation and industrial infrastructure and the strong electrical grid needed to support large, “economy of scale” reactors. That is a valid argument. However, there are important reasons why small modular reactors should have been made commercial decades ago.

The need for modular reactors

Looking back, it becomes apparent why nuclear power was born in the more advanced, developed nations. The development of such front-line technology required prime resources, including very skilled manpower in the form of scientists, experimentalists, engineers—and accompanying scientific and technological institutional infrastructure. It also needed a significant level of physical infrastructure, including power and transport, an industrial base, and an economy that generates surplus wealth. The initial development of peaceful nuclear energy took place exclusively in countries that already had a developed electrical power system. The attraction of nuclear power for these countries was the potential to accelerate the process of development, while not having to depend on such finite resources as coal and gas.



PRISM (Power Reactor Innovative Small Module), a nuclear power plant design by GE Hitachi Nuclear Energy (GEH). Photo: Wikipedia

In other words, nuclear power did not help any country to develop an electrical power infrastructure from scratch. In recent years, China, and to a certain extent India—both now among today's nuclear power generating nations—have succeeded in developing their electrical power capacity significantly, but neither did so using nuclear power. Nuclear power's contribution to these countries came later, mostly for supplementing the power growth, or replacing any number of less-productive or polluting power sources. According to a recent report of the International Energy Agency, nuclear power production will grow by about 46 per cent by 2040—and more than 90 per cent of the net increase will come from China and India.

Since development of nuclear power was initially the concern entirely of the industrialised West, where bulk power was the need of the hour, this provided little incentive to develop smaller reactors where the production of electricity is more expensive than with the larger reactors.

In the United States, the manufacturing of nuclear reactors, generators, etc., is the responsibility of private entrepreneurs. The installation and daily operation of these reactors also belongs to the private sector. The US government only comes in as the regulator. For the private utility, the prime objective is to make nuclear power economically competitive with coal, gas or hydro. Under the circumstances, the only objective of the private sector is how to optimise profit by building these reactors to fit the economy of scale. Even today, six decades later, this remains the primary concern for those who are building nuclear power plants and supplying power to consumers in the United States.

Unfortunately, such a market-driven approach obscures the true, far-reaching importance of nuclear power. It is not simply a reliable source of continuous electricity. Rather, understood from US statesman Lyndon LaRouche's conception of energy flux-density, it becomes a revolutionary ingredient in developing the basic infrastructure and productive power of the nation. Here lies the importance, and

the future, of small modular reactors.

Economy of scale for reactors

Since nuclear power generation began in the 1950s, the size of reactor units has grown from 60 megawatts (MW) to more than 1600 MW, with corresponding economies of scale as the driving force. At the same time, many hundreds of smaller power reactors have been built for naval use and as neutron sources, yielding enormous expertise in the engineering of small power units. These small reactors did not seek the economy of scale, but catered to a vital need where cost was a secondary factor.

In their paper, “Nuclear Reactors: Generation to Generation”, authors Stephen M. Goldberg and Robert Rosner pointed out that “Generation I” refers to the prototype and power reactors that launched civil nuclear power. This generation consisted of early prototype reactors from the 1950s and 1960s, such as Shippingport (1957-1982) in Pennsylvania, Dresden-1 (1960-1978) in Illinois, and Calder Hall-1 (1956-2003) in the United Kingdom.

The Second Generation, or “Gen II”, includes pressurised water reactors (PWRs), which began operation in the late 1960s and comprise the bulk of the world’s 400+ commercial PWRs and boiling water reactors (BWRs) that are in operation today. These have an expected life-span of about 40 years, although many have exceeded that life-span and will remain in operation for at least 20 more years.

There are other types of reactors, such as Canada’s heavy water reactors (CANDU) that are also recognised as Gen II reactors. Gen II designs require relatively large electrical grids and have a safety envelope based on Western safety standards. The economics of existing Gen II plants and of those under construction or in the planning stage are generally favourable, particularly in some parts of Asia.

Gen III nuclear reactors are essentially improved Gen II reactors. These improvements in Gen III reactor technology are aimed to extend the operational life to 60 years, potentially to greatly exceed 60 years, prior to complete overhaul and reactor pressure vessel replacement.¹

While these developments enhanced the economy of scale, they also pushed aside the development of small reactors, because of the latter’s much higher megawatt-to-megawatt cost when compared to these Gen II or Gen III reactors. But the story has a downside. Now that the United States has not built a nuclear power plant for decades, and in the context of the de-industrialisation of the nation, the ability to manufacture ultra-heavy forgings—each of which weighs greater than 400,000 pounds—a necessity for the Gen III reactors, no longer exists in the United States. At this point, the United States is today simply incapable of producing a Gen II or Gen III nuclear reactor.

US can’t make Gen III reactors

Peter Alpern wrote in 2009: “Four of the most complex parts of a nuclear power plant—the containment vessel, the reactor vessel components, the turbine rotors and steam generators—are made from over 4,000 tonnes of steel forgings, and almost none of those components are manufactured in the United States. The reactor vessel functions like the outer shell of an egg, protecting all the vital internal pieces, including the components in which the nuclear reaction takes place. The outer vessel alone weighs over 500 tonnes and is made up of seven very large forgings, in-

cluding several that make up the nozzle.

“The newest nuclear plant design on the market, the Generation III Evolutionary Power Reactor (EPR), from the French nuclear engineering group Areva, uses four steam generators—each of which weighs up to 500 tonnes. A generator rotor weighs in excess of 200 tonnes, according to Craig Hanson, vice president and product line manager for nuclear plant builder Babcock & Wilcox. And, for each nuclear plant, there are three to four turbine rotors.”²

The Gen III reactors require steel ingots weighing between 500 to 600 tonnes each. No steel producers in the USA can handle that size or weight, says Chris Levesque, Areva’s president and general manager at its Newport News, VA, facility for fabricating heavy reactor components:

“Forgers are limited because while [a forger] can make his press bigger and he can make his machine tools bigger, he needs a larger ingot. He’s limited by the steel mill and the ability of not just a mill that can make that big of an ingot, but [can] also transport it to him by rail. You’re talking about a piece of metal that’s huge and needs to stay hot and get from the mill to the forge. One of those mills can’t exist just to supply the forge.”

The largest US ingot manufacturer, the now defunct Bethlehem Steel, could produce an ingot of about 380 tonnes—good enough for the Gen II reactors, but not so for the Gen III reactors. And that Bethlehem Steel capability no longer exists.

While America dismantled its capabilities vis-à-vis heavy forging, new heavy forgers have emerged—not many, but a few. According to Alpern’s article, Japan Steel Works (JSW) is by far the largest, providing 80 per cent of the large forged components for all nuclear power plants being built in the world today outside Russia, including the steam generator, reactor pressure vessels and turbine shafts. Several other countries are also involved in Gen III, or similar, reactors, and heavy forging capacity is emerging in those nations, including China (China First Heavy Industries) and Russia (OMZ Izhora), along with new capacity emerging in South Korea (Doosan) and France (Le Creusot). It is also being planned in the UK (Sheffield Forgemasters) and India.

What SMRs promise

In May 2018, a Portland, Oregon-based company, NuScale Power, announced that its design of a small modular nuclear reactor (SMR) had completed the Phase 1 review of its design certification application (DCA) by the US Nuclear Regulatory Commission. According to analysts, Phase 1 is the most intensive phase of the six-phase review, taking more hours and effort than the remaining five phases combined.

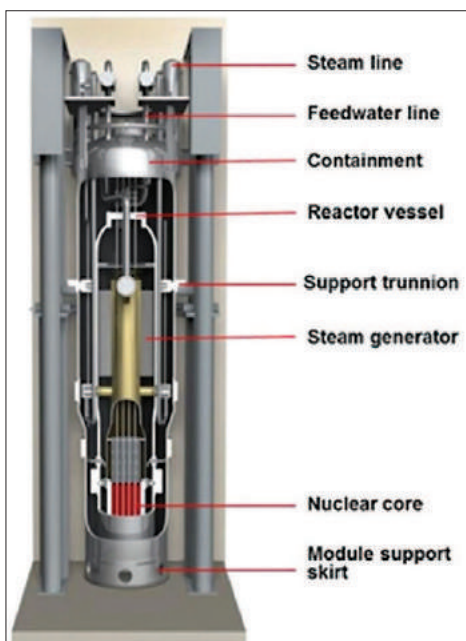
What NuScale’s SMR is offering is twelve 50 MW reactors combined, a scaled-down version of large, light water reactors that can be put together module-by-module to develop a generating capacity of 600 MW. Recently, NuScale says its SMR will produce 20 per cent more power than what it was designed for.³ Because the plant has not been constructed and no power has yet been generated, such claims must remain hypothetical until proven.

What is evident from the cost of the 12-50 MW SMR designed by NuScale, or any other small modular reactor, is that when developed, these reactors, megawatt-for-megawatt, will be more expensive than Gen III large nuclear reactors. How-

2. “US Cedes Capability for Largest Nuclear Forgings”, by Peter B. Alpern. *Forging*, 16 June 2009.

3. “Breakthrough for NuScale Power: Increase in its SMR Output Delivers Customers 20 per cent More Power”, NuScale News Release, 6 June 2018.

1. “Nuclear Reactors: Generation to Generation”, by Stephen M. Goldberg and Robert Rosner. American Academy of Arts & Sciences, 2011.



The proposed NuScale reactor building is designed to hold 12 SMRs. Each NuScale SMR has a rated thermal output of 160 MWt and electrical output of 50 MWe, yielding a total capacity of 600 MWe for 12 SMRs. Photo: US NRC

(SMRs) are defined as nuclear reactors generally 300 MW equivalent or less, designed with modular technology using module factory fabrication, pursuing economies of series production and short construction times.⁴ ...

What is at hand is the definitive work done by NuScale and its success in completing the Phase 1 review of its design certification application by the US Nuclear Regulatory Commission. The NuScale SMR is an advanced light-water reactor. Each module is a self-contained unit that operates independently within a multi-module configuration. Up to 12 modules are monitored and operated from a single control room. The entire reactor sits within a containment vessel 65 feet tall and 9 feet in diameter. NuScale's Russell Ray describes the process in this way:

"The reactor and containment vessel operate inside a water-filled pool that is built below grade. The reactor operates using the principles of natural circulation; hence, no pumps are needed to circulate water through the reactor; instead, the system uses a convection process. Water is heated as it passes over the core, and as it heats up, the water rises within the interior of the vessel. Once the heated water reaches the top of the riser, it is drawn downward by water that is cooled passing through the steam generators.

"The cooler water has a higher density. It is pulled by gravity back down to the bottom of the reactor where it is again drawn over the core. Water in the reactor [cooling] system is kept separate from the water in the steam generator system to prevent contamination. As the hot water in the reactor system passes over the hundreds of tubes in the steam generator, heat is transferred through the tube walls and the water in the tubes turns to steam. The steam turns turbines which are attached by a single shaft to the electrical generator. After passing through the turbines, the steam loses its energy. It is cooled back into liquid form in the condenser, then pumped back to the steam generator."⁵

ever, that cost difference can be reduced significantly if the SMRs are mass-produced. Even with the higher cost, it is clear that SMRs have a large role to play in the coming decades, particularly in the developing countries.

According to a report, "Small Nuclear Power Reactors", which can be found on the World Nuclear Association's website:

"Small modular reactors

SMR advantages for developing nations

In addition to what Russell Ray describes, which emphasises the safety part of the NuScale SMR, SMRs in general have many advantages that are of particular importance to countries with weak basic infrastructure. To begin with, the major components of SMRs will be small enough to be made on a production line in a factory, rather than being assembled one item at a time. That means it will be fully set up in a controlled environment away from the wind, rain, and sand—typically present at a construction site—that often delay construction and assembly.

Among the other advantages, these SMRs provide easy transportability. Since they are only 65 feet tall, 9 feet in girth, and weigh about 300 tonnes, they could be transported from the factory to the construction site by boat, truck, or even railway car—a task that many developing countries' infrastructure can bear. Another advantage is that SMRs have much smaller emergency planning zones (EPZs), which is the area expected to be affected in the case of a nuclear accident.

SMRs require fewer materials and resources, bringing down the one-time capital cost. That suggests the country using SMRs can add power in smaller increments. It also means that the countries with a weak electrical grid—which is a serious problem in most of the developing countries and presents major obstacles to setting up a large single power generation unit—will be able to set up SMRs, which, in return, will provide a steady source of power to develop basic infrastructure, including the strengthening of the electrical grid.

There are other smaller advantages. For instance, a large nuclear power plant needs to change fuel once every 18 to 24 months. Outages are scheduled for the spring or autumn when electricity demand is lowest. The outage required for a scheduled refuelling is usually no more than 40 days, but during that period, no power is generated or delivered by that plant. In the case of SMRs, although it could be five to six years before a shut-down of one of the modules would be necessary to carry out the fuel change, such refuelling outages can be staggered, allowing a module-by-module fuel change. This would enable a multi-module unit to carry on supplying power at near capacity throughout its lifetime.

SMRs, once developed and proliferated, will also be the anchor for desalination of sea water and brackish water. Desalination of water along vast coastal areas is an essential ingredient for economic development in many developing countries and island nations. Recently, Ibrahim Khamis of the International Atomic Energy Agency was cited as emphasising that this is not a new idea. Its feasibility and reliability have been well-proven, and there is the added advantage that the nuclear power plants can supply either thermal or electrical energy, or both, at varying scales. According to Khamis:

"We can think of nuclear-powered desalination in terms of two main applications. One is to serve make-up water resources for the plant; the other is to produce potable water. Both applications have already been demonstrated."⁶

In addition, perhaps the greatest advantage of proliferating these SMRs is that they can be located in areas where the population is sparse, and the growth potential is vast—a very common phenomenon in Africa, in some parts of Asia, Central America and the Caribbean islands, for instance. These SMRs could jump-start the much-required developmental process—not in one stroke, but at a steady and escalating pace.

4. "Small Nuclear Power Reactors", World Nuclear Association.

5. "Can SMR Technology Revitalise the Business of Nuclear Power?" by Russell Ray. *Power Engineering*, 13 June 2018.

6. "Nuclear-Powered Desalination", by William Steel. *Industrial Water-World*, 1 October 2018.

A power-starved world

Despite the last six decades of commercial power generation, nuclear power, as an electrical power source, has not contributed to the electricity generating capacity of the “developing nations”, where power generation remains a crucial ingredient for building up the basic manpower, industry, and the absolutely necessary infrastructure of those nations. At present, the world can produce about 20 to 25 large, pressurised light water reactors and a few medium-size (about 700 MW) pressurised heavy water reactors per year, adding up to about 25-30,000 MW annually. That production capability is far, far below what the world needs. For instance, in the period between 2000 and 2010, China alone built about 26,000 MW of power generating capacity annually, mostly using coal and hydro-electric.

How little has nuclear power contributed to the developing nations? Take the case of the BRICS member nations. These are considered nations that are on the way to becoming developed nations. It is true that in Russia, India and China, nuclear power is growing, and these countries have developed the potential to become major nuclear power generating countries, but in Brazil and South Africa, nuclear power remains an insignificant player in their power capabilities. Brazil has only two reactors, producing about 3 per cent of its power in a power-starved country. The same goes for South Africa, where two nuclear reactors at the Koeberg nuclear power station account for around 5 per cent of South Africa’s electricity production. South Africa is vastly short of power, yet nuclear power is not playing any significant role.

Beyond those examples, one must take a look at South East Asia, for instance. Existing in the vicinity of four nuclear power manufacturers—China, Japan, South Korea and India—none of the ten members of the Association of South East Asian Nations (ASEAN)—Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam—has a single nuclear power plant. Nuclear has not played any role whatsoever. Most of these nations desperately need a much larger electricity generating capacity for their growth.

In the entire continent of Africa, populated by 1.2 billion people, other than those two Koeberg nuclear reactors in South Africa, nuclear power has no presence. And, yet, Africa is crying out for more electrical power to grow and provide a future for today’s, and tomorrow’s, population.

Under current circumstances, these countries cannot have a serious nuclear program based on large nuclear reactors. They simply do not have the infrastructure, or the electrical grid system, to support large Gen III reactors. For instance, in Nigeria, with a population close to 190 million and the potential to become an economic giant, its transmission system does not even cover large parts of the country. Currently, it has the capacity to transmit a maximum of about 6 GW, and the system is technically very weak, thus very sensitive to major disturbances. For connecting a large nuclear power plant (say, 1,000 MW), the estimated capacity of a smooth-running grid required is at least 10 GW. (In other words, a single power generation source’s capacity is not to exceed 10 per cent of the grid capacity for smooth distribution.)

The situation in most of the rest of Africa, in terms of infrastructure and electrical transmission capacity, is far worse than in Nigeria.



Aerial view the CAREM-25 prototype reactor building under construction in Argentina. Photo: Creative Commons

A similar situation exists in all of the Caribbean and Central American countries, in the vicinity of the United States—the largest producer of nuclear power. One could go on and on about the shortcomings.

SMRs will open up the world

With the advent of the SMRs—not only the NuScale version, but many other versions that can be developed within a short time by other nuclear power plant manufacturing nations—all of these countries can get an opening. What this will require, however, is for the SMRs to be mass produced in assembly-line fashion, and this will need governments—including most empathically the governments of the nuclear-producing nations—to get involved and ensure the job is done. The intention must be to enable the developing nations to build up their basic infrastructure and industrial capabilities. That should be attractive for even those private sector manufacturers who think in terms of developing markets for larger economic interactions.

How will these SMRs accomplish what the large nuclear power plants can not? Take for instance, Indonesia. The Indonesian archipelago has 18,000-plus islands. However, almost 60 per cent of Indonesia’s 260 million people live on the island of Java. Indonesian authorities’ many efforts in the past to redistribute the population to various islands have fallen flat because of lack of electrical power, which provides the basis for sustainable living. For Indonesia, it is not possible to build a large nuclear power plant and string the wires across the seas to provide power to the islands. Nor is it feasible to have boatloads of coal crisscrossing the seas, carrying millions of tonnes of coal daily to feed the coal-fired power plants set up on those islands. For Indonesia, SMRs will offer a perfect solution.

The same can be said of so many countries in Africa. Look at Chad, Sudan, Mali or the Democratic Republic of the Congo. Developing the lands distant from major population centres will open up the countries and provide an opportunity for growth all across the continent.

These are important factors, and the correct and rapid development of the SMRs will not only put nuclear power at the helm of power generation for centuries, it will enable many of the developing nations to get out of the otherwise insurmountable poverty trap.



Escalation around Ukraine threatens Trump-Putin diplomacy

By Rachel Douglas

27 Nov.—The potential for a military conflict between Russia and Ukraine over the Sea of Azov suddenly flared into reality with an incident at the Strait of Kerch on 25 November. Russian maritime border patrol forces rammed, fired on, and detained three small Ukrainian military ships—two cutters and a tugboat—and their crews. The political circles in the UK and USA who are most eager for an irreparable showdown with Russia were quick to fan the flames into a full-scale international crisis.

As of this writing, the fate of the sit-down meeting between Presidents Donald Trump and Vladimir Putin, planned for the sidelines of the 30 November-1 December G20 summit in Argentina, is up in the air. In an interview with the *Washington Post* released this evening, Trump—under constant pressure to be tough with Russia—said, “Maybe I won’t even have the meeting. I don’t like that aggression. I don’t want that aggression at all.”

Who had committed aggression and who had staged a provocation was intensely disputed from the moment news of the incident, in which six Ukrainian sailors were wounded, broke. Ukrainian President Petro Poroshenko convened an emergency Sunday-night cabinet meeting, announced preparations to impose martial law, and accused Russia of aggression. Russian Foreign Ministry spokesman Maria Zakharova accused Kiev of using “bandit methods” to achieve its goals, in that it “first stages a provocation, then plays power games, and [eventually] accuses [another side] of aggression”.

Build-up for an incident

The clash occurred at the approach to the Strait of Kerch, which is the only entrance to the Sea of Azov from the larger Black Sea. On the east side of the strait is Russia’s Krasnodar Territory, while on the west is Crimea—the peninsula which belonged to Ukraine after the break-up of the Soviet Union in 1991, but seceded and joined Russia in 2014, three weeks after a western-backed coup in Kiev had ousted elected Ukrainian President Victor Yanukovich. Russia’s re-absorption of Crimea is not recognised internationally, and has been the pretext for USA-led sanctions against Russia. On the northern shore of the Sea of Azov is the Ukrainian port city of Mariupol, which can only be reached via the Strait of Kerch.

Passage through the strait has been regulated by a treaty between Russia and Ukraine since 2003, under which Russia was responsible for regulating navigation of these shallow waters. The treaty has remained in effect even after the shift of control over Crimea. Russian diplomat Dmitri



Polyansky, speaking 26 November at a UN Security Council meeting on the crisis, pointed out that the Ukrainian boats had violated Russian territorial waters “at a place that was Russian territory already before 2014”. The Ukrainians had “refused to allow a pilot aboard” and had attempted to sail into the strait on their own.

Russia has been on high alert for any such attempts to make the Kerch passage without following the treaty-prescribed procedures, and has tightened its notification and inspection requirements, since March-April of this year. On 25 March and 10 April, Ukrainian forces detained two Russian ships, one in the Sea of Azov and one while it was docked in Odessa (a Ukrainian port in another part of the Black Sea), in the first case accusing Russia of illegally fishing in Ukrainian waters and in the second of conducting dredging operations in Crimea. Moscow accused Ukraine of “piracy” in those incidents.

In May, Russia completed construction of the road portion of its Kerch Strait Bridge, a large road-rail project that connects Crimea with the rest of Russia. President Putin opened the bridge for traffic, himself driving a large truck across the span. The structure immediately became the target of open calls for terrorist attacks, from within Ukraine and by those abroad who specialise in instigating Kiev to confront Russia. Most shocking was the headline appearing in the *Washington Examiner* of 15 May 2018, “Ukraine should blow up Putin’s Crimea bridge”. The author, who wrote that “bombing the bridge would ... be a very personal rebuke to Putin’s ambitions and his propaganda narrative”, was one Tom Rogan, an American pundit who grew up in the UK and graduated from King’s College London in “War Studies”.

Alexander Bortnikov, head of the Russian Federal Security Service (FSB), stated in May that “manpower and resources have been prepared for coordinated actions in

case of terror threats" to the bridge.

Russia quickly responded to the 25 November three-ship approach by temporarily blocking the way under the central bridge span with a large cargo ship. Two days later, Russia media are featuring confessions by Ukrainian Security Service (SBU) officers aboard the three ships, that they had deliberately tried to enter the strait without giving notice, in order to set a precedent. This version gains credibility from the fact that in September 2018 two Ukrainian Navy vessels did give notice and did safely pass through the strait; the decision not to do so was a conscious change.

Atlantic Council calls to escalate

Members of the Anglo-American war party have unmistakably been preparing to use such an incident to build up NATO's presence right off Russia's shores. On 7 September the Atlantic Council, the British government-funded Washington think tank, published an article by Stephen Blank of the American Foreign Policy Council, who called for supplying Ukraine with anti-ship missiles and "a viable launch platform and targeting system" for use in the Sea of Azov.

After this week's incident, the Atlantic Council (AC) was ready with new calls for escalation. On 26 November it posted a Q&A under the headline, "Russia Attacks Ukraine Again. How Should Ukraine, NATO, and the West Respond?" Proposals from the AC's stable of experts included these.

Anders Åslund, AC senior fellow: "NATO and the United States should send naval ships into the Black Sea into the neighbourhood of the Sea of Azov to guarantee that it stays open to international shipping.

Taras Berezovets, Ukrainian Institute of the Future: "The West should shut down [Russian access to the interbank clearing system] SWIFT, slap on oil embargoes against the Russian Federation, and enlarge military assistance to Ukraine."

Peter Dickinson, AC non-resident fellow: "Send a multinational naval task force to pass through the Kerch Strait without delay and dock at Mariupol. This would test Moscow's resolve and expose the limitations of Russian bullying."

Adrian Karatnycky, AC senior fellow: "NATO, the United States, and the West should respond with a ratcheting up of sanctions, creating a much larger naval presence in the Black Sea, and increasing lethal military assistance to Ukraine. Increased sanctions are also called for...."

In contrast to such war-mongering, the military analyst Lyle Goldstein of the US Naval War College wrote last month in the *National Interest* that responsible leaders had better beware of a "showdown in the Sea of Azov", because "this Russia conflict scenario would make operations in Syria look like a round of croquet". He suggested that the growing tension around the Sea of Azov was related to "Trump's myriad hawkish advisors, [who] have ... thwarted the president's attempt to improve relations with the Kremlin." Goldstein warned, "Conducting major NATO military drills along Russia's sensitive borders and in highly unstable areas of the former Soviet Union is the opposite of wise restraint."

Martial law

A wild card in the escalation of East-West tension over Ukraine is the behaviour of the politically desperate Poroshenko. His initial attempt to declare martial law for two or three months and throughout Ukraine was beaten



A Russian ship blocking the Kerch Strait which links the Azov and Black Seas, with Russian aircraft overhead. Photo: AFP/Kerch Info

back by major political parties in the Supreme Rada (Parliament), who fear that Poroshenko intends to cancel the Presidential elections slated for March 2019 and Parliamentary elections, also due during 2019. In the event, the Supreme Rada approved a martial law declaration for 30 days, and only in Ukrainian provinces bordering Russia.

In a webcast posted today under the title "Martial Law Means Poroshenko's Dictatorship, instead of Democracy", Ukrainian economist Natalia Vitrenko, leader of the Progressive Socialist Party of Ukraine (PSPU), exposed the inadequacy of the Kerch Strait incident as pretext for the martial law declaration. She pointed out that Kiev did not declare martial law in 2014, when Crimea seceded, nor during the bloody battles of Ilovaysk in 2014 and Debaltsevo in 2015, when Ukrainian Army forces were surrounded and being smashed by insurgents in eastern Ukraine's Donbass area, who had rejected the February 2014 neo-Nazi-led coup in Kiev.

Poroshenko's foreign sponsors may have their own reasons for provoking a showdown with Moscow, but Vitrenko said that Poroshenko personally has just one motive: to avoid being trounced in the election.

Vitrenko pointed out that the law providing for the declaration of martial law was pushed through in 2015, in evident anticipation that it would be used in the near future. Martial law conditions are severe. They give the government the right to commandeer workforces, infrastructure, and housing for use by the military. There are strict curfews and limitations on travel. Warrantless search and seizure, including of people's homes, is permitted. The activity of political parties or movements deemed to be a threat to Ukraine's "territorial integrity" may be banned. The state assumes control over all media, including amateur broadcasts and computer networks. The constitutional rights to a subsistence income and to healthcare, as well as protections against religious or ethnic discrimination, are suspended under martial law, Vitrenko said. The religious aspect is important, she added, because Poroshenko's ongoing campaign to unify all Ukrainian Orthodox parishes in one church, independent of the Moscow Orthodox Patriarch, represents a threat to the half of the Orthodox parishes in the country that have remained affiliated with the Russian church; they may now have fewer protections against attacks and physical takeover.

She suggested that the selective imposition of these conditions, only in the northeast, east, and southeast regions of Ukraine, was a deliberate targeting of areas where a higher percentage of the population still favours friendly relations with Russia.

Pentagon looks overseas for secure defence supply chain

Special to the AAS

An obscure section of the US *National Defence Authorisation Act* for Fiscal Year 2017 has brought Australia into a prominent position in the United States defence industry. Section 881 of the NDAA FY17 added the United Kingdom and Australia to the US National Technology and Industrial Base (NTIB). This means that Australian defence manufacturers, research and development firms, and think tanks, as well as Australian defence agencies, are considered part of the US military-industrial complex.

Prior to the FY17 NDAA, the National Technology and Industrial Base of the United States only included the United States itself and Canada. With the addition of Australia and the UK, four of the five countries that comprise the Anglo-American “Five Eyes” joint espionage system (New Zealand is excluded from the NTIB, so far) are now integrated for defence research and the engineering and manufacturing of military hardware.

A March 2018 study by the Centre for Strategic and International Studies, “National Technology and Industrial Base Integration: How to Overcome Barriers and Capitalise on Cooperation”, explained: “The expansion of the NTIB is based on the principle that defence trade between the United States and its closest allies enables a host of benefits including increased access to innovation, economies of scale, and interoperability.”

Target: China

The December 2017 National Security Strategy of the United States placed top priority on meeting the challenges posed by major power rivals China and Russia. In July 2017, President Donald Trump commissioned a comprehensive study of US manufacturing and supply-chain vulnerabilities. After nearly half a century of the outsourcing of America’s once formidable industrial base, the study, completed in October 2018, found gaping holes in defence manufacturing, worker skills and basic STEM (science, technology, engineering, mathematics) education. If a major power conflict were to erupt with Russia, China or both, the study concluded, the United States would be unable to marshal an “arsenal of democracy” such as defeated the Axis Powers in World War II.

The report singled out China as the biggest future threat to US global leadership. Unlike the United States, China has invested heavily in the most advanced areas of scientific and technological research, and has the world’s most advanced space exploration program, the largest number of science graduates, and a broad manufacturing base that could be converted overnight to meet security needs in time of war.

The defence manufacturing and supply chain study was led by Deputy Assistant Secretary of Defence for Industrial Policy Eric Chewning. There is evidence that the section demonising China was added to the report by Peter Navarro, head of the White House Trade Policy Office, a rabid China-hater. Navarro had the final word on the language of the Pentagon-led study, and would not have missed an opportunity to spin the comprehensive profile of the sorry state of US manufacturing in an anti-China direction.

On 26 November 2018, Chewning gave a briefing at the Atlantic Council in Washington, DC on the progress on implementing the study. In contrast to Navarro, Chewning made

no mention of China, except for a one-sentence reference to the December 2017 US National Security Strategy and the need for an overall revival of the manufacturing base of the nation.

In response to a question from the audience, Chewning confirmed that the Pentagon study had concluded that the United States could not overcome the half-century of decline in manufacturing and job skills without help from “allies and partners”. He highlighted the inclusion of Australia and the UK in the NTIB as a step towards expanding secured production. He added that the Pentagon is talking with five other close US allies and partners, including Japan and Israel, to seek additional cooperation in reviving the broad manufacturing base.

Re-industrialisation without war?

The impulse to rebuild a modern, future-oriented manufacturing base, along with expanded infrastructure, is healthy. It was explicitly highlighted by another speaker on the panel with Chewning, Jeffrey Wilcox, vice president of the aerospace company Lockheed Martin, who pointed out that the debate over a defence manufacturing base is as old as the Republic. He cited Alexander Hamilton’s work as General George Washington’s chief procurement officer and later as Treasury secretary as the cornerstone upon which the American economy was built. A nation that lacks a growing manufacturing base and expanding infrastructure is doomed.

The burning question is whether a genuine revival of American manufacturing, science and STEM education can be accomplished without framing it in a national security threat.

Bringing Canada, Australia and the UK into the equation creates another danger: The UK and Australia have been in the forefront of the intelligence operation directed at bringing down the Trump presidency and driving a permanent wedge between the United States, Russia and China.

The Australian Strategic Policy Institute journal *The Strategist* published an ominous report in December 2017 on ways in which Australia could immediately integrate into the US military-industrial complex. The author of the two-part study, Brendan Thomas-Noone of the United States Study Centre at the University of Sydney, focused exclusively on war-gaming, integrating Australian defence manufacturers into the Pentagon’s procurement process, and offering Australia as a test-range for next-generation military hardware, directed at off-setting Russian and Chinese systems.

In his famous farewell address of January 1961, President Dwight Eisenhower warned about the dangers of allowing the then-emerging military-industrial complex to have “unwarranted influence”. That warning is particularly relevant at this moment.

(5) Recommendations for increasing integration of the national technology and industrial base that supplies defense articles to the Armed Forces and enhancing allied interoperability of forces through changes to the text or the implementation of—

(A) section 126.5 of title 22, Code of Federal Regulations (relating to exemptions that are applicable to Canada under the International Traffic in Arms Regulations);

(B) the Treaty Between the Government of the United States of America and the Government of Australia Concerning Defense Trade Cooperation, done at Sydney on September 5, 2007;

(C) the Treaty Between the Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland Concerning Defense Trade Cooperation, done at Washington and London on June 21 and 26, 2007; and

(D) any other agreements among the countries comprising the national technology and industrial base.

The 2017 US *National Defence Authorisation Act* cites Five Eyes nations including Australia as critical components of the US military-industrial complex. Photo: Screenshot



Fraud and crimes of the banks

The British Crown/City of London criminal financial empire

Originally published in "End the BoE-BIS-APRA Bankers' Dictatorship: Time for Glass-Steagall Banking Separation and a National Bank!"

"We assess that hundreds of billions of US dollars of criminal money almost certainly continue to be laundered through UK banks, including their subsidiaries, each year." That finding was made by Britain's own National Crime Agency in 2015. In May of that year, international criminal money-laundering expert Roberto Saviano told an event at the House of Commons that "London is now the global money-laundering centre for the drug trade", the *Independent* reported on 4 July 2015.

Criminality on a staggering scale is not a regrettable by-product of an otherwise legitimate system, *but the very soul of it*. As our flow chart (p. 13) shows, the global financial system's "offshore" and "onshore" components are seamlessly connected, both being supervised by the Crown through its Privy Council. Their power over core financial agencies such as the City of London Corporation and the Bank of England, which operate under Royal Charter, is no mere formality. As the Privy Council itself states on its website, "once incorporated, by Royal Charter, a body surrenders significant aspects of the control of its internal affairs to the Privy Council."

The 1,000-year old, secretive City of London Corporation is the coordinating body for London's financial district and its megabanks, with its own governing body, laws, and police force. It also controls the City Cash, a private fund built up over the last eight centuries, funding monuments and ceremonies, stakes in property developments, free-market think tanks, and permanently staffed lobbying offices worldwide.

The City's most famous resident institution is the Bank of England, which not only was the model for all modern central banks—answerable not to the interests of the population, but only to those of the ruling oligarchy—but it also, still today, guides a vast apparatus of institutions: the Bank for International Settlements, the Financial Stability Board, and, through them, the banking regulators of Australia and many other countries. There is a rotating door for personnel between these institutions and the megabanks.

Within the offshore dirty-money system proper, there are Crown Dependencies, Overseas Territories, and former British colonies. The Queen appoints the governors of the first two, while all legislation requires Privy Council or gubernatorial approval, respectively. Combined, these three groups of jurisdictions account for 37 per cent of all bank deposits in the world.

Wall Street, the famous New York financial centre, is historically and by function a junior partner of the City of London. Its banks are tightly interfaced with London's and engage in the same practices. Today nearly 70 per cent of the on- and off-balance sheet foreign assets of US



Left: Lord Mayor of the City of London in his coach. Right: the current Remembrancer, Paul Double.
Photos: AFP/Ellen Rooney-Robert Harding Heritage; Wikipedia

banks are held in the UK. The same type of relationship, as a "branch office" of the City of London, holds true for the EU's European Central Bank, which since its inception has been run by European figures with close ties to the City, and for several European megabanks, including Deutsche Bank.

In the political realm, the British Cabinet is a formal subsidiary of the Privy Council. Thus successive British governments, both those of New Labour's PMs Tony Blair and Gordon Brown (1997-2010) and their Conservative Party successors, are witting participants in the criminality. Saviano charged that British governments have repeatedly blocked anti-money laundering measures sought by the European Union.

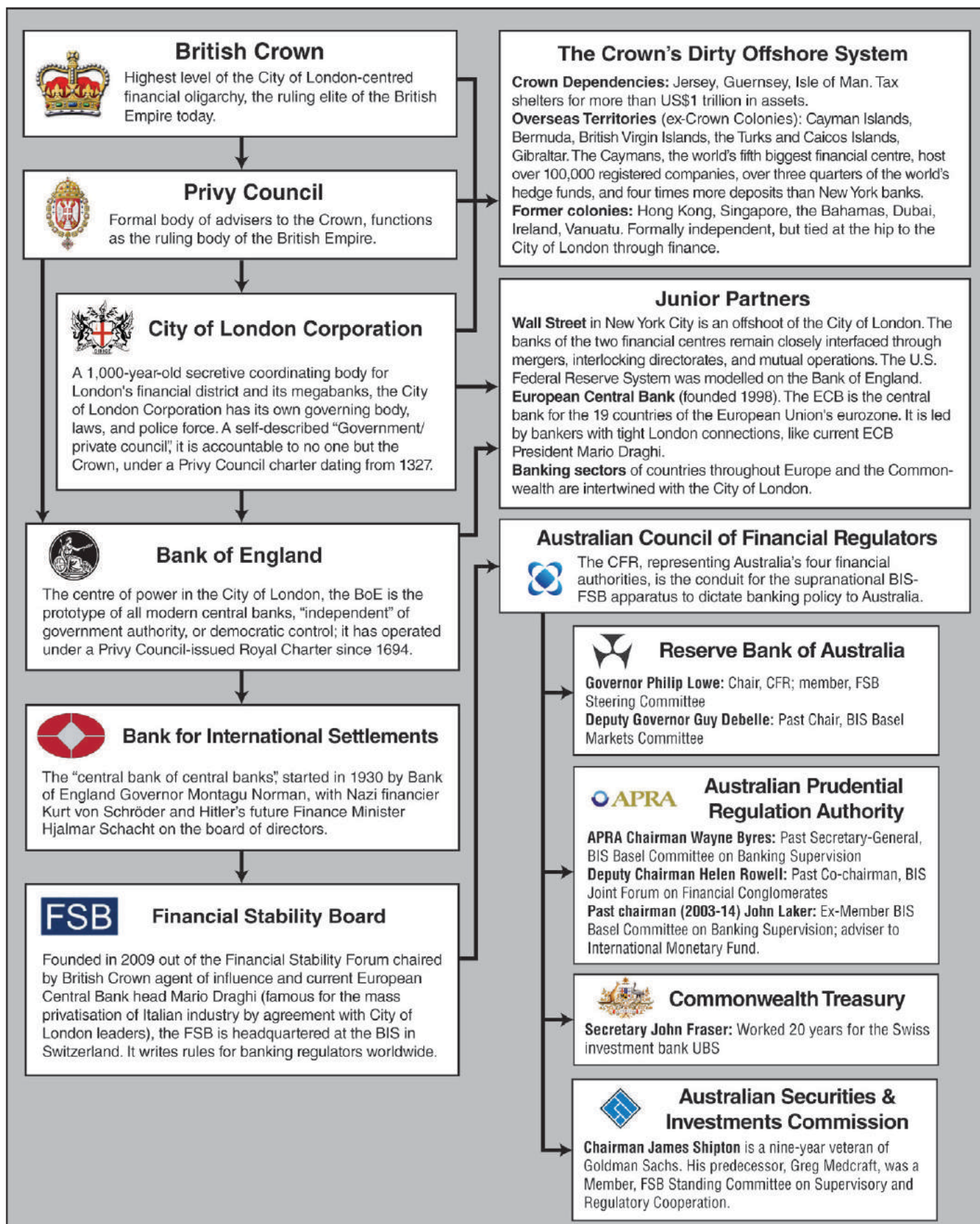
The City of London Corporation's institutional lobbyist, the Remembrancer, sits in the UK Parliament with veto power over legislation.

'Illegal' criminality

Even a preliminary catalogue of the crimes of the City of London and related banks makes up a substantial dossier. They fall into two groups: "illegal" (admitted to be criminal) activity and ostensibly "legal" operations like derivatives speculation. The two types are inextricably intertwined. Derivatives caused the 2008 crash, while the crucial margin of cash, beyond massive government bail-outs, that allowed the too-big-to-fail (TBTF) banks to survive *was provided by the world drug trade*. Former Russian anti-drug chief Victor Ivanov called drug money "the foundation of the modern financial system"; his Federal Drug Control Service had determined in 2012 that "at the height of the 2008-09 financial crisis, around \$352 billion in drug money was thrown into the world's largest banks to deal with their critical liquidity shortage: the funds were subsequently integrated into interbank operations."

Among the types of "illegal" criminality are these:

1. *Rigging of the world's two most important international money markets*: the London Interbank Offered Rate (LIBOR), the most influential interest rate in the world; and the \$5 trillion per day global foreign exchange (Forex) market. As of 2013, London conducted 41 per cent of world Forex trading, as against only 19 per cent on Wall Street. These markets exist thanks only to the cancellation of the



Bretton Woods system of fixed exchange rates in 1971, and they allow the London-centred international cartel to extract trillions from the public of every nation in the world.

LIBOR is set daily in London, based on an average of rates quoted by a group of 16 banks, and is used to denominate well over a quadrillion dollars' worth of financial contracts globally. Even a tiny fraction of a per cent change in LIBOR enabled banks to "skim" large amounts

of money from these transactions. When the LIBOR-rigging scandal broke in 2012, then-Chancellor of the Exchequer George Osborne refused to appoint a full judicial inquiry, opting for a parliamentary inquiry instead. He was subsequently also accused of intervening to stop a Financial Conduct Authority probe of the City of London's banking "culture", an investigation the banks complained was "banker-bashing".

2. *Laundering drug money and financing terrorism.* A top drug-money player is London-based HSBC, the second largest bank in the world. It has been caught time and again, but punished only lightly. HSBC's history in the British Crown-sponsored dope trade dates back to the 19th century.

3. *Tax evasion.* Offshore “tax havens”, Crown-governed and City of London-managed, loot every nation in the world of hundreds of billions annually.

4. *Mortgage fraud.* The subprime mortgage scam triggered the 2008 GFC, in which eight million families lost their houses in America alone.

5. *Outright theft of customers' deposits.* The US bank Wells Fargo and the Royal Bank of Scotland are recent dramatic cases. RBS, under its Dash for Cash project, was shown to have preyed upon its own small- and medium-business customers, pushing them into bankruptcy in order to then scoop up their assets. Wells Fargo was exposed in 2016 for defrauding 2 million of its own customers through fees charged on accounts the customers had never agreed to open. In 2010 it had paid a paltry \$160 million fine for failing to stop drug-money laundering by a subsidiary. In 2011 its crimes of misrepresentation to pension funds of the quality of mortgage-related securities Wells Fargo was selling, steering customers to costly subprime mortgage loans, and municipal bond rigging each resulted in even smaller fines.

Besides outright theft, central banks' bail-out lending to the TBTF banks at close to zero per cent interest has driven down the return on all kinds of securities, upon which pensioners and others had depended, thus looting them of as much as \$10 trillion since the 2008 crisis.

In addition to the Bank of England's key role in orchestrating this international “bailout” process, its Governor Mark Carney and former Deputy Governor Paul Tucker took the lead in inventing “bail-in”, which allows the TBTF banks to seize customers' deposits if needed to stay afloat.

‘Legal’ criminality: derivatives

Financial derivatives, which now have an estimated total nominal value of at least \$1.2 quadrillion, have obscure names like “mortgage-backed securities” (MBS), “credit default swaps” (CDS), and “collateralised debt obligations” (CDO). The nature and operation of most derivatives is almost impossible to understand, even for the chairmen of the major banks who sell them. What is crucial to know, is that they are essentially *criminal instruments*. As a system of bets upon the movements of other financial instruments and non-financial processes (like the weather), they are designed to evade laws restricting dangerous financial speculation. Until the early 1990s derivatives were still illegal in most countries, under anti-gambling laws.

While the common gambler bets his own money, the titans of London and Wall Street bet their depositors' money—seeking much higher returns than they could get from lending to the real economy. If they “win” they make

FIGURE 1. London banks and Deutsche Bank: derivatives exposure vs. assets and deposits, 2017 (US\$ trillion)

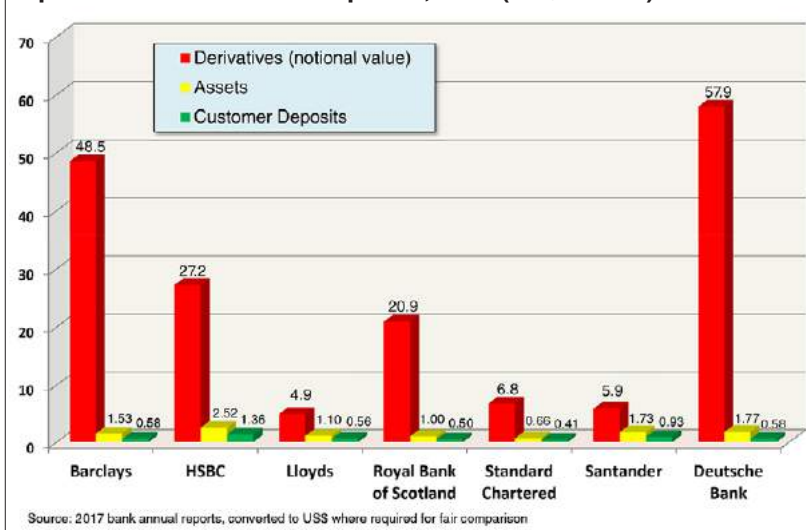
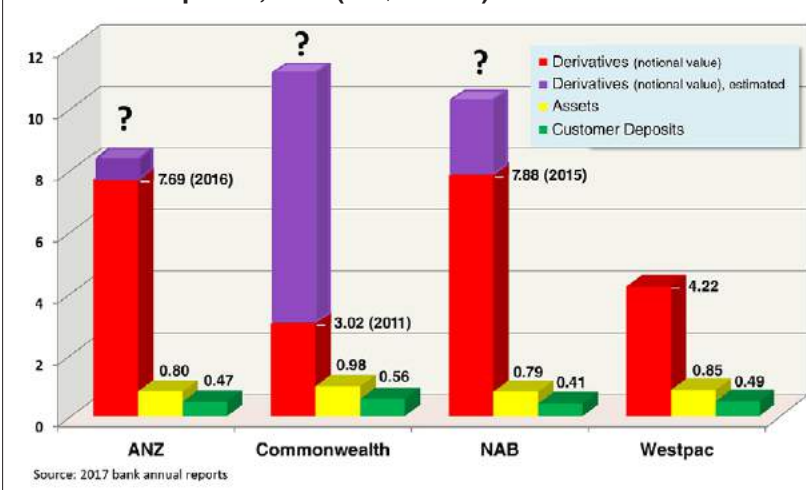


FIGURE 2. Australia's Big Four banks: derivatives exposure vs. assets and deposits, 2017 (AU\$ trillion)



Derivatives holdings of the City of London banks known as the Big Six, particularly Barclays, HSBC and the Royal Bank of Scotland, dwarf their assets (lending) and deposits. Figures for Santander Bank are shown for the Spain-based company as a whole; its representative in the Big Six is Santander UK. The derivatives exposure of Australia's banks follows the City of London model. Three out of the Australian Big Four have ceased publishing their derivatives holdings in full: Commonwealth Bank in 2012, NAB in 2016, and ANZ in 2017.

speculative fortunes; if they lose they look for a government bailout.

Derivatives were pioneered by the City of London in the 1950s, but their use boomed worldwide after the 1986 Big Bang financial deregulation in London and the 1999 repeal of the US *Glass-Steagall Act*, which had kept normal commercial banks out of such operations. When the derivatives bubble burst in 2008 and necessitated an international bail-out regime, the scheme was constructed by long-time Credit Suisse executive James Leigh-Pemberton, son of an ex-governor of the Bank of England, from a family handling finances for the British Royals over the past century and a half.

Today the major London and Australian banks are in worse shape than Lehman Brothers on the eve of the 2008 crash. **Figs 1 and 2** illustrate their derivatives exposure, which dwarfs assets and deposits. The bailout begun in 2008 (now termed “quantitative easing”, QE) has never ended, even though the banks pour almost all funds obtained from QE into derivatives and other speculative deals—invariably with each other—and not into lending to the real economy.



Whose interests do your politicians serve?

By Ann Lawler

The CEC's success in flushing out the truth about bail-in policy for Australia is due to the pressure CEC supporters have exerted on our elected politicians. The strategy of constant engagement with MPs and Senators via meetings, emails, letters and phone calls has played an enormous part in forcing turning-points of incremental progress towards Glass-Steagall bank separation, and the exposure of the Bank for International Settlements-APRA bank bail-in agenda.

A parliamentary amendment must be passed that categorically excludes bank deposits from resolution (bail-in) under the new "crisis management powers" legislated in February for financial regulator APRA. Now that a member of the government has admitted it is indeed bail-in ("Government senator confirms APRA law is 'bail-in'—amend it to exclude deposits!", CEC media release, 20 November), parliament must clarify if it can apply to deposits—our savings. If what the government claims is true, and bank deposits cannot be bailed in, then parliament should state it in the law, amending the legislation to categorically exclude bank deposits and eliminate any confusion.

While an amendment to the APRA Bill is no substitute for separating the banks, it puts the onus on politicians — whose interests do they serve? If they want to be re-elected they have to start paying a lot more attention to the concerns of their constituents. Ignoring them will be at their peril! The Victorian state election result is indicative of obvious seismic shifts in voter confidence (p. 3). Your MP and Senators should realise that there will be far more than voter dissatisfaction erupting if parliament allows banks to steal people's deposits. If they want to win favour with their constituents they must get the APRA crisis management act amended, with legislation which clearly states that bank deposits are categorically excluded from any form of bail-in.

NSW supporter Aileen, following up her email to her MP, Barnaby Joyce, made it clear to the staffer that telling her the banks were well-regulated and regurgitating the "party-line", that Glass-Steagall was not necessary, would not wash with her. She wanted to know what he is going to do to address the real problem. As things are, she said, when the next financial crisis comes the rotten banks will take people's savings!

The CEC's deployments outside the royal commission hearings, last week in Sydney and this week in Melbourne,



Glen Isherwood is interviewed in front of the Melbourne banking royal commission, while Doug Mitchell organises in the background.

have kept the focus on our Bank Separation Bill before parliament, holding bank regulator APRA accountable and getting people activated. Signs singling out APRA chairman Wayne Byres got lots of attention in Sydney; even an APRA lawyer had to take a photo, and ABC journalist Elysse Morgan tweeted a photo of the sign and our organisers. In Melbourne a former Australian Taxation Office auditor and activist interviewed organiser Glen Isherwood for twenty minutes, which he posted to his YouTube channel, and a prominent lawyer stopped for a chat. If it wasn't for our presence, our tables and signs, many of the people passing by would have had no idea the hearings were even taking place inside!

Queensland State Secretary Jan Pukallus attended a *Women in Economics Network* breakfast meeting where ANZ Chief Economist Richard Yetsenga and Senior Economist Joanne Masters were speaking on "the state of the global economy and the challenges faced by Australia". The speakers were upbeat that the downturn in housing was not long term, however the chief economist did mention the global opposition building against market-driven economics. During the Q&A Jan identified herself as a representative of the CEC, before raising the banking royal commission and collusion by the bank regulator, APRA. She said that former ANZ Director John Dahlsen was in favour of breaking the banks up; that Commissioner Hayne had questioned whether vertical integration was a conflict of interest and asked if the banks should be structurally regulated; that a government Senator has admitted that bank bail-in has been legislated in Australia; and that the Treasurer has prematurely re-appointed Wayne Byres for another five years to head-up APRA. Pushed to get to her question, Jan said that the elephant in the room is the bubbles—the derivatives, housing and now the "everything bubble", which threaten another global financial crisis, and now APRA has the power to direct the bail-in of bank deposits to prop up the banks if necessary. She listed some of the experts working with the CEC to have the banks structurally separated before a crisis and announced that Bob Katter has a bill in parliament for bank separation, asking what Yetsenga's thoughts were on this. His answer was nondescript but he did approach her afterwards and she was able to give him and the other speaker and event organisers the CEC's Five-Point Program for recovery, and a copy of the Bank Separation Bill.



Elysse Morgan, ABC TV's *The Business* host, tweeted this picture of CEC organising outside the banking royal commission in Sydney.

China breaks fusion temperature record

By Jeremy Beck

The Experimental Advanced Superconducting Tokamak (EAST)—dubbed the “Chinese artificial Sun”—has just reached a record 100 million degrees Celsius, a major breakthrough for fusion energy production. Collaborating with domestic and international colleagues, the EAST team at the Hefei Institutes of Physical Science, Chinese Academy of Sciences (CASHIPS) announced this milestone achievement on 13 November. In its 2018 four-month-long experiment campaign the EAST offers unique contributions towards the International Thermonuclear Experimental Reactor (ITER) now under construction in Saint Paul-lez-Durance, southern France. First Plasma, the official start of ITER operation, is scheduled for December 2025. China is a member of the ITER consortium, along with the European Union, India, Japan, Korea, Russia and the United States; and EAST, designed as a testbed for ITER technologies, has provided an invaluable head start in the global mission to achieve the abundant, cheap, clean energy that fusion offers.

A tokamak uses a powerful magnetic field to confine hot plasma in the shape of a torus. Without such a magnetic field the super-heated plasma would melt through the tokamak walls as no material can remain solid at such super-high temperatures. To put this in perspective, the surface of the Sun is approximately 5,500 degrees Celsius, and the Sun’s centre is 15 million degrees Celsius. So this EAST temperature record is more than six times as hot as the centre of the Sun! The huge gravitational forces of the Sun cause hydrogen atoms to fuse and form helium atoms. This process releases enormous energy in the form of heat. Since gravity is much less on Earth, a much higher temperature is necessary for fusion to occur in a tokamak.

The EAST, located in Hefei, the capital and largest city of China’s Anhui Province, has operated since 2006. It has broken several world records: In May 2011, EAST became the first tokamak to successfully sustain high-confinement mode plasma for over 30 seconds at 50 million degrees Celsius. In November 2016 it achieved this for more than a minute and on 3 July 2017 it broke the hundred-second barrier. As the EAST team’s scientists explained, they employed and combined four kinds of heating power to optimise the plasma current density profile: “namely, lower hybrid wave heating, electron cyclotron wave heating, ion cyclotron resonance heating and neutral beam ion heating”. EAST is the world’s first non-circular cross-section full superconducting tokamak. At 11 metres tall, it has a diameter of 8 metres, weighs about 360 tonnes, and has fully superconducting magnets.

The EAST project was approved by China’s National Development and Reform Commission in July 1998. Construction started in October 2000, with the Institute of Plasma Physics, Chinese Academy of Sciences (ASIPP) overseeing the project. ASIPP was founded in September 1978 for the purpose of the peaceful



Experiments at the EAST tokamak, China, have recorded exciting breakthroughs.
Photo: AFP/Ge Yinian-ImagineChina

utilisation of fusion energy based on the tokamak approach. Among more than 700 staff at ASIPP, over 80 per cent are scientists or engineers.

CASHIPS scientist Xu Ming in Research News on 23 November reported that the EAST team has achieved a better understanding of plasma instabilities in fusion, which is a key to find solutions to better control plasma instabilities and achieve a higher performance. Any further breakthroughs in understanding plasma instabilities will allow the super-high temperatures to be maintained for longer and eventually indefinitely to provide continuous fusion power. Once completed, ITER is designed to produced 500 MW of fusion power from an input of 50 MW—a tenfold return on energy!

Associate Professor Matthew Hole of the Australian National University said the EAST achievement is an important step for nuclear fusion science. “It’s certainly a significant step for China’s nuclear fusion program and an important development for the whole world”, Dr Hole told the ABC, adding that developing fusion technology could be the solution to global energy problems. “The benefit is simple in that it is very large-scale base load energy production, with zero greenhouse gas emissions and no long-life radioactive waste.” But Dr Hole warned Australia is falling behind. “As a nation, Australia is about to lose its capability in fusion”, he said. A lack of investment in fusion science has seen many of his colleagues change fields or look overseas for work.

China’s exploration of helium-3 on the Moon will also be an important step towards fusion power. Although very rare on Earth, helium-3 is found in lunar dust in significant quantities. A fusion reaction of deuterium (hydrogen-2, a.k.a. heavy hydrogen) and helium-3 releases more energy than any other fusion reaction available to us, and its products are almost entirely in the form of charged particles, rather than neutrons. This is important because charged particles can be held in a magnetic field whereas neutrons cannot.

Chinese cooperation and input into the ITER promises new breakthroughs which will benefit all nations with abundant, cheap, clean energy.