

10 August 2015

Gabriel Makhlouf
Secretary & Chief Executive
The Treasury
1 The Terrace
Wellington 6011

Dear Secretary for the Treasury

I am writing to raise serious concerns with the actions of a Government Minister as to the appropriation of money following the release of documents relating to the Saudi Arabia Food Security Partnership last week.

Your department is unlikely to have had a chance to review all of the 800+ pages released by the Government in the last week.

We have begun that task, and already it is evident that they show deliberate misrepresentations by the Minister of Foreign Affairs as to the true nature of the payments made to the Al Khalaf group.

It is now clear:

- Mr Al Khalaf had been disaffected for over six years. He had never issued any proceeding against the New Zealand government. It seems clear he had no legal cause of action.
- There is no evidence in any of the papers released that the Minister or MFAT had any legal advice from their own department or Crown Law to the contrary.
- Mr Al Khalaf was influential in Saudi Arabia, linked to the Saudi Minister of Agriculture, and frustrating progress on the Gulf Cooperation Council Free Trade Agreement.
- Mr McCully wanted to advance the trade agreement by obtaining the cooperation of Mr Al Khalaf.
- The papers released this week record that McCully said "he would not want any (financial) contributions to be treated as compensation as this would involve a plethora of lawyers and bureaucrats".
- Mr McCully deliberately misrepresented the payments made to the Al Khalaf group.
- The contract dated 19 February 2013 was drafted so as to pretend the \$4 million cash payment was for good value for services and intellectual property. It was not.
- Mr McCully did not obtain Cabinet approval for the \$4 million payment, despite Treasury advice that he should have. Cabinet was only asked to note the payment.
- Mr McCully then hid the \$4 million payment from New Zealanders for over two years.
- The true nature of the \$6 million demonstration farm was also misrepresented. In reality this was primarily to buy the co-operation of the Al Khalaf group, not to demonstrate New Zealand technology.
- The same is true of the \$1.5 million spent on flying sheep.

This information calls into question;

- whether your office was misled
- whether the payments when properly characterised were legitimately within the scope of the relevant appropriation.

I attach two of the relevant documents.

The first is a report of the meeting between the Minister of Foreign Affairs and Hmood Al Khalaf Group of Companies dated 5 March 2012 when Minister McCully said "he would not want any (financial) contributions to be treated as compensation as this would involve a plethora of lawyers and bureaucrats".

The second is the contract for services dated 19 February 2013 in respect of the first \$4 million payment, in which the pretence is made that the payment is for services and intellectual property.

It is evident from the documents that the Treasury and the Auditor General both had serious misgiving about these payments which total some \$11 million dollars. Your recorded concerns included an abnormal form of business case, which was implausible and unconvincing.

It is now clear that the payments were not as described, but to buy the cooperation of the Al Khalaf group.

It appears your office has been misled, and that the true nature of the payments was not as described. This is of serious concern of itself.

The true nature of these misrepresented payments was unprincipled, which should also concern you.

Additionally, much if not all of the \$11 million appears to have been wasted. There is no right of access to the demonstration farm, and queries of NZTE (which now has administration of the contract) by journalists as to whether any business has been created have yielded no answers. Given the ulterior purpose and the reported sheep and lamb deaths, it seems this has been a failure.

I ask that you investigate these issues.

There are many hundreds of pages of documents, which we are happy to provide to you.

For your information I will be releasing this letter to the media later today.

Yours faithfully



Hon David Parker
Spokesperson for Export Growth and Trade
Shadow Attorney-General
Treaty of Waitangi Negotiations