

WHEAT GROWERS ASSOCIATION (INC)

Growers working for growers

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11 February 2005

Ms Maureen Weeks
Committee Secretary
Senate Rural and Regional Affairs and Transport Committee
Department of the Senate
Parliament House
Canberra ACT 2600
Australia

Dear Ms Weeks

Senate Rural and Regional Affairs and Transport References Committee Inquiry into Compensation Arrangements for Wheat Growers (Iraqi Wheat Debt)

The Wheat Growers Association is pleased to assist the Committee in its inquiry and deliberations with respect to the Iraq debt for wheat bought from Australia over 14 year ago.

The Senate decision to hold this inquiry is both appropriate and appreciated by Australian wheat growers. In particular, the outcomes of the decision by the Australian Government in 2004 to forgo collecting a significant portion of the debt, and to allow deferred payment terms of some 23 years for the balance, needs to be clearly recorded and presented to the industry.

Australian wheat growers have been advised on many occasions, and over many years, that their interests in the debt had been, and would always be, protected. That interest has been represented as being 20% of a debt that was always to be pursued.

The intended impact of the November 2004 commitment that Australia would be part of the Paris Club agreement, which involved forgoing a large portion of the debt and rescheduling repayment of the balance, has yet to be fully explained. We therefore look forward to the Committee's findings with respect to such questions as -

- What was intended by Government?
- What should have been the outcome from an industry/community view point?
- What has actually transpired?
- What remedial action is needed to correct the current situation?

Attached is a brief submission addressing matters the WGA believes need to be taken into account by the Committee as part of its inquiry.

In addition the Association has made arrangements to appear before the Committee's public hearing in Perth in order that we can further assist the Committee by providing oral evidence.

In the view of the WGA, sufficient justification exists for the Committee to:

1. endorse the 30 June 2004 grower resolutions that called
“... on the Federal Government to make a payment of USD98.1 million to AWB International on trust for distribution to wheat growers according to their 1987/88, 1988/89 and 1989/90 season deliveries and to fund the outlay as a national cost in the same way the Government is funding military and humanitarian assistance to Iraq.”; and
2. include in its Report, a strong recommendation that the Senate advise the Government that payment of USD98.1 million was justifiable and should be paid to wheat growers early in the 2005/06 financial year.

Yours sincerely
for Wheat Growers Association Inc



Bob Iffla
Chairman

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**Submission to
Senate Rural and Regional Affairs and Transport
References Committee
Inquiry into
Compensation Arrangements for Wheat Growers
(Iraqi Wheat Debt)**

February 2005

Overview

The Wheat Growers Association has always been of the view there are two separate issues associated with the Iraq wheat debt and the USD98.1 million shortfall in grower payments.

1. There was a need for the Government to determine the level and form of any Australian contribution to the international aid program for the post-war reconstruction of Iraq.
2. There was a separate need to address the domestic issue of the shortfall in wheat grower payments due to UN sanctions against Iraq.

It is therefore pleasing that the Committee's Terms of Reference are equally clear and concise.

Australian contribution to the international aid program for the post-war reconstruction of Iraq

The Wheat Growers Association is on public record as having no opposition to Government plans to assist with the reconstruction of Iraq. The Association's public position has always been that funding any contribution to the reconstruction should be a national responsibility. This is viewed as being consistent with the overall approach that international aid should not be the responsibility of any one particular sector of the Australian community or economy.

Shortfall in wheat grower payments due to UN sanctions against Iraq

The Wheat Growers Association believes there is a clear body of evidence that Australian wheat growers had an entitlement to further payments for their grain of the 1987/88, 1988/89 and 1989/90 seasons, once payment was received from Iraq. Furthermore the industry was assured those additional payments were to be forthcoming on the ending of United Nations sanctions.

The Australian wheat industry had been assured repeatedly throughout the Saddam Hussein regime that Iraq had acknowledged the debt and had the capacity to pay, and the only impediment to making payment was the UN sanctions.

Albeit that subsequent to the overthrow of the Saddam Hussein regime additional issues have arisen, it is the Association's view that there is an obligation on the Australian Government to resolve this protracted matter by -

- paying to growers, the USD98.1 million equity shortfall represented by 20% of the Iraqi debt that remains due and payable; and
- having Federal Treasury or Department of Foreign Affairs and Trade, administer the Iraq debt repayment scheduled as a longer-term National responsibility, free of any ongoing external/industry demands or expectations.

Wheat Growers Association Profile

The Wheat Growers Association (WGA) was formed in 2002 by A Class shareholders in AWB Ltd, concerned about the future of their industry.

Whilst being formed in 2002, Members of the WGA Committee of Management have extensive knowledge of wheat industry matters including the history of events in the late 1980s and early 1990s. A recent survey of Association members has also confirmed a high level of concern over Government failure to recognise the obligations owed to wheat growers who delivered to the national pool in the 1987/88, 1988/89 and 1989/90 seasons.

The Association's mission statement reads:

WGA will work constructively with AWB and the Wheat Export Authority, to maximise net \$'s per tonne grower returns from National Wheat Pool.

The Association's commitment to growers is:

To represent interests of members delivering to the National Wheat Pool so they receive the maximum net \$'s per tonne possible.

As part of that commitment the Association has been actively pursuing grower interests in the outstanding Iraq debt.

AWB Limited A Class Shareholders

The Wheat Growers Association is an incorporated body formed to represent the interests of all AWB Ltd A Class Shareholders. The formation of the Association was based on working with AWB International to ensure the export single desk marketing of Australian wheat was meeting both market and grower expectations.

The Constitution of AWB Limited is unique. To be eligible to hold an A Class Share there is a requirement to meet certain wheat production criteria. A B Class Share investor share in AWB Ltd is listed on the Australian Stock Exchange and can be acquired and traded without needing to hold an A Class Share. The Company's Constitution prescribes the rights, entitlements and obligations that attach to both classes of share. The fundamental control of AWB Ltd is vested in A Class Shareholders who, in line with the Company's Constitution, vote into office a majority of the directors.

A key foundation stone of AWB Limited exists in the form of Article 3(1)(b) of its Constitution which states in part:

“3.1 In the exercise of their powers the Directors must ensure that:

- (a) the Pools Subsidiary offers to purchase wheat for sale as part of a pool; and*
- (b) the business of the Pool Subsidiary is managed with the objective of:
 - (i) maximising the net pool return for Growers who sell wheat into the pools run by the Pools Subsidiary by securing, developing and maintaining markets for wheat and by minimising costs as far as practicable;*
 - (ii) distributing the net pool return to Growers who have sold wheat into the relevant pool and**
- (c) the...”*

[Note: AWB (International) Ltd is the “Pools Subsidiary”]

However, in terms of dealing with the Iraq wheat debt it has been difficult to establish a clear point of reference as to whether AWB Ltd or AWB (International) Ltd had ongoing primary control and responsibility on behalf of the wheat grower. With all corporate knowledge being held within AWB Ltd the company has responded to requests from WGA for information. Whilst there was at one time, reference to the Iraq debt having been transferred to the 1990/91 season, the Association has generally looked to the Board of AWB Ltd to protect the interest of the growers who delivered wheat from late 1987 to 1990.

Grains Council of Australia

The actions of the Grains Council of Australia in claiming to truly represent grower interests in this matter have led to tension within the industry. The WGA is an independent body and is not affiliated with the GCA or the Western Australian Farmers Federation. However the WGA's independently formed views on the Iraq debt do closely align with the public position espoused by WAFarmers. As such there is no doubt direct similarities between the submissions of the Wheat Growers Association and WAFarmers.

Wheat Growers Association members were strongly represented at the two public meetings held in Western Australia on 30 June 2004. The WAFarmers had arranged for the Hon Mark Vaile, Minister for Trade to attend meetings in Lake Grace and Merredin, two towns in major WA wheat growing areas. The meetings were held to hear from the Government and allow the Minister to hear directly from growers. In total around 650 growers attended the meetings which were convened at very short notice.

A disappointing aspect of these two regional meetings was that the Minister and the GCA provided very little new information to that already in the public domain. The public meetings were used by the Minister and the GCA as a forum in which to defend decisions apparently made between the GCA and the Government in mid to late May 2004. It is the WGA's view that those decisions lacked proper process and failed to address the interests of the growers who provided the wheat shipped to Iraq for which full payment had not been received.

It was members of the Wheat Growers Association who moved the resolution that was comprehensively passed at both meetings, the substance of which was a call

“... on the Federal Government to make a payment of USD98.1 million to AWB International on trust for distribution to wheat growers according to their 1987/88, 1988/89 and 1989/90 season deliveries and to fund the outlay as a national cost in the same way the Government is funding military and humanitarian assistance to Iraq.”

Producers in other wheat growing areas of Western Australia expressed concern that only two public meetings had been held. Had there been more meetings an even stronger opinion calling on the Government to make payment would have been conveyed to Minister Vaile and the GCA representatives.

How decisions were made

The Wheat Growers Association believes there were issues addressed behind closed doors and without adequate consultation in early May that set the foundations for what ultimately was announced in November 2004.

During the April/May 2004 period there was a definite lack of industry consultation. This was demonstrated by the reaction of grass roots growers, particularly from Western Australia, when it became known late in May that certain decisions were said to have been arrived at after consultation with growers.

The Association rejects the notion that wheat growers had in anyway relinquished their claim to the outstanding Iraq grain debt.

WGA is aware that there was lobbying taking place within Government, that if the intention was to forego 100% of the debt due to Australia, then it was essential the Government “buy out” the 20% interest held by wheat growers.

Whilst the proposition that the grower debt be bought out has yet to be viewed favourably, the Paris Club negotiations went ahead resulting in a substantial change in the repayment arrangements in respect to collecting that part of the debt not forgiven.

It has now become known through the Paris Club Agreement announcement in November 2004 that the 20% of debt not forgiven has a repayment schedule extending over 23 years. This deferred payment schedule is clearly detrimental to the interests of the grain growers who have a justifiable claim to these funds in a much shorter time frame.

The Wheat Growers Association believes that on moral criteria alone, there is justification for the Government to settle the debt with growers. That would bring this matter to an end in terms of the domestic issues. The international aid matter would then be managed by the Federal Government without the ongoing involvement of, or accountability to, the Australian wheat grower.

Impact on Wheat Growers

The failure to receive and distribute the USD98.1million has had a very significant and clearly negative impact on the Australian wheat industry, the individual wheat grower, and the rural economy overall.

In terms of anecdotal evidence of the hardship that existed in the early 1990s, Hansard recorded on 18 February 1991 as part of an Appropriations Bill (No. 3) 1990-91 Second Reading speech by the Hon Tim Fischer the following points:

“...The Gulf War could not have come at a worse time for the rural economy. Wheat, rice and a number of other industries have had their sales programs and markets wrecked by yet another ramification arising from the Gulf war.”

“...The basis of my submission to the House is that the whole level of economic activity will suffer greatly, as it has already but even more so over the next 12 months, as a consequence of the rural economic crisis and the collapse in commodity prices for so many of our rural industries.”

“A direct element associated with Appropriation Bill (No. 3) is the desperate situation of so many wheat growers across Australia. They are on the verge of having to finalise decisions with regard to their plantings for this calendar year 1991. They have projections of returns and first payments which are well below the cost of production.”

Unfortunately, the wheat industry is in an almost identical position going into 2005.

Wheat growers have been very patient. However, after waiting some 13 years for the Iraq debt issue to be resolved it should have come as no surprise that grower feelings

were running high on learning that the GCA had apparently taken matters into their own hands.

The combined impact of the shortfall in Pool payments on interest costs on farm debt and the loss of value over time through inflation since 1992, has been immense.

In the early 1990s banks were charging grain growers 23% interest. Farmers using stock firm finance were being charged up to 28% interest.

Added to this is the opportunity loss associated with the lower level of economic activity on the very many farms relying on cash flow to survive in the early to mid 1990s.

There are many growers who believe the debt due to them should carry interest to offset the cost they have been forced to carry over that time. The debt figures released as part of the Government's announcement following the Paris Club meeting included interest, and a claim for interest by growers would be understandable.

What financier would give up a claim for interest costs. The Government hasn't, and on our calculations the remaining wheat debt due from Iraq is:

	USD Million
Principal as at July 1992	98.10
Estimated contractual interest and late interest*	<u>110.50</u>
	208.60

* assumed to be pro-rata across total debt.

Figure could be greater if contractual interest and late interest related only to wheat sales.

The WGA does not have sufficient information with respect to due dates of the original Iraqi payments to comment on the impact of exchange rate variations. However, it is likely that a foreign exchange loss has been incurred at some stage.

The impact on farmers of the failure to receive their full wheat pool equity has carried through to today. The industry is facing negative returns in 2005 based on the price outlook prior to the announcement that the European Union would once again subsidise the export of EU wheat. The EU export subsidies announcement has again brought on the spectre of market distortions and even further downward movement in wheat prices in 2005 and 2006.

The WGA does not have the resources to fund an economic impact study to quantify and document fully, damage caused by the shortfall in pool equity payments in the early 1990s. If such a study is required for the purposes of the Inquiry it may be appropriate that the Committee commission a professional report in this area. If that were to take place the WGA could provide input into the process.

A full economic study could also plot the average return on capital for grain producers which we believe will add weight to the call for growers to be paid out for the short fall in equity of the three seasons involved.

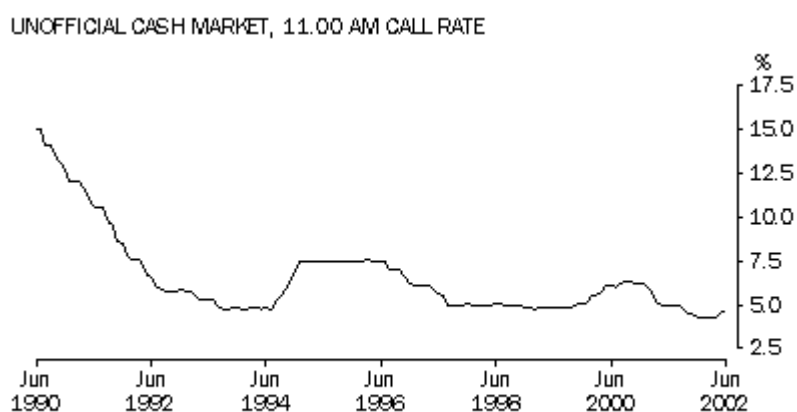
The following table, showing inflation figures for the relevant period, has been sourced from the Australia Bureau of Statistics website to demonstrate the greatly reduced value of the funds in today's economy.

CPI All Groups, Weighted Average of Eight Capital Cities, Index Numbers(a)

Year	Quarter ending			
	31 March	30 June	30 September	31 December
1985	68.1	69.7	71.3	72.7
1986	74.4	75.6	77.6	79.8
1987	81.4	82.6	84.0	85.5
1988	87.0	88.5	90.2	92.0
1989	92.9	95.2	97.4	99.2
1990	100.9	102.5	103.3	106.0
1991	105.8	106.0	106.6	107.6
1992	107.6	107.3	107.4	107.9
1993	108.9	109.3	109.8	110.0
1994	110.4	111.2	111.9	112.8
1995	114.7	116.2	117.6	118.5
1996	119.0	119.8	120.1	120.3
1997	120.5	120.2	119.7	120.0
1998	120.3	121.0	121.3	121.9
1999	121.8	122.3	123.4	124.1
2000	125.2	126.2	130.9	131.3
2001	132.7	133.8	134.2	135.4
2002	136.6	137.6	138.5	139.5
2003	141.3	141.3	142.1	142.8
2004	144.1	144.8	145.4	146.5

(a) Base of each index: 1989-90 = 100.0

The following graph provides a guide to cash market rates during the period 1990 to 2002. The true interest cost to grain growers was substantially higher than these figures. Lenders applied a number of significant interest rate loadings based on the usual finance market spread plus a very sizable further industry loading because the exposure was to a grain grower. These loadings reflected risk and certainly had nothing to do with ability to pay. A study of the return on capital would verify that point.



Source: Reserve Bank of Australia, Monthly data.

Reduced farm incomes have far reaching effects going well beyond the farming enterprise and impacting on local communities. This has led to:

- wide-spread decline in rural populations;
- reduced local farm support businesses;

- a reduction in local and regional health, education and other community services;
- critical rural labour shortages.

All of these have combined to add further pressure on grain growers in the form of -

- higher farm operating costs

Unlike urban areas, where there is usually a diversity of business activity, rural Australia is heavily dependant on one sector with little opportunity to benefit from averaging over a number of different activities within a local area.

From a National perspective the Australian economy is strong at present. However that strength is not drawn from the agricultural sector.

By the Government accepting the WGA proposition that there is an obligation to settle the debt of USD98.1 million due to wheat growers, the industry will receive a timely and much need cash flow injection.

The economic benefit of the payment will extend into many areas such as -

- wheat grower debt levels will be reduced
- pressure on carry-on finance will be eased
- rural and regional Australia will benefit.
- National benefits will result.
- Grower confidence will receive a much needed and timely boost.

Conclusion and request

The WGA believes there is sufficient justification, and as such respectfully requests that the Committee:

- 1. endorse the 30 June 2004 grower resolutions that called**
“... on the Federal Government to make a payment of USD98.1 million to AWB International on trust for distribution to wheat growers according to their 1987/88, 1988/89 and 1989/90 season deliveries and to fund the outlay as a national cost in the same way the Government is funding military and humanitarian assistance to Iraq.”; and
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