

The Western Australian
Farmers Federation (Inc)



Submission

to

THE SENATE RURAL AND REGIONAL
AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE

COMPENSATION FOR WHEAT
GROWERS

14 February 2005

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BACKGROUND INFORMATION

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The Western Australian Farmers Federation (Inc) (also referred to as “**WAFarmers**”) is WA’s largest and most influential rural lobby and service organisation.

Through its elected Grains Section Council, WAFarmers represents the interests of West Australian grain producers at a state and federal level. In addition to the Grains Section Council, there is within WAFarmers portfolios that deal with industry and social matters that impact on rural communities and that are common to the various Commodity Councils.

In addition to grains, WAFarmers also represents Western Australian farmers in a wide range of primary industries including meat and wool producers, horticulturalists, dairy farmers and beekeepers.

WAFarmers recently expanded its membership base to incorporate small rural business owners, the vast majority of whom are dependent upon a vibrant, profitable and sustainable state-wide grain sector.

Members of WAFarmers are therefore major contributors to the \$5.538 billion gross value of production that agriculture in its various forms contributes to Western Australia’s economy (ABS report 2001/02 season).

Additionally, through differing forms of land tenure, our members own, control and capably manage many millions of hectares of the State’s land mass and as such are responsible for maintaining the productive capacity and environmental well being of that land.

THE WESTERN AUSTRALIAN FARMERS FEDERATION POSITION

Whilst the origins and history of the sale of wheat to Iraq in the seasons 1987/88, 1988/89 and 1989/90 have been the subject of claim and counter claim, in the view of The Western Australian Farmers Federation the position as it stands at present need not, and should not, be complicated with the following solution equally simple and straight forward -

Solution – As it is in the National interest and is fair and reasonable to all concerned, the Australian Government should -

- (i) pay to the relevant wheat growers in the 2005/06 financial year, their share of the aggregate USD98.1 million shortfall in 1987/88, 1988/89 and 1989/90 pool equities resulting from the UN sanctions imposed upon Iraq during the time of the Saddam Hussein regime; and**
- (ii) fund the costs to effectively manage the payment process to a satisfactory conclusion.**

By way of background the debt issue can be simplified into the following -

1. Australian wheat was sold to Iraq on credit terms.
2. Iraq, as the buyer, was prevented from settling the debts as they fell due for payment, due to international sanctions invoked through the United Nations.
3. The Australian wheat growers through their marketing entity (then the Australian Wheat Board) were self-insured to the extent of 20% of the outstanding debt.
4. In November 2004 the Federal Government announced that as part of a Paris Club Agreement that Australia was to waive 80% of the outstanding wheat debt owed by Iraq.
5. An up dated debt figure, with penalties included, was established as part of the Paris Club deliberations.
6. The debt to be repaid by Iraq in terms of the Paris Club Agreement represents the uninsured component of the sales contract and remains a debt due to Australian wheat growers.
7. A 23 year repayment schedule, which includes an initial 6 year grace period, has been agreed to by Australia as a Paris Club member, with the first repayment not due until 2011.
8. Management of the 23 year Iraqi debt repayment schedule must be an ongoing Australian Government responsibility, based on the Paris Club Agreement, and not a cost to the Australian wheat grower.
9. Wheat growers have accepted the significant cost of carrying the Iraq debt to date and will also forego future interest costs if prompt settlement of the USD98.1 million is received.

AUSTRALIAN WHEAT EXPORTS

The export of wheat from Australia is subject to the Wheat Marketing Act which creates a significant single desk role for AWB (International) Ltd. Since 1989 the Australian domestic market for wheat has been deregulated.

Demand for wheat within Australia for home consumption is greatest in the eastern states. The domestic market is the first market filled each year with residual supplies being exported.

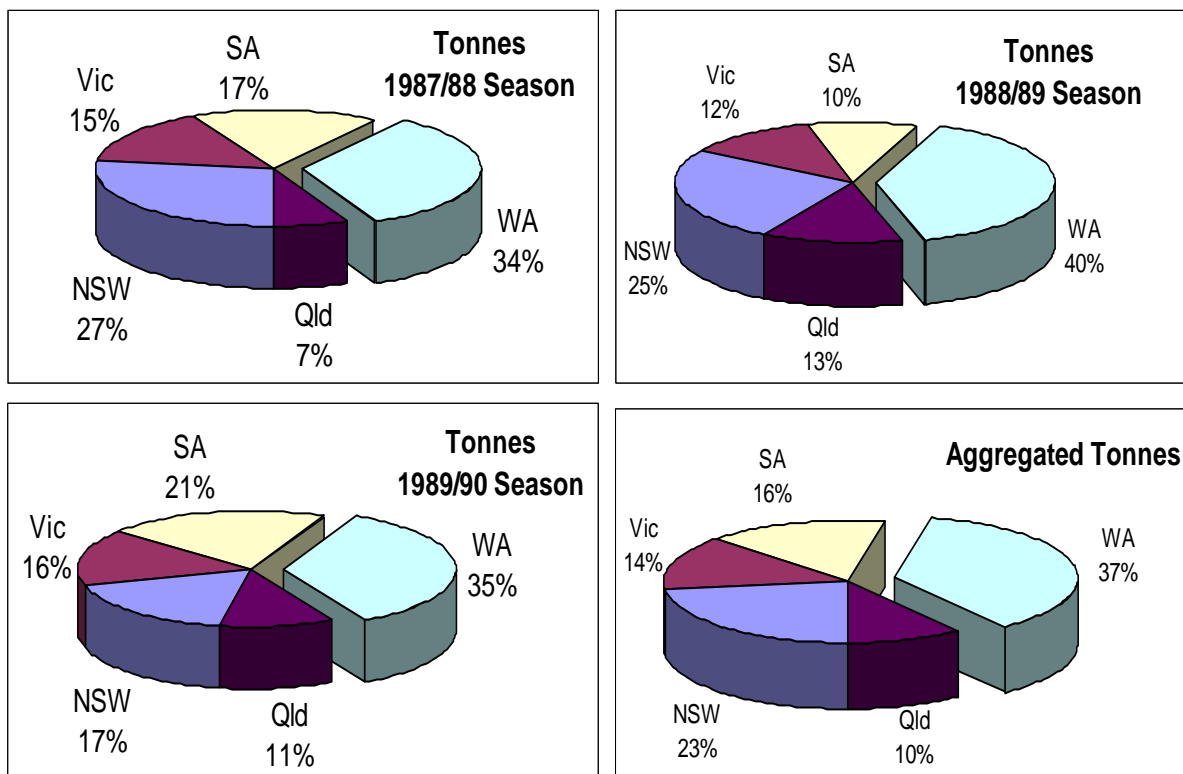
The absence of any significant domestic demand for wheat in Western Australia has resulted in WA becoming dependent upon the export market. On average over 40% of Australia's annual wheat exports is now shipped out of Western Australia.

The dependency on overseas demand has highlighted the awareness amongst WA growers of export marketing issues and the importance of National Pools to their operations.

This heightened level of state awareness has led to the WA industry being particularly vocal and forthright in addressing the Iraq debt issue. Whilst the position adopted by WAFarmers has been on behalf of its members, that position is of equal benefit to wheat growers Australia-wide. The Iraq debt issue is a National matter.

In terms of demonstrating the national implications of the shortfall in wheat pool equities the following pie charts are based on the best figures available to WAFarmers. The actual shortfall in pool receipts has been sourced from the AWB.

Percentage of Wheat Deliveries to AWB



WAFARMERS RELATIONSHIP WITH THE GRAINS COUNCIL OF AUSTRALIA

WAFarmers is an incorporated association with a direct and voluntary membership base and is the state affiliate member of the Grains Council of Australia.

The role of WAFarmers is to represent the interests of its members. WAFarmers has commodity councils that deal with commodity specific issues and a Board that oversees management of the association as a whole as well as dealing with issues that are common to multiple Commodity Councils.

Grain issues are normally addressed within WAFarmers by its Grains Council. However some grain issues fall within the broader trade portfolio that comes under the direction of the Federation's Board.

The Iraq debt is a matter being dealt with principally by the Board as a trade issue.

The position taken by WAFarmers on the Iraq wheat debt has been set out at page 3. That position was made known to Government and the industry, including the Grains Council of Australia, through various avenues and over a number of years.

As recently as July 2004 the GCA resolved –

“Grains Council of Australia continues in efforts to negotiate with Government, and, once a Paris Club agreement has been reached, ensure that any monies recovered from Iraq wheat contract default payments are disbursed to industry first and that all avenues to recover monies are pursued.”

which we believe is consistent with the position held by WAFarmers.

The Grains Council of Australia has acknowledged the need for affiliate organisations to be free to represent their respective members' interests as the state governing body sees fit. As such WAFarmers has taken the opportunity to present this formal submission to the Senate Rural and Regional Affairs and Transport References Committee.

The WA industry position has always been that Iraq owed a debt for wheat shipped and delivered and that growers had an interest in a significant portion of that debt. The GCA Full Council Meeting of 2 August 2001 records note that the GCA had written to the Prime Minister supporting the WAFarmers position.

The existence of this debt had been acknowledged by Iraq on many occasions. The AWB, through their negotiations with Iraq, fostered, to the point of promoting the proposition that once the UN sanctions were lifted Iraq would settle the debt with significant funds then flowing to growers as further pool payments.

WAFarmers has always stated it did not oppose the concept of the Federal Government assisting with the economic recovery of Iraq through some form of debt forgiveness. However it was always the view of WAFarmers that debt forgiveness was a national responsibility, the cost of which was to be borne by the nation as a whole. Forgiving any part of the debt was not to be a direct cost to the grain growers who had produced the wheat shipped to, but not paid for by Iraq.

WHEAT BAGS

The WAFarmers “wheat bag” promotion was directed at lifting Australia-wide industry awareness of the events that started to unfold in mid May 2004. The timing of this awareness campaign was not of WAFarmers’ making.

We believe the Prime Minister was most understanding of the spirit and symbolic nature of the presentation to him in Perth of one of 138 mini wheat bags, each bag representing A\$1 million of some A\$138 million being the balance of moneys owed to growers by Iraq.

It had become apparent to WAFarmers that over the past decade a large number of growers Australia-wide, who had not received full value for their wheat in the relevant seasons, had either left the industry or passed their farm on to the next generation. Few of those retired growers had been kept informed by their state growers’ organisation of the consequences of a debt forgiveness decision with respect to the debt that was due to growers and that was to be settled on the lifting of UN sanctions.

The level of awareness amongst growers in those states with a history of lower annual wheat production had also waned, for reasons not clear to WAFarmers, even though their state farming organisations had policies that called on the government to pursue collection of the debt due from Iraq.

CALL FOR EQUITY BASED OUTCOMES

The call by WAFarmers for the government to make a prompt payment to wheat growers is based on delivering outcomes that are:

equitable;
fair;
procedurally simple; and
final.

Much has been said about the meaning and substance of Prime Minister Hawke’s undertaking to the Grains Council in August 1990, which he repeated in Parliament on 17 April 1991, that no industry would be expected to carry the financial burden of sanctions against Iraq single handed.

In that context the background to the transactions involving 1987/88, 1988/89 and 1989/90 season wheat exports to Iraq can be overly complicated by analysis of statistical data and by trawling through public and corporate records to document an historical account of events from the early 1990s.

It is the WAFarmers view that the issue as it currently stands need not, and should not, be complicated.

Concern has also been raised by some that the Senate Committee enquiry will be used as an avenue through which to mount a challenge to the single desk export marketing arrangements for wheat and to delve into aspects of the Australian Wheat Board/AWB Ltd trade relationship with the Saddam Hussein regime.

The Committee's terms of reference are quite clear and for ease of reference are set out below. If the Committee requires any encouragement to stay within its brief, the WAFarmers certainly encourages that to be the case.

“The Senate Rural and Regional Affairs and Transport References Committee is conducting an inquiry with the following terms of reference:

Compensation arrangements for wheat growers after the writing off of the Iraqi wheat debt, with particular reference to:

- **how decisions were made; and**
- **the impact on wheat growers.”**

Source: Senate web site

TERMS OF REFERENCE - “HOW DECISIONS WERE MADE”

Events of May/June 2004

On 12 May 2004 the WAFarmers Grain Section President was approached unofficially for an opinion on the likely response from WA growers to a possible Government decision to write-off debts due by Iraq relating to wheat shipments during the period 1987 to 1990. At that time there had been no GCA discussions involving WAFarmers on this matter.

On 14 May 2004 notice was issued of a GCA teleconference arranged for Sunday 16 May involving the State affiliates of the Grains Council of Australia. During that teleconference the GCA President advised that he had been in confidential discussions with the government for some time and had reached a position where on Monday 17 May, the government was intending to sign-off on a debt forgiveness plan.

The delegates representing the state grower bodies affiliated with the GCA were advised of this matter with very little notice or opportunity to discuss what was presented very much as a fait accompli. The WAFarmers delegate participating in the teleconference made it clear that WA growers were unlikely to support any debt forgiveness that would close off payment to the wheat growers of the USD98.1 million outstanding pool equity. It was put to the meeting (teleconference) that WA growers were likely to be aggrieved at any such moves and would view their industry leaders as having failed to protect their interest.

An apparent absence of direct knowledge of “the Iraq debt history” by those involved and the lack of adequate consultation with growers led to clearly inappropriate outcomes at that time.

It was WAFarmers understanding that as at 15 May 2004 the official policy of the GCA state affiliate organisations from New South Wales, Queensland, South Australia and Victoria was consistent with the WA position which was for the debt to be pursued and for growers to be paid the outstanding 20%.

The GCA President subsequently wrote to the Prime Minister under the date of 17 May 2004. Following that, meetings involving the Prime Minister and Ministers Downer, Vaile and Truss were arranged by The Hon Judi Moylan MP over 24 and 25 May at which the WAFarmers views were made known. It also appeared to WAFarmers that pressure was being brought to bear for a speedy and favourable endorsement of a government announcement that Australia would grant debt forgiveness as part of its contribution to the international plan for the post-war restoration of Iraq.

There was subsequently an announcement by the Minister for Trade on 2 June 2004 that the government had decided to forgive the vast majority of Iraq's debt to Australia. The government had also indicated at that time an in-principle commitment to contribute \$20 million (understood to be AUD which equated to USD15.5 million on 3rd Feb 2005 at exchange rate of \$0.775) to help establish an integrated grains processing facility in Iraq. The in-principle commitment was subject to completion of an Australian government funded \$250,000 feasibility study into the integrated grains processing facility announced by the Minister in Baghdad in early December 2003.

Despite efforts by WAFarmers and a number of Members of the House of Representatives during May/June and since, the participants in those early discussions appear to have become slaves to their original positions. This is in spite of the recognition now being given to the interest growers have in the Iraq wheat debt.

In a Grains Council of Australia letter dated 1st June 2004 to the Trade Minister it was stated, among other matters:

“We note that the proposals to forgive debt will not impact on the current outstanding debt owed to the wheat pools. We are comforted by the government’s assurances that it will continue to pursue any portion of the debt that is not forgiven.”

Significant events have transpired since the initial discussions of early to mid-May, so much so that on 15th July 2004 the GCA resolved:

“Grains Council of Australia continues in efforts to negotiate with Government, and once a Paris Club agreement has been reached, ensure that any monies recovered from Iraq wheat contract default payments are distributed to industry first and that all avenues to recover monies are pursued.”

The Paris Club meeting subsequently took place over 17-21 November and an announcement (Attachment page 22) made on 21 November 2004, with the Australian Department of Foreign Affairs and Trade releasing a statement (Attachment page 25) on 22 November 2004.

Debt Sum

The capital sum of the remaining debt due to wheat growers has been broadly accepted as USD98.1 million and it was only on reading the 22 November 2004 statement from the Department of Foreign Affairs and Trade that WA Farmers became aware of the uplifted figures used as part of the Paris Club negotiations.

The 22 November 2004 announcement of the Australian government decision to participate in the international debt forgiveness program included "contractual interest and late interest" in the debt figures.

Moneys due to Australian entities by Iraq included goods and services in addition to wheat. Therefore it has been necessary for WAFarmers to make the following assumptions in respect of the wheat proportion.

	Original July 1992 Values US\$'000	Nov 2004 Up-lift values US\$'000	New Values 22 Nov 2004 US\$'000	Details
Total Debt				
100%	\$ 500.0	\$ 563.4	\$ 1,063.4	New values based on Principal, contractual interest and late interest
80%	\$ 400.0	\$ 450.7	\$ 850.7	Debt forgiven
20%	\$ 100.0	\$ 112.7	\$ 212.7	Balance due
Wheat Debt				
100%	\$ 490.5	\$ 552.7	\$ 1,043.2	Assumes contractual interest and late interest pro rata for all debts
20%	98.1	110.5	208.6	Pool shortfall/Remaining debt
80%	392.4	442.1	834.5	Forgiven/EFIC funded
Assumed Other (Rice and Private Contracts)				
100%	\$ 9.5	\$ 10.7	20.2	
20%	\$ 1.9	\$ 2.1	4.0	Payment shortfall/Remaining debt
80%	\$ 7.6	\$ 8.6	16.2	Forgiven/EFIC funded

These assumptions need to be reconciled by those with access to the actual figures. Suffice to say the wheat component is such a dominant part of the debt that existence of other debt is not expected to be material in nature.

In the Australian spirit of fairness, WAFarmers holds the view that if the circumstances behind the rice debt are the same as in the wheat situation, then rice growers should also be paid out. Taking this proposition to the next level, the circumstances associated with other small debtors should also be considered on their merit.

TERMS OF REFERENCE – “IMPACT ON WHEAT GROWERS”

Debt Forgiveness plus Deferred Terms on Balance Due

WAFarmers understands that the Government’s eventual debt forgiveness decision was based on forgoing that part of the debt that related to the EFIC payment with the remaining 20% of the debt to be collected and paid to the growers whose wheat was shipped to Iraq.

Yet, as part of the November 2004 Paris Club meeting the Government agreed to a 23 year debt repayment schedule for this remaining debt.

There are numerous points of reference dealing with the existence of an ongoing debt due to Australian wheat growers. In particular on 14 April 2000 AWB Ltd supported the proposition that USD98.1 million remained owed to growers, advising WAFarmers in the following terms:

“Iraq – Outstanding Debt Situation

I refer to your recent discussions with myself and AWB Limited Chairman, Trevor Flugge regarding the outstanding debt situation for wheat payments in Iraq.

Detailed below is a summary of the current situation.

At the time of the Gulf War a substantial amount of money was owed to the then Australian Wheat Board for sales of wheat from seasons 1987/88, 1988/89 and 1989/90, together with a small amount for a rice shipment. At this point overseas funds of Iraq which were held in foreign banks were frozen, and consequently the repayment of outstanding debts owed by Iraq were deferred.

The amount outstanding at July 1992 after receipt of the last payment, when further amounts due, were suspended was as follows:

Principal	US\$440.3 million
Interest	<u>US\$ 40.1 million</u>
Total	<u>US\$480.4 million</u>

At that time, wheat sales to Iraq by all exporters were made on credit. Consistent with this AWB sales were also made on credit terms. All AWB credit sales to Iraq were insured with the Australian Government through EFIC (the Export Finance and Insurance Corporation) to the maximum amount possible (80 per cent of the sale value of the wheat).

Upon default of the payment and in accordance with our insurance policy, AWB was therefore in a position to receive an insurance payment from EFIC and the Australian Government of 80 percent of the value of the credit sales made.

The breakdown of the liability relating to the outstanding debt was split as follows:

AWB (20%)	98.1 million
(rice)	1.0 million
EFIC (80%)	<u>381.2 million</u>
Total	<u>US\$480.4 million</u>

The amount of US\$381.2 million was paid to growers who had participated in the 1987-1990 wheat pools which represented the 80% of the amount outstanding, insured by EFIC. It is important to note that the Australian Government is still owed this amount by the Iraqi Government.

The outstanding AWB amount of US\$98 million (20% of the amount outstanding) was uninsured and was therefore an amount still owed to growers of the particular seasons.

Under the instruction of the United Nations, trade sanctions on Iraq have remained, and the funds owed remain frozen in foreign banks.

In the period since sanctions were imposed AWB Limited, and the Australian Government, have maintained an ongoing dialogue with Iraq to retrieve these unpaid funds. The Iraqi Government fully acknowledges the debt and a commitment to repay the debt but is in no position to act on the repayment of this debt while the UN sanctions remain in place. Growers who participated in these pools will be paid the final amount, whenever it is received.

Current and future AWB sales to Iraq are being made under the United Nations "Food for Oil Program", whereby Iraq is allowed to export a certain monetary value of oil in return for purchases of humanitarian aid – food, medicine etc. This is the only secure way of doing business with Iraq under the current program approved by the United Nations. The Australian Government, particularly officials in the Department of Foreign Affairs and Trade have been very supportive of these sales and provided valuable assistance to AWB with the UN approval process.

Iraq is an extremely important market for the Australian wheat industry. AWB export sales to Iraq have totalled in excess of 7 million tonnes over the past 10 years. Sales from the current harvest alone total 2 million tonnes. AWB firmly believes that the best way to ensure that the outstanding debt is repaid is to maintain a very close commercial relationship with Iraq through the sale of wheat so that a constructive dialogue can be maintained on the debt repayment issue. Regular visits to Iraq are made by AWB staff and the outstanding debt issue is regularly discussed.

Due to the UN sanctions, our wheat trade with Iraq, indeed all commercial relations with Iraq are extremely sensitive from the Iraqis point of view. As such the Iraqi Government is extremely sensitive to any public comment on the debt situation, as it is often interpreted as criticism of Iraq, despite their full acknowledgement of the debt and their willingness to repay it, once sanctions are lifted.

I trust this clarifies the facts surrounding Iraq's outstanding debt and the amounts owed to Australian wheat growers.

Please don't hesitate to contact me should you require any additional information.

Yours sincerely
Joanne Martin
General Manager, Corporate Affairs

cc: Mr John Lush, President Grains Council of Australia”

As recently as 31 August 2004 the Department of Foreign Affairs and Trade wrote to a WA wheat grower in which numerous references are made to money being owed to growers, advising:

“Thank you for your letter dated 7 July 2004 to the Prime Minister concerning debt owed by Iraq in relation to Australian wheat exports. As this matter falls within the portfolio of foreign affairs and trade, it has been forwarded to me for reply.

The money owed to Australian grain growers is owed by Iraq, not by the Australian Government. The Australian Government has met its obligations to the growers by making insurance claim payments to the then Australian Wheat Board (AWB) on the basis of export credit insurance contracts between the AWB and the Export Finance and Insurance Corporation. The decision by the Government to enter into these insurance arrangements, despite considerable risk to the taxpayer, represented a considerable benefit to wheat exporters, all the more so considering that the risks to the taxpayer were subsequently realised when Iraq defaulted on its payments. The Australian Government subsequently paid AWB insurance claims amounting to US\$381.2 million, reflecting the firm understanding in the insurance arrangements that the taxpayer would bear 70 to 80 per cent of any defaults, varying by contract, with wheat exporters bearing the remaining portion of any loss. Any change to the arrangements now would represent a retrospective amendment to a contract where the Australian Government has already covered up to 80 per cent of the risk.

As a result of the insurance payments to wheat exporters, the majority of the debt owed by Iraq in respect of the wheat shipments is now owed to the broad community of taxpayers in Australia rather than to growers alone, and the burden of moves to extend debt forgiveness to Iraq will therefore fall predominantly on the former.

United Nations trade sanctions against Iraq were introduced in response to Iraq's invasion of Kuwait, under UN Security Council resolution 661 of August 1990. Australia was not a member of the Security Council at that time, and so was not a direct party to the decision, but is bound to comply with Security Council decisions as a matter of international law. Any suggestion that the Government is morally obliged to repay debts owed to wheat exporters, on

the basis of being “responsible” for the sanctions following Iraq’s invasion of Kuwait or of having policy alternatives to their imposition, is misplaced. Likewise, any suggestion that the wheat industry could have continued exporting to Iraq following its invasion of Kuwait and in complete disregard of the international environment prevailing at that time is also misplaced.

While not required, the former Government did make a \$30 million ex gratia payment in response to the loss of markets/diversion of shipments after the UN sanctions were introduced in response to Iraq’s invasion of Kuwait. This, and the very substantial insurance payments made by the Government, addressed Prime Minister Hawke’s commitment that “the Government would not expect grain growers to shoulder the full burden of United Nations trade sanctions on Iraq”.

The Government would prefer that all the debt owed by Iraq be repaid. This is not, however, a matter that the Australian Government can decide. Agreement would need to be reached with Iraq. Furthermore, Australia is not the only creditor of Iraq. Iraq owes international creditors almost US\$125 billion, more than five times the level of income the entire country generates every year. Indeed, debt owed to Australia is just a small part of this total. Other major creditors to Iraq include the UK, France, Russia, Italy, Germany, Japan, Canada, the US, China, Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bulgaria, Romania and others. The available information suggests that some 40 countries are owed debt by Iraq.

The prevailing view among these countries, and Iraq itself, is that substantial debt forgiveness should be extended to Iraq. There is no possibility that Iraq would agree to give preferential treatment to Australia beyond the terms that these other creditors are prepared to extend. To insist on full repayment of the debt in the face of these realities would not only fail to secure a result, as Iraq will certainly not comply, but could also damage our economic relationship with the new Iraq which remains one of Australia’s largest wheat markets. Nevertheless, the Government is committed to returning to growers their share of any recoveries of the debt that may eventuate from the international negotiations, although any such payments are likely to be delayed until Iraq is in a financially stronger position.

The Government’s view is that we should look to the future of the Iraqi wheat market, and help to consolidate Australia’s position as a major supplier to that market. It is in this spirit that the Government has agreed in-principle to provide a substantial part of the funding for an integrated grains processing facility in Iraq, subject to the feasibility of this project being proved. The funding would be provided by taxpayers generally. Initial estimates suggest that the Government’s contribution could amount to \$20 million. The facility would include a state-of-the-art flour mill, research and testing laboratories, education and training facilities and a logistics centre. It would help to consolidate Australia’s strong position in Iraq’s grain market, assist Iraq develop an internationally compliant grains standards regime, facilitate technology transfer and build local grain processing capacity.

I note that these outcomes, including the decision to extend debt forgiveness to Iraq, were agreed to by the Grains Council of Australia and its state affiliates (AgForce Grains, NSW Farmers, VFF Grains, SAFF Grains and WAFF) and are very much in the interests of wheat producers in that they will help to build international demand for Australian wheat. I have enclosed a copy of a media release published by WAFF on 2 June 2004 for your information.

Thank you for bringing your views to the attention of the government.

Yours sincerely
Brendan Berne
Director -Trade Finance Section"

It is important to recognise that Iraq did not fail to make payment by choice or through an economic failure. It is WAFarmers understanding that prior to sanctions being imposed Iraq had not defaulted on any payments for Australian grain.

The government should accept that Iraq did not intentionally default on its debt to Australia, as it is often portrayed. Sanctions were imposed by the United Nations with Iraqi assets frozen and economic relations severed with western countries including Australia. The consequences of the non-payment should therefore be accepted as a national responsibility and funded accordingly.

Future Debt Management

The Paris Club Agreement involves a repayment period of some 23 years. The practicality of maintaining individual grower records for such an extended period would be a daunting administrative burden.

The steadily declining survival rate of those growers who produced wheat in the years from 1987 to 1989 will only further complicate the processing of entitlements to the annual repayments by Iraq.

The WAFarmers proposes that the government settle the debt due to growers in the 2005/06 financial year. That would bring to an end the claim growers have over the debt. Administering the debt repayment agreement would then be a government-to-government matter between future Australian and Iraqi administrations within the overall Paris Club framework.

In terms of the quantum of such payments, the call since mid 2004 has been for grower payments totalling USD98.1 million. The total debt remaining to be recovered under the Paris Club Agreement is in the order of USD213 million.

The USD98.1 million figure is the original debt figure due from July 1992. Growers have therefore funded the debt without compensation for carrying costs or the change in the value of money since that time.

Sanction Related or Commercial Default

It is the WAFarmers view there is sufficient evidence to conclude that the failure of the Australian Wheat Board to receive payment for the wheat in question was not due to a conventional commercial buyer default. Had the failure to be paid resulted from a normal commercial trade default the matter would have been closed out many years ago.

Iraq continually acknowledged the existence of the debt. However payment was prevented by UN sanctions. It is believed that the ability to pay existed until the fall-out from the most recent political events in Iraq.

As such the debt needs to be viewed very differently to a debt incurred in the normal course of commercial dealings.

Statistical Data

Assurances have been given by AWB Ltd that grower delivery data for the seasons 1987/88, 1988/89 and 1989/90 is available and can be retrieved to identify individual growers and their deliveries of wheat to the relevant marketing pools.

However due to the protracted events surrounding the shortfall in pool equities for these seasons retrieval and processing of this data has become more complex and involved. Having suffered the burden of the funding shortfall for over 12 years and an adverse exchange rate movement the costs of administering the payout to growers is an expense the Government should readily accept.

In terms of other general statistical information it has been difficult to obtain exact data due to resource limitations. The rounding of wheat receipt figures and values, variations in currency conversion and the need to rely on published figures that are more general in nature, prevent WAFarmers from providing definitive statistical data.

However the available information does provide sufficient insight into the fundamental issue.

There is money owed to wheat growers across Australia and the issue is clearly national in character. The interest being shown by the Senate as the "State's House" is therefore most appropriate.

Export Finance and Insurance Corporation (EFIC)

The contribution of the Export Finance and Insurance Corporation (EFIC) in providing insurance to export industries is recognised and appreciated. The export of wheat to Iraq by the then Australian Wheat Board on credit terms was insured with EFIC to the maximum extent possible at that time.

However it also needs to be recognised that the wheat industry paid significant premiums to insure the debt. The following premium payments were made during the period through to 1997 and no doubt included premium loadings based on the grain industry's claims history.

Export credit insurance

Year	AUD '000s
1987-88	13,737
1988-89	17,468
1989-90	23,316
1990-91	7,837
1991-92	4,729
1992-93	8,919
1993-94	12,387
1994-95	3,119
1995-96	17,189
1996-97	<u>24,653</u>
Total	133,354

SOURCE: AWB Annual Reports

In the Trade Ministers' media statement of Wednesday 2 June 2004 it was stated –

“Wheat growers received some US\$381 million from the Government in 1991.”

This was a misleading statement as it was referring to the payment of the insured component of the debt for which wheat growers had paid significant annual premiums as listed above.

Taxation

All funds paid to growers for the wheat shipped to Iraq will be assessable income in the year of receipt. The initial government outlay will therefore be reduced by the collection of significant income tax revenue.

As the payment will relate to contracts in existence prior to the introduction of the Good and Services Tax it is understood the grower payments could be classed as not being subject to GST. Nevertheless a taxation ruling could be appropriate in the circumstances to remove doubt as to the correct treatment.

Economy

Despite a strong national economy the primary producers in the grains industry are again facing very difficult times. International grain prices are again very weak and the outlook for the 2005/06 crop is not encouraging.

For growers still in the industry and holding an interest in the Iraq debt, an injection of funds in the 2005/06 year would be very timely and well received. The funds would assist in debt reduction or provide carry on finance.

Payments to retired farmers, many of whom are in the self-funded retiree category, would generate a considerable economic benefit from the consumer spending likely to result.

CONCLUSION

WAFarmers believe it is right and proper for the Committee to recommend to the Government that -

As it is in the National interest and is fair and reasonable to all concerned, the Australian Government should -

- (i) pay to the relevant wheat growers in the 2005/06 financial year, their share of the aggregate USD98.1 million shortfall in 1987/88, 1988/89 and 1989/90 pool equities resulting from the UN sanctions imposed upon Iraq during the time of the Saddam Hussein regime; and**
- (ii) fund the costs to effectively manage the payment process to a satisfactory conclusion.**



**The Western Australian
Farmers Federation (Inc.)**



November 21, 2004

PRESS RELEASE
THE PARIS CLUB AND THE REPUBLIC OF IRAQ AGREE ON DEBT RELIEF

The representatives of the member countries of the Paris Club met from November 17 to November 21 and agreed on November 21, 2004 with the representatives of the Republic of Iraq on a comprehensive debt treatment of the public external debt owed to them providing a total amount of debt reduction of 80 % in three phases.

The Iraqi delegation described the challenging economic and financial situation faced by its country and presented the main measures for recovery included in the program of the Iraqi Government and supported by the Emergency Post Conflict Assistance approved by the Board of the International Monetary Fund on September 29, 2004. Paris Club members took note of the strong commitment of the Government of Iraq to implement the policies required under this program and reaffirmed their support.

The representatives of the Creditor Countries, aware of the exceptional situation of the Republic of Iraq and of its limited repayment capacity over the coming years, agreed on a debt treatment to ensure its long term debt sustainability. To this end, they recommended that their Governments deliver the following exceptional treatment:

- an immediate cancellation of part of the late interest representing 30% of the debt stock as at January 1, 2005. The remaining debt stock is deferred up to the date of the approval of an IMF standard programme. This cancellation results in the write-off of 11.6 billion US dollars on a total debt owed to the Paris Club of 38.9 billion US dollars;

- as soon as a standard IMF programme is approved, a reduction of 30% of the debt stock will be delivered. The remaining debt stock will be rescheduled over a period of 23 years including a grace period of 6 years. This step will reduce the debt stock by another 11.6 billions US dollars increasing the rate of cancellation to 60%;

- Paris Club Creditors agreed to grant an additional tranche of debt reduction representing 20% of the initial stock upon completion of the last IMF Board review of three-years of implementation of standard IMF programmes.

This debt treatment would reduce the total debt stock from 38.9 billion to 7.8 billion US dollars.

On a voluntary basis, each creditor country may also undertake debt swaps.

The Republic of Iraq has committed to seek comparable treatment from its other external creditors.

Background notes

1. The Paris Club was formed in 1956. It is an informal group of creditor governments from major industrialized countries. It meets on a monthly basis in Paris with debtor countries in order to agree with them on restructuring their debts.

2. The members of the Paris Club which participated in the reorganization of Iraq's debt were representatives of the governments of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, the Republic of Korea, the Russian Federation, Spain, Sweden, Switzerland, the United Kingdom and the United States of America. Observers at the meeting were representatives of the government of Norway as well as the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), the Secretariat of UNCTAD, the European Commission and the Organization for Economic Cooperation and Development (OECD).

The delegation of Iraq was headed by Mr. Adil A. Mahdi, Minister of Finance. The meeting was chaired by Mr. Jean-Pierre Jouyet, Chairman of the Paris Club.

Technical notes

1. Iraq's economic program is supported by an Emergency Post Conflict Assistance.

2. Iraq's public debt was estimated to be US\$ 120.2 billions in nominal value as at end 2004. The debt owed to Paris Club creditors as of December 31, 2004 was estimated to be US\$ 38.9 billions in nominal value.

3. The repayment profile will be posted on the Paris Club web site.

RESCHEDULING PROFILE "DEBT REDUCTION" OPTION	
2005	0,00%
2006	0,00%
2007	0,00%
2008	0,00%
2009	0,00%
2010	0,00%
July 1, 2011	2,94%
January 1, 2012	2,94%
July 1, 2012	2,94%
January 1, 2013	2,94%
July 1, 2013	2,94%
January 1, 2014	2,94%
July 1, 2014	2,94%
January 1, 2015	2,94%
July 1, 2015	2,94%
January 1, 2016	2,94%
July 1, 2016	2,94%
January 1, 2017	2,94%
July 1, 2017	2,94%
January 1, 2018	2,94%
July 1, 2018	2,94%
January 1, 2019	2,94%
July 1, 2019	2,94%
January 1, 2020	2,94%
July 1, 2020	2,94%
January 1, 2021	2,94%
July 1, 2021	2,94%
January 1, 2022	2,94%
July 1, 2022	2,94%
January 1, 2023	2,94%
July 1, 2023	2,94%
January 1, 2024	2,94%
July 1, 2024	2,94%
January 1, 2025	2,94%
July 1, 2025	2,94%
January 1, 2026	2,94%
July 1, 2026	2,94%
January 1, 2027	2,94%
July 1, 2027	2,94%
January 1, 2028	2,94%

RESCHEDULING PROFILE "DEBT SERVICE REDUCTION" OPTION	
2005	0,00%
2006	0,00%
2007	0,00%
2008	0,00%
2009	0,00%
2010	0,00%
July 1, 2011	0,37%
January 1, 2012	0,39%
July 1, 2012	0,41%
January 1, 2013	0,44%
July 1, 2013	0,46%
January 1, 2014	0,49%
July 1, 2014	0,51%
January 1, 2015	0,54%
July 1, 2015	0,57%
January 1, 2016	0,60%
July 1, 2016	0,63%
January 1, 2017	0,66%
July 1, 2017	0,70%
January 1, 2018	0,73%
July 1, 2018	0,77%
January 1, 2019	0,81%
July 1, 2019	0,85%
January 1, 2020	0,90%
July 1, 2020	0,94%
January 1, 2021	0,99%
July 1, 2021	1,04%
January 1, 2022	1,10%
July 1, 2022	1,15%
January 1, 2023	1,21%
July 1, 2023	1,27%
January 1, 2024	1,33%
July 1, 2024	1,40%
January 1, 2025	1,47%
July 1, 2025	1,54%
January 1, 2026	1,62%
July 1, 2026	1,70%
January 1, 2027	1,78%
July 1, 2027	1,87%
January 1, 2028	1,96%
July 1, 2028	2,05%
January 1, 2029	2,15%
July 1, 2029	2,26%
January 1, 2030	2,37%
July 1, 2030	2,48%
January 1, 2031	2,60%
July 1, 2031	2,73%
January 1, 2032	2,86%
July 1, 2032	3,00%
January 1, 2033	3,15%
July 1, 2033	3,30%
January 1, 2034	3,46%
July 1, 2034	3,62%
January 1, 2035	3,80%
July 1, 2035	3,98%
January 1, 2036	4,17%
July 1, 2036	4,37%
January 1, 2037	4,58%
July 1, 2037	4,80%
January 1, 2038	5,07%

To deliver the 30% debt reduction in Net Present Value (NPV) linked to the approval of the standard IMF programme, Paris Club Creditors can choose between a debt reduction option and a debt service reduction option. This latter option results in a longer rescheduling profile of 33 years including a grace period of 6 years.

Media release from the Australian Department of Foreign Affairs and Trade

D17

22 November 2004

Australia in International Agreement to Forgive Iraq's Debt

The Australian Government announced today that Australia has joined with other governments in the multilateral Paris Club to forgive 80 per cent of Iraq's debt.

Under this agreement Australia will forgive US\$850.7 million of principal, contractual interest and late interest owed by Iraq. Iraq will commence repayment of the key amounts not forgiven in 2011.

The Australian Government's decision to forgive a substantial part of Iraq's debt reflects the overwhelming necessity of contributing to Iraq's recovery and stabilisation. It will free up resources to assist Iraq recover more quickly. Relieved of much of its debt, Iraq has the potential to become a stable partner for Australia in the Middle East, providing new opportunities for Australian exporters and investors. This includes in the market for wheat, which has long been Australia's largest export to Iraq. The Government will continue its efforts to facilitate wheat exports to Iraq.

Australia's participation in the formal terms of the debt agreement follows the announcement on 2 June this year that the Australian Government would forgive the vast majority of the debt owed by Iraq. This decision followed extensive consultation with the Australian Grains industry.

Iraq owes in excess of US\$150 billion to around 40 countries, including reparation payments from its 1990 invasion of Kuwait. Its debt is estimated to exceed 500 per cent of gross domestic product, among the highest levels of external debt ever owed by an economy of this size.

The international agreement signed today affects US\$42 billion in debt owed to countries participating in the Paris Club negotiations. The main terms of the agreement immediately forgive Iraq 30 per cent of total debt stock. A further 30 per cent reduction of debt stock will be provided upon signing of a full International Monetary Fund (IMF) arrangement for Iraq, expected to start in 2005. An additional tranche of debt reduction representing 20 per cent of debt stocks will be granted at the end of the three-year IMF arrangement.

The overall cancellation of Iraq's debt in net present value terms will be 80 per cent. It is expected Iraq will also apply the terms of this agreement to countries that were not party to the negotiations.

The Paris Club is an informal group of 19 creditor nations including Australia. Its role is to find solutions to difficulties experienced by debtor nations in repaying official bilateral debt. Since 1983, the Paris Club has entered a succession of agreements with around 80 debtor nations affecting debt obligations totalling over US\$427 billion.

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