

DEPARTMENT OF FOREIGN AFFAIRS AND TRADE
DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY

**SUBMISSION TO THE SENATE INQUIRY ON COMPENSATION
ARRANGEMENTS FOR WHEAT GROWERS AFTER THE WRITING-OFF
OF IRAQ WHEAT DEBT**

Executive Summary

The Iraq wheat debt issues stems from the sale of wheat and other products to Iraq on credit terms before the 1991 Gulf War. The former Australian Wheat Board (AWB) was the primary exporter with cover under the National Interest Account (NIA) through the Export Finance Investment Corporation (EFIC) to insure against the risk of default in payment.

The Australian Government, under the NIA, agreed to insure between 70 and 80 per cent of any payment default, varying by contract, of wheat exports to Iraq, with the former AWB bearing the remaining exposure. The former AWB was not able to obtain commercial insurance cover for the relevant sales contracts with Iraq.

Following its 1990 invasion of Kuwait, Iraq defaulted and the Australian Government met its contractual obligations to the former AWB by paying export credit insurance claims totalling US\$381.2 million. As a result, the former AWB was been paid all of its insurance entitlements under the arrangements. These insurance payments, based on Iraq's default, were made well before the Paris Club had any intention of entering into an agreement with Iraq to provide debt relief.

Consequently, the rights to the debt were transferred to EFIC with Government policy being that any recoveries of the debt would be shared between the Australian taxpayer and the original insurance holders based on the value of the original insurance contracts (averaging approximately 80 per cent cover). The debt is owed by Iraq and not by the Australian Government. To date no monies have been recovered and the Australian taxpayer has borne the majority of the defaulted debt. In relation to Iraq's 1990 invasion of Kuwait and the subsequent imposition of UN sanctions, an ex gratia payment of \$32.9 million was also made to exporters by the Australian taxpayer.

Fourteen years on from Iraq's default, the Paris Club, of which Australia is a member, considered that there was a compelling case to assist Iraq's reconstruction and recovery and agreed to forgive 80 per cent of Iraq's debt. The 20 per cent of total Iraq debt stock that is not subject to cancellation is to be rescheduled over a 23 year period (at rates of interest yet to be determined).

The Australian Government, in consultation with the grains industry, believes that the interests of wheat growers are best served by assisting Iraq's economic recovery. Relieved of much of its debt, Iraq has the potential to be a stable and solvent partner for Australia in the Middle East to enable it to service any remaining debt and provide a more financially viable export destination.

Introduction

Iraq is one of the most highly indebted countries in the world. International Monetary Fund estimates indicate that Iraq owes approximately US\$125 billion to private creditors and to sovereign creditors from some 46 countries.

In addition, Iraq has existing but as yet unpaid reparation obligations amounting to almost US\$33 billion, arising from its invasion of Kuwait in 1990. As of 13 January 2005, a further US\$53.1 billion in reparation claims were yet to be assessed by the United Nations Compensation Commission, the body established to assess claims arising from the Iraq / Kuwait war.

Even before reparation claims, Iraq's debt is estimated to exceed 500 per cent of gross domestic product by the International Monetary Fund (IMF). The 2004 IMF debt sustainability analysis also makes clear that, even taking into account Iraq's oil reserves, there is no possibility that Iraq would be able to repay a debt of this magnitude. The Australian Government, in common with other creditor governments to Iraq, considers that forgiveness of the vast majority of Iraq's debt is a necessary and essential condition for stabilisation, recovery and growth of Iraq's economy.

Alleviating Iraq's massive debt overhang is an investment in the future, one which will ultimately pay dividends to Australia by helping to ensure that Iraq emerges as a stable partner in the Middle East, contributing positively to security outcomes in that region, and promoting opportunities for trade and investment with Iraq. This includes in the vital wheat market, which has long been the key element of Australia's trade with Iraq.

On 2 June 2004, the Minister for Trade announced the Australian Government's intention to provide significant debt forgiveness to Iraq (Attachment A). This paralleled similar commitments made by other creditor governments to Iraq, including the United States, United Kingdom, France, Germany, Russia, China, Japan, Canada, Italy, United Arab Emirates and Qatar. Even with substantial debt forgiveness, Iraq will not be in a position to pay back the remaining debt to creditors immediately, or even in the short term.

On 21 November 2004, the Paris Club, an association of 19 major creditor countries including Australia that meets on a regular basis to discuss bilateral debt issues, announced that it had reached consensus on debt forgiveness for Iraq. The purpose of this Submission is to provide information about the terms of this agreement. In addition, it provides information on the nature of the debts owed by Iraq to Australia that are covered by the Paris Club agreement, including how these debts arose and the interest that various stakeholders in Australia may have in the debts.

It should be emphasised that there are no arrangements in place for the Australian Government to provide direct additional compensation to the wheat industry in relation to the debt owed by Iraq beyond the EFIC coverage. The industry also benefited from substantial ex gratia payments made by the Government in the period after Iraq's invasion of Kuwait, and has received significant backing from the Australian Government since the most recent Gulf War (as detailed below in the **Government efforts to facilitate wheat exports to Iraq** section).

Iraq has remained an important market for the grains industry and the Government has taken substantial steps to underpin Australia's export prospects in that market. Those steps have been specifically designed with Australian wheat grower interests in mind. Further information is provided in this Submission.

Paris Club agreement

The Paris Club is an association of 19 countries that meets on a regular basis to find solutions to difficulties being experienced by debtor nations in the payment of official bilateral debt. Paris Club decisions are made on a consensus basis. Australia has been a member since the establishment of the Paris Club. Since 1956, the Paris Club has entered into a succession of agreements with around 80 debtor nations. The total amount of debt covered in agreements since 1983 is US\$468 billion.

Recent Paris Club debt agreements to which Australia has been party include agreements with Egypt, Russia, Ethiopia, Nicaragua, Indonesia and Iraq. In general, the Paris Club serves to protect Australia's interests by ensuring that major countries do not use their leverage to secure favourable bilateral deals with debtor nations at the expense of other creditors, particularly smaller creditor nations such as Australia. The principle of solidarity among members is fundamental to the workings of the Club. Further information about the Paris Club can be found on its website, www.clubdeparis.org.

The Paris Club agreement for Iraq affects government-to-government debts owed to 18 countries.¹ These are Australia, Austria, Belgium, Canada, Denmark, France, Finland, Germany, Italy, Japan, the Netherlands, the Republic of Korea, the Russian Federation, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

Iraq's obligations to creditors party to the Paris Club agreement are estimated at US\$38.9 billion. Overall, Iraq has been estimated to owe just under US\$110 billion to 46 sovereign creditors both in and outside the Paris Club, and a further US\$15 billion to private creditors including commercial banks. While the Paris Club agreement does not directly affect debts owed to non-Paris Club creditors, the Paris Club insists on the principle of comparability of treatment in each of its agreements with debtor nations, including Iraq. That is, the Paris Club agrees to extend debt relief on the condition that debtor countries do not accede to terms and conditions with non-Paris Club creditors that are more favourable (from a creditor's point of view) than the terms of the Paris Club agreement. This means that no creditor, private or sovereign, can expect a better debt deal with Iraq than the outcome secured by the Paris Club. It also means that being involved with the Paris Club is the only effective way to influence the outcomes of a debt settlement.

The Paris Club agreement reached in November 2004 provides for 80 per cent forgiveness of Iraq's debt stock, as measured at 1 January 2005. The stock of debt owed to Paris Club creditors will be reduced from US\$38.9 billion to US\$7.8 billion in net present value terms. This debt forgiveness will be provided in three stages, subject to certain conditions being met by Iraq (including comparability of treatment as discussed above). In particular, the three stages involve:

¹ Ireland and Norway had no reported Iraq debt. South Korea, not a full Paris Club member, participated in the agreement on an ad hoc basis. Brazil participated in part of the negotiation.

- Initial cancellation of late interest as at 31 December 2004 sufficient to reduce the overall debt stock by 30 per cent. This is subject to the conclusion, before 30 September 2005, of bilateral contracts between Iraq and its creditors to facilitate the terms of the Paris Club agreement. Completion of bilateral debt agreements requires that each creditor's debt claims be reconciled with Iraq, a process near completion in Australia's case. The debt cancellation will take effect retroactively from 1 January 2005 once a bilateral contract is signed.
- Cancellation of a further 30 per cent of the debt stock, including all remaining late interest calculated as at 31 December 2004, as soon as a standard International Monetary Fund (IMF) arrangement is approved. In October 2004, the IMF provided Emergency Post-Conflict Assistance (EPCA) to Iraq. The EPCA is expected to precede a new, three-year IMF arrangement before the end of 2005. The second tranche of the debt forgiveness would be forthcoming when this new arrangement is approved.
- A final tranche of debt forgiveness amounting to 20 per cent of the debt stock as at 1 January 2005, subject to completion of the last IMF Board review of the three-year IMF arrangement. This is expected before 31 December 2008.

The 20 per cent of the debt stock that is not subject to cancellation will be rescheduled over a 23 year period at rates of interest to be determined in the bilateral agreements between Iraq and each creditor. No payments of outstanding debt arrears will be made by Iraq during the first six years of this 23-year rescheduling period, although there is provision for repayment of a small amount of post-2004 interest accruals during this initial six years. Under these terms, Iraq will make 34 semi-annual payments to Australia of about US\$6.3 million plus interest at an appropriate market rate to be determined in bilateral technical negotiations with Iraq. The payments would commence in July 2011 and conclude in January 2028. That is, there will be no repayments of arrears until more than 20 years after the debts were originally insured.

These rescheduling terms are typical of other Paris Club agreements for highly indebted countries (in particular, 'Naples' and 'Cologne' terms), and are necessary given Iraq's immediate need to use available financial resources for its stabilisation and reconstruction efforts.

Debts subject to the Paris Club agreement

Debt owed to Australia by Iraq that is subject to the agreement reached in the Paris Club in November amounts to approximately US\$1.063 billion. This comprises approximately US\$499.3 million in 'arrears' (principal plus interest due during the life of the original export contracts), and around US\$564.1 million in late interest that has accrued since the original contracts fell due, as outlined below. The arrears arose from shipments by Australian exporters to Iraq in the 1980s and early in 1990. These shipments had been insured by EFIC. Late interest to 31 December 2004 has been calculated by EFIC using the floating 6-month London Interbank Offer Rate (LIBOR) for the US dollar plus an administrative margin, as noted in reply to a question on notice by Senator Cook during Senate Estimates hearings on 3 June 2003 (Attachment B). Note that these amounts are subject to final reconciliation with Iraqi authorities.

Debt owed to Australia by Iraq	
US\$ million, figures subject to rounding	
(a) Contract principal	456.3
(b) Contract interest	43.0
(c) Arrears (a) + (b)	499.3
(d) Late interest (as at 31 December 2004)	564.1
Total debt (c) + (d)	1,063.4

The debt subject to the Paris Club agreement arose from export contracts that were insured by EFIC, predominantly on the National Interest Account (NIA). That is, contracts insured on the NIA were effectively underwritten by the Australian Government. A very small part of the debt was insured by EFIC at its own risk on its Commercial Account (around 0.06 per cent of the total). By far the largest part of the debt corresponds to contracts between Iraq and the former Australian Wheat Board (AWB) for wheat and rice shipments that were insured on the NIA. Between 70 and 80 per cent, varying by contract, of the invoice value of the relevant former AWB contracts with Iraq were insured under these arrangements. A small part of the debt relates to exports to Iraq by other policy holders, namely Bonlac Food Ltd, Kraft Foods Ltd, John Shearer Ltd, Westpac/Australis Irrigation Pty Ltd and National Australia Bank/Anchor Foods Ltd, which had insurance arrangements with EFIC.

Table 1 provides a breakdown of the debt based on the original exporter, and illustrates the remaining stake that each exporter, the Government (through the NIA) and EFIC (through its Commercial Account) has in the debt.

The rights to receive payments in respect of the contracts with the original exporters (the insured parties) have been assigned to EFIC. This situation arose because EFIC's insurance was called by the insured parties after Iraq defaulted on payments due to them. In return for receiving the insurance claim payments, which amounted on average to around 80 per cent of the invoice value of the exported goods, the exporters were required to assign to EFIC their rights to payments of the debts owed. Because the insurance contracts were virtually all on the NIA, decisions about what to do with any debt recoveries are a policy matter for the Government.²

The debts which have been assigned to EFIC on behalf of the Government, and which are covered by the Paris Club agreement, extend not only to the insured component of the export contracts with Iraq (which as noted amount to approximately 80 per cent across all insurance contracts), but also to the uninsured component of these contracts. As a matter of law, the debts are not divisible in terms of insured and uninsured components, as they arise in each case from a single set of contracts with Iraq.

² The operation of the NIA is guided by the provisions of Part 5 of the *Export Finance and Insurance Corporation Act 1991*. NIA transactions usually occur where the size or risk of the transaction exceed parameters that would be acceptable for EFIC's Commercial Account. While EFIC is responsible for the day-to-day administration of the NIA, decisions regarding its use are made by the Minister for Trade and financial losses or profits borne directly by the Australian Government in the Budget. The NIA forms a component of DFAT's Administered Financial statements.

Table 1 Composition of the Iraq debt as at 31 December 2004

Figures in millions of US dollars (figures subject to rounding)				
A. Arrears (principal plus interest due during contract terms)				
Exporter↓	Amount owed by Iraq:	Uninsured component:	EFIC share (Commercial Account)	Government share (NIA)
AWB Ltd	480.4	99.2	--	381.2
Other	18.9	2.6	0.3	16.0
Sub-total	499.3	101.8	0.3	397.2
B. Late interest as at 31 December 2004				
Exporter↓	Amount owed by Iraq:	Uninsured component:	EFIC share (Commercial Account)	Government share (NIA)
AWB Ltd	546.7	112.7	--	434.0
Other	17.4	2.4	0.3	14.7
Sub-total	564.1	115.1	0.3	448.7
C. Total debt owed by Iraq (arrears plus late interest)				
Exporter↓	Amount owed by Iraq:	Uninsured component:	EFIC share (Commercial Account)	Government share (NIA)
AWB Ltd	1,027.1	211.9	--	815.2
Other	36.3	5.0	0.6	30.7
Total	1,063.4	216.9	0.6	845.9

Impact on former EFIC insurance policy holders

While title to the debt is now held by EFIC on behalf of the Australian Government, the original exporters who were covered by EFIC insurance policies, either on the NIA or the Commercial Account, are nonetheless be entitled to receive a share of any future recoveries of the debt owed by Iraq. This share would correspond to the component of their original export contracts that was not insured by EFIC and for which no insurance claim payments were received.

Given that the original exporters as a whole have already received from taxpayers approximately 80 per cent of the value of their original contracts, fulfilling commitments under the insurance arrangements, the Government's view is that they would as a group be entitled to receive just over 20 per cent of any future recoveries (including in particular 19.9 per cent to AWB Ltd). The remaining 80 per cent or so of any recoveries would be retained by the Government as a recovery against the taxpayer-funded insurance payments. So far, the taxpayer has received nothing at all.

It is not possible at this point in time to provide definitive information on amounts of money that will be repaid to interested parties under the terms of the Paris Club agreement. This is because future repayments of debt not subject to cancellation will also include some interest accruing after 31 December 2004. The amount of this interest depends on terms still to be negotiated and agreed with Iraqi authorities.

In more detail, the Paris Club agreement does specify that payment of Iraq debt not subject to cancellation will be made in 34 semi-annual instalments commencing in July 2011 and ending January 2028. Each payment will consist of (1) an amount of around 2.9 per cent of the debt to which each exporter is entitled under the terms of the Paris Club agreement, and (2) interest accruing on each exporter's share of debt outstanding after 31 December 2004. The amount of interest paid will depend on an appropriate market rate yet to be finalised in bilateral technical negotiations with Iraq. In addition, while most of this interest will be paid as part of the 34 semi-annual payments from 2011, a small amount of interest will be paid before 2011, though not before 2008. The start of these initial interest payments will depend on when Iraq completes the three-year IMF arrangement required for the third tranche of its debt reduction program, as outlined previously.

Based on this information, the Paris Club Agreement provides for AWB Ltd to receive 34 semi-annual payments of approximately US\$1.2 million each plus interest starting in 2011, with some interest paid before 2011. This is contingent on Iraq fulfilling its obligations under the Paris Club agreement.

The Senate Committee's Terms of Reference refer to the impact on wheat growers. Neither the Australian Government nor EFIC has a direct contractual relationship with any individual wheat grower. Rather, EFIC's insurance arrangements were struck with the former AWB. DFAT and DAFF understand that wheat shipped by the former AWB to Iraq, which underlies a significant part of the outstanding debt owed by Iraq, was shipped from the 1987/88, 1988/89 and 1989/90 wheat pools. The Departments understand that the assets, liabilities and contractual rights and obligations of the former AWB have been transferred to the grower-owned company, AWB Ltd and/or its subsidiaries including AWB (International) Ltd, which would include matters relating to the contractual relationship with EFIC from those pools mentioned above. Questions regarding pool entitlements and composition should be directed to the Chief Executive Officer of AWB Ltd.

The Minister for Trade announced the Australian Government's intention to forgive the vast majority of the debt owed to Australia on 2 June 2004 in line with Paris Club processes and following consultation with the grains industry. Prior to this announcement the Minister for Trade and the Minister for Agriculture, Fisheries and Forestry consulted the grains industry. During a conference call on 5 May 2004 with Mr Brendan Stewart, Chairman, AWB Ltd, and Mr Keith Perrett, President, Grains Council of Australia, the Minister for Trade relayed the Government's view that forgiveness of most of the outstanding debt would likely be required given Iraq's dire economic circumstances and the clear evidence that other major creditor countries were in favour of granting such forgiveness. The Minister explained the need to look to the future, including Iraq's future as a market, rather than the past. There was a further meeting between Mr Stewart and the Minister for Trade on the margins of meetings with the visiting Egyptian Minister of Supply and Internal Trade, Dr Hassan Khedr, on 10 May 2004. The Government's position was also relayed by both the Minister for Trade and the Minister for Agriculture, Fisheries and Forestry on 24 May 2004 during a meeting with Mr Peter Wahlsten, President, Western Australia Farmers Federation Grains Section, also attended by the Hon Juli Moylan MP.

There was a further meeting between the Minister for Trade and a wide group of grain industry representatives on 31 May 2004. These representatives were from the Grains

Council of Australia and its affiliates, namely AgForce Grains, the NSW Farmers Association, Victorian Farmers Federation Grains Group, South Australian Farmers Federation Grains Council and the Western Australian Farmers Federation. A press release by the Western Australian Farmers Federation on 2 June 2004 stated that "WAFarmers has given in principle support for a new deal which may see eventual recovery of a proportion of the Iraqi wheat debt given back to individual growers but primarily focuses on a trade enhancement program to hold and build market share in Iraq" (Attachment C). In its press release of the same date, the Grains Council of Australia noted that "Following extensive consultation, the Government and Industry (Grains Council of Australia and its affiliates AgForce Grains, NSW Farmers, VFF Grains, SAFF Grains and WAFF and AWB Ltd) considers the interests of wheat growers are best served by accepting the inevitability of debt forgiveness and concentrating on the future Iraqi wheat market." (Attachment D.)

The Minister for Trade continued to meet wheat growers to explain the Government's decision. He spoke at two town-hall style meetings held in Lake Grace and Merredin, Western Australia, on 30 June 2004. Both meetings were attended by large numbers of interested wheat growers. The Minister for Trade met the Pastoralists and Graziers' Association of Western Australia on the same date.

In December 2004, the President of the Grains Council of Australia, Mr Keith Perrett, wrote to the Prime Minister advising of its in principle support for the Paris Club deal. In addition he also requested, on behalf of his members, that any monies recovered from Iraq wheat contract default payments be first distributed to industry and that all avenues to recover the monies be pursued. (Attachment E.)

Ex gratia Payment of \$32.9 million to Australian Exporters

Following Iraq's 1990 invasion of Kuwait and the subsequent imposition of UN trade sanctions against Iraq, several Australian exporters sustained losses on contracts that had been concluded with Iraq and Kuwait prior to these events occurring. Shipments that were on the water at the time had to be diverted to alternative destinations at substantial loss on returns and increased shipping costs. The Government agreed that the grains industry should not bear the full burden of meeting these losses and compensated the exporters for the losses they incurred in the Iraq market from the imposition of UN sanctions, totalling \$32,913,906, according to the following claims:

Ex gratia Payments to Australian exporters	
Australian Wheat Board	\$31,030,103
Ricegrowers' Co-operative Limited	\$1,138,956
Bergerco	\$717,562
WA Meat Exports	\$27,285
TOTAL	\$32,913,906

These payments by the Australian Government to the exporters concerned were made on an ex gratia basis and were not related to the EFIC payments. The payments were made, in the case of the former AWB, for losses and costs relating to: the forced sale of goods to alternative lower paying markets; the disposal of distressed cargo; losses on its technical assistance program; costs incurred in relation to funding; and the cost of re-employing contracted freight. Accordingly, there was no legal liability on the

Australian Government to make the payments.

The Australian Government paid the compensation to the affected industries in the period October 1991 to April 1992. According to the then Minister for Primary Industries and Energy, the Hon Simon Crean, these payments fully met the Government's undertaking that the grains industry would not have to bear the full burden of UN sanctions on Iraq. The former Minister also noted that all claimants had accepted these payments as full and final settlement with the Government for their losses, and that there was no basis on which to refund the uninsured portion of the wheat debt. (See Hansard, Question Without Notice, 14 October 1991, page 1803, and Question on Notice, 28 April 1992, page 1921. These are at Attachments F and G.)

Important Export Market for Australian Wheat

Australia is a major supplier of Iraq's wheat import requirements. ABARE statistics indicate that Australia has been exporting wheat to Iraq since at least 1956, with a shipment of around 70 thousand tonnes. This trade has continued virtually uninterrupted ever since, and its importance as a destination for Australia's wheat exports has increased over the period. For example, prior to Iraq's 1990 invasion of Kuwait and the subsequent Gulf War, Iraq was one of Australia's largest wheat export destinations, accounting for up to 14 per cent of total Australian wheat exports, in volume terms, in 1989-90 (see Table 2). The growth of wheat exports to Iraq from all countries was interrupted following Iraq's 1990 invasion of Kuwait. Consequently, Australia's exports fell to less than 1 per cent of Australia's total wheat exports during this period (Table 2).

There was an improvement in the late 1990s, which continued in the early 2000s, when Iraq began to buy more wheat from the world market (see Table 2 and graph below). Australia's wheat exports to Iraq increased, with Iraq's share of Australia's wheat exports recovering to pre-war levels (and greater in some years). ABARE has estimated Iraq's import demand to remain high, at around 2.5 million tonnes, for 2005, and with future improvements in the Iraqi economy and personal incomes, further growth could be expected. This could lead to further growth in Australian wheat exports to Iraq.

Table 2 Iraq's share of Australia's wheat exports for selected years, covering the period before and after Iraq's 1990 invasion of Kuwait

(Per cent)							
1987/88	1988/89	1989/90	1992/93	1994/95	1995/96	2000/01	2001/02
10	13	14	1	2	0.4	16	14

Source: ABARE, *Australian Commodity Statistics*, various issues.

Before the 2003 Gulf War, AWB (International) Ltd, a subsidiary of AWB Ltd, supplied 2.5 million tonnes of Australian Premium White (APW) wheat to Iraq, accounting for around 90 per cent of Iraq's milling requirement. These contracts were worth a total of A\$830 million (A\$668 million of wheat, the balance in services), under the cash-based United Nations Oil-For-Food (OFF) program, which allowed Iraq to sell oil to pay for imported food, medicine and humanitarian supplies after the first Gulf War.

In early October 2004 AWB (International) Ltd announced that it had won a major contract to export one million tonnes of wheat to Iraq. AWB (International) Limited had already sold more than 460,000 tonnes to Iraq in 2004 under the UN-managed World Food Program, followed by a further 100,000 tonnes deal negotiated directly with the Iraqi Grains Board.

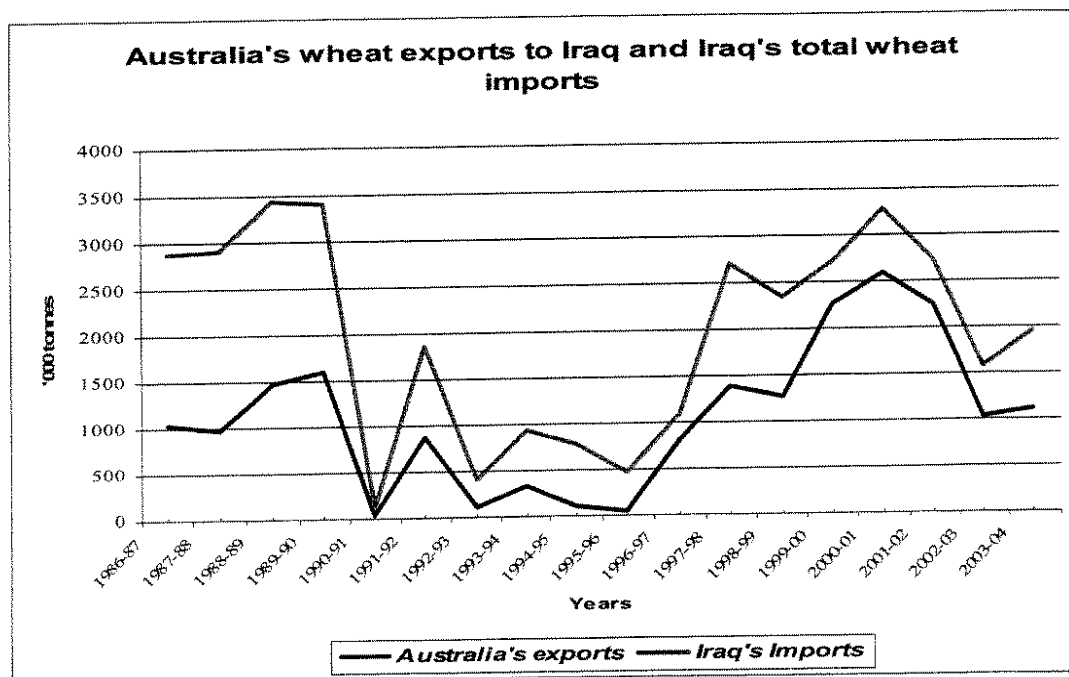
AWB (International) Ltd is, however, facing stiff competition in the Iraqi market from the United States, Canada, France, Russia and Pakistan. Historically, Australia's share of Iraq's wheat imports has been close to 50 per cent. Before the 1991 Gulf War, the United States' share of Iraq's wheat imports was less than that of Australia, and the two supplied close to 80 per cent of Iraq's import requirements (see Table 3 below). There is a growing number of exporters that have the capacity to supply Iraq's wheat requirements.

Iraq is an important market for Australian wheat exports and is likely to continue to provide opportunities for growth. The future opportunities are dependent upon a stable and prosperous economy in Iraq. With Iraq currently experiencing severe financial difficulties, the rebuilding of Iraq's economy provides for a potentially lucrative wheat market. By providing the assistance described above from the Paris Club, the Government considers that the benefits to wheat growers will be delivered through continued trade opportunities.

Table 3 Major suppliers' share of the Iraq wheat market

(Per cent)						
Supplier	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
Australia	44	35	49	41	52	60
US	35	34	26	36		
Canada	20	31	26	23	14	
EU						36

Source: statistics from the former AWB



Government efforts to facilitate wheat exports to Iraq

The Government has provided a high level of support to AWB Ltd in its efforts to retain market share against increasing competition in the wake of the 2003 conflict in Iraq and the lifting of UN sanctions in May of that year. The Government's efforts have built on the long history of the wheat trade between Australia and Iraq, and the high quality and cost competitiveness of the Australian product. Government support has included sustained and vigorous lobbying by ministers and officials.

In August 2003, the Government made high-level representations to the Coalition Provisional Authority (CPA) in Iraq and the UN on the issue of prioritisation of two outstanding Australian contracts through the Oil-for-Food programme. These contracts were subsequently prioritised by the UN, securing export sales of over 800,000 tonnes.

In October 2003, the Government facilitated the visit to Australia of the Iraqi Minister of Trade, Dr Ali Allawi, and in November 2003 Mr Vaile visited Iraq. More recently Mr Vaile extended an invitation for the interim Minister, Mr Mohammed Al-Jibouri, to visit Australia as a guest of the Government, but the visit was unfortunately cancelled by the Iraqis shortly before it had been due to commence.

The Government has also sponsored and facilitated business visits both to and from Australia. Officials from the Iraqi Grains Board have visited Australia a number of times, including a Government-sponsored training visit in June 2004. The Australian Embassy in Baghdad, in conjunction with DFAT and the Australian Defence Force, has facilitated AWB Ltd visits to Baghdad for negotiations on wheat contracts, most recently in September 2004.

On 11 May 2004, the Government deployed a Trade Commissioner, Mr Greg Hull, to Iraq. Mr Hull is still supporting Australian business seeking to enter the Iraqi market, but he is now based in Dubai. The Government has also engaged an Iraq Business Development Manager based in Amman.

The Government continues to be prepared to underwrite sales of wheat on credit terms to Iraq if this becomes necessary as a result of international competition and any move by Iraq to seek to buy on credit. The Government has authorised a \$350 million trade credit insurance facility on the NIA, to assist exporters secure payment in relation to letters of credit issued by or on behalf of the Trade Bank of Iraq, established in 2003. Use of the facility is contingent, inter alia, on an agreement for sovereign backing for any exposures incurred under the facility being reached with the Iraqi authorities. Negotiations are almost complete.

In agreeing to provide this support, the Government was motivated first and foremost by interests of Australian wheat producers, especially considering the importance of the Iraqi wheat market to Australia. The Government's preparedness to extend this support represents a considerable benefit to the Australian wheat sector, given the substantial political and financial risks that would necessarily be associated with exporting to Iraq on credit terms. Currently wheat sales to Iraq are occurring on the basis of cash payments rather than credit terms, but the Government recognises that this could change if other trading partners of Iraq begin to extend this support and as

Iraq's situation stabilises. The facility therefore represents a substantial forward commitment by the Government to the maintenance and continued development of this vital wheat market for Australia.

Australian development assistance to Iraq's agriculture sector

Australia's bilateral assistance to Iraq is focused on the agriculture sector. Since May 2003 the Government has deployed ten agricultural experts to assist the CPA and the Iraqi Government of Iraq. These experts worked as advisers to the Iraqi Ministries of Agriculture and Trade.

Australia is progressively training 100 officials from the Ministry of Agriculture in Australia. Australia has also rehabilitated the Ministry of Agriculture building in Baghdad, and has made funds available for the rehabilitation of the Iraqi Grains Board building.

The Government has committed in principle to contribute \$20 million to help build an integrated grains processing centre in Iraq — subject to its feasibility being proved.

Public interest considerations related to proposals to pay out the debt

It has been suggested by certain sections of the wheat industry that the Government should compensate wheat growers for the uninsured component of the Iraq debts, possibly by forfeiting its entitlement to recoveries that would otherwise be due to taxpayers on the National Interest Account, possibly by giving policy-holders all recoveries up to the full uninsured amount. Any such approach would represent a retrospective revision to the contractual requirement that exporters bear part of any loss in return for receiving the insurance support underwritten by the Government. It would not be consistent with government policy.

Export credit insurance provided by EFIC, and export credit agencies in other countries, often includes a 'risk share' that requires the policy holder to bear part of any loss. Such risk sharing arrangements are intended to guard against moral hazard and encourage prudent behaviour by exporters. In essence, they serve the same purpose as an 'excess' in motor vehicle or home and contents policies in the personal insurance market.

If the Government or EFIC were to pay out the proportion of loss required to be borne by individual exporters, this could undermine the integrity and future operations of the NIA. It could, for example, encourage individual policy holders to consider that 100 per cent of any loss could be recovered by lobbying the Government; diminish the authority and standing of contracts entered into with EFIC; and reduce incentives for insured parties to make financially prudent decisions about high risk markets. Once a precedent was established it would be difficult to prevent broadening and consequential undermining of EFIC/NIA insurance arrangements.

Any such payouts would be inequitable and would set a damaging precedent, given the very large body of Australian exporters who have used EFIC insurance cover in the past and who have been required to bear a proportion of any loss when an insurance event occurs. No NIA claim, for any export to any country, has ever received more than the agreed level of NIA cover. Maintaining a strictly even-handed

approach serves the public interest by helping to ensure that Australian exports can be supported on EFIC's Commercial Account and the NIA in a manner that is sustainable in the long term.

Process leading to the Paris Club decision

The Paris Club agreement on Iraq debt was preceded by a succession of international developments indicating the preparedness of the international community to extend debt relief to Iraq. On April 2003, the International Monetary and Financial Committee of the Board of Governors of the IMF issued a statement calling, inter alia, for the engagement of the Paris Club in addressing Iraq's external debts. A statement by the G-7 Finance Ministers and Central Bank Governors called for Paris Club involvement in the same terms. The Paris Club issued a media statement on 24 April 2003 indicating that it stood ready to engage on Iraq's debts (Attachment H). Subsequently, UN Security Council Resolution 1483 of 22 May 2003, welcomed the readiness of creditors, including those of the Paris Club, to seek solutions to Iraq's debt problems.

On 10 July 2003 the Paris Club issued a second media statement noting that, based on revised data, Iraq's debts to Paris Club members amounted to US\$21 billion, excluding late interest (Attachment I). The press release confirmed the willingness of Paris Club members to restructure Iraq's debts, and indicated that Paris Club creditors did not expect Iraq to be in a position to resume repayments before the end of 2004. In effect, this represented a moratorium on repayments by Iraq, and recognition of the reality that Iraq had no immediate financial capacity to repay the debt. The moratorium was later extended until the end of 2005.

Further efforts by the Paris Club to conclude a debt agreement with Iraq hinged upon the completion of efforts by the IMF to ascertain Iraq's indebtedness to creditors outside the Paris Club, and complete assessments of Iraq's economic situation and debt sustainability. Throughout these preliminary negotiations, Australia was concerned, including for reasons of the integrity of Paris Club processes, that the debt forgiveness for Iraq be no more, but also no less, than required based on an objective, contestable and verifiable assessment of Iraq's debt sustainability. Australia therefore took an active role, working with others, to review the IMF's analysis and seek revisions to take into account the effects of higher oil prices and production than allowed for in the IMF's baseline analysis, as well as a faster decrease in Iraq public expenditures relative to GDP as the country completed its transition from being a command economy, with domestic demand driven predominantly by public expenditures, to a market economy.

Negotiation of a debt agreement with Iraq also required that there be an internationally-recognised, sovereign government in Iraq. This issue was resolved with the assumption of authority by the Interim Government of Iraq after the dissolution of the CPA in Iraq on 28 June 2004. UN Security Council Resolution 1546 of 8 June 2004 specifically recognised the authority of the Interim Government of Iraq to conclude and implement agreements with Iraq's international creditors and the international financial institutions such as the IMF.

The Australian Government initially considered that treatment of Iraq's debts should be differentiated depending on the nature of the goods or services which had been

sold to Iraq. Part of Iraq's massive debts to international creditors arose from the supply of military goods to the Saddam Hussein regime. Australian Government representatives argued that the burden of debt forgiveness should fall first on such military debt before being applied to debt related to the supply of foodstuffs and other essential consumable and humanitarian items. Iraq's debt to Australia falls entirely in the latter category, being related to the supply of food and some agricultural equipment, and does not contain any military items. Nevertheless, it became clear during 2004 that such an approach would not win sufficient support in the Paris Club, which makes its decisions on a consensus basis.

As views in the Paris Club began to coalesce, many major sovereign creditors were making it clear that they supported substantial debt forgiveness for Iraq. Statements to this effect were made by national leaders in France, Germany, Russia, the UK, Italy, Canada, Japan, China, Qatar and the United Arab Emirates. The preference of the United States for cancelling Iraq's debt was reflected in the appointment of Mr James Baker as the US President's personal envoy on the Iraq debt issue in December 2003.

In August 2004, the Iraqi Minister of Finance Mr Adil Abdul Mahdi and the Iraqi Central Bank Governor Sinan Al-Shabibi wrote to sovereign creditors seeking support for 95 per cent forgiveness of Iraq's debts, and for the new EPCA arrangement to be concluded by the IMF. In October 2004, the IMF approved the EPCA for Iraq. In the lead up to the IMF Board's approval of this arrangement, the IMF sought and obtained assurances from the Paris Club to provide debt relief to underpin the EPCA. IMF analysis also made clear that an overwhelming case existed for substantial forgiveness of Iraq's debt. Australia advocated that forgiveness of Iraq's debts occur in tranches linked to the completion of this and future IMF arrangements for Iraq, rather than in a single up-front tranche, in order to strengthen the process of economic reform in Iraq and prospects for ongoing dialogue with the IMF and creditors. We did not want to give any of our debt away without using the leverage involved to make sure that Iraq was fully committed to structural reforms. Although discussions in the Paris Club are private and protected, we would note that there was opposition from some key creditors to such a staging of the debt forgiveness.

In October 2004, Iraq formally requested negotiations with the Paris Club with a view to finding a solution to its debt problems. Formal negotiations between Iraq and the Paris Club commenced in November 2004, with agreement on the terms of debt forgiveness reached on 21 November 2004. The 80 per cent debt forgiveness finally arrived at by the Paris Club was considered appropriate by officials from Australia and some other member countries. There was a strong analytical basis for this figure based on the analysis produced by the IMF. Other countries sought much higher levels of debt forgiveness, while some creditors initially sought to limit debt forgiveness to a lower figure, one which was not sustainable if the objective was to secure debt sustainability for Iraq.

Aligning Australia's position with these latter creditors would have undermined Australia's concern to ensure that all Paris Club decisions are taken on the basis of fully verified, documented and analysed data. In addition, such a position could have damaged Australia's broader diplomatic and trade interests, including with Iraq. The final settlement arrived at by Paris Club members for debt forgiveness of 80 per cent, to be delivered in three tranches, reflected closely the views advocated by Australia.

Historical background, including UN sanctions on Iraq

The majority of the debt relates to shipments by the former AWB in the late 1980s and early in 1990 prior to Iraq's invasion of Kuwait. The contracts provided for two year credit terms, with payments due by Iraq on a succession of due dates between 1990 and 1992. As each of these payments fell into default, the former AWB presented insurance claims to EFIC, which were promptly paid by the Government.

The relatively small amount of debt owed by Iraq in relation to exports by parties other than the former AWB was the subject of insurance payments by EFIC and the Government after defaults by Iraq in the 1980s. Iraqi and Australian Ministers came to an understanding as to how to resolve this outstanding debt during the fourth session of the Australia/Iraq Joint Commission in April 1987. Subsequently, EFIC and Iraq's state-owned Rafidain Bank signed a bilateral agreement to restructure the debt in September 1987. Iraq made payments according to schedule under this agreement, but a balance of approximately US\$16 million was still owing when Iraq ceased payments after it invaded Kuwait and UN sanctions were imposed in 1990. EFIC provided notification of this outstanding amount, and an additional US\$2.9 million in interest, to Rafidain Bank and to the Charge d'Affaires, Embassy of the Republic of Iraq, on 31 December 1992. Both this debt and monies owed in relation to the shipments by the former AWB form a sovereign obligation of the Iraqi government.

Iraq's cessation of payments due to exporters and EFIC closely corresponded with its invasion of Kuwait and the subsequent introduction of economic sanctions under UN Security Council Resolution 661 of August 1990. It has been suggested that the Government is obliged to compensate the industry because it supported the UN sanctions. Australia is required to comply with UN Security Council resolutions as a matter of international law. In the Government's view, any suggestion that alternatives to the sanctions existed and that these were open to Australia is misplaced.

On 28 August 1990 the then Prime Minister, the Hon Robert Hawke, stated that grain exporters would not be expected to 'shoulder the full burden' of the UN sanctions on Iraq. As noted, the former Government fulfilled this commitment by making ex gratia payments of almost \$33 million to grains exporters to assist them with loss of markets and diversion of shipments as a consequence of Iraq's invasion of Kuwait. There has never been an open-ended commitment to subsidise exporters for any possible source of loss that might be associated with the imposition of the UN sanctions. Grain exporters will not in fact bear the full burden of debt forgiveness for Iraq, as most of what was owed to the industry by Iraq has already been received by way of the Government insurance payments. Most of the burden of the debt forgiveness will as a result be carried by Australian taxpayers, and even allowing for a fair and equitable share of recoveries, that will still be the case.

Senate Foreign Affairs, Defence and Trade Legislation Committee
Answers to questions on notice from Department of Foreign Affairs and Trade
Budget estimates 2003–2004; 2–3 June 2003

- (37) Performance against benchmarks is assessed periodically. Gerling–NCM has performed well to date.
- (38) No. However, agreements with Gerling–NCM could be terminated in the event that Gerling–NCM became insolvent.
- (39) See (26).

Question 14

Topic: Asia Trade Task Force
 Outcome 1, output 1.1.6
 Hansard page 11

Senator Faulkner asked:

What is the size, scope and role of the Asia Trade Task Force?

Answer:

The Asia Trade Taskforce, which commenced operations in June 2002, comprises an SES officer and three non–SES officers. The Taskforce is responsible for carrying forward negotiation of a series of bilateral trade and economic arrangements with Asian countries, specifically the free trade agreement with Thailand and the proposed trade and economic framework arrangements with Japan and China. In addition, the Taskforce works with relevant divisions to assess and develop strategies for advancing any other proposals for negotiation of bilateral trade agreements or related arrangements with regional countries.

Question 15

Topic: Iraq wheat debt
 Outcome 1, output 1.1.6
 Hansard page 174

Senator Cook asked:

What is the rate of interest being charged on Iraq's debt to Australia?

Answer:

EFIC is calculating interest on Iraq's debt on the basis of 6 month, US dollar LIBOR + 1 per cent.

FUTURE OF IRAQI MARKET SEEN AS PRIORITY

Media release

June 2, 2004



The Western Australian
Farmers Federation (Inc.)

FUTURE OF IRAQI MARKET SEEN AS PRIORITY

WAFarmers has given in principle support for a new deal which may see eventual recovery of a proportion of the Iraqi wheat debt given back to individual growers but primarily focuses on a trade enhancement program to hold and build market share in Iraq.

WAFarmers president Trevor De Landgraft said after a week of tough negotiations with the Federal Government and the Grains Council of Australia, securing the Iraqi market was the most equitable and valuable long-term outcome for Australian wheat growers.

"At the end of the day we were faced with pushing the Government beyond its stated position on recovering a historical moral debt or focusing on the issue of future trade in this premium market," said Mr De Landgraft.

"Forcing the Governments hand to write-off Iraq's debt has been the decision of the Paris Club, an association of world lenders, which includes the debt to Australia for wheat sales during the late 80's.

"This decision results in a completely different trading environment in Iraq, moving us from cash only transactions to negotiated sales transactions including credit or joint venture arrangements.

"Iraq is a competitive market now and we have to work on keeping our market share. We will have better opportunities in securing new sales avenues than what we may recover from the Government in today's climate.

"The Australian Government has agreed to continue with the Export Finance and Insurance Corporation, to give assurity of payment to Australian wheat growers in selling their commodity to international markets in the future, a program we just couldn't operate without."

WAFarmers believes growers are better served by building on relationships in this valuable market.

"We support the Australian Government's commitment to allocate \$20 million to build grains facilities in Iraq to secure market access and grow market share in one of our most lucrative markets. We do also encourage the Government firmly to continue to fight for the debt still outstanding owed to predominantly Western Australian growers and will support them in every way to ensure that their efforts are effective," said Mr De Landgraft.

For further information contact:

<i>Trevor DeLandgraft</i>	<i>President</i>	<i>(08) 9325 2933 0428 389 062</i>
<i>Peter Wahlsten</i>	<i>Grains Section President</i>	<i>(08) 9325 2933 0409 081 949</i>
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IN CONFIDENCE



The Hon John Howard
Prime Minister
House of Representatives
Parliament House
Canberra ACT 2600

Dear Prime Minister

Iraq Wheat Payment Defaults

As you are aware, the matter of the defaulted payments for wheat shipments to Iraq in the late 1980's and 1990's is still a matter of concern for many wheat producers, in particular for members of the Western Australian Farmers Federation Grain Section.

Since we last wrote to you on 17 May 2004, the matter of the outstanding 20% of the defaulted payments to the then Australian Wheat Board gained a considerable amount of media attention in the lead up to the federal election, particularly in Western Australia.

This attention has been reignited by the announcement of Australia's agreement, as part of the Paris Club creditor group, to participate in the debt reduction scheme announced on 21 November 2004.

At its meeting on 15 July 2004, the Council of the GCA passed the following resolution, to be passed on to government once the Paris Club process had been completed.

Grains Council of Australia continue its 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.

This resolution was supported by GCA members from Queensland, New South Wales, Victoria and South Australia, but was opposed by Western Australia.

The resolution seeks from the government an agreement that;

- a) After the agreed (Paris Club) grace period of 6 years¹, the government pursue all avenues to recover the residual debt owed to Australia by the Iraqi government.
- b) Any monies recovered after the grace period of 6 years has elapsed and the recovery period has commenced, be disbursed back to industry (and on to producers) first.

Members of the Grains Council understand that individual wheat producers are not direct creditors and that the contracts that were defaulted on were held by the then Australian Wheat Board on behalf of the pools.

We also understand that individual wheat producers have, as a result of the fact they are not individual creditors, no legal recourse to recover default payments from Iraq. However, as participants in the pools that were effected by the defaulted contracts, individual producers do have a legitimate complaint that they have collectively suffered some degree of financial loss.

Of the three wheat pools impacted, 11.7% of the wheat from these pools was sold to Iraq. As you are aware, the then Australian Wheat Board insured its credit risk with EFIC². In 1992 a claim on this insurance was paid out, equivalent to 80% of the total amount of the defaults.

The residual 20% (US\$98 million) stayed on the AWB International books as a written down liability and carried forward to April 2004, when it was transferred to EFIC by AWB International³.

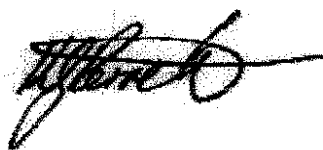
The direct loss to participants in the pools was approximately US\$2.50/T. The following figures provide an analysis of the financial impact per state⁴.

State	%	\$US value without interest
Western Australia	37	36.27
New South Wales	21	20.82
Victoria	14	13.91
South Australia	16	15.93
Queensland	11	11.21

The Government will be sending a strong signal to wheat producers that it is cognisant of the concerns that exist over this matter if an agreement is reached to make initial disbursement of any monies recovered to producers as a priority.

We also want to take this opportunity to reinforce our members strong in principal support for the proposed milling and grain technology cooperative investment in Iraq. This is an extremely positive initiative and we are looking forward to working closely with the government on this matter.

Yours sincerely



Keith Perrett
President – Grains Council of Australia
Thursday, 9th December 2004

Cc. Deputy Prime Minister, The Hon John Anderson, Minister for Trade, The Hon. Mark Valie and Minister for Agriculture, The Hon. Warren Truss.

¹ It is acknowledged that the 'grace period' of 6 years is dependent upon the implementation of an IMF recovery plan and a successful review of that plan after 3 years, as defined in the Paris Club agreement.

² This insurance cover was topped up with National Interest insurance, approved by Cabinet.

³ We understand this was a requirement of the original insurance contract.

⁴ Information extracted from a background briefing document prepared by Senator Ferris (SA) June 2004.

The Hon. Mark Vaile, MP
MINISTER FOR TRADE, AUSTRALIA



Media release

Wednesday, 2 June 2004 -MVT38/2004

Government, Wheat Growers Agree Measures to Assist Iraq Trade

Trade Minister Mark Vaile announced today that following consultation with the Australian grains industry, the Australian Government has decided to join other governments in forgiving the vast majority of Iraq's debt. Iraq's debt to Australia is for exports, predominantly wheat, shipped to Iraq in the late 1980s and early in 1990.

As part of the announced measures, the Australian Government has committed in-principle to contribute \$20 million to help build an integrated grains processing facility in Iraq, subject to its feasibility being proved.

Iraq owes in excess of US\$150 billion, among the highest levels of external debt ever owed by an economy of its size. Australia is owed around US\$500 million.

Wheat growers received some US\$381 million from the Government in 1991. The Grains Council and AWB described the payments at the time as "full and final."

The exact proportion of debt forgiveness to Iraq remains to be determined in international negotiations over coming months. After debt forgiveness, the Government will still be working actively through the Paris Club to seek recovery of as much of Australia's remaining debt as possible.

"Following extensive consultation, the Government and industry (Grains Council of Australia and its affiliates AgForce Grains, NSW Farmers, VFF Grains, SAFF Grains and WAFF, and AWB Ltd) considers the interests of wheat growers are best served by agreeing to debt forgiveness and concentrating on the future Iraqi wheat market," Mr Vaile said.

"I announced a feasibility study into the grains processing facility on my visit to Baghdad last December. The project would assist the developing of Iraq's grains processing industry through technology transfer."

"The rehabilitation of Iraq is critical to peace and stability in the region. Cancelling a large amount of Iraq's debt will free up resources for the country to rebuild and recover more quickly. Good progress is being made in rebuilding Iraq's economy, which was shattered by decades of

tyrannical misrule under Saddam."

Even with its oil resources, there is no way that Iraq would be able to service the current debt. Other countries including the US, the UK, Japan, China, France, Germany, Russia and creditors in the Middle East have also recognised the need for debt forgiveness for Iraq.

Relieved of much of its debt, Iraq has the potential to be 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.

Contact: Matthew Doman (ministerial) 02 6277 7420 - Nicole Guihot (departmental) 02 6261 1555

Senate Foreign Affairs, Defence and Trade Legislation Committee
Answers to questions on notice from Department of Foreign Affairs and Trade
Budget estimates 2003–2004, 2–3 June 2003

- (37) Performance against benchmarks is assessed periodically. Gerling–NCM has performed well to date.
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NEWS RELEASE



Released Wednesday 2 June 2004

Grains Council Welcomes Iraq Initiative

Grains Council of Australia President Keith Perrett welcomed the announcement by the Federal Government of an in-principle commitment to help fund a Grains Facility in Iraq. This commitment is worth approx. A \$ 20m.

'The announcement of the support for this facility by the government is a major win for the Australian grains industry' said Mr. Perrett.

'Iraq has been an important wheat market for Australia for over 50 years. Australia has built a strong partnership with the people of Iraq through our trade links and the support for the grain processing facility that has just been announced strengthens these ties'.

The proposed investment in Iraq will be modelled after the successful Australian operated Five Star milling facility in Egypt.

'Investing in processing in the wheat value chain in important markets like Iraq is an investment in future market access for Australian wheat' said Mr. Perrett. 'It also allows us to build stronger relationships with key individuals in these markets, which is a very important aspect of marketing grain'.

'This initiative is in line with the recently released Single Vision 2005 – 2025 industry strategy, that says very clearly that the Australian industry must make off shore strategic investments'.

Following extensive consultation, the Government and Industry (Grains Council of Australia and its affiliates AgForce Grains, NSW Farmers, VFF Grains, SAFF Grains and WAFF and AWB Ltd) considers the interests of wheat growers are best served by accepting the inevitability of debt forgiveness and concentrating on the future Iraqi wheat market.

Mr. Perrett acknowledged and sympathised with the disappointment that will be felt by some grain producers over the debt forgiveness decision.

"Grains Council and AWB Ltd have worked hard over the last decade to try and bring some resolution to the debt issue".

"We have to understand the difficult position the government and industry has been put in by the collapse of the Iraq economy. Iraq owes its global creditors over US \$150 billion and debt relief is essential if the country is going to get back on its feet".

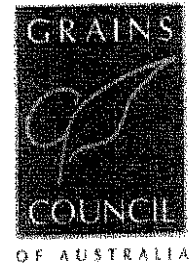
"It's doubly important for Australian wheat producers that the Iraqi economy recovers, as it is an important market for our wheat exports."

"The decision on how much debt is to be forgiven has yet to be made. However the government has assured us they will continue to pursue the un-forgiven portion and we hope that over time this money can be repaid".

Mr. Keith Perrett
President
M: 0419 990 943

Mr. David Ginns
Director
02 6273 3000
0409 465 056

IN CONFIDENCE



The Hon John Howard
Prime Minister
House of Representatives
Parliament House
Canberra ACT 2600

Dear Prime Minister

Iraq Wheat Payment Defaults

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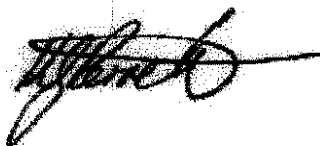
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Yours sincerely



Keith Perrett
President – Grains Council of Australia
Thursday, 9th December 2004

Cc. Deputy Prime Minister, The Hon John Anderson, Minister for Trade, The Hon. Mark Valie and Minister for Agriculture, The Hon. Warren Truss.

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Question without Notice: Grain Industry

Date	14 October, 1991	Database	House Hansard
Questioner	Newell Mr N.J. (RICHMOND, ALP, Government)	Responder	Crean The Hon S.F. (HOTHAM, PRIMARY INDUSTRIES AND ENERGY, ALP)
Page	1803	Proof	No
Source	House	Type	Question without Notice
Main Committee	No	Size	3Kb

Grain Industry

Mr NEWELL —Could the Minister for Primary Industries and Energy advise the House of the status of the grain industry's claim for losses arising from the United Nations sanctions against Iraq?

Mr CREAN —Last Friday, the Government made ex gratia payments totalling \$32.9m to the Australian Wheat Board, the Ricegrowers Co-operative and Bergerco. Those payments were made for losses arising from the imposition of the United Nations trade sanctions on Iraq. The background to this position is that in April of this year the Government agreed to make payments of up to \$35.1m and, following an independent audit of the claims, the final payment of \$32.9m was assessed to cover those losses associated with contracted tonnages. Of the \$32.9m, the Wheat Board has been paid roughly \$31m, the Ricegrowers \$1.1m and Bergerco \$718,000. These payments are in addition to the \$319m paid out to the Australian Wheat Board under the Government's national interest credit insurance cover, and the payments of \$32.9m fully meet the Prime Minister's undertaking to the Grains Council of Australia that the Government would not expect the grains industry to bear the full burden of the United Nations sanctions on Iraq. All of the claimants have accepted the payments as full and final settlement with the Government for their losses.


While I am on my feet I should indicate briefly some other areas in which the Government has assisted the wheat industry. We have taken measures to allow the Wheat Board to make earlier and higher payments to growers by providing the Wheat Board with higher borrowings guarantees and we have increased the cash flow to the industry. The 1990-91 post-harvest payments were boosted by an average of \$5 per tonne and, last week, the Wheat Board announced the 1991-92 harvest payments, which were about \$17 per tonne higher than at harvest last year. An additional guarantee of borrowings of up to \$20m to allow early payment of some existing pool equity for growers in financial distress has also been made by the Government, and so far around 1,700 applications have been made under this facility.

Finally, the prices outlook does provide some basis for optimism, ostensibly for those outside the drought affected areas such as those that I visited in the last fortnight. I would add that the latest Australian Wheat Board

asking price for Australian standard white is now the highest for over a year but, having said that, there should be no room for complacency whilst we still have the drought affected areas of the country and whilst the EC and the USA continue to subsidise their wheat industries. The problem is looking up but further improvement, of course, is subject to the two issues of the drought affected areas and the ability for our industry to access markets overseas.

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Question on Notice: Gulf War: Australian Wheat Board

Date	28 April, 1992	Database	House Hansard
Questioner	Scott Mr B.C. (MARANOA, NP, Opposition)	Responder	Crean The Hon S.F. (MARANOA, ALP)
Page	1921	Proof	No
Question_no	1334	Source	House
Type	Question on Notice	Main Committee	No
Size	4Kb		

Gulf War: Australian Wheat Board

(Question No. 1334)

Mr Bruce Scott asked the Minister for Primary Industries and Energy, upon notice, on 26 February 1992:

(1) Did the former Prime Minister, Mr Hawke, give a commitment that no one section of the community would be required to bear the cost of Australia's involvement in the Gulf War.

(2) Does Iraq owe a total of \$610 million to the Australian Wheat Board including an uninsured portion of \$130 million.

(3) Are any steps being taken to refund the uninsured portion of the debt referred to in part (2); if so what steps.

Mr Crean —The answer to the honourable member's question is as follows:

(1) Yes, following the imposition of the United Nations trade sanctions on Iraq, the former Prime Minister, Mr Hawke, gave an undertaking to the Grains Council of Australia in August 1990, which he again reiterated in Parliament on 17 April 1991, that "no industry could be expected to carry the financial burden of sanctions (against Iraq) single handed".

(2) The Australian Wheat Board (AWB) is owed US\$481.2 million for wheat sold to Iraq on credit and delivered prior to the imposition of the United Nations trade sanctions in August 1990.

Under the terms of the AWB's export credit insurance contract, the Government accepts 80% (70% for some shipments) of the risk of non-payment while the AWB accepts the remainder. The Commonwealth's exposure is US\$385.3 million while the AWB's uninsured exposure is US\$95.9 million. To the end of February 1992 the Government had paid US\$314.8m (A\$405m) to the AWB under its export credit insurance. Payments are made to the AWB in US dollars, the denomination of the AWB's contracts with Iraq. Conversion to Australian dollars is made at the exchange rate prevailing on the day of payment.

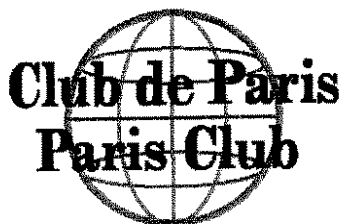
(3) An ex-gratia payment of \$31 million was made to the AWB in October 1991 for losses arising from the imposition of the United Nations trade sanctions on Iraq. This payment covered losses on contracted tonnages of wheat and associated costs involved in reselling that wheat to alternative markets. The AWB accepted the payment as full and final settlement with the Government for their losses.

No further steps will be taken to refund the uninsured portion of the debt referred to in part (2), nor is there any basis for doing so. National Interest insurance was sought and provided because the risk of non-payment was high. The Government took a deliberate decision to limit

the AWB's cover to 70- 80%. This arrangement was accepted by the AWB as the basis of conducting business in Iraq. National Interest insurance claim payments are being made on the basis of the terms agreed to by the AWB. Iraq has acknowledged the debt owed to Australia and has indicated it will pay all amounts due as required under UN Resolution 687.

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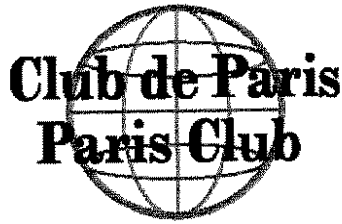


PRESS RELEASE

Paris Club creditors had a preliminary discussion on the situation of Iraq's Paris Club debt on the occasion of their monthly "tour d'horizon" held in Paris on April 24, 2003.

They have taken note that the International Monetary and Financial Committee and the Development Committee stated in their recent communiqués that "It is important to address the debt issue, and we look forward to early engagement of the Paris Club". A further UN security council resolution is anticipated. They note that the IMF and the World Bank stand ready to play their normal role. Paris Club creditors agreed that they stood ready to engage on Iraq's debt. They agreed, as a first step, to carry out a comprehensive assessment of Iraq's indebtedness towards Paris Club countries. On this basis, they will review this issue in the coming months and follow closely developments on Iraq's situation.

The Paris Club of creditors countries was formed in 1956. It is an informal group of creditor governments from major industrialized countries. It holds negotiations with debtor countries to find coordinated and sustainable solutions to their payment difficulties and to agree on specific terms of restructuring of their debts. It also meets for a monthly "tour d'horizon" to overview pending issues concerning debtor countries.



PRESS RELEASE

At the occasion of their monthly Tour d'Horizon held on July 10th, 2003, Paris Club creditors reviewed Iraq's situation towards them.

They took note of the evolution of Iraq's external situation in the context of the approval of resolution 1483 by the Security Council of the United Nations. In this respect, they fully agreed on "the desirability of prompt completion of restructuring of Iraq's debt" and they confirmed the readiness of the Paris Club to play its role in this matter.

They considered the results of their collection of data on Iraq's debt. According to their preliminary estimates, the total public debt of Iraq vis-a-vis Paris Club creditors (including Brazil and Korea) amounts to 21,018 million dollars, almost exclusively in arrears. All this debt results from credits contracted before August 2nd, 1990. This total amount takes into account for Russian claims the adjustment on Soviet era claims consistent with Paris Club methodology.

The attached table provides detailed information for each creditor excluding late interest. Late interest, in principle calculated on the basis of the rates set in the original contracts, is currently estimated at an amount similar to the principal outstanding. According to Paris Club standard methodology, these various data will have to be reconciled with Iraqi authorities prior to any negotiation.

Paris Club creditors reviewed the current efforts of the International Financial Institutions to assess Iraq's economic and financial situation. They welcomed the IMF effort in collecting data from Iraq's non Paris Club creditors and stressed that the inter-creditor coordination would be key to an orderly restructuring process.

They share the view that they don't expect Iraq to be in a position to resume payments to them before end 2004.

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<http://www.clubdeparis.org/>

OUTSTANDING AMOUNTS DUE BY IRAQ TOWARDS CREDITORS COUNTRIES (in principal)

Amounts due as at January 1, 2003 (in MUS\$ excluding late interest) (1)

CREDITOR COUNTRIES	
AUSTRALIA	499,3
AUSTRIA	813,1
BELGIUM	184,5
BRAZIL (3)	192,9
CANADA	564,2
DENMARK	30,8
FINLAND	152,2
FRANCE	2 993,7
GERMANY	2 403,9
ITALY	1 726,0
JAPAN	4 108,6
THE NETHERLANDS	96,7
THE REPUBLIC OF KOREA (3)	54,7
THE RUSSIAN FEDERATION (2)	3,450,0
SPAIN	321,2
SWEDEN	185,8
SWITZERLAND	117,5
THE UNITED KINGDOM	930,8
THE UNITED STATES	2,192,0
TOTAL	21 017,9

(1) Definition of debt concerned: the figures cover, from the debtor side, the amounts due by the public sector. From the creditors point of view, the figures include credits and loans granted, or guaranteed by, the Governments or their appropriate institutions.

Basically, private claims (debt owed to private creditors) as well as private debt (owed by private Iraqi institutions without public guarantee) are excluded from this recollection.

(2) Russian claims: this figure represents the amounts due to Russia after a simulation of the adjustment on Soviet era claims consistent with Paris Club methodology.

(3) These creditors have been regularly invited by Paris Club permanent members to join their discussions on Iraq.