



**AUSTRALIAN GOVERNMENT RESPONSE
TO THE
REPORT ON IRAQI WHEAT DEBT
– REPAYMENTS FOR WHEAT GROWERS
BY THE
SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE**

**MINISTER FOR TRADE
MINISTER FOR AGRICULTURE, FISHERIES & FORESTRY**

JUNE 2012

Introduction

The Government welcomes the Committee's report on compensation arrangements for wheat growers following the writing off of Iraq wheat debt in the Paris Club.

The Government supports the Committee's conclusion that, although the Export Finance and Insurance Corporation (EFIC) is a government entity, the insurance policies they provide to exporters are commercial agreements and, as such, should be free from governmental intervention. In addition, the Government supports the Committee's judgment that to interfere to amend retrospectively EFIC contracts could possibly affect the future viability of National Interest Account (NIA) insurance arrangements and reflect a short-sighted approach to export insurance arrangements. The Government, however, does not accept the Committee's recommendations.

Recommendation 1

The Committee recommends that the Export Finance and Insurance Corporation and AWB Ltd agree to a distribution of Paris Club scheduled repayments that enables growers, through AWB Ltd, to receive the first 20 per cent of repayments from Iraq, beginning in 2011.

Response

The Government does not accept this recommendation.

Agreement by EFIC (the Government) to pay the growers the first 20 per cent of repayments from Iraq would contradict the terms of the original insurance contracts between EFIC and the former Australian Wheat Board¹ and would be inconsistent with the principle of risk sharing implicit in not only these, but all, insurance contracts. Such an agreement would also be inequitable for other exporters who had sales defaults in Iraq covered under insurance arrangements with EFIC.

Under this recommendation, AWB Ltd's share of the debt, payable to wheat growers, could be paid by 2014. The taxpayer portion would not commence repayment until 2014 and would not be fully repaid until 2028. In the event that Iraq did not honour its obligations to Paris Club creditors part-way through the repayment schedule, the Government, and therefore the taxpayer, would be left with all the remaining liquidity.

Market practice within the insurance industry is that claims and recoveries are made on the basis of the conditions agreed at the time an insurance policy is established, and before the risks covered are realised. Recoveries are shared between the insured and insurer, in proportion to the loss borne, at the time of the recovery. The precedent set by departing from this practice in the case of Iraq debt may create an expectation that Government might be willing to waive this basic contractual principal for other recovery situations.

¹ Agrium Asia Pacific International (AAPI) is the new name for AWB (International) Ltd. Although the broader AWB Commodity management business was sold by Agrium Asia Pacific to Cargill in 2011, responsibility for historical issues, such as the Iraq wheat debt, remained with Agrium.

The Government notes that previous debt reschedulings, such as Russia and Egypt, have followed market practice, but any precedent set with regard to Iraq debt could then be applied to other situations and to Australian non-government creditors of rescheduled debt, in addition to other Australian exporters to Iraq. The situation which the committee describes, in which individual growers will be required to wait very long periods to receive remaining funds, may also apply to many other exporters whose debt has been subject to rescheduling, such as creditors of Russia.

An additional implication of government agreement to repay growers first, and consequently depart from market practice, would be that it may make it more difficult for EFIC to source reinsurance for exposures on the NIA in the commercial market. Commercial reinsurers, who would also have a contractual right to recoveries in proportion to their level of reinsurance, would take into account the prospect of the Australian Government departing from contractual obligations after claims have been paid, in favour of insured exporters and to the possible detriment of reinsurers, in their consideration of whether to reinsure NIA exposures.

Recommendation 2

AWB Ltd immediately commences the process of identifying and locating every grower entitled to receive payments made by Iraq under the Paris Club agreement. Further, prior to the commencement of Iraq's scheduled debt repayments in 2011, AWB Ltd undertakes to establish a payment mechanism whereby those receiving Iraqi payments are responsible for meeting the costs of their distribution.

Response

The Government notes this recommendation. This is a matter for AWB Ltd to consider.

Dissenting Report by Senator Bob Brown

In preparing its response to the report, the Government has also taken into account the dissenting report by Senator Bob Brown. The dissenting report's recommendations are:

1. The government should within 12 months undertake to repay growers the outstanding Iraq wheat debt and to cover the cost of this redistribution.
2. That the Export Finance and Insurance Corporation and AWB Ltd ensure that the first 20 per cent of Paris Club scheduled payments, beginning in 2011, are returned to the government.
3. That, to assist the government, the AWB Ltd immediately commence the process of identifying and locating every grower entitled to receive payments made by Iraq under the Paris Club agreement.

Response

The Government does not accept recommendations one and two, and notes recommendation three.

As noted in the response to the Committee's first recommendation, implementing these recommendations would require EFIC to deviate from market practice, and set a damaging precedent for the future provision of insurance on the NIA. In addition, repaying the growers within 12 months would require an additional outlay from taxpayers which would shift all the risk of non-repayment by Iraq onto the taxpayer. This is considered untenable given the outlays already provided by taxpayers under the original insurance contract.

The second and third recommendations would be relevant only if the first recommendation was accepted.