

Iraq Funds Distribution Project

Questions and Answers

1. Why does Iraq still owe money on old wheat pools?

As a result of the 'first Gulf War' in 1990 and trade sanctions imposed by the United Nations, Iraq defaulted on trade debt owed to the Australian Wheat Board (**Board**) of US\$480m. The debt was spread across three seasonal pools in varying proportions (1987/88 3.87%, 1988/89 48.03%, 1989/90 48.10%). Approximately 80% of the debt was insured through and recovered from the Australian Government Export Finance Insurance Corporation (**EFIC**) by the Board, and these proceeds distributed to growers.

In 2004, the Paris Club of national governments rescheduled Iraq's total sovereign debt to Australia (including a proportion of the debt to growers being cancelled) and determined a repayment plan for the balance. It is now expected that approximately US\$50 million of the Iraq debt will be received by Agrium Asia Pacific (International) Pty Ltd (**AAPI**) in regular instalments each year through to and including 2028 for distribution to eligible participants.

2. Where has the money come from?

In accordance with the Paris Club agreement, Iraq is paying debts owed to various countries.

3. How much is there?

It is expected that approximately US\$50 million will be received from Iraq by AAPI by 2028, through six-monthly payments of approximately US\$1.5 million.

4. Why is the money coming in stages over such a long period?

The payment schedule was set by the Paris Club.

5. What is the Paris Club and how can it decide to reduce a country's debts?

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

6. How much money was owed from the 1988-90 Pools? Why is Iraq only paying a portion of the remaining amount owing on the Pools and not the whole lot?

The debt outstanding across the three pools was US\$99.2 million. Iraq is paying the amount of its debts, including interest, the Paris Club deemed was appropriate, with the rest of the debt being cancelled subject to approval of certain International Monetary Fund programs also involving Iraq.

When the Paris Club made this determination in 2004, it declared: *"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"*.

7. Why did AWB sign the debt over to the Paris Club in the first place?

It was a condition of the insurance payments during 1991-92 from the Australian Government's Export Finance Insurance Corporation (EFIC) that the Board assign its claim to the remaining debt to EFIC, with the parties to share proportionately in any future recovery.

8. Why is Agrium handling this? Isn't it AWB's responsibility?

Agrium Asia Pacific International Pty Limited (AAPI) is the new name for AWB International Ltd (AWBI). AWBI was the company responsible for export wheat pools following the 1999 corporatisation of the Australian Wheat Board.

Although the broader AWB commodity business and AWB brand were sold by Agrium Asia Pacific Limited to Cargill in 2011, historical issues such as the Iraq debt remained with Agrium and the sale of the AWB brand name required the renaming of AWBI to become AAPI.

9. If the determination was made in 2004, why did the first distribution only occur in 2012?

The first repayments from Iraq did not actually occur until some years after the determination and were very small. Only in 2011 did the first larger repayment start, such that almost US\$4 million was repaid by mid-2012.

10. What is Agrium Asia Pacific International Pty Limited doing to find growers and make payments?

AAPI has retained specialist corporate recovery and forensic accounting firm Ferrier Hodgson to manage the process of finding pool participants or their beneficiaries and distribute the funds. Ferrier Hodgson commenced an extensive campaign in 2012 to find potential payees and confirm their details, including those no longer involved with the grain industry.

AAPI holds the original pool delivery records for the affected pools, so in the first instance Ferrier Hodgson wrote directly to all pool payees of the time, subject to any address or payee updates that may have been received by AWB in subsequent years.

The campaign included advertising in major Australian and rural newspapers, along with considerable media comment, intended to draw attention to the issue. Farmer representative bodies were also briefed and requested to publicise the project through their own networks.

Ferrier Hodgson continues to draw attention to the project in advance of each year's distribution.

11. Why is Ferrier Hodgson involved?

Ferrier Hodgson is a specialist corporate recovery and forensic accounting firm, with expertise in managing debts and payments of this type, whereas AAPI is not. Ferrier Hodgson has developed and continues to manage the payee identification and payment process.

12. Will Agrium or Cargill keep any of the money?

AAPI's intention is that the maximum amount of funds available for each distribution be distributed to appropriate payees. Cargill (the current owner of the AWB brand) has no claim on any of the funds being received from Iraq for these outstanding debts.

13. Were the original pool shortfalls borne equally across all pool participants or were they state or grade specific?

The original pool shortfalls for each season were spread equally across pool participants for that season. No distinction was made for state of origin or grade of wheat shipped to Iraq. Of the debt, 3.87% was owed to 1987/88 season, 48.03% to 1988/89 season and 48.10% to 1989/90 season, so distributions will occur across these pools accordingly.

14. Is Iraq paying for individual pools in date order, or is there no distinction in years?

Iraq is simply paying a financial debt owed to Australia. There is no distinction in the payments about which pools money could be allocated to, so distributions will be spread across the three pools.

15. How are individual distribution amounts calculated?

Pool records show tonnage delivery details for each pool participant. Distributions are paid pro rata, based on the quantity of the wheat delivered by the grower into each pool. The amount available for distribution in each pool is calculated as the total dollars available for distribution multiplied by the relevant season's debt allocation percentage.

16. How much precisely will I receive in each distribution?

Precise distribution amounts will not be known each year until just before the distribution occurs, because funds from Iraq are received in US dollars and are subject to currency fluctuations. Payments from Iraq are converted to Australian dollars as they are received. Funds are held in an interest-bearing account, with the interest rate also variable. Ferrier Hodgson has prepared a model containing assumptions on exchange rates, cash flows and interest rates to project distribution amounts out to 2028 and this model is used to provide individual grower estimates.

17. Will there be minimum distribution amounts?

No. AAPI has decided that all growers should be eligible to receive their entitlements, however small.

18. When was the first distribution paid to growers?

The first distribution to registered participants occurred on 27 September 2012. A further small distribution or "catch-up" payment for late registrants occurred on 24 December 2012.

19. When will future distributions be paid to growers?

It is anticipated that we will receive funds from Iraq around June each year. We will endeavor to pay a distribution within 3 months to eligible participants and make a "catch-up" payment within 5 months to eligible participants who did not receive a particular distribution.

20. Why were growers whose projected total distributions of \$100 or less paid in full in the first distribution?

Managing a database of approximately 50,000 growers generates considerable administrative costs. As around 25% of growers were projected to be due a total of \$100 or less over the entire 17-year period, AAPI carefully considered the fairest and most efficient approach and decided those growers should be paid their full estimated entitlement in the 2012 distribution, as this would reduce administrative costs for remaining growers in subsequent years.

21. Why were growers able to "compromise" or cap their total entitlement and be paid \$100 in full and final settlement in 2012?

This option was made available due to grower requests, with the individuals acknowledging that in making this choice they would forgo any of their original entitlement above \$100. AAPI agreed to the request because it would benefit remaining growers in the pool in two ways: entitlements forgone increase the amount available for distribution to remaining growers, and each grower removed from the active database reduces the overall administrative costs for the project. This option is no longer available.

22. Do the distributions attract GST?

No. As GST did not exist in Australia at the time the pool debts were incurred, AAPI understands the distributions will not attract GST.

23. Will the distributions represent income for income tax purposes?

Yes, AAPI understands the distributions will class as income. Individuals should seek professional tax advice concerning their individual taxation status for any income tax effect.

24. How often will distributions occur?

Based on the repayment schedule from Iraq and the administrative cost of making a distribution, it is envisaged that one distribution will occur each year through to and including 2028.

25. Are all the distributions guaranteed to occur?

Distributions will occur if funds are available. If the Paris Club schedule of repayments from Iraq occurs as laid down to 2028, all distributions would be expected to occur.

26. By what method will distributions be paid?

All distributions will occur by payment directly to a grower's bank account. To activate distributions, pool participants must complete a "Grower Details Form" that incorporates space to provide bank account details. This form includes a declaration that must be signed for distributions to be received. The completed form must be sent to Iraq Funds Distribution Project, c/o Ferrier Hodgson, PO Box 16024, Collins Street West Melbourne VIC 8007.

27. Do I need to complete a "Grower Details Form" each year for ongoing distributions?

No – the form need only be completed once, to capture relevant information for the first and any subsequent distributions. Please note that should any of your details change, such as your address or bank account, this should be notified in writing to: Iraq Funds Distribution Project, c/o Ferrier Hodgson, PO Box 16024, Collins Street West Melbourne VIC 8007 or via email to IFDP@fh.com.au.

28. Is there a cut-off date for growers to respond with details before each distribution?

Any new Grower Details Forms or Change of Details Forms must be sent to Ferrier Hodgson as soon as possible to participate in a "catch-up" distribution should they not receive their entitled distribution a particular year. These should be mailed to Iraq Funds Distribution Project, c/o Ferrier Hodgson, PO Box 16024, Collins Street West Melbourne VIC 8007.

29. I missed the previous year's distributions but have now registered. Can I still receive the earlier distributions?

Yes. Ferrier Hodgson holds funds in reserve after the distribution occurs to cope with this situation. Any "catch-up" payments due will occur as part of the next distribution.

30. What happens with a deceased estate, or if an original partnership has broken up, for example due to a business change or divorce?

Deceased estates or individual claimants on an original payee are welcome to contact Ferrier Hodgson and substantiate their entitlement according to the individual situation. This also applies if such changes have occurred since the 2012 distribution was paid.

31. What happens to money due to people or their estates if they cannot be found?

Presently all undistributed funds are held by Ferrier Hodgson until they are claimed. We have sought advice with the relevant state revenue office on if and how we should be remitting unclaimed monies.

32. Who should I contact if I change my address between distributions?

A dedicated service has been established within Ferrier Hodgson to keep track of payees over time. Once a payee has established their initial eligibility, any change of address should be notified in writing within a Change of Details Form to: Iraq Funds Distribution Project, c/o Ferrier Hodgson, PO Box 16024, Collins Street West Melbourne VIC 8007 or via email to IFDP@fh.com.au.

33. What happens to any “surplus” money after each distribution?

Funds received from Iraq are held in a separate, interest-bearing account by AAPI. The intention is to distribute the maximum amount reasonably possible each year and holding a minor reserve amount to deal with late payee identification and to ensure all administrative costs are covered. At each distribution any surplus from the previous year will be taken into account. Any final surplus in 2028 will be distributed to payees.

34. Who is paying the cost of the project to distribute the Iraq payments i.e. searching for pool participants, processing records, making distributions, and how much will it all cost?

The project to find pool participants or their beneficiaries and make the distributions is being funded from the Iraq repayments, consistent with the way all costs of pool administration were traditionally borne by the pools themselves. AAPI and Ferrier Hodgson are very aware of the need to minimise administrative costs and maximise distributions, while also ensuring the distribution process is fair and effective. Final costs will be known when the program concludes in 2028.

35. Who can I contact if I have further questions?

If you have further questions, please check the special section on the homepage of the Ferrier Hodgson website www.ferrierhodgson.com. You can also email IFDP@fh.com.au or call the IFDP Hotline at Ferrier Hodgson on (03) 9604 5128.