FAI SUES BANNON GOVT FOR $4.55M

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FAI Insurances Ltd has begun legal proceedings against the South Australian Government, seeking $4.55 million, together with interest and costs, in relation to a loan it made to a South Australian company in 1983.

FAI claimed the South Australian Government guaranteed an advance made by FAI to farm equipment manufacturer Horwood Bagshaw Ltd in 1983, and has since failed to honour the guarantee.

In a statement to the stock exchange, FAI said it had started proceedings against the South Australian Treasurer, Mr Bannon - only four days before the South Australian election.

FAI made an equity investment in Horwood Bagshaw shortly before the 1983 recession.

Substantial losses incurred by Horwood Bagshaw in the two years to 1985 saw FAI become principal financier to the company to ensure its continued operation.

However, FAI's chief executive officer, Mr Rodney Adler, said it had become principal financier on the basis that the government guarantee in respect of the 1983 loan remained intact.

Mr Adler said FAI made its initial claim on the guarantee in December 1987 and has since sought a response to it.

"FAI is yet to receive a satisfactory response as to whether the Government will meet its obligations pursuant to the guarantee," Mr Adler said.

Horwood Bagshaw was placed into receivership by FAI in December 1987, owing FAI $21 million.

It still employs 110 people and is the only grain harvester manufacturer in Australia.

Mr Adler said there was no prospect of FAI recovering the 1983 advance, unless the Government honoured the guarantee, because of the magnitude of losses incurred by Horwood Bagshaw.

"FAI has been forced to take this action to protect the interest of its shareholders and to preserve the value of our debt exposure to Horwood Bagshaw," he said.

The Government, he said, had failed to deal with its guarantee obligations