



National Farmers'
F E D E R A T I O N

National Farmers' Federation

**Submission to the
Senate Economics Committee inquiry into the Reserve Bank
Amendment (Australian Reconstruction and Development
Board) Bill 2013**

NFF Member Organisations



Chair, Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Chair

The National Farmers Federation (NFF) welcomes the opportunity to make a submission to the *Reserve Bank Amendment (Australian Reconstruction and Development Board) Bill 2013 (Cth)* currently under consideration by the Senate Economics Legislation Committee.

The NFF is the peak national body representing farmers and, more broadly, agriculture across Australia. The NFF's membership comprises of all Australia's major agricultural commodities. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations collectively form the NFF. Since its inception in 1979, the NFF has continued to lead the identification, development and achievement of robust policy outcomes - championing issues affecting farmers and dedicated to the advancement of agriculture. The NFF is dedicated to proactively generating greater understanding and better-informed awareness of farming's modern role, contribution and value to the entire community.

Reconstruction and Development Board

The Bill proposes to establish a Reconstruction and Development Board (the ARDB) within the Reserve Bank of Australia (the Bank) with the power to determine the Bank's rural reconstruction and development policy.

Specifically, the Explanatory Memorandum of the Bill suggests the activities of the ARDB related to agriculture and associated industries and infrastructures will help develop:

- the resilience, capabilities and ongoing financial viability of Australia's food and natural fibre systems;
- a profitable farming sector exercising good stewardship of the resources associated with production;
- effective ways to mitigate the impacts of adverse events, particularly those associated with natural disasters, market failures and inadequate commercial financial arrangements; and
- the capability of agriculture to contribute more fully, responsibly and reliably to the economic prosperity and welfare of the people of Australia and the peoples of other nations.

That Bill proposes to focus on three tasks, namely:

- (a) the task (the *facilitative task*) of researching, reporting on and helping to develop, in a timely way, the resilience, capabilities and ongoing financial viability of Australia's food and natural fibre systems and any Australian industries or sectors in need of, or potentially in need of, reconstruction or development
- (b) the task (the development task) of contributing to the development of Australian agriculture, associated industries and infrastructure by developing and offering financial arrangements; and reviewing financial arrangements
- (c) the task (the reconstruction task) of fairly, reasonably and effectively reducing or eliminating the debilitating impact of financial arrangements that, because of any of the following, threaten or reduce the ongoing viability or sustainability of enterprises in Australian agriculture or associated industries:
 - (i) the design of the financial arrangements;
 - (ii) inadequate evaluation of the financial arrangements by any of the parties to the arrangements;
 - (iii) market, organisational or informational failures;
 - (iv) seasonal conditions, natural disasters or any other events beyond the control of the parties;
 - (v) any other adverse circumstances.

Facilitative task

The NFF is broadly supportive of the facilitative task of researching and developing the resilience, capabilities and ongoing financial viability of the rural sector which should be a key role for both industry and government to ensure robust annual data on Australian agricultural industries is captured, collated and fed into the policy process, particularly around rural finance, debt levels and industry resilience. NFF recognises and is acutely aware of the financial situation facing some parts of the industry and looks forward to continuing to work with government and the banking sector to develop measures that can address some of the issues relating to farm debt, access to finance and investment. A key area for improved information gathering should be an annual report on the scale and distribution of debt levels at a national level, the effectiveness of that debt in supporting productivity gains within industry and the capacity of industry to service that debt and achieve sustainable profitability.

Development task

NFF is also broadly supportive of the need to develop and expand the range of suitable financial tools that will contribute to the further development of Australian agriculture, its supporting industries. A key component of the development task is the further examination and potential creation of new financial products and structures more closely tailored to the ongoing needs of the rural sector. Debt financing has been a key component supporting the growth and development of the rural sector however interest rates applying within current rural lending products incorporate a significant short term risk premium which is at odds with the longer term nature of farming. Access to affordable and appropriate long-term finance in partnership with the private sector in order to encourage investment and innovation will increase the growth of the farm sector in Australia and should be encouraged where it does not have a distorting impact on the market in any way.

Reconstruction task

The NFF is of the view that there are a range of significant issues that need to be considered in regards to the reconstruction task of any proposed Board. There is no doubt that there are debt pressures facing a number of farm sectors and regions in Australia.

Contributing factors to the current debt position vary significantly from farm business to farm business but include some of the following issues:

- Decreases in land values over the last decade, having a significant impact on debt to equity positions;
- High cost/low income pressures being exacerbated by the current drought covering 70% of Queensland and parts of other states including New South Wales coming on the back of the Millennium Drought and in some areas fires and floods in 2010 and 2011;
- Flow-on impacts on livestock and land values of the previous Federal Government's decision to suspend live cattle exports to Indonesia; and
- Ongoing investment by business owners/managers aimed at improving the scale and size of enterprises required to spread increasing fixed costs over the available units of production.

The NFF has been a strong advocate for policies and measures that contribute to the resilience, profitability and competitiveness of the Australian farm and agribusiness sector. In addition, the NFF clearly recognises the issue of rural debt and difficulties currently facing parts of the sector. However after consideration of the Bill and the Explanatory Memorandum and a number of meetings with parties supporting the concept, the NFF has only an equivocal and broad understanding of the implications of establishing a Board within the Reserve Bank of Australia with a focus on rural policy. The NFF view is that the issue and initiative requires considerable investigation and analysis particularly in relation to the impact any such entity might have on the broader financial markets, farm sector financial instruments and risk management strategies.

NFF is of the view that while there are a number of higher concept level issues which can be viewed as potential positive for the industry there needs to be further and detailed investigation given to the function and operation any reconstruction and development agency either attached to the Reserve Bank or otherwise. The NFF is of the view that any arrangement or measures must:

- be equitable for all primary producers and not disadvantage those who are viable in the long term despite current conditions
- not increase financing costs accruing to other borrowers should current lenders seek to offset any loan asset write-downs or pass on additional financial regulatory compliance costs
- confirm and reiterate the need for appropriate risk management strategies to be employed by borrowers and the need for personal responsibility to be accepted for past higher-risk borrowing decisions
- deliver equitable access to concessional reconstruction and development funds to all primary producers rather than selectively supporting non-viable business models.
- not in any way have a distorting impact on the market (financial, property or commodity).

The NFF is of the view that ensuring access to finance to support small businesses, including farm businesses, is of vital importance to the agricultural sector and rural communities, ensuring these businesses can continue to grow their contribution to employment and the economy. The measures to do so need to be appropriate and provide transparent and equitable arrangements that can help drive profitability and competitiveness on farm and across the supply chain.

It is clear that there are some concerns relating to the increased rural debt levels in the last decade – rising by over 85 percent since 2002-03. While capital investments ideally hold farmers in good stead into the future, total farm debt levels at above \$60 billion place the agricultural sector at considerable exposure to increasing credit costs and ongoing viability. Tightening monetary policies are also having an increasing impact on Australian farmers and posing challenges for the agricultural sector. The NFF believes there is an ongoing need to investigate options for the farm sector to continue to access affordable capital, improve global competitiveness and innovation. These measures should include improving transparency in the banking sector, a review and audit of tax based investment mechanisms for regional Australia, and building the education and awareness of risk management tools for farmers.

For further information on this submission please contact:

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