



National Australia Bank Limited ABN 12 004 044 937

29/ 255 George Street Sydney NSW 2000  
AUSTRALIA

24 December 2014

Mr Paul Morris  
First Assistant Secretary  
Agricultural Competitiveness Taskforce  
Department of the Prime Minister and Cabinet  
PO Box 6500  
CANBERRA ACT 2600

Dear Mr Morris,

The National Australia Bank (NAB) welcomes the opportunity to provide comment to the Government's Agricultural Competitiveness Green Paper.

We have provided specific commentary on issues where NAB has significant expertise.

NAB has also been involved in the preparation of the Australian Bankers' Association's submission and is broadly supportive of its content.

Our commentary follows on from our submission to the Agricultural Competitiveness Issues Paper in April 2014.

We hope our commentary will be of use in the Government's development of an Agricultural Competitiveness White Paper.

If you require any further information on our response, please contact Justin Owen, Senior Manager Government Affairs & Public Policy, t: 02 9237 9300.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Khan Horne", written over a faint horizontal line.

**KHAN HORNE**  
**General Manager**  
**NAB Agribusiness**

## **NAB – AN OVERVIEW**

NAB is a financial services organisation employing over 42,000 people and operating more than 1,800 stores and business banking services globally. Our major financial services franchises are in Australia with international businesses in New Zealand, Asia, the United Kingdom and the United States of America.

NAB plays an important role in the national economy, particularly through lending to individuals and businesses as they seek to create jobs and generate wealth. Millions of Australians benefit from NAB's profits through the receipt of dividends as shareholders, or through their superannuation fund. In the 2014 financial year, NAB paid out more than \$4 billion in dividends, representing payments to over 500,000 retail shareholders and approximately 12 million Australians whose superannuation funds hold NAB stock.

NAB has a long history of putting the customer at the centre of everything we do. Since 2009, through our Fair Value agenda, NAB has made a number of changes to products aimed at ensuring a fair exchange of value exists with its customers. These include being the first bank to remove dishonour fees on personal transaction accounts and abolishing monthly account-keeping fees on our most popular everyday transaction account. NAB's wealth business was also the first wealth manager to remove volume related bonuses in 2004. In 2006 we were the first Australian wealth manager to move away from commission based remuneration for financial advisers in favour of a fee-for-advice model.

Our Business Banking is integral to our organisation. We are Australia's leading business bank with a team of over 5,000 bankers nationwide. The business includes operations, marketing and financial services professionals who service the full spectrum of the business sector, from small businesses through to Australia's largest ASX-listed corporations. We have about a 30 per cent market share of lending to small and medium businesses (SMEs) and 23 per cent of total business lending.

## **NAB AGRIBUSINESS**

NAB Agribusiness is a platform within our Business Bank that offers specialised financial services to our agribusiness customers.

NAB Agribusiness is Australia's biggest lender to the agricultural sector with Agribusiness Lending market share of over 30%, meaning one in three farmers have a relationship with NAB Agribusiness.

For over 150 years NAB has been helping people run and grow successful agribusinesses. Today, more primary and post-gate producers choose to partner with us than any other financial institution. By listening to and learning from our customers, we've been able to develop a range of agribusiness products and services that can be tailored to individual business needs. Unlike some other entrants to the agricultural sector NAB is an Australian bank that has supported the sector through good times and bad. We take a long term view in managing agribusinesses through seasonal cycles and have taken pride in working with our customers and supporting them through difficult times. Our commitment to rural and regional Australia is genuine and importantly for the long haul.

NAB Agribusiness customers have access to our network of over 600 agribusiness specialists in over 110 locations across Australia. Our bankers use their local and industry knowledge to better understand and service agribusinesses along the supply chain, meaning that NAB's relationships spread from family farmers to global wheat exporters. Our staff assist our agribusiness stakeholders in their choice of products, in developing business and financial plans, in managing risk and accessing specialised products.

## **COMMENTARY ON VARIOUS POLICY PROPOSALS CONTAINED IN THE GREEN PAPER**

### **Policy Idea 6 - Strengthening farm businesses.**

NAB Agribusiness is aware of the stress that agribusinesses face during times of financial hardship. It is well known industry practice to try and resolve the repayment of debt without relying on the legal rights of loan contracts that allow lenders to enforce mortgage agreements. Foreclosure only occurs in rare cases after a lengthy period of consideration and evaluation that includes an extensive farm debt mediation process.

NAB Agribusiness is greatly encouraged by the announcement at the Agricultural Finance Forum meeting on 23 September 2014 that a working group would be established to investigate options for a nationally consistent approach to Farm Debt Mediation. The decision to establish a working group tasked with developing a single national FDM is an excellent first step. NAB Agribusiness looks forward to the announcement of an agreed model as early as possible.

Farm Debt Mediation is a co-operative problem solving process that NAB Agribusiness believes helps parties find constructive solutions to problems. Since its introduction at the State level in Australia NAB has been a strong, consistent and vocal supporter of the process. NAB Agribusiness engages in Farm Debt Mediation in all States and Territories – whether the jurisdiction features FDM via legislation or not. We believe that the mediation by an independent third party greatly assists in the negotiation by parties of their own solution to a dispute. We have publically stated and advocated over many years that the

process would be improved if the varying State and Territory schemes were replaced by a single scheme.

NAB Agribusiness submits that a single national, standardised FDM scheme be adopted that utilises the existing NSW and Victorian schemes which we believe are the superior mechanisms in the interests of all parties. A national FDM process from NAB's perspective gives both the customer and the lender a structured process for mediation and outcomes which are superior for both.

A single national scheme also assists customers that have properties and businesses in multiple State and Territory jurisdictions. It should also define expenses upfront as much as possible and guidelines for the burden of these expenses.

**Policy Idea 7 - Improving market competition.**

Co-operatives and share farming arrangements allow agribusinesses to effectively pool resources and use them more efficiently, generate economies of scale and result in more efficient business operations and higher production. The farmers retain control over their individual businesses but operate as a single unit when coming to market. Any tax reviews should take into account the effect of stamp duty and capital gains tax preventing families and businesses from re-structuring to more effective business models.

NAB Agribusiness is absolutely supportive of the Co-op model, for both farm inputs and outputs. We have a long track record of funding this type of business.

The Government could have a greater advisory role through its Agencies to promote best practice and provide advice on new Co-op opportunities.

**Policy Idea 10 - Improving access to finance.**

We are supportive of the Federal Government and the Department of Agriculture assisting farmers who are adversely affected by drought. As part of the Federal Government's Farm Finance Package, the Concessional Loan Scheme requires that applying agribusinesses are commercially viable, demonstrate their commercial need and have an ability to repay the loan, along with the provisions of sufficient security. There is relatively low uptake of the loans on offer and the most likely reason for this is the lending criteria utilised by Governments is quite similar to that used by bank lenders already.

When loans are approved by Government and secured by property, there are substantial transaction costs to the customer and banks (ranging from \$500 to \$10,000) for priority deeds, second mortgages, etc. We continue to support the state bodies that administer the scheme but highlight the inefficiencies and costs in the design.

NAB Agribusiness also submits that to increase interest the Government may wish to review the existing eligibility criteria. It may well be that the current scheme is too restrictive and would benefit from further clarity around issues such as refinancing costs, the loan's overall gearing and the use of the actual loan.

The five year term of the loans and issues surrounding the refinancing process and security requirements may need further review and clarity. I.e. it is not reasonable that a bank guarantees refinance after the five year term. The extra cost of capital required for this type of guarantee is another example of the scheme's inefficiency in achieving its stated objectives.

Simplification of the loans process for qualifying agribusinesses would quite possibly also help generate wider utilisation of the Scheme. Considering the low uptake of the loans and the additional costs to farmers, we recommend that interest rates subsidies as a preferred option to the loan schemes, as they would provide similar relief but at a lower cost and effort to farmers if designed effectively.

NAB Agribusiness believes that agribusinesses facing financial difficulties are deserving of Government support. We however believe that interest rate subsidies are of more lasting value as a debt relief initiative than agribusinesses being put in the existing situation where they will have to renegotiate with a bank or other lender at the conclusion of the five year FFC loan. Interest rate subsidies would provide similar relief but at a lower cost and effort to farmers if designed effectively.

To achieve its objectives most fully the Farm Finance Concessional Loans Scheme relies upon a close relationship between the Government and financiers. NAB Agribusiness believes there needs to be closer consultation between the parties in further iterations of the Scheme in order to ensure these loans meet their stated outcome.

### **Policy Idea 11 – Improving tax system efficiency and equity**

The Farm Management Deposits Scheme (FMD) has been well received by many farmers and enjoys strong support from agri advisers. FMDs have been successful as a risk-management tool to help farmers deal with the uneven income patterns that characterise the sector. FMDs help increase the self-reliance of Australian agribusiness. They have been effective in allowing eligible primary producers to set aside pre-tax income from primary production in years of high income which can be drawn upon in years of low income. FMDs have also been of immense value in addressing the inevitable challenge agribusiness faces as an industry, being the volatility of earnings and cash flow and the impact this has on customers' balance sheets.

The continual growth the FMD scheme has enjoyed in year on year investment highlights its value to Australian agribusiness. Industry FMDs have grown by \$842m over the period June 2008 to June 2013 and by June 2014 amounted to \$4.14 billion. FMDs have been growing 8% to 10% per year, rising to over 11% in the past year. Recently announced enhancements to the scheme including, from 1 July, increasing the non-primary production income threshold from \$65,000 to \$100,000 and allowing the consolidation of existing eligible FMD accounts are supported by NAB Agribusiness. We also support the exemption of FMDs from the unclaimed monies provision.

We recommend that the amounts that can be lodged on FMDs be increased/reviewed, to further support farmers level out the good and the bad years. It would be of value if companies could also lodge FMDs but we understand the need to verify that they are true agriculture businesses.

It is currently restricted to individuals only and therefore excludes a large number of family trusts and companies that also operate agribusinesses. The deposits are limited to \$400,000 at any one time. The severity of drought recently experienced in Australia (for example, the worst recorded drought in Australia began in 1995 and continued until late 2009, with some areas as late as 2012) means that lifting the threshold could help agribusiness be self-sufficient for longer during challenging times. NAB recommends lifting the current threshold from \$400,000 to \$1,000,000. The scheme could also be enhanced, for example, by increasing the non-primary production income threshold above \$100,000 and allowing a wider range of entities (e.g. family trusts) to take part. We recommend increase in the amounts that can be lodged on FMDs and the inclusion of family trusts and companies that are confirmed Agricultural businesses.

NAB also recommends lifting the non-primary production income threshold from the current level of \$100,000 to \$150,000 plus an annual CPI adjustment. Increasing these limits and adding indexation would allow more certainty in planning in what is already a volatile industry.

### **Policy Idea 12 - Farm business improvement.**

We welcome the National Rural Advisory Council's (NRAC) recent review of the Rural Financial Counselling Service. Whilst an invaluable service, a comprehensive review had not been undertaken since 2004 and several changes were recommended. NAB Agribusiness feels quite strongly that a Diploma of Community Services (Financial Counselling) is not a sufficient qualification to be effective as a Rural Financial Counsellor. Many Counsellors provide assistance with financial plans, budgets and farm succession. Business planning support is vital for these farmers that are by definition experiencing financial hardship.

Our experience across Australia is that there exists a vast variation in formal education, skills and backgrounds of the counsellors to the point that whilst many provide an excellent service, there are a number that we submit are currently insufficiently qualified. We feel this could be addressed by mandating a tertiary level of qualifications for all Rural Finance Counsellors. Much like the recent FSI Murray Report identified minimum education standards for financial planners, farmers need protection to ensure they are receiving financially astute and professional advice from the Counsellors. Undergraduate qualifications (or at least working towards as an interim measure) in Commerce, Agribusiness or Agricultural Science should be compulsory for all Rural Financial Counsellors.

Long term and secured funding for this service should be committed to ensure the service attracts high quality, well-qualified and engaged staff. If career options were guaranteed through a funding commitment over a longer term, say 10 years, it would lead more Counsellors to invest in tertiary education.

#### **Policy Idea 16 - Increasing drought preparedness.**

Changing weather patterns suggest that periods of sustained drought are likely to be an increasing feature of Australian Agribusinesses. There are three areas where Government could play an active part of assisting the industry to improve its drought preparedness:

1. Allowing accelerated depreciation allowances for investment in water storage and improved efficiency of water use. ie Over a one year period and/or 150%.
2. Prioritising RD&E investment in water technology
3. Providing underwriting assistance to the emerging Crop “multi-peril” insurance, as happens internationally and to encourage use of this product as an alternative to other forms of drought assistance. Other ways to subsidise include funding the up-front cost of the risk-assessment process and removing stamp duty on the insurance policy (state tax) at least until a market is properly established.

#### **Policy Idea 18 - Improving water infrastructure and markets.**

Water Markets within Australian are very complex due to the various jurisdictions and bodies. It is composed of several separate water markets and differentiated by water systems or administrative boundaries and differing rules for interstate trade of water.

NAB Agribusiness continues to lend against water licenses where appropriate because our specialist bankers take the time to understand and have relevant local knowledge. We would support a simpler water market but it does not impede our ability to understand and lend against water and water infrastructure. The Government can continue to invest in this space through the development of public infrastructure and policies to encourage private infrastructure investment (for e.g. accelerated depreciation allowances)

#### **Policy Idea 19 - Natural resource management issues.**

A 2014 survey of over 5,000 NAB farming customers found that 74 per cent had made changes to their business as a result of natural resource sustainability in the past two to three years.

NAB was the first Australian bank certified carbon neutral in 2010, and one of the first banks in the world to achieve carbon neutral status. We have been in Agribusiness in Australia for 155 years; working with farmers and government to look after our Natural Resources/Natural Value is the right thing to do. For farming in Australia to continue to grow and be around for future generations we need sustainable farming. Water, soil and energy are the key area of focus that we are hearing from our customers, and feel that policy idea 19 addresses these issues.

The challenge of managing rising input costs is an important consideration for all farm businesses. Water efficiency, soil sustainability and energy schemes (solar power, wind power and bio fuel) should attract 150% depreciation to encourage investment in efficient and sustainable farming practices.

**Policy Idea 24 – Strengthening Australia’s overseas market efforts.**

We commend the Government on the recent Free Trade Agreements with Japan, South Korea and particularly, our largest trading partner, China. Certain sectors did not benefit such as sugar, rice, cotton and oilseeds in the CFTA and rice and dairy with Japan. We look forward to additions and enhancement to these agreements in the future, particularly through the review mechanisms.

Australian farmers export around 60 per cent of what they grow and produce so trade is crucial to ensuring the future prosperity of the Australian agricultural industry. The other key ways the Australian Government can promote Australian agricultural exports overseas include reducing non-tariff barriers (e.g. technical and regulatory barriers), promoting Australia’s produce brand as safe and high quality, and improving transport infrastructure.