



**AUSTRALIAN BANKERS'
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Mr Paul Morris
First Assistant Secretary
Agricultural Competitiveness Taskforce
Department of the Prime Minister and Cabinet
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Dear Mr Morris,

Agricultural Competitiveness Green Paper

The Australian Bankers' Association (ABA) appreciates the opportunity to provide comments on the Federal Government's *Agricultural Competitiveness Green Paper* and notes that this feedback will be used to finalise the development of an *Agricultural Competitiveness White Paper*.

With the active participation of 24 member banks in Australia, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services.

The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

The ABA supports the Australian Government's key objective to achieve better returns at the farm gate to ensure a sustainable and competitive Australian agricultural sector. The banking industry has made substantial investment in agriculture (currently \$60.7 billion) and has an important and significant role to play in supporting a competitive and profitable agricultural industry.

The ABA believes that the long-term outlook for the Australian agriculture sector is positive with strong growth prospects. Australian farmers are well placed to benefit from domestic growth and new trade markets enhanced by the recent free trade agreements with South Korea, Japan and China. The gross value of agricultural production has grown by 31% over the past four years. Rural exports have grown and were worth \$40 billion over the year ending September 2014. The value of rural exports is 52% higher than it was four years ago.

Agriculture is a cyclical industry and earnings can be volatile. The banking industry recognises that some farmers will experience financial difficulty through business and seasonal cycles. Banks have a long history of working with farmers who may be experiencing difficulties to produce the best possible outcome for all parties. During times of financial hardship banks can put in place special arrangements to address the financial needs of farmers. These are assessed on a case-by-case basis and as they relate to individual bank practices and the needs of their customers.

The ABA notes that development of the *Agricultural Competitiveness White Paper* overlaps with other Government review processes, in particular, the Federal Government's Tax White Paper and Harper Review of competition policy.

The ABA's submission to the Government's *Agricultural Competitiveness Issues Paper* April 2014 outlined our views on enhancing the competitiveness and productivity of the agricultural and farming sector in Australia.

The following submission provides additional comments on specific policy ideas included in the Green Paper where the ABA has expertise.

Key messages from the ABA in response to the Green Paper are:

1. The long-term outlook for the Australian agriculture sector is positive;
2. Banks are heavily invested in agriculture and will continue to support the farming sector in Australia;
3. The ABA supports policy options that encourage opportunities for more innovative investing, lending and financing arrangements in the farming sector; and
4. The ABA supports initiatives to improve financial literacy and best practice in farm business management.

The ABA looks forward to further engagement with the Federal Government to support a strong agriculture and farming sector and the propensity of agriculture in Australia.

For further information or to discuss aspects of this submission, please contact Amanda Pullinger, Policy Consultant on (02) 8298 0411; Apullinger@bankers.asn.au.

Yours sincerely,



Diane Tate
Executive Director – Retail Policy

Commentary on specific policy proposals contained in the Green Paper

Policy idea 6 – Strengthening farm businesses

(a) Implementing a nationally consistent and mandatory approach to farm debt mediation

Banks recognise the hardship faced by farmers and have a long history of working with farmers through business and seasonal cycles. The ABA and our member banks are working with the Federal Government and agricultural stakeholders on national approaches to assist farmers in extreme financial hardship, including farm debt mediation and rural financial counselling. Farm debt mediation can deliver positive outcomes for all parties, however, currently the process varies across jurisdictions.

Therefore, the ABA supports the implementation of a clearly articulated, nationally consistent and mandatory approach to farm debt mediation, modelled on the existing NSW and Victorian schemes. A national approach is the most effective way to address inconsistencies between States and address issues where farm businesses operate in multiple states.

Policy idea 7 – Improving market competition

The ABA supports sensible policy options that encourage opportunities for more innovative investing, lending and financing arrangements in the agriculture and farming sector. The ABA also supports changes to Federal and State regulations that allow for appropriate new business models or collective arrangements.

Policy idea 10 – Improving access to finance

a) Making the existing, temporary concessional loans scheme permanent: The ABA is supportive of the Farm Finance Concessional Loans Scheme, however, believes that the policy should focus on industries within the agricultural sector that have high growth potential and are experiencing temporary financial difficulty. The ABA notes that the scheme offers loans not dissimilar to existing mainstream loans with lending decisions based on eligibility criteria¹ (i.e. evidence of the ability to meet repayments and future viability of the farm), and therefore, unlikely to be different to commercial lending decisions. Additionally, the current loan scheme may cause financing complexities when loans are due to roll out of the scheme.

The ABA supports Government intervention in the rural sector where it is aimed at addressing specific orderly adjustment issues within the sector. Farmers in extreme debt stress due to prolonged drought should be able to access temporary government grant programs and support via specific debt relief initiatives, such as drought concessional loans and debt relief packages. This approach is consistent with other Government support initiatives which target temporary or permanent financial disadvantage, disruption or marginalisation within the community. For example, the recently announced drought recovery loan for farm businesses in drought affected areas of Queensland and New South Wales. These loans can be used to fund debt servicing, planting and restocking activities to help farm businesses impacted by drought to return to normal operations.

To avoid unintended negative consequences of Government intervention, the need for the intervention and the desired outcome of the intervention needs to be clearly defined. As stated in our previous submission, Government policies to reconstruct the agricultural sector by building financial viability and resilience should not replicate the role of the mainstream banking industry. A move to make the concessional loans scheme permanent could be viewed as a further intervention in the market and would not be supported by the ABA.

Similarly, the ABA does not support a rural reconstruction bank. The proposed reconstruction bank would force financiers to sell off their loans at a discount and allow Government to take over lending. This could have adverse implications on farmers in terms of property valuations, and the Government in terms of the credit risk associated with low performing loans or unviable businesses. Such an intervention could also result in the banking industry having to re-assess the risks of lending to the agricultural sector, which could result in changes to lending and credit policies impacting across the sector.

¹ The eligibility criteria requires that agribusinesses: (1) Can demonstrate their need, their ability to repay a loan and can provide sufficient security; and (2) Are experiencing debt servicing difficulty but are considered commercially viable in the longer term.

b) Incentives for institutional investment in agriculture: The ABA supports initiatives to incentivise institutional investment in the agricultural sector, including new managed investment and superannuation products or government agricultural bonds with tax concessions for investors. These investment instruments would need to provide the right tax incentives, protections and guarantees to encourage institutional investment. Alternative financing models will likely require a combination of different business structures, government funding and support, and investment incentives for private investors. The banking industry would be interested to review further details of these options.

The ABA recommends the Government work with the banking industry to explore a diversity of funding opportunities that foster investment, growth and sustainability of agribusinesses in Australia.

Policy idea 11 – Improving tax system efficiency and equity

The ABA supports improvements and simplification of the taxation system and notes that this will be considered within the Tax White Paper. Some of the options canvassed in this Green Paper include changes to the Farm Management Deposit (FMD) scheme and tax loss trading which if perused as policy options would require amendments to taxation legislation.

Farm Management Deposit scheme: The ABA supports the FMD scheme as a means to help manage the volatility of farm incomes. FMD grew 11.2% over the past year (\$4.14 billion at June 2014). Overall balances grew by 40% over the five years 2009-2014 noting that deposits have fallen in some areas and for some activities, for example, Qld beef dropped by 5.7% in the value over 2013-14.

The ABA supports some changes to increase the benefit of the scheme for farmers, including further increases to the upper limit of FMDs and extending the range of operators eligible to use these accounts, such as trusts (noting there would need to be verification of the trust being a true agribusiness).

Tax losses trading: The ABA is sympathetic to the difficulties faced by many farmers, however, a current tax loss cannot be turned into an asset under the Australian taxation system. It is not clear how the proposed tax loss trading scheme might work in practice. If amendments were made to taxation legislation, participation would be a commercial decision for individual banks or other lenders.

Policy idea 12 – Farm business improvement

The ABA supports proposals to improve financial literacy and best practice in farm business management. The banking industry has, and continues, to invest in financial literacy programs and activities to improve financial literacy for all Australians. Banks have specific resources to assist agribusiness customers, including dedicated areas of their bank websites. Agribusiness specialist bankers are also essential in helping their customers build their knowledge about their financial and business circumstances, including legal, accounting, financial, environmental and social considerations.

The ABA recommends the Government expand the provision of financial literacy programs within the agriculture and farming sector. The ABA and banking industry will work with the Federal Government, the National Farmers Federation and other rural stakeholders to improve financial literacy information for farmers.

Business advice programs: The banking industry would welcome an expansion of Government programs that provide independent business advice and assistance to farmers. This may include improving skills in financial management and planning, asset management and business performance and preparation for drought and other risks. Improvements in farm business management techniques and planning are the most effective way to prepare for drought and other potential risks.

Rural financial counselling: The ABA and the banking industry believe rural financial counselling plays an important role in assisting farmers experiencing financial difficulties. Rural financial counsellors can help their clients identify financial and business options, negotiate with their bank or other lender, develop a plan, provide information about government assistance schemes, and refer their clients to other services, including legal, accounting, and other assistance, such as personal and social counseling. The ABA recommends ongoing government funding and support for rural financial counselling to assist farmers experiencing financial difficulties.

The ABA notes that the recent National Rural Advisory Council (NRAC) review of the Rural Financial Counselling Service (RFCS) recommended ongoing Government support for rural financial counselling services, but also recommended improvements in the training and qualifications for rural financial counsellors.

The ABA recommends the Federal Government support improved professional standards for rural financial counsellors, including access to suitable training and qualifications and adherence to a code of ethical practice similar to Financial Counselling Australia's Code of Ethical Practice applicable to their member organisations.

Policy idea 13 – Improving the transparency of foreign investment

Historically Australia's agricultural sector has benefited greatly from foreign investment and will require significant investment to generate growth in the future. The Green Paper notes that the Federal Government is balancing the scrutiny and monitoring of foreign ownership levels whilst also encouraging foreign investment. The ABA supports the Federal Government's register of foreign ownership of agriculture land and water rights as a way to build public confidence noting that foreign investment is vital to Australia's long-term economic growth.

Policy idea 24 – Strengthening Australia's overseas market efforts

According to a recent report by McKinsey Australia, Australia ranks 134th for access to foreign markets, reflecting the high tariffs faced by Australian exporters². The ABA believes the Federal Government should continue to pursue investment and trade opportunities via multilateral and bilateral trade agreements concentrating on countries where our largest trade opportunities exist and negotiating 'most favoured nation' status for Australia's food and agriculture suppliers in key markets.

² McKinsey Australia 2014 p45

References

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