Agricultural Competitiveness White Paper – Submission IP30 Jim McDonald Submitted 22 December 2013 via website's contact form

In September 2012 I attended the "Ag Youth Think Tank" in Canberra.

One of the key ideas I floated was the creation of a dedicated not-for-profit agribusiness bank that would be communally owned by the farmers of Australia.

Agribank.

The bank would be seed funded by a loan from the federal government and expected to pay this money back with some interest. A net gain for the taxpayer.

The bank would require several regulatory exceptions to be made such as the allowing of proprietary trading and the ability to set it's own interest rates outside the cash rate of the Reserve Bank.

Agribank would look to seek cheap funding from around the world and make that cheap funding available to Australian farmers. The trading floor would then be used to hedge against the currency risks usually associated with such activities.

The trading floors would also be used to assist farmers who grow commodity crops like wheat and cotton to pick the best times to sell or plant their crops and assist them with making decisions in a global market that is dominated by traders. The trading floors would also employ proprietary trading to boost the returns of Farm Management Deposits (FMD's), allowing farmers to secure a much higher rate of return (between 12% and 25%) than that offered by the big banks. Being a community owned bank it will be much easier to maintain a strict risk management regimen, keeping farmers safe from financial catastrophe.

Once Agribank has secured cheap overseas funding for an Australian farmer the bank would then seek to move that debt off it's books through securitization. The loans made out to Australian farmers would be bundled together and sold to investors overseas as mortgage or asset backed securities. This type of financial instrument has earned a terrible reputation due to it's misuse before the global financial crisis but when used properly within the confines of a community bank, such instruments can be safely used to create superior returns for Australian farmers.

In short the bank would be able to borrow money from overseas at very low interest (possibly less than 1%), lend it to Australian farmers at 5%. Keep 1% to manage the loan and the costs of hedging etc. The debt would then be sold to overseas investors in the USA, Europe and Japan where term deposit rates are all below 1%, bringing those investors returns of 3%-4%. Farmers would also be able to achieve returns of between 12% and 25% on their Farm Management Deposits.

The bank would also take the responsibility from government of providing low interest loans to farmers in times of drought and making low interest loans to young people looking to get a start in farming.