

Encouraging equity to preserve expertise, relieve financial pressure & facilitate succession in rural Australia

Whilst the recent announcement of the farm finance package is welcome, it will only assist a small percentage of those needing assistance. For many producers, more debt is not desirable & the amount of assistance available is too small for the larger scale enterprises, particularly in the northern beef industry.

In order to be viable, enterprises in the northern beef industry are necessarily large. Many of these enterprises previously had prudent debt levels, but now have unsustainable levels of debt. Even though the live export market has reopened at reasonable prices, many producers still do not have good prospects of long term viability because their debt has ballooned to unmanageable levels.

For Australia as a whole, we need to consider what can be done to keep these people on their land. The reality is that the expertise to efficiently run these large scale remote stations is not common, nor is the desire to live there & the capacity to attract staff to work with them. Apart from this, they also perform a massive unpaid role as “custodians of the land” – one need only consider the bushfires which so commonly occur in National Parks to appreciate the significance of this work.

Rural industry has a history of overcoming problems, often seemingly insurmountable. Despite this, there are many success stories. A common thread in the success stories, is being patient, having a long term view & being prepared to accept a low cash return to allow reinvestment in the enterprise which in turn allows it to grow. From an investment perspective it is a low income high capital growth style investment. The chequered history of “arm’s length” investment in Australian agriculture is in my view due largely to a lack of adoption of this approach coupled with a lack of knowledge.

I believe that adopting the same approach as our successful farming forebears did is a critical component to addressing the problems currently enveloping rural industry in Australia. If equity participation from investors with the above attitude could be attracted to agricultural investment in Australia, it could be a great outcome for both the investor & the existing land owner. (I would suggest that the investment be given an initial ten year term with provision for equity buyback.) The existing owner can remain on his land, gets debt relief which frees up cashflow and allows reinvestment in the enterprise. The investor gets the benefit of the land owner’s knowledge and expertise, plus a sound long term investment in Australian agriculture, which is being coveted by investors across the globe. This same model could be utilized to address the problem of our ageing farmers. Equity could be introduced to allow the farmer to retire whilst also allowing the next generation to remain on their parents land.

We constantly hear about the growing demand for food & the food security issues been faced by many countries. Many countries have already bought rural land in Australia & there are many more foreigners looking to invest in agriculture in Australia. Why not encourage local investors to get involved?

Equity is not a new phenomenon, but is uncommon in rural Australia. There are clearly many benefits if this could be changed. It seems to me that there are a couple of things the government could do to facilitate and encourage this eg:-

- a) Have the Future fund invest in Australian agriculture – assisting our people, securing our future food & investing in a sound, secure long term investment
- b) Legislate/facilitate Australian super funds to invest a certain amount in Australian agriculture – benefits as above
- c) Offer tax incentives & suitable investment vehicles/structures to encourage investors to become involved in equity participation in agriculture in Australia

Done properly, this could not only alleviate the financial duress facing so many producers, but could also revitalise and propel Australian agriculture forward by encouraging reinvestment and development of our agricultural assets.