

16th April, 2014

The Agricultural Competitiveness Taskforce  
Department of the Prime Minister and Cabinet  
PO Box 6500  
CANBERRA, ACT, 2600

Dear Sir

**Re: Development of an Agricultural Competitiveness White Paper to grow agriculture's competitiveness, farm gate profitability and contribute to Australia's prosperity 2014**

Thank you for the opportunity to report to the Government on the critical state of agriculture in Australia.

I have been a Chartered Accountant for 30 years and I am currently a partner in and accounting practice in Warrnambool, Western Victoria that employs 50 people. I specialise in an on farm accounting and rural management service for the dairy farmers in our region. Agriculture is the backbone of our region in South West Victoria and is crucial importance to the Australian economy and the provision of fresh healthy food to our nation.

I hope that I can give you a snapshot into the importance of a sustainable and profitable agriculture industry in Australia. I will concentrate on my region, being South West Victoria's dairy industry. However, in the last 12 months I have maintained regular contact with the Western Australian wheat growers , South Australian dairy farmers , Queensland beef and dairy farmers , New South Wales dairy and fruit growers and Tasmanian dairy farmers . I have concluded that many of the problems I will highlight that many of the rural issues that the South West dairy industry is experiencing are consistent to most agriculture industries across Australia. The common thread was that each of our groups was fed up with no one recognizing that agriculture in each of our regions was in crisis, so each of us took it on ourselves to organise crisis meetings in our own area to try and highlight that something needed to change to save agriculture.

Refer attached for the relevant crisis meeting that took place right around Australia :**Appendix 1** WA, **Appendix 2** Queensland, **Appendix 3a & b** Victoria. I am a member of the Victorian non profit group "Farmer Power" who staged the first farming crisis meeting in Victoria in January 2013.

We must act now!

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**(Australian Reconstruction and Development Board) Bill 2013 (“ARDB”)**

Our journey and the importance of this bill was first canvassed in June 2013 when I was a member of a group of passionate and concerned individuals from all around Australia and covering most areas of agriculture who decided to converge on Canberra and let our politicians know that Aussie agriculture was in crisis and we all needed to start working on solutions. Our group was made up of 20 representatives from Queensland beef and dairy, NSW & Victorian horticulture and dairy, South Australian dairy and grain, Western Australian grain and Tasmanian dairy.

There are farmers in all areas of Australia that are struggling and a common dominator was that many banks were foreclosing farms with little understanding of the prolonged effects of drought and other industry specific agriculture industry factors. The current banking system seemed to be struggling to deal with rural debt that is approaching \$70 billion nationally ,with an estimated \$7 to \$10 billion of this debt represents “contested “ bank loans or loans that had been foreclosed by banks. In South West Victoria, there is estimated to have been 50 farm foreclosures and contested loans in the past 18 months alone representing agricultural farming land approaching \$500 million in our region alone. I am concerned if we do not act now, that many if these farms may not continue to produce our critical dairy products.

There has been market failure, due to the fact that conventional forms of bank finance and the current banking lending criteria do not fit the rural sector. In effect we are now recognizing the very reasons why the Commonwealth Development Bank (CDB) existed up until 1993( **Appendix 4**). We are suggesting for similar reasons as to those that lead to the establishment of the CDB, the current bill should be passed to help save Australian agriculture.

We need to revive a similar support mechanism as the CDB via establishing a new arm of the Reserve Bank, the ARDB, that suits agriculture and rural communities of the 21<sup>st</sup> century. With rural debt now approaching \$70 billion nationally ,we must move now and adopt changes that will save and advance Aussie agriculture. The fact that there is so much foreign investment and interest in Australian agriculture indicates that the rest of the world can see the value in Australian agriculture and we don’t. The ARDB will recognize this value and provide a very effective mechanism to provide finance and certainty to rural Australia.

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### **Some Facts and the past:**

The Australian dairy industry is in crisis. Dairy farmers are being squeezed out of the industry as they can no longer see that the industry in the current state has long term sustainability and most importantly profitability.

Former Woolworth's chief executive, Roger Corbett estimated that dairy deregulation has made supermarkets \$670 million a year better off, at the expense of the dairy industry. When Coles decided to sell milk for \$1 a litre that cost farmers another estimated \$700 million a year according to Dairy Australia. While consumers pay less and supermarkets prosper, people who make the milk are as much as \$1.5 billion a year worse off. Deteriorating profit is part of a very long term economic trend. In the past 40 years, dairy cattle productivity has increased 3 fold and as farmers have become more efficient, production has increased and prices have come down.

Dairy producers average just 3 to 5 % return on their capital according to ABARE, and there is a limit to how far dairy farmers can be squeezed. Since 1990, about 100,000 Australian farms have disappeared, often they have been consolidated into larger operations, but bigger is not always more profitable and long term sustainable. The number of dairy national farms has fallen by two-thirds over the last three decades from 21,994 in 1979 to 6,398 in 2013 (**Appendix 5**). The age old explanation, that this is not alarming as all it means is that smaller farms are being overtaken by larger scale operators, does not stack up as referring again to Appendix 5, the number of national dairy cows has fallen from 2.2 million in 1999 to 1.6 million in 2013. At this rate of decline the status quo cannot remain as it is if we want to have quality Australian agriculture products continue to be produced in Australia beyond the next decade.

The world-wide agriculture revolution may have been the most extraordinary achievement of the last century, as we managed to feed many more people on the planet with less starvation. There is still a massive challenge ahead meeting the food needs of 9 billion humans by 2050. Most dairy and agricultural products are nutrient-dense protein foodstuffs. China's emphasis on creating a dairy industry, the amount over international takeover interest in our large farms and large agricultural companies and processors ( i.e. including the recent Canadian company, Saputo and Chinese company taking over two of our Victorian milk processors is an indication of how important these foods are for the future ...)

I just hope that we do not realise too late as a country and government, that we want a long term sustainable agricultural industry ...the way it is heading right now, our international competitors may control the majority of our Aussie Ag assets within the next decade.

The question is "Aussie agriculture, do we want it? "If we do, then the time to act is now.

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**What can I report from South West Victoria (Dairy Industry in Crisis):**

There are approximately 1600 dairy farms in the region. South West Victoria is Australia's largest dairy region producing over 2.2 billion litres of milk in 2011/12 and 2.1 billion for the 2012/13 year.

Please refer to **Appendix 6a and 6b** (Dairy Australia Milk Production Statistics) for some alarming milk production statistics. Milk production has been in decline since 1999 when Victorian production was 6.8 billion litres to 6 billion litres in 2013 and similar trend for Australia milk production dropping from 10.8 billion litres to 9.2 billion litres. Another alarming statistic is what has happened to the Queensland dairy industry, dropping from 3,085 farms in 1980 and 1999, 848 million litres of milk to 518 farms and 518 million litres in 2013. Does this trend alarm our agriculture industry ...IT SHOULD !!!

The average farmer in the South West faced a cashflow reduction of approximately \$200,000 during the 2013 season; due to milk price being down 15%, grain prices rose approx 15% and drought conditions combined to produce a year that was described by most farmers in the region as the worst that they can remember. The flow on effect of this crisis was approximately \$340 million that was not being spent by farmers in the local economy. The flow on effect for Warrnambool and surrounding areas and businesses can only be described as devastating. Approximately 80 local business shut their doors during the 2013 year as a direct impact of the farming crisis (please note that these are estimated Warrnambool City Council figures).

**Appendix 7**, highlights the concerns of local business owners in South West Victoria as they struggle to survive while the local agriculture sector endures another year of negative cashflows and spiraling debt and interest costs.

There are currently approximately 50 local farms that are under either formal or informal bank foreclosure proceedings. ( Under the farm debt mediation scheme these figures and contested loans would be verified and most likely added to if the Senate Committee was able to investigate the results and agreements between banks and their rural clients under this government scheme. I am concerned that the confidentiality agreements associated with this scheme is hiding the true impact of rural debt on farmers and banks )

**Suicide Crisis in South West Victoria:**

The other sad reality of this situation is that suicide levels in our region are at an all time peak. During June and July when the crisis was at a flashpoint our local region experienced 6 rural farming suicides in a period of 4 weeks. I could not believe that we had been highlighting the agriculture crisis for the last 9 months and yet still nothing was being done to think tank any solutions and rural suicide was now a direct link to where the “Aussie Ag “ industry was heading. I called the Victorian head of Beyond Blue and former politician, The Hon. Jeff Kennett. Jeff immediately came to Warrnambool and we organized a “farmers night off” that packed our local entertainment centre and gained national news coverage right around Australia ... but still we are looking for solutions to make Aussie Ag sustainable , profitable and a lifestyle that is not dealing with the constant strain and threat of suicide (**Appendix 8a,b& c**). I can only hope that our federal government could act just as quickly as Mr Kennett!

I have also spoken to Professor Alan Fels who is now the Chairman of the National Mental Health Commission who is happy to provide further information to support the devastating effects of stress that is being experienced in many rural communities. We must act to try and reduce the rates of rural suicide and the levels of stress being experienced in our rural farming communities.

I can only hope that our federal government could act just as quickly!

**Why do we need the (Australian Reconstruction and Development Board) Bill 2013 (“ARDB”):**

The central common concern of those in rural Australia is surviving a growing liquidity crisis. Finance has been reduced in availability and quality across the sector for a number of reasons involving:

- **asset issues** including uncertain and falling farmland prices as the global farmland rush subsides,
- **income issues** including depressed farm returns as a result of cascading market failures,
- **practical issues** including the realities of agricultural production and trade,
- **policy issues** including “beggar thy neighbor” strategies internationally and the uncritical acceptance of inadequate models nationally,
- **analytic issues** including failures to consider profits and returns on investment in lending and industry analysis, and
- **conceptual issues** including “not fit for purpose” ideas and practices.

Common thinking that trivialised profits and returns on investment has already done much damage across the country. Now the damage is being compounded. Unilateral attempts to switch from speculative “matched assets and liabilities” lending back to more prudent arrangements without allowing adequate transitions left many enterprises unfairly exposed, and with no real recourse.

Issues came to a head in 2013 when financiers wrote down book values of assets, precipitously driving reported average farmer equity to below 50% nationwide. Some attempted forced sales when few buyers were evident. The situation was exacerbated when governments removed interest rate subsidies and squabbled over “Farm Finance” while forecasters predicted flat sales returns for the sector.

“Fire sales” signal an emerging “subprime crisis” with extensive and needless destruction of wealth and national capacity across rural Australia in 2014 and beyond. Transition between one financial regime and another is underway. It is decidedly not “business as usual” but a time of peril and opportunity.

Developments over decades have resulted in unserviceable and inflated debts. These need to be prudently addressed. Farmers, financiers and “friends” in government and industry have all contributed to the problem. All have responsibilities and a role to play in its resolution.

Stabilisation, reconstruction and development are the three key stages in moving to revitalised and soundly based enterprises in Agriculture and associated industries. They are mirrored in the three key tasks of the ARDB:

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- **facilitation**, so that instabilities may be addressed and poor practices may be avoided in the first place.
- **reconstruction**, so that untenable arrangements may be finalised efficiently, effectively and equitably, and
- **development**, so that more prudent and realistic financial arrangements may be part of viable enterprises and industries that contribute to the prosperity and well being of Australians.

Taken together, these provide an effective capacity to address systemically important financial issues prudently and insightfully.

An effective, responsible and independent third party is needed, as has been the case in Australia's past. With passage of this Third Board legislation, the Reserve Bank of Australia will be ideally constituted, empowered and positioned to act prudently and with good effect

( extract from paper by “ Mark McGovern , Senior Lecturer, Queensland University of Technology, Business School)

### **Banking Conduct during spiraling Rural Debt:**

I refer to recent articles that highlight the crisis point of rural debt in the banking sector. **Appendix 9** :“WA Farm debt Bankwest “ ..this document is titled WA farm debt trends . Are we at a tipping point ? “ This article highlights that farm debt within Bank West has increased by approximately 9.1% per year since deregulation of the banking system in 1993. There are some important graphs that clearly show the increase in debt and erosion of equity since 1998.

**Appendix 10** , refers to a survey conducted in WA which indicated that 70% of those farmers surveyed were concerned about their debt levels, and over 40% did not expect to make a profit in 2013.

**Appendix 11**, indicates the increasing levels of debt and erosion of equity in Western Victoria . Local councils have indicated that the negative farming cashflows on average at \$150k to \$200k for the 2013 year have put huge pressure on the Warrnambool and surrounding regions local business economy with 80 local businesses's shutting their door during the 2013 year.

**Appendix 12** “ Suncorp offloads \$1.6 billion in bad debt loans”. This article shows that the current banking system is struggling to deal with the levels of rural debt that they are carrying and highlights that the rural debt risk management does not always fall under the standard bank business analysis tools. Suncorp obtained 60 cents in the dollar to offload their rural portfolio and this fact is critical in that they were searching for a solution to either reconstruct or get rid of their rural portfolio. They chose to get rid of their portfolio , however if the ARDB had been up and running this may have offered an alternative solution for Suncorp in dealing with their rural bad debts.

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**Appendix 13** “Bank debt denial “ This article indicates that two of our leading banks are suggesting that there is “ too much hype ..” regarding rural debt and the associated crisis. I would remind you that one of these banks making these public statements is Suncorp ..even though as indicated in Appendix 12 in June 13 they were willing to offload \$1.6 billion in rural debt at a discount of 40 cents in the dollar. The public front does not always seem to match the internal dilemma that the banks are dealing with regarding Rural debt

**Appendix 13** also indicates that the NAB are suggesting that they are not dealing with a rural debt crisis. I can verify that in South West Victoria the NAB have changed their senior rural management team and have indicated directly to myself that they are dealing with a rural debt crisis in South West Victoria and they changed their rural management team to “..clean up the mess in rural lending in South West Victoria “

During June 2013 , I was part of a group of concerned members of the Aussie agriculture industry that represented most areas of agriculture from all around Australia and we met with the National Farmers Federation CEO , Matt Linnegar and president Duncan Fraser in Canberra. During that meeting, Matt indicated that he had met with the Australian Banking Association in December 2012, who said to them that ..” rural debt was now exceeding bank equity ..” I thought this was one of the most alarming statistics that I have ever heard regarding rural debt, coming straight from the ABA.

**Appendix 14**, presents some insolvency stats and indicates that there at at least 80 significant farming operations around Australia which are in receivership. Please note that these statistics do not include farming operations that are under indirect bank management or are in a situation where their bank has indicated that they will not extend any more funds to support many of these operations that are in critical need to plant crops, feed livestock etc if their business is to survive

It is now time to act to provide real working solutions that will assist banks in dealing with rural debt credit criteria and at the same time reposition Australian agriculture through the help of the ARDB to enable Australian farmers to continue to produce quality healthy products with banking support.



### **Farm Debt Mediation:**

The Farm Debt Mediation Scheme makes it compulsory for banks and other creditors to offer mediation to farmers before commencing debt recovery proceedings on farm mortgages.

This scheme operates in Vic, NSW and SA and I would like to highlight some concerns about how this scheme seems to be silencing farmers from telling their stories and providing submissions to the Senate Committee for ARDB bill.

I have been involved in a number of debt mediations and while I think the concept is beneficial, I think that the practical application of this scheme is seriously flawed:

- many of the Rural Financial Councilors do not seem to have the expert skills required to deal with the issues that they are expected to provide solutions
- many of these cases involve banks that have treated their rural clients in a manner that they have not received the financial assistance that they required to assist their business at critical times
- all proceeding and subsequent agreements are also subject to confidentiality clauses that prevent the farmer's telling their story and in many cases very poor treatment from banks due to the confidentiality clauses that they are "forced" to sign for the mediation process to stand

I recently placed an advertisement in a local South West Victorian newspaper asking farmers who have found themselves in a position that their banks have withdraw support for their business to contact us and include their personal story in a submission to the Senate. I was horrified to find out that all of the farmers that responded to the advertisement had signed confidentiality clauses under farm mediation and felt that any participation in the Senate submission process would render their Farm Debt Mediation agreement void (note that most of these farmers were on interest rates between 12-16% when the prevailing market rate is 5 to 6%)

I would ask the Senate Committee to assist me in trying to allow these farmers the opportunity to tell their experiences and support the bill . Is it possible for the Senate Committee to subpoena a Rural Financial Councilor representative from each state so that the true story on how many farmers have been forced to silence under the Farm Debt Mediation Scheme? (I have a number of farmers in South West Victoria that would be happy to tell their individual story of hardship on how the current banking system did not understand the nature of their business due to the fact that they did not meet "normal business" lending criteria – if they could be guaranteed confidentiality)

I would also ask if it was possible for the Senate Committee to do a road show into indentified rural debt problem areas and if confidentiality was guaranteed to

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farmers ... then I am sure this would uncover a real need for the ARDB to provide real solutions to “keep farmers farming”

**Conclusion:**

**The Role of the Australian Reconstruction and Development Board (ARDB)**

The summary of the ARDB role is best described by economist , Ben Rees(B Econ,M Litt(econ) :

“...The principal in simple. A public entity is structured to purchase low quality financial assets from the private financial system at a current market valuation. The current market valuation effectively provides what is commonly called in the banking system a “haircut” to the nominal value of the mortgages issued in more robust times. The “haircut” provides debt relief to the mortgagor and enhances credit worthiness. ....

.....Once ownership of the mortgage is transferred from the financial institution to the public entity; the once low quality asset/mortgage takes on the characteristic of a public security. As such, it can form the basis of an asset pool from which derivative securities can be sold into the capital market thereby generating a self funding program. It is in the process of ownership transfer from the retail financier to the public entity where the asset enhancement occurs as the low quality asset, transforms to a higher quality public sector asset. Interest rates on the mortgage should then reflect the interest rates of government paper as opposed to commercial penalty rates of the private sector ...”

**Why the Australian Reconstruction and Development Board (ARDB) is vital for Australian agriculture?**

In concluding, I would like to highlight that I have been born and bred in the great South West Dairy community and my mother’s family represent 5 generations of local dairy farmers, three of Mum’s brothers still operate and own dairy farms in this region.

I now live in Warrnambool and I appreciate that my business and most other local business’s success ,directly depends on the profitability of our local farmers in any given year. It is now time for us all to come together and recognise that agriculture in this great country cannot continue to operate long term in the current climate. We must act now to assist our farmers and recognise that we must change so that we can look forward to a prosperous and profitable agriculture industry for many generations to come.

I would recommend that a select group of experts be given the opportunity to present personally to the Governments White Paper and cover the benefits and any queries that the committee may have regarding the advantages of the ARDB for each of our regions. I would also recommend that representatives of the “ Rural Financial Councilors “ from select regions be subpoenaed to appear before the Senate Committee. I would also suggest that a senate committee road show to

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selected regions where debt and banking issues are identified as problematic and farmers are given the opportunity to tell their story under confidentiality laws to the Senate Committee without fearing that they will be breaching the confidentiality agreement that they have been forced to sign under the farm debt mediation process. I would be happy to assist to arrange as many farmers as possible to participate and if a road show was not possible. I am now asking the Senate Committee for their assistance in providing a mechanism for many of these farmers to tell their story and banking experience – as at the moment they have not felt that it was possible to participate under the current submission process. I guarantee that their stories will make up a very important process when the Senate Committee are considering the urgency of the ARDB bill requirement for Australian agriculture.

The ARDB proposes that the board sits under the Reserve bank of Australia and be tasked with implementing rural reconstruction and development policy. It provided a framework that I think will at least give certainty to the rural sector. We cannot expect to keep doing what we are doing if we expect to keep farmers on the land. If we value our farmers, the ARDB sets up a framework of rural success for the future.

### **Stimulate Agricultural Investment :**

- **Repeal Non Commercial Loss(NCL) Legislation**

The NCL legislation introduced by the Gillard Government prevents some rich Australians investing in Agriculture. The legislation discourages agricultural investment by disallowing investors earning > \$250k outside agriculture from claiming its agricultural losses against their non agricultural income. The Legislation was initially introduced to prevent hobby farmers from evading tax but because it was poorly thought-out and developed it has prevented hundreds of legitimate farmers into continued farm losses and the need to continually inject outside funds into their farming businesses with no prospect of being able to sell their operations in the current market. Several of these large businesses have been forced into liquidation in the past twelve months in South West Victoria. **This legislation now stands in the way of rich Australians investing in the huge numbers of currently financially stressed farm businesses which would help stabilize the current decrease in land values caused by the banks' forced 'fire-sale' farm sales.** Other rich investors are discouraged from investing in farming preferring to negatively gear residential or commercial property.

- **Assistance for young farmers to invest in agriculture**

As mentioned above the ARDB could have a significant role in this allowing very low-interest, long-term loans to new farmers. Alternatively Australian superannuation savings could be used to fund new entrant farmers. Perhaps a return to the system where say 20% of self-managed superannuation funds would be mandated to be used to finance and invest in agriculture

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- **Reinstate Exceptional Circumstances**

Farmers are subject to extremes of weather and are price takers in the market place. No grants when drought, flood or fire destroy a year's production are always effective but a banking system that understands the short-term fluctuations as a consequence and **low interest loans with a long-term view would assist farmers through these difficult times. The proposed ARDB can provide these low interest, long-term recovery loans.** Farmers should be encouraged to ensure they drought, flood & fireproof themselves against such tragedies. Thus incentives for building dams to catch water to irrigate land to grow crops, water stock or fight fires should be subjected to much less prohibition and red tape. Installation of drainage systems to minimize flood damage should also be encouraged. The ARDB could be used to finance these developments by providing low interest loans. The definitions of drought need to be redefined and offer flexibility when unforeseen circumstances may arise from time to time .Consideration should be given to insurance to cover farmers for exceptional circumstance occurrences similar to 'crop insurance' in the USA. Farmers could perhaps part fund this by taking some of the levies they pay towards research & development.

- **Farmer Profitability**

Fair market access, the prevention of overseas dumping of product onto our markets, cessation of predatory behaviour by the supermarket duopoly, less restrictive non-essential red tape and governmental help to get our products into overseas markets will all assist farmer profitability

(a) *Increase Farmer returns*

- Enhancing agricultural exports by continuing to negotiate **true** free trade agreements (FTAs).
- Processor unfair practices – processors or supermarket duopoly making deals with individual farmers to secure supply which unless consistent should be regarded as anticompetitive.
  - Loyalty payments – in dairying milk processors have declared the former milk price step-ups to be loyalty payments despite the fact that they have already received and sold the milk product. This forces the farmers to remain with the company long after they have supplied the milk to the processor. This should be ruled as anticompetitive as it severely financially limits the ability of farmers to change to other processors.
  - Seasonal incentives are being used by milk companies to “force” farmers to change their supply patterns to produce product out of season. This can markedly increase the farmers’ cost of production and hence reduce his profitability.

*(b) Development of port and transport networks*

Transport & Port Facilities need to be improved to facilitate transport and export of agricultural products. Milk companies need to be encouraged work together to streamline the pick-up of milk to reduce costs to farmers and to governments in road maintenance.

Yours Faithfully,

Garry Smith CA, Bbus  
Partner and Agribusiness Specialist  
Coffey Hunt Chartered Accountants

**References :**

- 1) Ben Rees(B Econ,M Litt(econ) “Rural Australia : The path forward”
- 2) Ben Rees(B Econ,M Litt(econ) “ Anatomy of Policy Failure”
- 3) Ben Rees(B Econ,M Litt(econ) “ Reconstruct or rationalise”
- 4) Extract from various papers by “ Mark McGovern , Senior Lecturer, Queensland University of Technology, Business School

**Appendices:**

- Appendix 1 WA Farm Crisis Meeting
- Appendix 2 Farm Crisis Meeting – Tongala
- Appendix 3a Vic Farm Crisis Meetings
- Appendix 3b Dairy industry in crisis
- Appendix 4 Old Commonwealth Development Bank
- Appendix 5 Dairy Australia Farm Numbers 2013
- Appendix 6a Victoria Milk Production December 2013
- Appendix 6b National Milk Production December 2013
- Appendix 7 Dairy Crisis – South West Vic
- Appendix 8a Farmers night off suicide crisis in Vic
- Appendix 8b Beyond blue helps farmers in drought
- Appendix 8c Beyond blue helps farmers in drought
- Appendix 9 WA farm debt – Bank West
- Appendix 10 Debt Survey WA stats
- Appendix 11 West Vic Debt and equity
- Appendix 12 Suncorp offloads \$1.6b of bad debt rural loans
- Appendix 13 Bank debt denial
- Appendix 14 Insolvency ag stats
- Appendix 15 Dairy Industry in Crisis
- Appendix 16 Ag experts from all around Australia want Canberra to act
- Appendix 17 South West Vic Farming Crisis
- Appendix 18 Farmer Break even milk bottle

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