AUSTRALIAN BANKERS' ASSOCIATION INC.

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The Committee Secretariat
Select Committee on Lending to Primary Production Customers
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600
By email primaryproductionlending.sen@aph.gov.au

Dear Sir/Madam

Select Committee on Lending to Primary Production Customers

The Australian Bankers' Association (**ABA**) welcomes the opportunity to provide this submission to the Senate's Select Committee Inquiry into the regulation and practices of financial institutions in relation to primary production industries, including agriculture, fisheries and forestry (**Inquiry**).

With the active participation of 25 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 the community, to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

Opening comments

The banking industry plays a significant role in supporting a competitive and profitable agricultural industry with current lending of almost $65 billion.[1]

Australia's agricultural industry is strong and has a positive long-term outlook. Farmers and primary producers are well placed to benefit from improved domestic growth, prices and export growth, and access to trade markets from the recent free trade agreements.

The industry is acutely aware of the difficult circumstances facing many in the agricultural industry, particularly primary producers in north west and south west Queensland. The ABA notes this has been due to a combination of factors, including:

- One of the worst and prolonged droughts on record.
- Fluctuations in land values over the past decade.
- Lower domestic farm-gate prices, combined with foreign exchange rates that have hurt exports.
- Beef producers having to contend with the consequences of the live cattle export ban in mid-2011.

These factors have contributed to a significant income problem for regional communities in Queensland.

[1] Agriculture in Australia: activity and financing, 19 September 2016, p 18 (see attachment)

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Banks see the income pressures facing primary producers in their dealings with their agribusiness customers; make substantial efforts to work with agribusiness customers through difficult times, and have put in place arrangements to support a number of primary producers. These arrangements are assessed on a case-by-case basis as they relate to individual bank practices and the unique circumstances of their customers.

There is no financial incentive for a bank to deliberately undervalue an asset or lose a customer. The ABA notes that the Joint Parliamentary Inquiry into Impaired Loans in 2015 failed to find any evidence of the deliberate impairment of loans.[2]

Many of the issues being canvassed in this Inquiry have been examined by previous reviews and inquiries and are being addressed through the initiatives of the industry's Banking Reform Program,[3] in particular through the independent review of the Code of Banking Practice.

The ABA and members have also actively engaged with the inquiry by the Small Business and Family Enterprise Ombudsman into the adequacy of the law, and industry practices on impairment of customer loans (Carnell Inquiry).

Banking Reform Program

As part of the banking industry's commitment to protect consumer interests, increase transparency and accountability, and build trust and confidence in banks, the ABA announced a range of new initiatives on 21 April 2016[4].

The Banking Reform Program covers six initiatives to improve remuneration practices, complaints handling and dispute resolution, whistleblower protections and banking standards through the Code of Banking Practice (the Code), as well as remove poor conduct from the industry and support a stronger regulator.

Initiative 2 specifically addresses customer concerns about complaints handling and dispute resolution. This initiative includes:

- Enhancing existing complaints handling processes by establishing a dedicated customer advocate in each bank to give customers and small businesses a stronger voice, and ensure that complaints are appropriately escalated and responded to in a timely way.
- Supporting the broadening and strengthening of external dispute resolution (**EDR**) schemes with a view to increasing eligibility thresholds for customers and small businesses.
- Working with the Australian Securities and Investment Commission (**ASIC**) in expanding its review of customer remediation programs to cover all types of financial advice and financial products.
- Evaluating a last resort compensation scheme and identifying an appropriate model.

These initiatives aim to make it easier for customers to get disputes heard, both within the bank and externally, and give people confidence that when things do go wrong, banks will do the right thing.

Mr Ian McPhee AO PSM is providing independent oversight of the implementation of the reform program. Mr McPhee's latest quarterly progress report, published on 21 April 2017, is available on the Better Banking website.

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[2] Parliamentary Joint Committee on Corporations and Financial Services, Impairment of Customer Loans, Commonwealth of Australia 2016 p ix

[3] http://www.bankers.asn.au/media/media-releases/media-release-2016/banks-act-to-strengthen-community-trust and http://www.bankers.asn.au/media/media-releases/media-release-2016/we-hear-you-banks-announce-more-changes-to-make-banking-better

[4] http://www.bankers.asn.au/media/media-releases/media-release-2016/banks-act-to-strengthen-community-trust

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In addition to the banking industry's initiatives to improve internal dispute resolution, the ABA strongly supports the Government's review of the EDR system and the recommendation by the Joint Parliamentary Inquiry into Impaired Loans in 2015 and the Small Business and Family Enterprise Ombudsman that the Federal Government introduce a mandatory, nationally consistent farm debt mediation (**FDM**) model.

FDM is a specialised mediation process that allows a farmer and their bank to negotiate a better financial outcome. Mediators are trained to understand the unique and complex circumstances affecting farming operations and agribusiness lending.

On 29 January 2017, the industry announced three additional initiatives to make a better banking industry:

- Making switching banks easier
- Increasing support to small businesses and farmers, and
- Establishing a new debt repayment service.

Information about the Banking Reform Program and the various initiatives is available on the Better Banking website.

Response to the Terms of Reference

This submission steps through these issues and the ABA would be willing to provide further updates on these initiatives to the Committee should it be required.

a) The lending, and foreclosure and default practices, including constructive and non-monetary default processes

d) The appropriateness of loan contract terms particular to the primary production industries, including loan-to-value ratios and provision of reasonable written notice

The lending process

Each bank has individualised credit assessment and criteria for assessing loan applications. There are nevertheless some broad observations that can be made.

Banks are required to make responsible lending decisions and consider a number of factors when assessing a loan application or rollover of a credit facility, including:

- '**Capacity'** which looks at a businesses' ability to meet the loan obligations and repayments, including potential earnings and whether this is sufficient to meet repayments.
- '**Collateral'** which considers the applicant's 'security' for the proposed loan. This would include assessment of the property's security through an independent valuation. This can include the debt-to-equity ratio to understand how much money the lender is being asked to provide.
- '**Capital'** or the strength of the customer's financial position, e.g. amount of assets and liabilities.
- '**Character'** which considers the applicant's reputation, including past repayment history and credit history.
- '**Conditions'** of the loan which looks at the lender's 'terms' for providing the loan, including the repayment schedule, pricing, conditions precedent (something that must happen before funding) and duration of the loan.

Loan contract terms

Credit contracts include both monetary and non-monetary covenants (specific events and financial indicators), which if breached may foreshadow financial distress and in some circumstances can give the bank the right to call the loan.

While it has been recommended by the recent Small Business and Family Enterprise Ombudsman inquiry that the only form of default should be monetary or unlawful acts, there are legitimate reasons for specific event non-monetary defaults. For example, voluntary administration, fraud, significant changes in management, loss of trading licence and changes to the underlying security, each of which could impact on the viability of the business and its ability to meet future repayments.

Financial indicator covenants, e.g. financial ratios, provide early indicators of business viability and are used to encourage a business to work with the bank on ways to turn the business around. They are not generally used as a trigger to move directly to impairment and enforcement action.

In the event that a customer experiences problems in servicing their loan, banks generally work with the customer on a plan to rectify the situation. In such circumstances, discussions with the customer and their lender commonly cover:

- Options for improving business profitability or cash flow
- Changes to repayment arrangements
- Sale of security or other assets to pay down debt
- Alterations to the term of loans, and
- Alterations to the value of loans.

Banks support their agribusiness customers for as long as possible, however, commercial realities do dictate that there are times when the decision to take recovery action needs to be made. These are among the most difficult decisions that banks make and are usually undertaken in consultation with senior bank staff after all alternatives have been explored. It should be acknowledged, in some situations, exiting a property earlier and with some equity will be in the best interests of the customer.

Data collected by the ABA from a selection of member banks for the Joint Parliamentary Inquiry into Impaired Loans in 2015 shows that the proportion of customers with loans which are in difficulty is very low. For the year ending March 2015, less than one per cent of businesses and agribusiness customers had impaired loans, and a tenth of one per cent were in recovery action. In only a handful of cases were substantial changes to loan-to-valuation ratios the major factor that created impairment of the loan. The overwhelming majority of defaults were a result of monetary breaches of the loan covenant or a combination of both monetary and non-monetary breaches.

Current industry reforms

Review of the Code of Banking Practice

The Code sets standards for fairness, transparency, behaviour and accountability for banks, beyond legislative requirements, that customers – individuals and small businesses – can expect from their bank.

The Code obligates a bank, with the agreement and cooperation of its small business customer, to try and help its customer overcome difficulties with its credit facility, including working with the customer to develop a repayment plan.[5]

[5] See Code of Banking Practice, clause 28.2 at http://www.bankers.asn.au/Industry-Standards/ABAs-Code-of-Banking-Practice/Code-of-Banking-Practice- 2013---Online-Version

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An independent review of the Code has just been completed and the ABA is in the process of redrafting the Code. This is a significant body of work which will require consultation with many stakeholders, including small business and farming representatives as well as the Small Business and Family Enterprise Ombudsman.

The ABA is aiming to publish a new Code by the end of 2017. At this stage, the industry anticipates a 12 month transition period for implementation of the new Code. Implementation will be revisited once the extent of the changes are completely worked through. The industry is also exploring areas which can be fast-tracked and implemented ahead of the completion of the new Code.

One area that will be improved in the new Code is the relationship between banks and farmers. This means banks will:

- Provide clearer information to farmers about credit products and lending decisions.
- Give farmers more notice when loan contracts change.
- Give farmers more time to arrange alternative finance when a facility is not going to be renewed.
- Outline how banks will assist farmers experiencing financial difficulty.
- Develop better guidelines on valuation practices and how and when they can appoint investigative accountants and receivers, administrators and liquidators (more detail on this provided below).
- Reduce the number of non-monetary covenants in loan contracts and credit products for small business and agribusiness customers[6], including:
  - Remove all general adverse material change clauses.
  - Reduce the number of specific events of non-monetary default entitling enforcement action. These will be limited to:
    - ► Unlawful behaviour
    - ► Insolvency, bankruptcy, administration, or other creditor enforcement
    - ► Misrepresentation, use of the loan for non-approved purpose, dealing with loan security property improperly or without consent.
    - ► Change in beneficial control of company except as permitted
    - ► Loss of licence or permit to conduct business, and
    - ► Failure to provide proper accounts or to maintain insurance (after a reasonable period).
  - Remove financial indicator covenants as triggers for default. The ABA does not believe it was intended that this provision should apply to credit products where such covenants are integral to the operation of the product, but for the sake of completeness it is noted that it will not apply to:
    - ► Loans for property investment and property development, and
    - ► Specialised lending transactions including margin lending, loans to self-managed superannuation funds, bailment, invoice discounting, development finance, foreign currency loans and tailored cash flow lending.

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[6] A business is not a small business if one of the following conditions is met:
- The number of employees is 20 people or more, or 100 people or more if the business is, or includes, the manufacture of goods (full time equivalent); or
- Annual business turnover is $10 million or more; or
- Total credit exposure (**TCE**) of the business group, including related entities, to all credit providers is $3 million or more.

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- Explain remaining covenants in plain language and include a summary of covenants with loan contracts for small businesses.

Industry responses to the Small Business Loan Inquiry

The majority of the recommendations of the Small Business and Family Enterprise Ombudsman were reflected in the recommendations of the Code of Banking Practice Report (above). The banking industry is fast-tracking the response to the implementation of some of these recommendations by the end of 2017, noting that some banks may achieve earlier implementation.

b) The roles of other service providers to, and agents of, financial institutions, including valuers and insolvency practitioners, and the impact of these services

Third parties such as valuers, investigative accountants, receivers and external administrators are contracted to provide an expert and independent opinion to a bank, based on specific subject matter expertise and methodologies.

Property valuers

Property valuers are engaged by banks to value or revalue property assets that are to be used for security against a business loan, where it is necessary to assess and provide an independent opinion of the market value and the suitability of the asset as security of the loan.

The market value for security purposes is intended to provide a source of repayment of the loan amount in the event that the customer is unable to meet their loan commitment or repay the loan.

The property valuation is only one of a number of criteria the bank will use to assess business lending applications or rollovers.

The valuer’s role is to provide an independent valuation based on property values at the date of valuation.

In most cases, valuers will not know the customer’s debt or specific reason for the valuation. The valuer will be informed that the purpose of the valuation is for secured lending purposes.

There are two Australian professional bodies whose members value security for commercial loans using International Valuation Standards – the Royal Institution of Chartered Surveyors and the Australian Property Institute. Both have a code of ethics and require members to have a minimum level of certified experience and tertiary education. A valuer must also have professional indemnity insurance.

Investigative accountants

Investigative accountants are generally appointed when the bank has concerns surrounding issues such as the financial viability of the business, whether the amount of debt is sustainable, or the quality and/or timeliness of information being provided by the customer. They are also often used to assist the bank to make a decision about a customer’s request for additional funding.

Investigative accountants undertake independent reviews of a company’s historical and/or projected financial information, with emphasis on the latter. An investigative accountant report, also known as an Independent Business Review, is a useful way for a bank to gain a more detailed understanding of the performance of a business using specialist input from qualified industry professionals. The report and its recommendations are provided to the bank to assist in making an assessment of the customer’s viability and how the business can be taken forward on a basis which works for both the customer and the bank.

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It is usual practice for an investigative accountant to provide the customer with relevant sections of the report to enable the factual details of the report to be verified and/or corrected by the customer. There can however, be sensitive areas within the report which wouldn't ordinarily be made available to the customer. For example, there can be instances where the investigating accountant might uncover poor management or malpractice or fraud.

Receivers and insolvency practitioners

Receivers are appointed by a bank to take control of the assets under the bank's security after all other options for workout, or a voluntary recovery, have been exhausted. It could also be necessary where early action is needed to protect the bank's position, for example, a voluntary administrator has been appointed or liquidator has been appointed by court order. Receivership is the least preferred option as it tends to incur additional costs and may result in a lower net return.

Receivers are officers of the debtor corporation and have statutory duties owed to the corporation under the *Corporations Act*. Their primary obligations are to the debtor company. These duties include exercising care and diligence, not gaining personally or for another party, or acting to the detriment of the debtor corporation.

In the exercise of a power of sale of the debtor corporation's property, under section 420A of the *Corporations Act* a receiver must take all reasonable care to sell the asset for the best price that is reasonably obtainable, having regard to the circumstances existing when the assets are sold.

In many instances of receivership appointments, both the customer and the bank may incur a loss, so it is in the bank's interest to ensure that the assets are sold on the best possible terms and that the receiver's and other costs are reasonable and proportionate.

Most insolvency practitioners are members of professional bodies including Australian Restructuring and Insolvency Turnaround Association, CPA Australia or Chartered Accountants Australia and New Zealand. These professional bodies have standards of conduct that their members are required to meet, including those relating to conflicts of interest.

Current industry reforms

Industry guidelines

The ABA is currently developing two new industry guidelines:

1) The appointment of receivers, administrators and liquidators for small businesses or farmers and primary producers by banks.
2) Valuation practices, explaining:
   - Purpose of the valuation
   - Expected practices in the appointment of valuers by banks, and
   - Agreements with valuers on minimum conduct standards.

   This guideline will need to consider valuations at the time of the lending decision, a review of the existing facility and during the course of the asset sale.

In developing these industry guidelines, the ABA is considering the recommendations of the independent review of the Code of Banking Practice and the recommendations of the Small Business and Family Enterprise Ombudsman.

The ABA is working with members and will engage with relevant stakeholders, including agribusiness associations to develop the industry guidelines. The guidelines are expected to be published by mid-2017.

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c) The appropriateness of internal complaints handling and dispute management procedures within financial institutions

Complaints handling and dispute resolution

All banks have dedicated complaints handling and internal dispute resolution teams to appropriately handle customer complaints. ASIC's requirements (including RG165) set standards for internal dispute resolution mechanisms.

Complaints handling programs are an important element of the bank's overall relationship with its customers, and manage a wide variety of complaints, including those that have not resulted in monetary loss. Many customers have their complaints successfully resolved through their banks' internal dispute resolution processes.

The Code Compliance Monitoring Committee reports that banks recorded 1,226,093 complaints in 2014-15. Banks resolved 92.9 per cent of all recorded complaints in under five business days. Only 1.1 per cent of complaints took more than 45 days to resolve.[7]

Current industry reforms

Customer advocates

Each bank has appointed a dedicated customer advocate to give their retail, small business and agribusiness customers a stronger voice and ensure that customer complaints are appropriately escalated and responded to in a timely way.

National approach to farm debt mediation

The ABA and banks are advocating for the implementation of a mandatory, nationally consistent FDM model across Australia. The banking industry reiterates its support for FDM as a mechanism to allow a farmer and their bank to negotiate a better financial outcome.

The banking industry has been working with the Australian Government and agricultural organisations on legislative options and with state governments as they look to adopt mandatory models, similar to NSW and Victoria.

Concluding comments

The banking industry has a strong role to play in providing ongoing support and investment to the agricultural industry and is progressing a significant reform program to ensure better products, better service and a better culture in banking.

If you have any questions or would like further information please contact Amanda Pullinger, Policy Director – Retail Policy on or by email

Yours faithfully

Anna Bligh
Chief Executive Officer

[7] [1] http://www.ccmc.org.au/cms/wp-content/uploads/2015/11/CCMC-Annual-Report-2014-15-web-version.pdf p15

AUSTRALIAN BANKERS' ASSOCIATION INC.

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Agriculture in Australia: activity and financing

Economic Report

September 2016

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Disclaimer

The Australian Bankers' Association's (**ABA**) reports are designed to promote public policy discussions by exploring topical issues that affect banks in Australia. They do not necessarily represent final policy views of the ABA or any member bank.

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1. Introduction

This economic report highlights the importance of the agriculture industry to the Australian economy and the community, and the role of banks in providing financial support to this critical sector.

Agriculture remains an iconic part of the Australian landscape. It provides much of our food with a substantial surplus for export. It is the primary economic activity and source of jobs in many rural and regional areas. Australia's banks have a long history of supporting a competitive and profitable agriculture industry in good times and bad.

The key findings of this report are:

- Agricultural activities occupy about half the land area of Australia.
- Agriculture comprises around 2 per cent of national economic activity, with output of $78 billion in 2015. This contribution is in line with other medium to large developed economies.
- The largest agricultural activities are grazing livestock followed by broadacre cropping.
- Agricultural profits have been rising steadily since 2007, and have doubled over the past five years.
- There were 179,549 businesses operating in the broader agriculture, forestry and fishing industry as at June 2015. This was 8.5 per cent of all businesses in Australia.
- Australian farms are predominantly Australian owned. Around 99.4 per cent of businesses in the agriculture, forestry and fishing industry were wholly Australian owned as at 2013-14. This is the highest of any industry sector. Around 86 per cent of agricultural land is Australian owned.
- There are 287,500 people employed in the agriculture industry with 70 per cent of these jobs full-time. Agriculture accounts for 2.4 per cent of all jobs in Australia.
- Productivity outcomes for the agriculture, forestry and fishing industry have generally been well above that for the overall market sector over the past two decades.
- Rural exports, including agriculture, forestry and fishing, account for just under 15 per cent of all goods and services exported from Australia. Australia is a major global exporter of some key rural commodities, being one of the top three exporters for wheat, cattle, sheep and dairy.
- Rural businesses have a relatively high demand for finance, and banks have a long history of providing this financial support. About two-thirds of small businesses in agriculture, forestry and fishing have a credit facility other than a credit card. This is a higher recourse to debt funding than in most other small business sectors.
- Lending by banks to the agriculture, forestry and fishing industry increased by 4 per cent over the year to June 2015 to a record high of $65 billion.
- Around 93 per cent of agriculture, forestry and fishing businesses which seek debt finance are successful in obtaining the required funding. This is a higher success rate than any other business sector, other than health.
- Only 15.5 per cent of businesses in the agriculture, forestry and fishing industry cite a lack of access to funds as a barrier to their business activity and performance. This is lower than the average for industries overall.
- Banks understand that cash flows for farms are much more variable and uncertain than for most other businesses. For this reason banks have a range of measures to support farmers in financial stress and to mediate any disputes.

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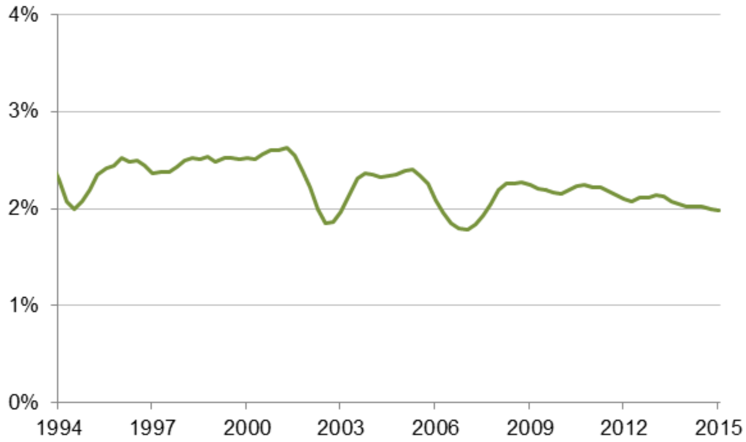
2. Contribution to the economy

2.1 Contribution to GDP

Agriculture contributed $30 billion or 2 per cent of Australia's gross domestic product (**GDP**) in 2015. For the past 20 years the contribution has cycled between 2.5 per cent and just under 2 per cent. These cycles have largely reflected climate events such as droughts and the return of rains.

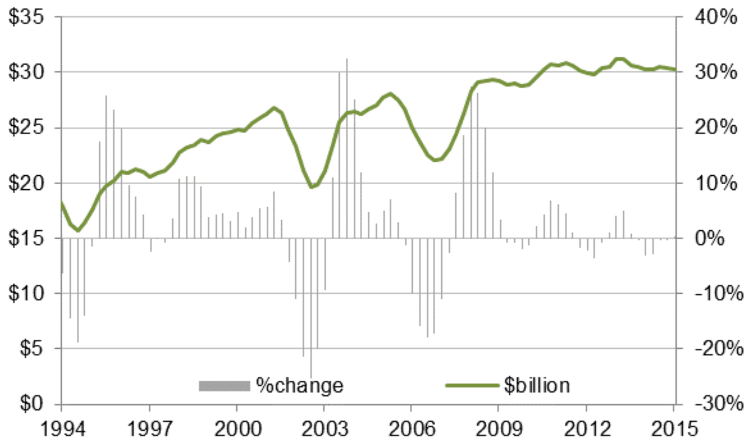
Figure 1: Agriculture as % of GDP



Source: ABS

Since 2009, the economic contribution of agriculture, as measured by gross value added, has been reasonably stable at between $29 billion and $31 billion.

Figure 2: Agriculture gross value added



Source: ABS

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2.2 International comparisons

Agriculture as a share of GDP for Australia is consistent with that of other developed countries, between 1 per cent and 2 per cent.

Figure 3: Agriculture share of GDP (%) (2015)

	%share of GDP
Sweden	1
Germany	1
United States	1
United Kingdom	1
Australia	2
Canada	2
France	2
Norway	2
South Africa	2
Spain	3
World	**4**
Russia	5
Brazil	5
New Zealand	6
Argentina	8
China	9
Turkey	9
Indonesia	14
India	17
Pakistan	25

Source: World Bank

Australia ranks in the top 15 global producers for a number of farming outputs:

- 1st - wool production
- 3rd - meat sheep production
- 6th - wheat production
- 6th - meat cattle production
- 8th - dairy production
- 10th - sugar production

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Figure 4: Production of selected agricultural commodities – top 15 countries

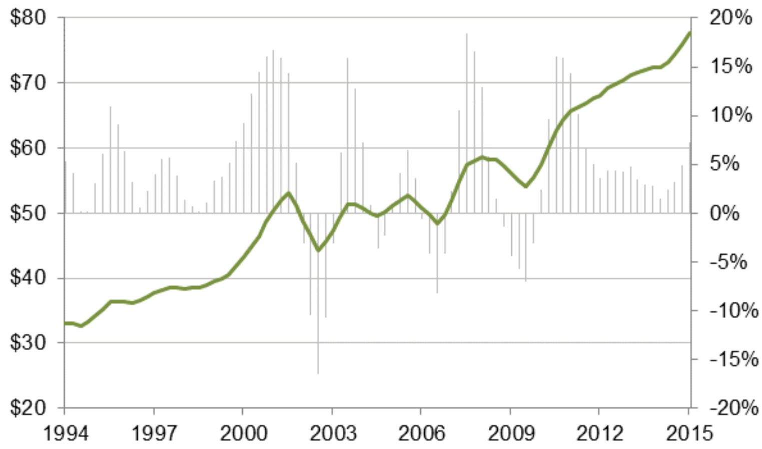
Wheat	Sugar	Wool	Meat cattle	Meat sheep	Dairy
China	Brazil	**Australia**	United States	China	United States
India	India	China	Brazil	India	India
United States	China	Jordan	China	**Australia**	New Zealand
Russia	Thailand	New Zealand	India	Sudan	China
Canada	Pakistan	United Kingdom	Argentina	New Zealand	Brazil
Australia	Mexico	Russian	**Australia**	Nigeria	Argentina
Pakistan	Colombia	Iran	Mexico	Pakistan	Russia
Turkey	Indonesia	Pakistan	Pakistan	Turkey	**Australia**
Ukraine	Philippines	Sudan	Russia	Iran	Egypt
Iran	**Australia**	Morocco	Canada	Algeria	Pakistan
Kazakhstan	United States	Turkmenistan	Colombia	Bangladesh	Canada
Argentina	Argentina	Turkey	Egypt	Russia	Mexico
Egypt	Viet Nam	Argentina	South Africa	South Africa	Iran
Brazil	South Africa	India	Turkey	Ethiopia	Ukraine
Mexico	Egypt	Kazakhstan	New Zealand	Kazakhstan	Turkey

Source: FAOSTAT

2.3 Value of agricultural production

The gross value of Australia's agricultural production in 2015 was $77.7 billion, an increase of 7.3 per cent over the previous year.

Figure 5: Gross value of agricultural production



Source: ABS

The major agricultural activity in 2014-15 was slaughtered livestock, comprising 35 per cent or $18.7 billion of all agricultural output. Cattle and calves accounted for just over one-fifth (21 per cent) of all agricultural production.

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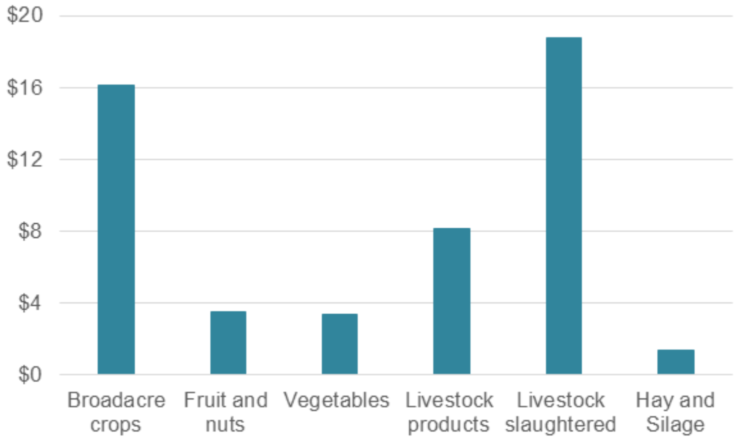
Broadacre crops made up 30 per cent or $16.1 billion of agricultural production. Within this, wheat farming was the largest category of broadacre farming and was second only to cattle and calves in terms of the value of farm commodities produced.

Dairy was the third most important commodity in terms of agricultural production.

Figure 6: Principal agriculture commodities produced ($bn)



Source: ABS

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Figure 7: Value of agricultural commodities produced 2014-15

Commodity produced	Total	%contribution
Broadacre crops	**$16,133,547,013**	**30.1%**
. Wheat	$7,124,099,984	13.3%
. Barley	$2,416,708,799	4.5%
. Canola	$1,782,360,118	3.3%
. Sugar cane	$1,304,648,311	2.4%
. Cotton lint	$958,411,047	1.8%
. Non-cereal crops - Other pulses	$906,159,019	1.7%
. Other	$1,641,159,735	3.1%
Fruit and nuts	**$3,512,059,787**	**6.5%**
. Grapes for Wine production	$1,108,082,145	2.1%
. Apples	$555,899,631	1.0%
. Almonds	$515,127,776	1.0%
. Bananas	$455,027,974	0.8%
. Oranges	$288,460,792	0.5%
. Other	$589,461,470	1.1%
Vegetables	**$3,350,341,526**	**6.2%**
. Potatoes	$617,953,141	1.2%
. Tomatoes	$285,400,104	0.5%
. Mushrooms	$273,594,381	0.5%
. Other	$2,173,393,900	4.1%
Livestock products	**$8,126,844,478**	**15.2%**
. Milk	$4,722,069,696	8.8%
. Wool	$2,675,927,117	5.0%
. Eggs	$728,847,665	1.4%
Livestock slaughtered and other	**$18,739,739,832**	**34.9%**
. Cattle and calves	$11,530,488,665	21.5%
. Sheep and lambs	$3,296,367,639	6.1%
. Poultry	$2,609,575,931	4.9%
. Pigs	$1,149,038,215	2.1%
. Other	$154,269,381	0.3%
Hay and Silage	**$1,402,588,922**	**2.6%**
Nurseries, cut flowers or cultivated turf	**$1,251,567,864**	**2.3%**
Total	**$53,624,771,566**	**100.0%**

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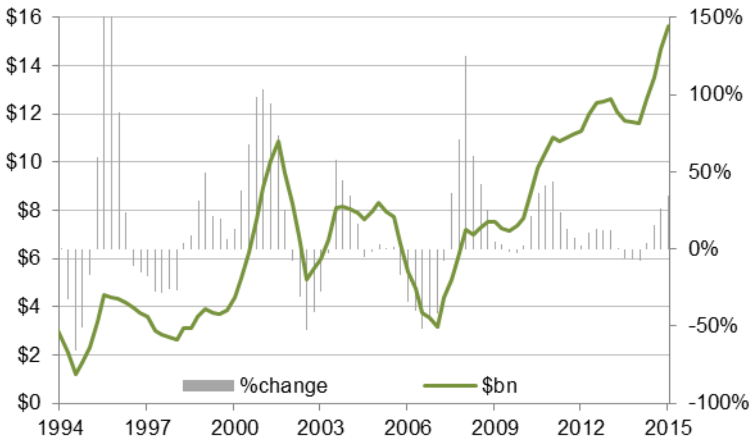
2.4 Income, costs and profit

Profits from the agriculture industry have been rising solidly since 2007.

Gross operating surplus (**GOS**) for the industry was $15.6 billion in 2015, an increase of 34 per cent over the previous year.

GOS has doubled over the past five years.

Figure 8: Agriculture income (GOS)



Source: ABS

Just on 70 per cent of agricultural businesses reported a profit over the three years ending June 2014. That was slightly lower than for all industries (77.6 per cent).

However, the average profitability was solid, with an average profit margin of 16.0 per cent, considerably higher than the 11.9 per cent result across all industries.

Figure 9: Profit indicators (average 3 years to June 2014)

	Profit margin	Made a profit	Broke even	Made a loss
Agriculture, forestry and fishing	16.0%	69.8%	0.9%	29.3%
Mining	29.4%	38.4%	1.6%	58.8%
Manufacturing	4.9%	77.4%	1.4%	21.2%
Construction	8.6%	80.6%	1.5%	17.8%
Transport, postal and warehousing	10.3%	85.2%	1.2%	13.6%
Information media and telecommunications	10.6%	74.7%	1.9%	23.4%
Rental, hiring and real estate services	39.8%	81.6%	1.6%	16.8%
Professional, scientific and technical services	24.7%	80.5%	1.8%	17.8%
Arts and recreation	14.7%	75.8%	2.8%	21.4%
Total selected industries	**11.9%**	**77.6%**	**1.6%**	**20.7%**

Source: ABS

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Not all farm income is derived from activities on the farm. About three-quarters of income was derived from on-farm production in 2014-15 while 19 per cent came from off-farm income and other activities.

Figure 10: Source of farm income 2014-15 (%)

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Total
Agricultural production	70.4	77.1	71.5	77.3	81.5	72.0	74.7	63.2	74.0
Grants, govt transfers, relief	0.5	0.2	0.5	0.3	0.3	0.5	np	np	0.4
Off-farm employment/activities	21.9	16.3	21.4	16.0	13.1	20.6	17.4	26.3	18.9
Other funding sources	6.1	5.1	5.4	4.8	4.4	4.8	5.0	7.3	5.4
Not stated	1.1	1.4	1.2	1.5	0.7	2.1	np	np	1.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: ABS

There are many costs incurred in farming. In 2014-15 the biggest costs were depreciation, seeds and fodder, and repairs and maintenance. The cost of fertiliser, chemicals and fuel were less significant.

Figure 11: Major components of farm costs ($m)

	1999–00	2002–03	2005–06	2008–09	2011–12	2014–15
Fuel	$1,450	$1,520	$2,223	$2,235	$2,407	$2,005
Fertiliser	$1,840	$1,820	$1,843	$3,367	$2,344	$2,163
Chemicals	$1,604	$1,550	$1,749	$1,781	$1,471	$1,495
Seed and fodder	$2,847	$4,874	$3,827	$5,259	$4,133	$4,957
Marketing	$3,144	$2,433	$3,675	$3,730	$4,007	$4,100
Repairs and maintenance	$2,150	$2,392	$2,602	$3,070	$3,876	$4,846
Other	$3,017	$3,329	$3,692	$3,820	$4,411	$4,705
Total	$16,052	$17,918	$19,611	$23,262	$22,648	$24,271
Other costs						
Wages	$3,250	$3,226	$3,778	$3,828	$4,170	$4,296
Interest paid	$2,023	$2,295	$3,249	$4,331	$4,836	$3,883
Other overheads	$372	$412	$446	$477	$525	$561
Total	$5,645	$5,933	$7,473	$8,636	$9,531	$8,740
Total cash costs	$21,697	$23,851	$27,084	$31,898	$32,179	$33,011
Depreciation	$3,526	$3,915	$4,255	$4,674	$5,070	$5,455
Total farm costs	**$25,223**	**$27,766**	**$31,339**	**$36,573**	**$37,249**	**$38,465**

Source: ABARE

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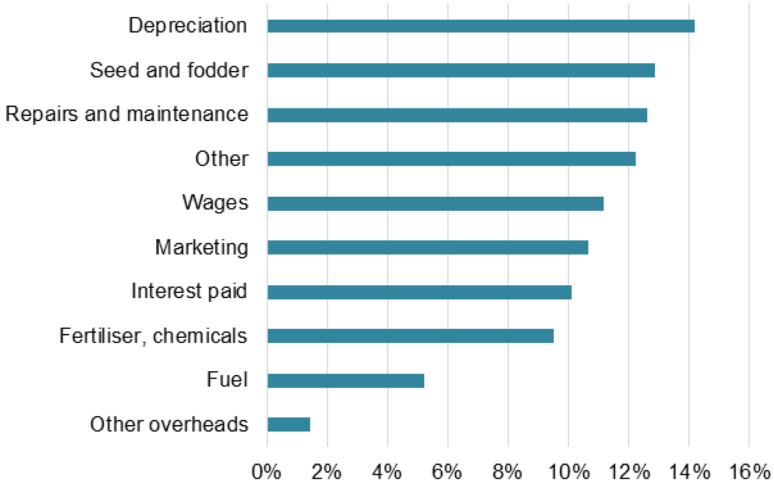
Figure 12: Major components of farm costs (2014-15)



Source: ABARE

2.5 Land use and land values

Farming activities occupy about half the land area of Australia.

Land use for farming varies from around three-quarters of the land in Queensland (79 per cent) and NSW (72 per cent), to about half the land in Victoria (53 per cent) and SA (47 per cent), with a third in WA (32 per cent).

Looking across the states and territories, Queensland accounts for 35 per cent of all farming land in Australia, followed by WA at 21 per cent, and NSW at 15 per cent.

Figure 13: Land use 2014-15

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
Area of farms ('000 Ha)	57,399	12,009	135,918	45,837	81,399	1,569	50,392	35	384,558
. Area of farms (%)	72%	53%	79%	47%	32%	23%	37%	15%	50%
. Area of crops ('000 Ha)	6,488	4,504	2,407	3,986	8,657	130	19	0	26,192
Area non-agric land ('000 Ha)	22,665	10,733	37,147	52,511	171,589	5,271	84,521	201	384,644
Total land area ('000 Ha)	**80,064**	**22,742**	**173,065**	**98,348**	**252,988**	**6,840**	**134,913**	**236**	**769,202**

Source: ABS

The value of farming land increased solidly throughout the first decade of the 21st century (2001 to 2010).

More recently the value of grazing land has declined in Queensland and has been relatively flat in other states and territories, while the performance of other farming land has been mixed.

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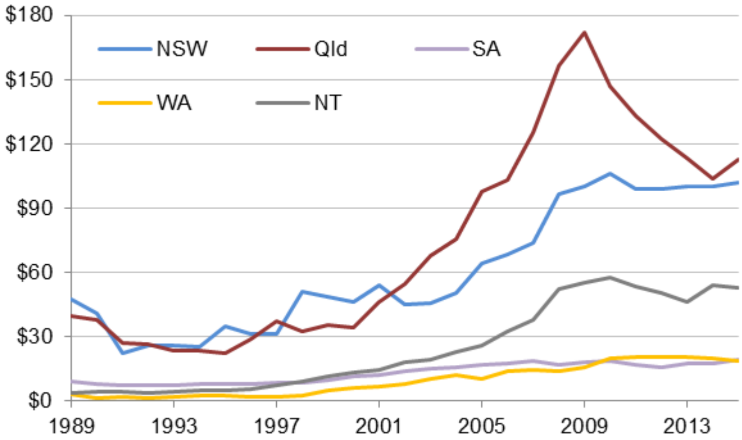
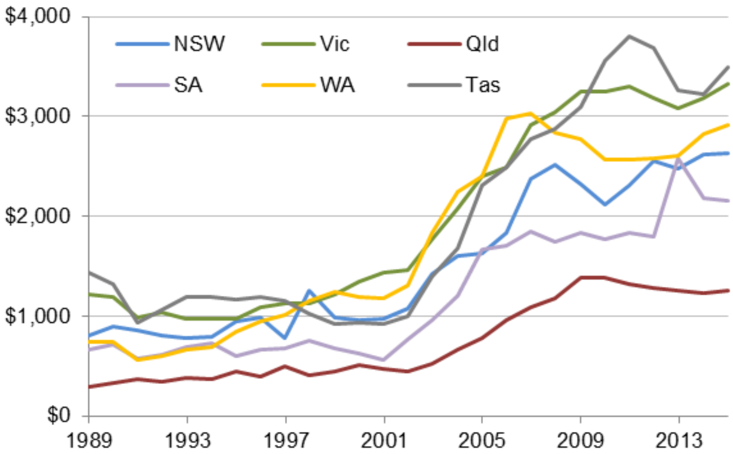
Figure 14: Values for grazing land (per hectare)



Source: ABARE

Figure 15: Values for other farming land (per hectare)



Source: ABARE

2.6 Number and ownership of businesses

There were 179,549 businesses operating in the agriculture, forestry and fishing industry at June 2015. This was 8.5 per cent of all businesses in Australia.

The agriculture, forestry and fishing industry has the fifth highest number of businesses of the 19 industry divisions for which ABS release data.

Nevertheless, the number of businesses is shrinking, with the number of businesses declining by 12 per cent over the past six years compared with a decline of 9 per cent in the number of manufacturing businesses.

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Figure 16: Number of businesses by industry division

	2009	2011	2013	2015
Construction	344,419	353,920	335,767	345,479
Professional, Scientific and Technical Services	234,347	252,829	247,621	255,064
Rental, Hiring and Real Estate Services	218,592	227,820	225,539	234,228
Financial and Insurance Services	149,575	164,778	168,955	184,183
Agriculture, Forestry and Fishing	204,503	198,952	187,600	179,549
Retail Trade	139,808	144,297	135,643	132,382
Transport, Postal and Warehousing	134,205	132,839	125,857	127,069
Health Care and Social Assistance	92,733	101,716	107,628	117,915
Other Services	86,242	89,919	87,108	89,341
Accommodation and Food Services	77,695	82,226	81,859	87,555
Manufacturing	91,949	90,579	85,071	83,489
Administrative and Support Services	77,332	82,375	78,474	79,751
Wholesale Trade	77,202	79,832	76,379	76,659
Education and Training	24,575	26,376	25,835	27,275
Arts and Recreation Services	27,057	27,735	26,100	26,127
Information Media and Telecommunications	17,995	19,010	18,582	19,481
Mining	7,803	8,249	8,301	8,067
Public Administration and Safety	7,815	7,781	7,351	7,274
Electricity, Gas, Water and Waste Services	5,661	5,917	5,769	6,063
Currently Unknown	31,134	35,262	44,227	34,284
All Industries	**2,050,642**	**2,132,412**	**2,079,666**	**2,121,235**
% Agriculture, Forestry and Fishing	10.0%	9.3%	9.0%	8.5%

Source: ABS

Figure 17: Agriculture, forestry and fishing as a % of all businesses

Source: ABS

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Australian farms are predominantly Australian owned. Around 99.4 per cent of businesses in agriculture, forestry and fishing were wholly Australian owned as at 2013-14. This is the highest of any industry sector.

About 86 per cent of agricultural land is Australian owned. The biggest foreign owners are the UK, USA and the Netherlands.

Figure 18: Proportion of businesses that are wholly Australian owned (%)

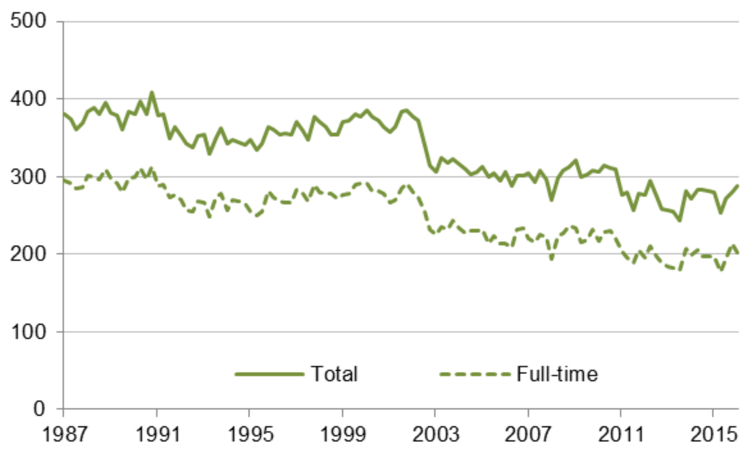
	Wholly Australian owned
Agriculture, Forestry and Fishing	99.4
Financial and Insurance Services	99.2
Health Care and Social Assistance	98.3
Rental, Hiring and Real Estate Services	97.5
Administrative and Support Services	97.3
Other Services	96.9
Construction	96.2
Arts and Recreation Services	96.1
Transport, Postal and Warehousing	94.9
Accommodation and Food Services	94.2
Retail Trade	93.2
Electricity, Gas, Water and Waste Services	91.8
Professional, Scientific and Technical Services	91.7
Manufacturing	91.1
Wholesale Trade	85.6
Information Media and Telecommunications	85.6
Mining	62.6
Total	**94.1**

Source: ABS

2.7 Employment

There were 287,500 people employed in agricultural activities as of February 2016 and 70 per cent of these jobs were full-time.

Figure 19: Agriculture – employment ('000)



Source: ABS

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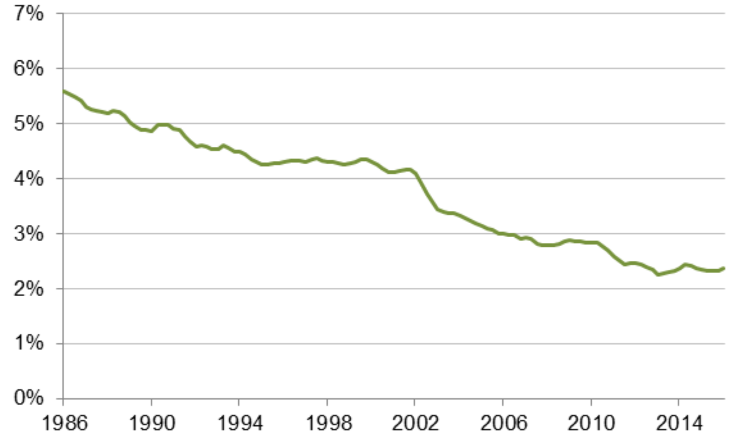
Agriculture accounts for 2.4 per cent of all jobs in Australia. This proportion has been in trend decline for some decades but seems to have stabilised over the past four years.

Figure 20: Agriculture as % of total employment



Source: ABS

The distribution of employment across agricultural activities has seen significant change over time. Since the turn of this century alone, the number of persons employed in grains, sheep and beef farming has almost halved from 211,700 to 115,700. Similarly, horticulture and fruit has seen employment fall from 100,400 to 51,000 over the period from 2000 to 2015.

The category 'other', however, has seen a substantial rise and now (2014-15) is the second highest employer at 59,000.

Figure 21: Agriculture – distribution of employment ('000)

	1999–00	2002–03	2005–06	2008–09	2011–12	2014–15
Grains, sheep, beef cattle	211.7	165.0	136.4	149.7	129.1	115.7
Horticulture and fruit	100.4	94.2	83.4	59.1	57.2	51.1
Other crops	14.2	9.7	7.3	14.3	9.5	4.7
Dairy cattle	33.1	25.0	22.4	26.6	22.3	21.1
Poultry	8.6	11.1	8.9	9.1	10.1	6.3
Other livestock	12.1	12.0	10.7	14.8	10.1	16.9
Other	na	4.4	29.1	37.8	38.8	59.0
Total	**380.1**	**321.5**	**298.1**	**310.7**	**277.0**	**274.9**

Source: ABARE

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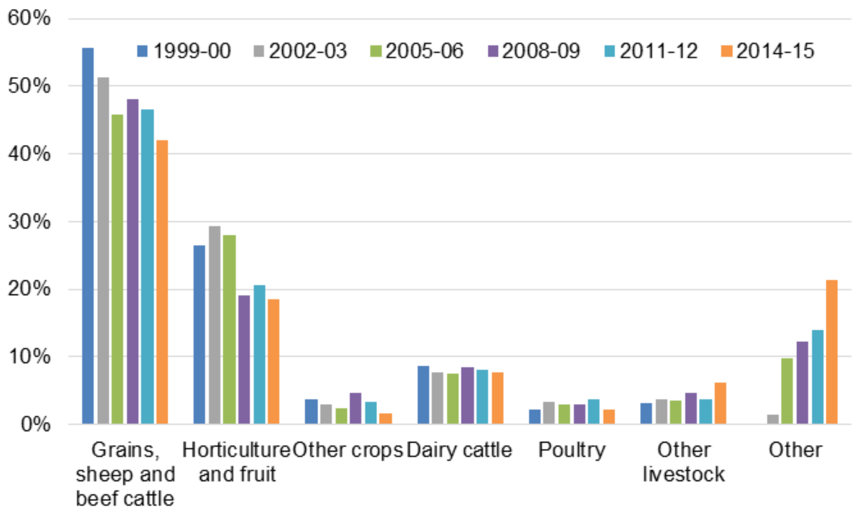
Figure 22: Agriculture – distribution of employment



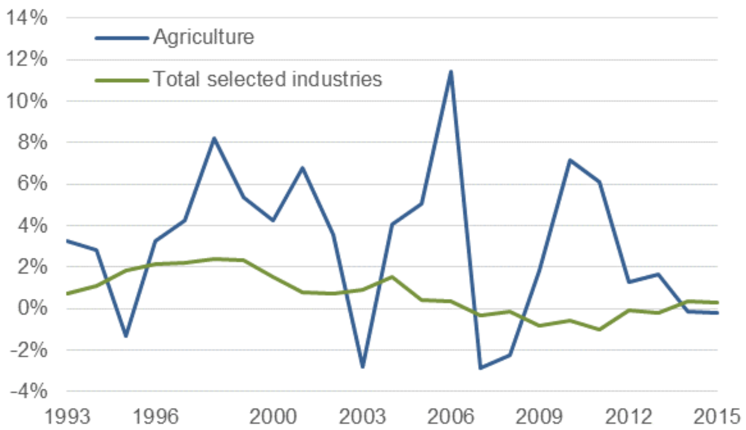
Source; ABARE

2.8 Productivity

Productivity outcomes for the agriculture, forestry and fishing industry has generally been well above that for the overall market sector over the past two decades.

Over the past five years, average productivity growth for this industry has been 0.8 per cent per year compared to no growth (a flat outcome) for productivity across the overall market sector. However, that outperformance has not been apparent over the past two years.

Figure 23: Productivity (average change over 3 years)



Source: ABS

Another way to look at productivity is through gross value added per employee. This has been broadly trending higher over the past three decades, although there has been some cyclic easing over the past two years or so.

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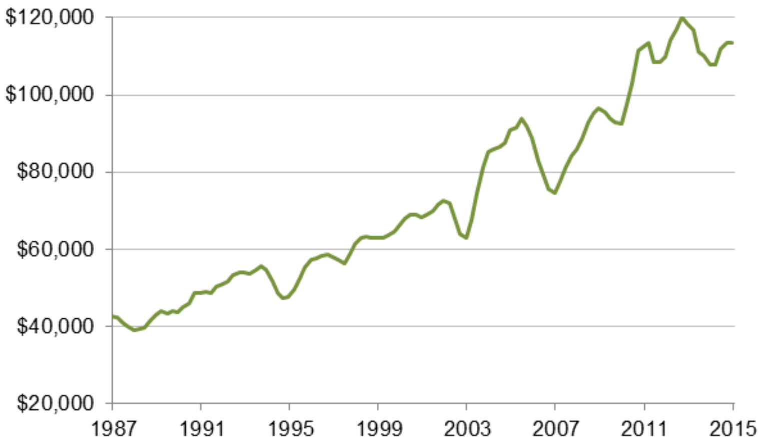
Figure 24: Agriculture value added per employee



Source: ABS

2.9 Innovation

The proportion of businesses in the agriculture, forestry and fishing industry which are involved in innovation is generally lower than the average across all industries. Even so, almost one in eight agriculture, forestry and fishing businesses undertook innovation in goods and services, one in six undertook innovation in their operational process, and one in eleven innovated their organisational or managerial processes.

Figure 25: Innovation (2013-14)

	Goods or services	Operational processes	Organisational or managerial processes	Marketing methods
	%	%	%	%
Agriculture, Forestry and Fishing	12.2	15.4	9.2	4.7
Mining	12.2	21.2	21.9	6.5
Manufacturing	28.1	27.4	23.8	25.0
Electricity, Gas, Water & Waste	21.0	22.7	24.4	21.9
Construction	16.0	12.1	17.2	14.6
Wholesale Trade	36.6	28.0	27.3	28.9
Retail Trade	36.6	16.3	23.2	27.5
Accommodation and Food Services	40.6	19.7	25.5	28.7
Transport, Postal and Warehousing	14.2	20.4	16.0	7.7
Information Media and Telecommunications	29.9	23.4	26.1	27.9
Financial and Insurance Services	21.9	18.2	28.4	21.2
Rental, Hiring and Real Estate Services	16.4	18.6	20.3	18.6
Professional, Scientific & Technical Services	28.7	20.5	25.2	21.4
Administrative and Support Services	19.3	20.0	25.0	21.9
Health Care and Social Assistance	18.4	16.4	26.2	18.1
Arts and Recreation Services	19.6	16.8	23.9	30.2
Other Services	20.8	9.8	19.1	26.7
Total	**24.1**	**17.9**	**21.7**	**20.3**

Source: ABS

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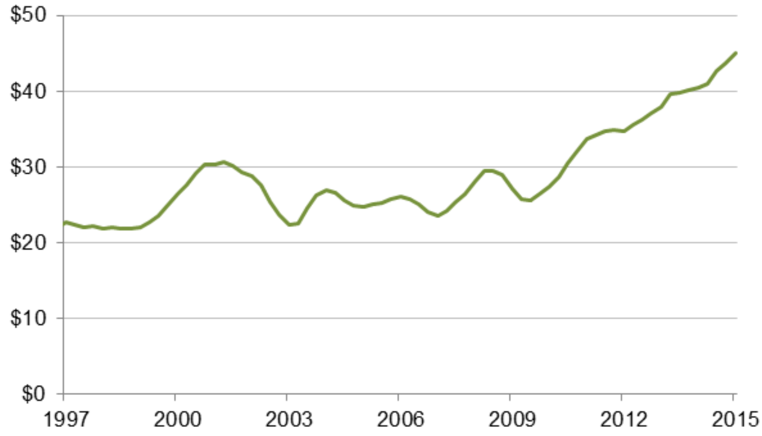
2.10 Exports

The value of rural exports was $45 billion in 2015.

Rural exports have been growing strongly over the past five years, and are now 64 per cent higher than five years ago.

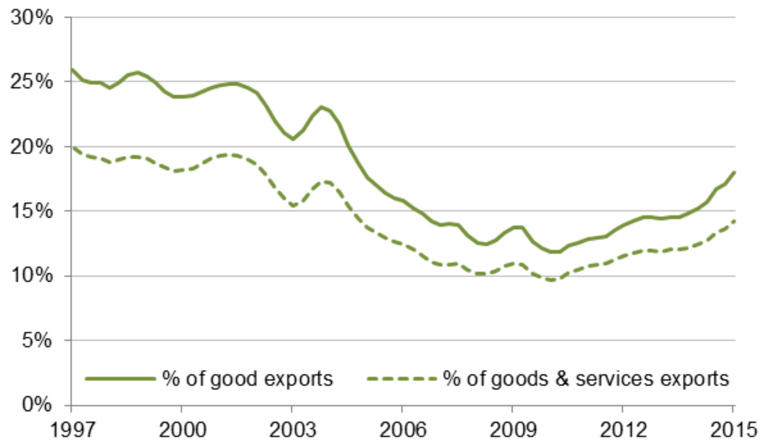
Figure 26: Rural exports ($bn)



Source: ABS

Rural exports now account for just under 15 per cent of all Australian exports of goods and services. Only five years ago this was at a record low of 10 per cent. This low, however, was a result of strong growth in mining exports rather than a fall in rural exports.

Figure 27: Rural exports as % of exports



Source: ABS

The composition of rural exports has changed significantly over the past 40 years. In the 1970s and 1980s, over half of rural exports were cereal grains and wool, compared to 25 per cent today. Export of meat has been consistently near 20 per cent.

The category 'other' has risen strongly over the past 40 years from 18 per cent to almost half of all rural exports - this includes fruit and vegetables, dairy products, oil-seeds and oleaginous fruits and edible products and preparations.

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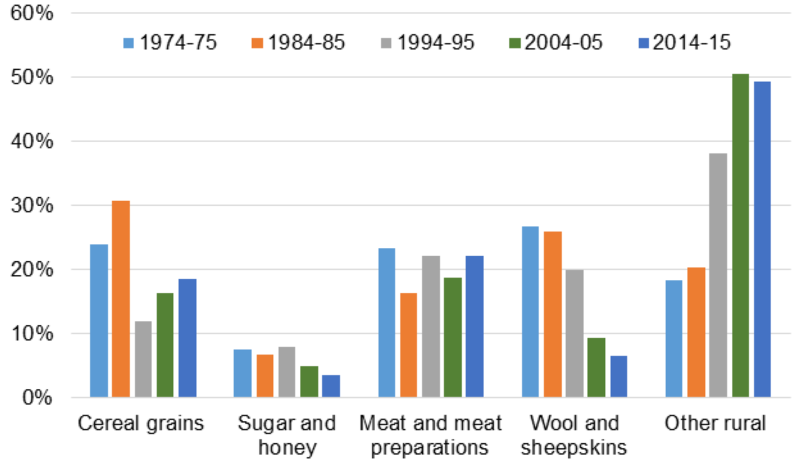
Figure 28: Composition of rural exports ($m)

	Cereal grains	Sugar and honey	Meat and meat preparations	Wool and sheepskins	Other rural	Total
1974-75	$2,590	$826	$2,539	$2,909	$1,979	$10,843
1984-85	$5,027	$1,098	$2,658	$4,237	$3,312	$16,332
1994-95	$2,888	$1,904	$5,388	$4,829	$9,258	$24,267
2004-05	$6,531	$2,015	$7,520	$3,738	$20,285	$40,089
2014-15	$8,762	$1,652	$10,454	$3,099	$23,407	$47,374

Source: ABARE

Figure 29: Composition of rural exports



Source: ABARE

Australia is a major global exporter of some key rural commodities, being in the top three for wheat, cattle, sheep and dairy.

Figure 30: Exports of selected agricultural commodities – top 15 countries

Wheat	Meat cattle	Meat sheep	Dairy
United States	Brazil	**Australia**	New Zealand
Canada	**Australia**	China	United States
Australia	India	Turkey	**Australia**
Russia	United States	Nigeria	Argentina
Ukraine	Canada	India	India
Kazakhstan	New Zealand	Iran	Egypt
India	Mexico	Ethiopia	Ukraine
Argentina	Argentina	South Africa	Iran
Turkey	Colombia	Sudan	China
Mexico	China	Kazakhstan	Turkey
Brazil	Pakistan	Bangladesh	Canada
Pakistan	South Africa	Pakistan	Russia
China	Turkey	Algeria	Pakistan
Iran	Egypt	Russia	Mexico
Egypt	Russia	New Zealand	Brazil

Source: FAOSTAT

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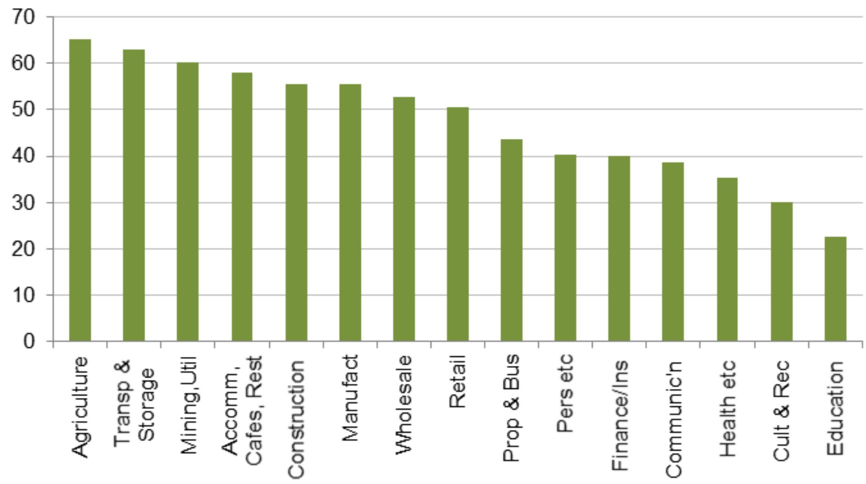
3. Finance

The agriculture industry has a relatively high demand for finance and banks have a long history of providing this financial support.

3.1 Loans outstanding

About two-thirds of small businesses (less than 20 employees) in agriculture, forestry and fishing have a credit facility other than a credit card. This is a higher recourse to debt funding than in other small business sectors.

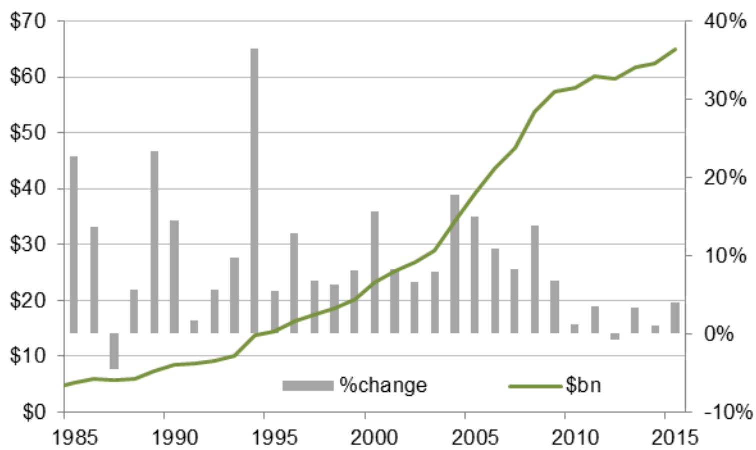
Figure 31: Proportion of businesses with debt facility (%)



Source: DBM

Rural lending by banks increased by 4 per cent over the year to June 2015 to a record high of $65 billion.

Figure 32: Rural lending with banks



Source: RBA

The bulk of the lending (71 per cent) is in three states – NSW, Victoria and Queensland – primarily reflecting the relative share of rural activities.

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Figure 33: Rural lending by state, 2015 ($bn)

Source: Neil Clark Associates

By type of activity, almost 90 per cent of lending is to businesses involved in agriculture, with the other 10 per cent for other rural activities such as forestry and fishing, and rural services.

Figure 34: Rural lending by activity (2015)

Activity	Lending ($bn)	% of Agriculture	% of all rural
Beef	$11.0	19.6%	17.3%
Grain	$10.6	19.0%	16.8%
Dairy	$7.0	12.4%	11.0%
Mixed Cropping	$6.3	11.3%	10.0%
Farm Other	$3.5	6.3%	5.6%
Fruit	$3.3	6.0%	5.3%
Cotton	$3.3	5.9%	5.2%
Vegetable	$2.5	4.4%	3.9%
Intensive	$2.3	4.1%	3.6%
Sheep	$2.1	3.7%	3.3%
Mixed Livestock	$1.6	2.8%	2.5%
Grapes	$1.5	2.7%	2.4%
Sugar	$1.0	1.8%	1.6%
Subtotal: Agriculture	$56.0	100.0%	88.5%
Other rural			
Services	$2.7		4.3%
Forestry	$2.5		4.0%
Fishing	$1.7		2.6%
Aquaculture	$0.4		0.6%
Total	**$63.3**		**100.0%**

Source: Neil Clark Associates

Looking just at lending to farms, Queensland ranks first with around $14 billion or one quarter of the loans outstanding, just ahead of NSW.

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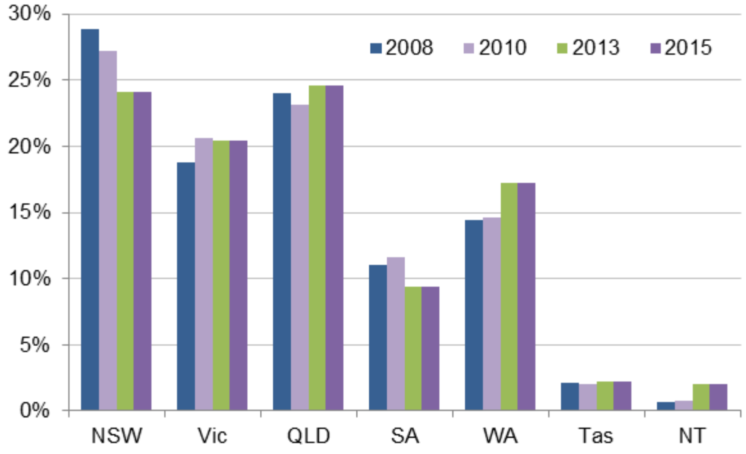
Figure 35: Agriculture – loan outstandings (% distbn)



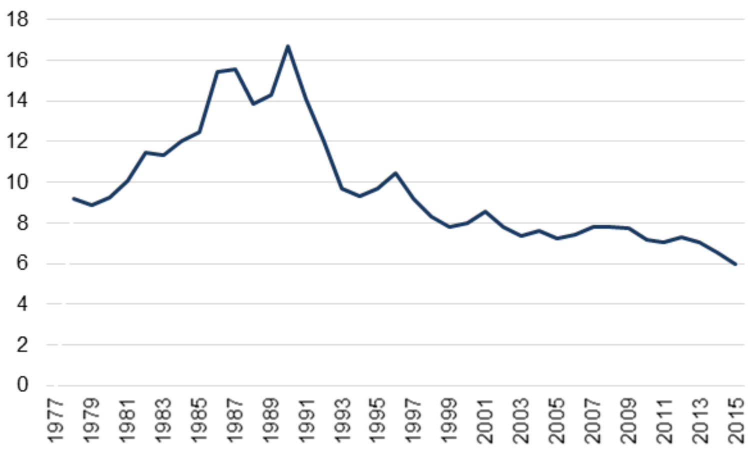
Source: Neil Clark Associates

Beef farming and grains are the two agricultural activities with the highest levels of debt across the agriculture industry. These two activities combined have consistently accounted for around 40 per cent of agriculture debt. Dairy and mixed cropping account for another 20 per cent.

3.2 Interest rate on farm loans

At 5.97 per cent the average interest rate on farm loans is now (2014-15) at the lowest level since the data series commenced. It averaged 10.72 per cent throughout the 1990s, 7.74 per cent over the decade 2000 to 2009 and over the past three years the average has been 6.52 per cent.

Figure 36: Indicative interest rate for farm loans (%)



Source: ABARE

3.3 Number and size of loans

There were an estimated 111,690 farm loans outstanding at end 2015. The number of loans has declined over the past decade in response to a decline in the number of businesses in the agriculture industry and an increase in the average size of loan.

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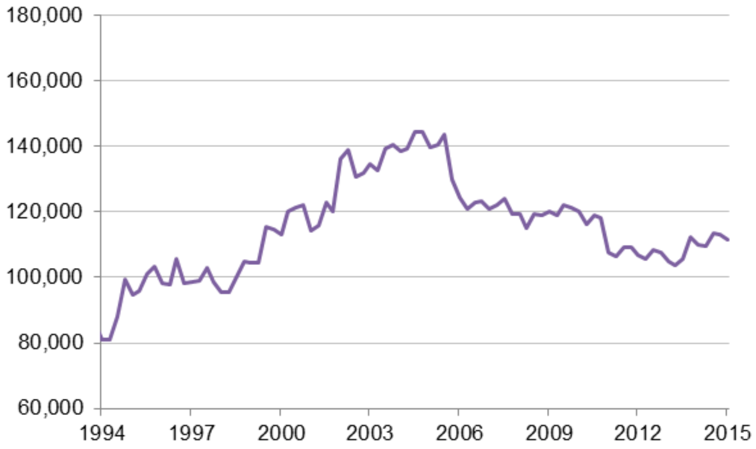
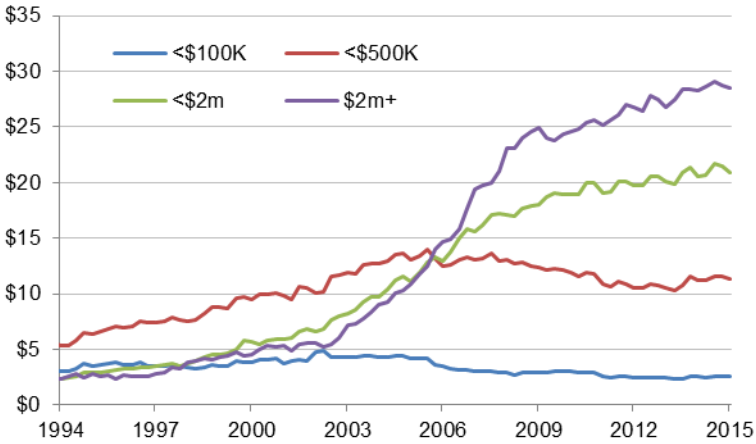
Figure 37: Agriculture – estimated number of loans



Sources: RBA/ABA

The proportion of loans that are for a value of $2 million or over has been rising over time and now accounts for 45 per cent of agricultural loans outstanding. Across all industries the proportion of loans with a value of $2 million or over is much higher at around 70 per cent.

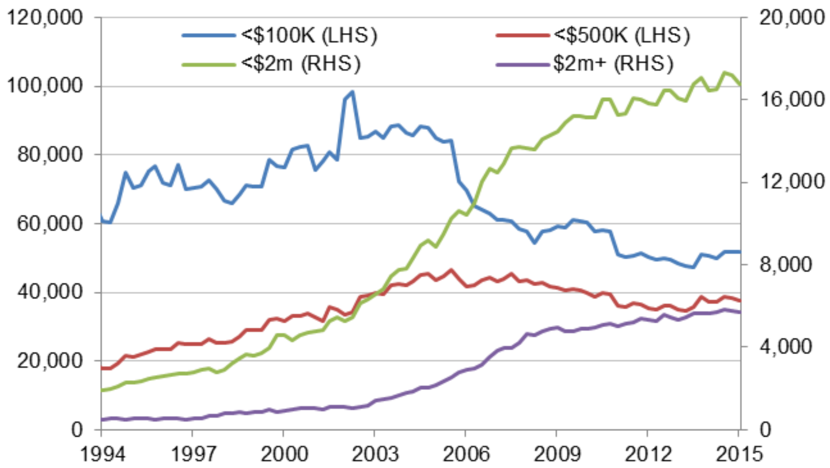
Figure 38: Agriculture – lending distribution by size of loan ($bn)



Source: RBA

While 45 per cent of the value of loan outstandings to the agriculture industry are for loans of $2 million or over, this represents only 5 per cent of the estimated number of loans.

Figure 39: Agriculture – estimated number of loans by loan size

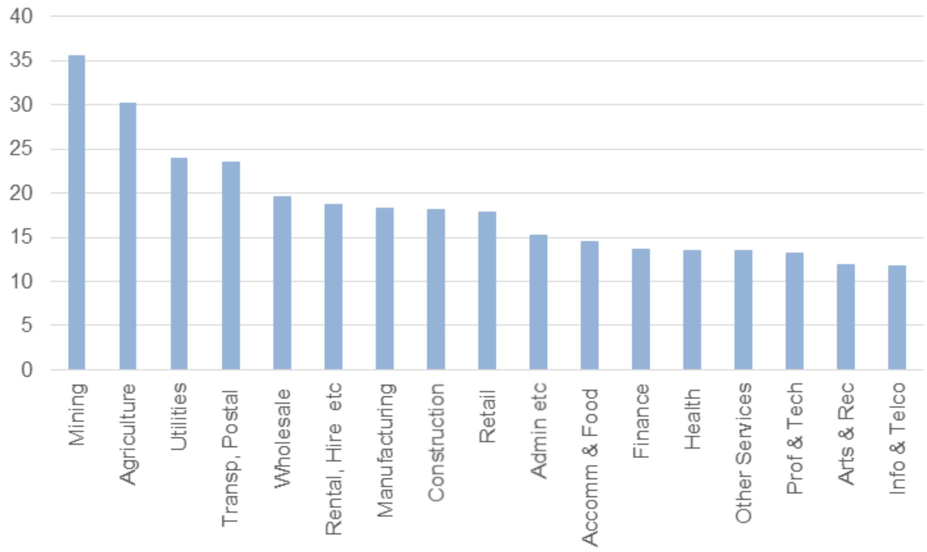


Sources: RBA/ABA

3.4 Obtaining new finance

Each year around 30 per cent of businesses in agriculture, forestry and fishing seek debt or equity finance. Only small businesses in the mining sector have had a higher demand for new finance in recent years.

Figure 40: Businesses that sought debt or equity finance, 5 years ending 2014 (%)



Source: ABS

Around 93 per cent of agriculture businesses which seek debt finance are successful in obtaining the required funding. This is a higher success rate than any other business sector other than health.

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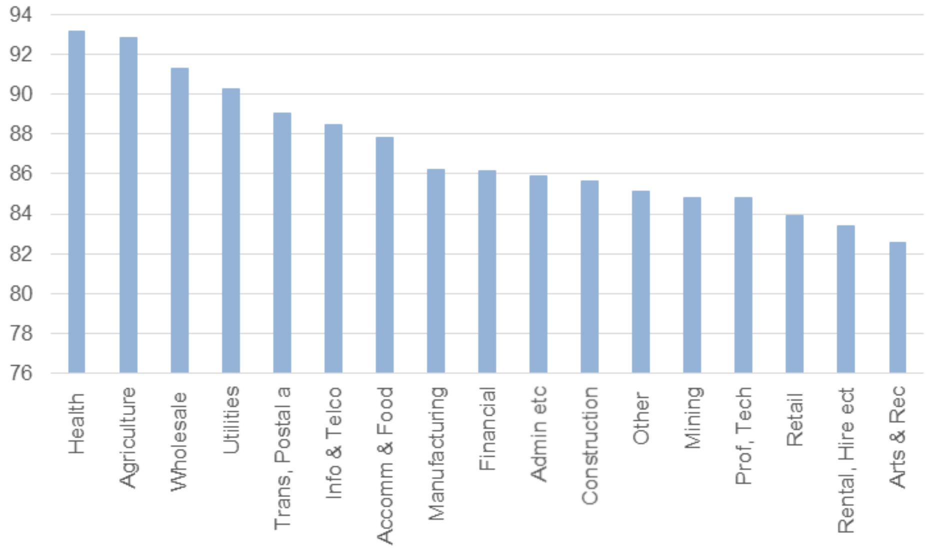
Figure 41: Businesses that obtained debt finance as a % of those that applied (5 years to 2014)



Source: ABS

The main reasons for seeking debt or equity finance by businesses in the agriculture, forestry and fishing industry is to ensure survival of the business (44.4 per cent), to maintain short-term cash flow or liquidity (42.3 per cent), to replace equipment or machinery (35.7 per cent) and to expand the business (24.9 per cent).

Figure 42: Reasons for seeking finance (%)

	2012-13		2013-14	
	Agriculture, Forestry and Fishing	All industries	Agriculture, Forestry and Fishing	All industries
Businesses that sought debt or equity finance	29.2	15.7	25.7	16.3
Ensure survival of business	31.9	32.0	44.4	32.3
Maintain short-term cash flow or liquidity	52.5	40.5	42.3	42.3
Replacement of:				
. IT hardware	0.0	6.0		9.4
. Other equipment or machinery	44.1	35.3	35.7	29.3
Upgrade of:				
. IT hardware		6.1		11.2
. Other equipment or machinery	20.1	19.4	13.1	11.9
Purchase of additional:				
. IT hardware		7.8		5.6
. Other equipment or machinery	23.5	26.8	22.6	18.4
Assets not related to expansion	10.5	6.1	3.0	5.2
Expand business	20.9	21.0	24.9	18.3
Introduce new or improved goods, services, processes	6.1	14.4	7.8	9.8
Other reasons businesses sought debt or equity finance	7.9	9.8	11.6	11.5

Source: ABS

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Supporting the notion that finance is readily available, only 15.5 per cent of businesses in agriculture, forestry and fishing cite a lack of access to funds as a barrier to their business activity and performance. This is lower than the average for industries overall of 16.5 per cent), much lower than mining (26.1 per cent) and accommodation and food (26.0 per cent).

Figure 43: Barriers to general business activity and performance (%), (2014)

	Lack of access to funds	Cost of inputs	Regulations and compliance	Lack of demand goods/services	Low profit	Environmental factors
Agriculture, Forestry and Fishing	15.5	33.7	16.5	6.8	21.4	30.5
Mining	26.1	19.7	23.9	22.1	16.8	6.8
Manufacturing	17.9	17.9	9.0	23.6	33.5	3.8
Electricity, Gas, Water & Waste	17.1	7.9	21.5	14.7	23.4	2.9
Construction	10.7	9.9	11.3	15.3	25.8	1.7
Wholesale Trade	16.3	17.6	14.0	21.0	35.9	3.4
Retail Trade	23.1	19.2	15.1	30.0	42.5	3.5
Accommodation and Food Services	26.0	26.4	15.8	22.6	36.5	6.3
Transport, Postal and Warehousing	14.1	10.9	13.5	18.3	25.1	3.9
Information Media &Telecommunications	24.1	15.5	8.8	18.1	20.9	2.1
Financial and Insurance Services	7.6	9.0	30.7	6.5	14.8	2.2
Rental, Hiring and Real Estate Services	13.6	13.9	14.1	13.4	19.0	2.9
Professional, Scientific & Tech Services	17.2	7.6	12.3	16.6	17.4	
Administrative and Support Services	13.4	10.1	13.5	18.6	29.2	3.4
Health Care and Social Assistance	14.2	5.5	12.3	9.7	14.0	2.7
Arts and Recreation Services	17.6	10.9	7.4	15.2	15.7	5.5
Other Services	19.6	12.3	9.1	14.5	25.1	1.8
Total	**16.5**	**14.4**	**13.3**	**17.3**	**26.1**	**4.7**

Source: ABS

Figure 44: Businesses who say they have a lack of access to funds (%), (2014)

Source: ABS

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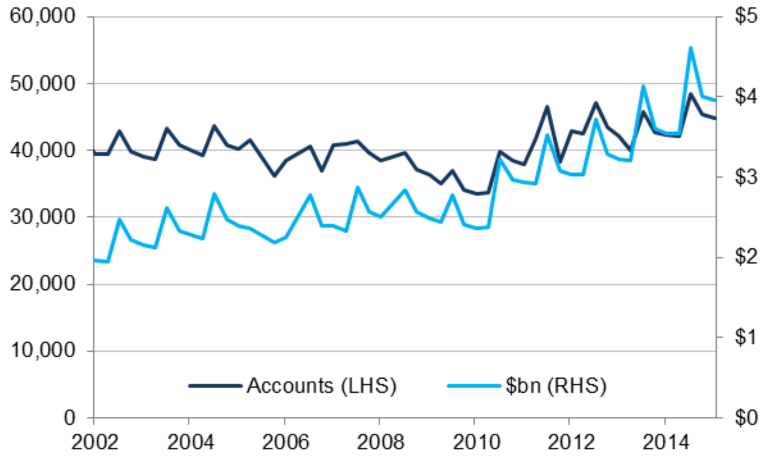
3.5 Farm management deposits

Banks provide dedicated farm management deposits (FMD) to allow cash to be built up in good times and drawn down in times of lower income.

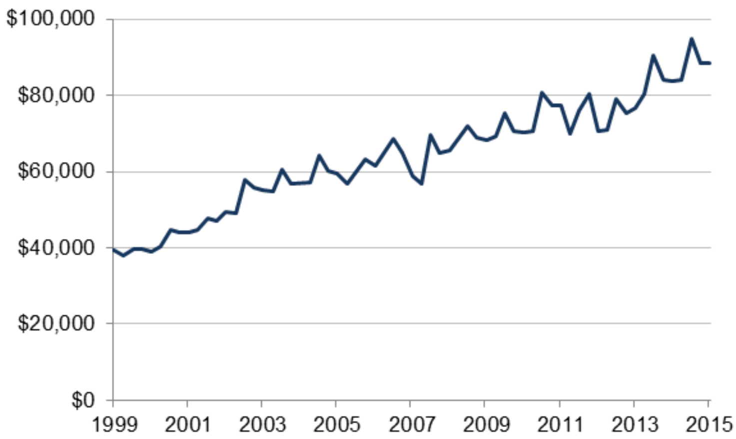
Over the past five years there has been a steady increase in farm management deposits to almost $4 billion. This has reflected an increase in the number of accounts and in the average balance. In December 2015 there were 44,718 FMD accounts with an average balance of $88,553.

Figure 45: Farm management deposits – number of accounts and balance outstanding



Source: Department of Agriculture, Fisheries and Forestry (DAFF)

Figure 46: Farm management deposits – average balance



Source: DAFF

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3.6 Assistance for farmers in financial difficulty

Banks understand that cash flows for farms are much more variable and uncertain than for most other businesses. This reflects the normal seasonal and year-to-year variations from the weather as well as unforeseen natural disasters, including drought, fire and flood, and variations in commodity prices due to supply and demand fluctuation in other countries.

For this reason banks have a range of measures to support farmers in financial stress and to mediate any disputes.

Farm Debt Mediation (**FDM**) is a mechanism to facilitate a discussion between a farmer and their lender so they can better negotiate their financial position. An independent and neutral mediator assists the farmer and the lender to try to reach agreement about current and future debt arrangements. Banks have found that FDM has generally delivered more positive (i.e. higher equity) outcomes for borrowers.

There is currently no nationally consistent approach to FDM. New South Wales and Victoria have legislated and compulsory FDM schemes. Other states have no formal schemes, or only voluntary schemes in place. The ABA and banks are strong advocates for a national legislated approach to FDM as we believe it will provide greater certainty for customers and streamline operations for banks, especially when customer's properties cross multiple states.

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Appendix 1: Agriculture – summary financials

The following summary data are for the industry subdivision 'agriculture'.

Figure 47: Agriculture – summary data

		2010–11	2011–12	2012–13	2013–14	2014–15
Sales and service income	$m	53,658	58,938	61,641	65,313	72,835
Funding from government for operational costs	$m	724	788	559	559	716
Interest income	$m	334	316	350	267	264
Other income	$m	1,741	1,475	1,703	1,686	2,701
Total income	**$m**	**56,456**	**61,516**	**64,253**	**67,825**	**76,516**
Selected labour costs	$m	4,867	5,051	5,214	5,562	6,380
Purchase of goods and materials	$m	22,517	26,177	26,771	29,623	34,917
Interest expenses	$m	4,802	4,176	3,788	3,619	3,464
Depreciation and amortisation	$m	2,345	2,435	2,917	2,487	2,887
Other selected expenses	$m	14,554	15,433	15,697	16,365	15,766
Capital work done for own use	$m	72	72	83	126	204
Total expenses	**$m**	**49,013**	**53,200**	**54,305**	**57,530**	**63,209**
Change in inventories	$m	974	615	407	-198	536
Earnings before interest tax deprec, amortisation	$m	13,489	13,751	15,008	14,250	17,229
Operating profit before tax	**$m**	**8,416**	**8,931**	**10,355**	**10,097**	**13,842**
Gross fixed capital formation	$m	4,194	4,379	4,013	5,247	4,995
Capital expenditure	$m	7,595	7,836	5,919	8,582	11,654
Disposal of assets	$m	3,012	1,846	3,055	3,971	4,058
Net capital expenditure	$m	4,583	5,990	2,864	4,611	7,597
Industry value added	$m	19,680	20,502	21,999	21,770	25,411
Profit margin	**%**	**15.7**	**15.2**	**16.8**	**15.5**	**19.0**
Wages/salaries to sales and service income	%	8.0	7.5	7.4	7.5	7.7
Wages/salaries per employee	$'000	22.3	23.3	22.4	24.3	28.9
Sales/service income per person employed	$'000	128.6	142.7	146.5	156.4	183.5
Industry value added per person employed	$'000	47.2	49.7	52.3	52.1	64.0
Made a profit	**%**		**68.6**	**67.1**	**72.9**	**77.7**
Broke even	%		1.1	0.4	1.2	0.5
Made a loss	%	28.3	30.3	32.5	25.9	21.8

Source: ABS

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Appendix 2: Agriculture, forestry and fishing classification

Data in the paper are provided at the industry division level – Agriculture, forestry and fishing - as well as the industry sub-division level. The following table will assist readers with understanding what activities are included at each level as per the Australian New Zealand Standard Industry Classification (2006).

Figure 48: Agriculture, forestry and fishing industry division

Industry sub-division	Industry group	Activities
Agriculture	Nursery and Floriculture Production	
	Mushroom and Vegetable Growing	
	Fruit and Tree Nut Growing	Grape Growing
		Kiwifruit Growing, Berry Fruit Growing
		Apple and Pear Growing, Stone Fruit Growing
		Citrus Fruit Growing
		Olive Growing
		Other Fruit and Tree Nut Growing
	Sheep, Beef Cattle, Grain Farming	Sheep Farming (Specialised)
		Beef Cattle Farming & Feedlots (Specialised)
		Sheep-Beef Cattle Farming
		Grain-Sheep or Grain-Beef Cattle Farming
		Rice Growing
		Other Grain Growing
	Other Crop Growing	Sugar cane, cotton and other
	Dairy Cattle Farming	
	Poultry Farming	Meat and eggs
	Deer Farming	
	Other Livestock Farming	Horse Farming, pig farming
		Beekeeping
		Other Livestock Farming n.e.c.
Aquaculture	Aquaculture	Offshore Longline and Rack Aquaculture
		Offshore Caged Aquaculture
		Onshore Aquaculture
Forestry and Logging	Forestry and Logging	
Fishing, Hunting and Trapping	Fishing	Rock Lobster and Crab Potting
		Prawn Fishing, line fishing
		Fish Trawling, Seining and Netting
		Other Fishing
	Hunting and Trapping	
Agric, Forestry & Fish. Support Services	Forestry Support Services	
	Agric & Fishing Support Services	Cotton Ginning
		Shearing Services
		Other Agric & Fishing Support Services

Source: ABS