

**Rural & Regional Affairs and Transport
Legislation Committee**

**Inquiry into
*Regional Investment Corporation Bill 2017***



Submission from Pastoralists & Graziers Association of WA

12 July 2017

The Pastoralists and Graziers Association of WA (PGA) welcomes the opportunity to contribute to the *Inquiry into Regional Investment Corporation Bill 2017* being undertaken by the Rural and Regional Affairs and Transport Legislation Committee.

PGA Background:

The PGA is a non-profit industry organisation established in 1907, which represents primary producers in both the pastoral and agricultural regions in Western Australia. Members include pastoral leaseholders and freehold farmers through the full spectrum of some of Australia's largest corporate pastoral groups to family-owned companies and trusts and individual landholders in Western Australia.

The PGA's core and guiding principles are self-reliance, subsidiarity¹, property rights, free markets, competition, small government and reduced regulations.

Consequently, the PGA believes that economies work best when market forces dominate decision making by businesses and supply chains and not political decision-making and associated interventions by governments and their agencies. Furthermore, the PGA believes that the Agricultural sector of the Australian economy is more likely to be globally competitive, if individual business through to global supply chains are subject to unadulterated economic forces of the market with minimal interference from Government. It is through the crucible of market forces that Australian farm businesses and the Australian Agricultural sector are most likely to possess long term strength, resilience and profitability.

Indeed, it is PGA's view that Australia's Agricultural sector is globally competitive as a direct result of being the 2nd lowest (behind New Zealand) recipient of Government subsidies at 3% of farm income². The PGA believes that increased government subsidies will inevitably lead to the erosion of our global competitiveness.

The PGA agrees with the Productivity Commission's view that Governments do have a role to play in encouraging farmers' self-reliance, preparedness and risk management by avoiding interventions that encourage dependence on government assistance and retaining government interventions such as Farm Management Deposits (FMDs) which are reasonably efficient at encouraging financial self-reliance³.

The purpose of the proposed Regional Investment Corporation (RIC)

The PGA understands the intended main functions of the Corporation will be to administer:

- farm business loans (with concessional interest rates);
- on behalf of the Commonwealth, grants of financial assistance to States and Territories for the construction of water infrastructure; and
- additional future programs prescribed by the rules.

¹Subsidiarity - the principle that decisions should always be taken at the lowest possible level or closest to where they will have their effect, for example in a local area rather than for a whole country;

<http://dictionary.cambridge.org/dictionary/english/subsidiarity>

²<http://www.oecd.org/newsroom/agriculturesupporttoagricultureathistoriclowsoecdsays.htm>; Downloaded 12 July 2017.

³Productivity Commission 2009, *Government Drought Support*, Final inquiry Report, no. 46, Melbourne, p. 175.

The PGA also understands that the Corporation's governance will consist of:

- Two responsible Federal Ministers; being the Minister who administers the *Primary Industries Research and Development Act 1989* (currently the Minister for Agriculture and Food) and the Minister who administers the *Public Governance, Performance and Accountability Act 2013* (currently the Minister for Finance)⁴;
- A three member Board, consisting of a Chair and two other members, appointed by the responsible Ministers whom are satisfied the Board members have appropriate qualifications, skills or experience;
- A Chief Executive Officer (CEO) responsible for day-to-day administration; and
- Staff and Consultants.

The Regional Investment Corporation will be a State Owned Bank

It is PGA's view that the Corporation will effectively be a state-owned bank that will compete directly with a wide range of private sector financial entities that currently provide financial services and products to farm businesses. The Minister for Agriculture & Water Resources has stated that RIC will "also put the competition on the banks"⁵. This concerns the PGA as we unequivocally believe that governments should not compete with private businesses, including financial institutions.

The PGA does not accept that there is a 'market failure' in the provision of financial services by the private sector to farmers and farm dependent businesses that warrants government intervention in the form of establishing a State owned Bank that would compete with private entities.

A similar position was made by the Productivity Commission in their 2009 inquiry into Government Drought Support:

"However, as with interest rate subsidies, concessional loans provided to maintain viable farm businesses during drought can only be justified if there is some failure in capital markets that restricts these businesses from borrowing. Given the availability of rural credit for viable farm businesses (Australian Bankers' Association, sub. 76) and high average equity levels, it is likely that such support measures cannot be justified on market failure grounds."⁶

The PGA believes that in general there is a very good business relationship between the private financial and agricultural sectors. Indeed there are many examples where private financial entities have exhibited understanding and accommodation towards farm and farm dependent businesses when their capacity to service loans and other financial instruments is challenged by the vagaries of the market and environment that farming experiences.

Risks flowing from unfair Competitive Advantage:

The PGA believes that the proposed RIC will have an unfair competitive advantage over private financial entities on at least the following counts:

- Offering concessional interest rates on business loans;

⁴ The Parliament of the Commonwealth of Australia (2016-17) *Regional Investment Corporation Bill 2017: Explanatory Memorandum*, p.5.

⁵ <http://www.theland.com.au/story/4735686/barnaby-bank-to-increase-market-competition/?cs=4219>; downloaded 12 July 2017.

⁶ Productivity Commission (2009) *Government Drought Support*, p412.

- The RIC will be exempt from income tax under the *Income Tax Assessment Act 1997*⁷;
- The RIC will be underwritten by the tax payers of Australia; and
- The RIC, its governance structure and staff will not be subject to full market forces, especially risk.

These unfair competitive advantages translate into at least two concerns for the PGA.

Firstly, concern that concessional loans granted by the RIC may “encourage less effective producers to remain in the industry when exit may be of greater personal and economy-wide benefit”⁸. That is RIC interventions in the market may “hamper much needed adjustment in certain agricultural industries”. Unless the criteria used by the RIC ensure that concessional loans are only made to otherwise viable producers, there is a real risk that the recipient farm business will fail and the loan subsequently written off. In this situation, not only has a farm business been prolonged when it should have exited the industry, but writing off the loan represents an opportunity cost to the entire economy.

If RIC loans are only made to otherwise viable producers, then they should be able to borrow from private financial entities at market rates and thereby negate the need for the RIC in the first place.

Secondly, the PGA is concerned that because the RIC will be insulated from full market forces there is a very real danger that organizational performance, at all levels of governance and operations, will be lower than in private financial entities. This concern was expressed by the Australian National Audit Office’s (ANAO) in their recent independent performance audit of the Concessional Loans Programs administered by the Department of Agriculture and Water Resources⁹.

The ANAO audit highlighted that the design and establishment of Farm Finance Concessional Loans Program was adversely impacted by a number of factors including limited experience delivering concessional loan programs, condensed timeframe set by government and inability of department to consult intended delivery partners prior to announcement of program due to confidentiality considerations (political)¹⁰. There were also a range of shortcomings in implementation activities including absence of cost benefit economic analyses, modelling of potential demand and funding profiles, robust assessment arrangements and sound performance measurement and reporting¹¹.

It is PGA’s view that these findings highlight why commercial activities should not be undertaken by Government agencies and bureaucrats but are best left to professionals in the private sector. Any business that performed as poorly as reported by the ANAO, would simply fail, and should in the market.

⁷ *ibid.*, p20.

⁸ Productivity Commission 2016, *Trade & Assistance Review 2014-15*, Annual Report Series, Canberra, p36.

⁹ ANAO Report No.28 2015-16, Administration of Concessional Loans Programs

¹⁰ *ibid.*, p7.

¹¹ *ibid.*, p8.

A very disappointing aspect of the ANAO audit is that it did not ask the fundamental question:

Should the Department of Agriculture and Water Resources, or for that matter any government department or agency, be in the business of providing financial services which the private sector can demonstrably deliver with greater professionalism, experience and accountability of the market place?

Instead, the ANAO audit report, having identified performance failings, made four recommendations on how the Department of Agriculture and Water Resources could improve their performance. To the PGA this completely misses the point and promises further rounds of performance improvement as the Department moves towards private sector performance norms.

Risks flowing from RIC Governance Arrangements:

While the establishment of RIC is no doubt an attempt to address some or all of the recommendations made by the ANAO audit, it is PGA's view that the governance arrangements established in the *Regional Investment Corporation Bill 2017*, enshrine political influence into what should be a purely commercial operation.

A number of the performance issues highlighted by the ANAO audit were a direct result of political processes that are inherent in any program managed by a government entity; for example, the condensed timeframe set by government. Political interference in the operations of RIC will always have a potential to disrupt the commercial driven processes of RIC and thereby reduce the performance of RIC below private sector norms.

From a good governance perspective, the PGA regards a Board of three, a Chair and two other members, to be small. A board size and composition similar to that found in private financial organizations would be appropriate and likely to cover the range of qualifications, skills and experience listed in Section 17 of the Bill.

Location of RIC:

The fact that the location of RIC has been unilaterally decided without any apparent economic analysis or even discussion with agricultural industry stakeholders across Australia highlights another dimension of the non-commercial nature of RIC.

If RIC is intended as a truly national finance provider, then the PGA is strongly of the view that it should be located in Canberra, the national capital. This is probably the most economic location if the interests of all stakeholders and potential customers of RIC are taken into account, including socially and politically motivated wealth transfers locked in by final location of national office.

The PGA believes that a fundamental question in regards to location of a RIC national office is:

Where would a private entity selling financial products into the Australian Agricultural sector locate its main office and regional offices?

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