Chapter 3

Problems the bill seeks to address

3.1 The ARDB's tasks would relate to the financial viability of Australian agriculture and associated industries, and the financial arrangements entered into by these industries. This chapter examines the stated reasons for establishing the proposed ARDB and considers whether there are strong grounds for creating such a board within the RBA.

Challenges facing regional Australia

3.2 The committee received many submissions from farmers and people in rural communities that expressed support for the proposed ARDB. Submitters cited many of following challenges affecting regional Australia when arguing for the creation of an ARDB. These included:

- access to finance and changes in bank lending practices since the global financial crisis;
- declining farm profitability;
- farm debt levels and their sustainability;
- the flow on effects of challenging agricultural production and market conditions for small businesses reliant on farming businesses;
- market interruptions, such as the suspension of live cattle exports to Indonesia in 2011;
- recent natural disasters, such as drought and floods;[1] and
- the sustained high Australian dollar.

3.3 Many who participated in the inquiry drew attention to problems being experienced in parts of rural Australia. They spoke of excessive debt, unserviceable loans, foreclosures, insolvencies and rural suicides as evidence that the ARDB model was needed.[2] For example, Mr Rowell Walton stated:

---

1 Rainfall for the 26-month period ending May 2014 was below-average across most of eastern Australia and the west coast of Western Australia. Queensland in particular was affected; in March 2014, 79 per cent of Queensland was declared to be in drought, the largest area of the state ever recorded. Farms and regional communities in Queensland have also been affected by various tropical cyclones and floods in recent years. See Bureau of Meteorology, www.bom.gov.au/climate/drought/archive/20140604.3.deciles.gif (accessed 30 June 2014); and the Hon John McVeigh MP (Queensland Minister for Agriculture, Fisheries and Forestry), 'The largest area of Queensland ever drought declared', *Media Release*, 7 March 2014, http://statements.qld.gov.au/Statement/2014/3/7/the-largest-area-of-queensland-ever-drought-declared (accessed 30 June 2014).

2 Mr Ben Rees, *Submission 2*, p. [12].

> Reports recently garnered from our community suggest some are now faced with no income, the banks are in retreat and unprepared to further lend, some people are said to be unable to feed themselves. As an Australian I am embarrassed to have come to this place. I imagine the bankers would feel no particular comfort; the solutions rightly belong in the public domain.[3]

3.4 Indeed, Mr Walton told the committee that many people were now saying that they had 'never seen it as difficult as this in their history or to their knowledge' with capital values falling while rates were 'in fact rising'.[4] In this context, a number of submitters gave their personal accounts of life in regional Australia. Mr John Whitehead, whose family had owned and operated Mentone Station in central Queensland since 1914, argued that the drought affecting beef producers was a major disaster because it followed other particularly unfavourable events and market conditions:

> Over the 100 years of our time here there have been plenty of droughts and hard times, but there has been nothing like the time we are experiencing at the moment. In the past they used to earn enough in the good times to ride them through the bad times and they would come out the other end knocked around a bit but they would get up and start off again. Now we earn enough in the good times to just cover costs and put a bit away, but nowhere enough to get us through a disaster like the one we are experiencing now. There have been plenty [of] times when we have had worst dry spells then this, but never the combination of negative forces against us. This drought has had the perfect lead up for a major disaster, the global financial crises, out of control expenses, the live export ban, low stock prices, high wages, higher than normal stock numbers and these are just the major issues. There are plenty of local issues affecting us as well.[5]

3.5 Mr Xavier McKinnon, a veterinarian from Cobden, Victoria, whose business relies on the local dairy industry, advised that at least a quarter of his clients have told him their bank is not lending any more money for feeding cows. Mr McKinnon provided the following outline of his views as to why his local dairy industry was under pressure:

> In the last 10 years we have had the boom and bust of the managed investment schemes that pushed the price of land up to an unaffordable level, they promised returns they could never produce and got tax breaks by doing this! This new supposed value of land lead to banks' lending against unrealistic valuations and leaving the farmer exposed to any downturn no matter how minor it may have been! Now that the price of land has dropped the banks are putting pressure on the farmers telling them that their debt levels are too high. We have also had the price of milk drop to unrealistic levels at the farm-gate, a high Australian dollar making it harder to compete

---

3 *Submission 128*, p. 11.

4 *Proof Committee Hansard*, 18 March 2015, p. 1.

5 Mr John Whitehead, *Submission 34*, p. 1.

on the export front, one of the wettest seasons ever followed by one of the driest seasons ever! We also had a little thing called the Global Financial Crisis which has impacted the export market![6]

3.6 A 28 year-old farmer from the Western Darling Downs wrote that, after studying agribusiness at university, he decided not to return to his family's farm after concluding that the farm's income could not support him. He also highlighted the flow on effects that occur in regional communities when agriculture struggles:

> Agriculture has seen a perfect storm in that we have seen near a decade of drought to be finished off with floods while the GFC cause[d] the dollar to rise which reduced the value of commodities and has made it harder to obtain working capital. This poor decade has made it very difficult for farmers to operate as the level of debt has increased across the board.
>
> The flow on effect of such increased debt within the industry is that farmers have reduced their spending on inputs which is causing local companies that supply these inputs out of business while also making the agricultural industry increasingly inefficient. In my search for employment away from the farm I have seen that the level of positions available is reduced due to the reduced capital that farmers are spending.
>
> The agricultural industry is too large and affects too many people across the country for it to fail, the government must step in and restructure their polices to help this industry before it is too late. The Australian Reconstruction and Development Board is desperately needed to maintain efficiency and not lose our land to less efficient foreign investors.[7]

3.7 A Western Australian farmer submitted that changes to lending practices following the global financial crisis had made their financial position difficult:

> Up until the GFC and subsequent run of seasons we had received unwavering support from our bank. This gave us the confidence to invest in our industry and take on risk (which has not always been a Yilgarn farmer's desire or strength)…Since the GFC we have had to endure risk profile recording, increasing annually our risk margin, now seeing finance costs 2-3% above that of a housing loan for the general public, a re-evaluation of our land at our own cost ($8,500) and a cap on bank lending forcing us to seek out third tier lenders for short term deferred accounts at interest rates up to 18%.[8]

3.8 Debt dominated the concerns raised in submissions. Ms Erin Lawless wrote:

> We really only have one (1) sustainability issue: our costs of production will always increase, while there is no mechanism in the market for our prices to meet rising costs.

---

6 Mr Xavier McKinnon, *Submission 97*, p. 1.

7 Mr Hugh Hamilton, *Submission 23*, p. 1.

8 Mr Clint Della Bosca, *Submission 68*, pp. 2–3. Other submissions also advised that banks were no longer lending as a result of changing risk assessments. See, for example, *Submission 123*.

> We are a 'book-end' in the market. Unlike other industries and other sectors of this industry, there is no one to whom we can pass on our costs. We absorb and absorb and innovate as best we can, but eventually we have haemorrhaged people from our industry and communities, and tried to patch this market-structure problem with unsustainable, treacherous levels of debt.[9]

3.9 Other submitters pointed to a range of other challenges they believe Australian agriculture faces. A citrus farmer from the Riverina region of New South Wales expressed discontent with numerous government policies:

> …Australia's blind following of the belief in free trade and deregulation has left farmers suffering and unable to compete with juice or fruit coming from countries which don't have the same environmental, social or quality standards. These are forced onto us but not onto imports. Social issues include minimum wage, [occupational health and safety] and super contribution. Quality include safe use of chemicals, product traceability and various accreditations and registrations. Environmental includes carbon tax, water reform and restricted farm practices. All of these come at a cost burden to the Australian producer and are not placed on the equivalent imported product.[10]

3.10 Another submitter argued that deregulation and the removal of tariffs meant that funds needed to be made available to rebalance the financial circumstances of many farmers, as well as industries dependant on farming:

> Producers who have as a result of a change in government opinion, and policy, had all risk amelioration removed from their industries, dairy, grain and every industry which has lost its protection, whether countervailing market power, import protection via tariffs, or simply drought and exceptional circumstance provisions. Government have effectively passed all the risks of production on to the producer, this has been both deliberate and profound. Unfortunately many have carried excess debt, in the circumstance, provided and based upon a system, which now simply does not exist. It may well be there is an argument for compensation to readjust debt levels more in line with risk now set by policy.[11]

3.11 The combination of numerous factors places the financial viability of many Australian farms at risk. Indeed, the majority of the 145 submissions were concerned about the level of debt in rural Australia and the struggles facing farmers trying to keep their businesses afloat. In the following section, the committee explores the extent of this problem and whether it provides a solid basis for government intervention.

---

9 Ms Erin Lawless, *Submission 36*, p. 1.

10 Mr Bart Brighenti, *Submission 113*, p. 2.

11 Mr Rowell Walton, *Submission 128*, p. 8.

Is there a rural debt crisis?

3.12 As noted earlier, rural debt was specifically cited as a problem that an ARDB would address. The Explanatory Memorandum drew attention to the fact that rural Australia was:

> …struggling under an insurmountable debt burden, characterised by low farm income and lending practices of financial institutions in deregulated financial markets. In 1980, debt in Gross Value Farm Production was at 32% and this has escalated to historically high levels of debt, reaching 135.4% in 2012. With escalating debts, many farmers and producers are facing foreclosures. Forced sales are widening loan-to-value ratios, leading to a risk of 'fire sales', which could precipitate a raging financial contagion that may not be contained to rural and regional Australia.
>
> In such circumstances of uncertainty and risk to nationally important agricultural and associated industries, reconstruction is critical to re-establish a sound financial basis, and development funds to maintain and sustainably develop capabilities.[12]

3.13 A number of submitters agreed with this view that parts of rural Australia faced a most serious situation with crippling debt—a situation worsened by the fear of contagion. Mr Ben Rees, an economist with the rural debt roundtable and retired farmer, argued that there was a 'long term policy failure characterized now as a rural debt crisis'. He indicated that prior to the global financial crisis, lending was based on debt-to-equity ratios dependant on asset inflation. The crisis, however, 'brought asset inflation to an abrupt end':[13]

> Suddenly, farmers were asked to repay loans from income. The difficulty was that debt to equity lending had never been designed to be repaid from incomes. Consequently, overvalued rural assets were written down to more realistic market levels. The effect of falling land prices undermined the solvency of farmers who had borrowed in the halcyon days of debt to equity lending and ever rising land values.[14]

3.14 Dr Mark McGovern argued that during 2013, farm funding became very difficult for many. He submitted that the use of standard mortgages and growth in debt funding since 2000 was a cause of the current illiquidity in farm finance. Dr McGovern argued that the mortgages 'by design assume stable incomes' despite 'changing production and market realities'. He added there was also a disconnect between income and servicing obligations, with expected performance not matching actual results.[15] According to Dr McGovern, the market response, asset deflation, would be damaging—'a crisis is triggered by income problems and changes in

12 Explanatory Memorandum, p. [1].

13 Mr Ben Rees, *Submission 2*, pp. 2 and 4.

14 Mr Ben Rees, *Submission 2*, p. 4.

15 Dr Mark McGovern, *Submission 129*, p. 1.

valuations leading to spreading concerns about equity levels and repayment prospects'. He stated:

> Contagion becomes a real risk as falling asset values affect all farms, even those with no debt. Liquidity dries up until the down slide is seen as complete only after the property overhang is liquidated.
>
> Markets typically overreact, with needless loss of wealth. With active assets, such as farms, capacity is also destroyed. Serious new entrants, having delayed until both prices had bottomed and income:asset ratios rectified, now face considerable restoration costs. A once productive farm becomes derelict if restoration is too difficult or expensive, not for production, environmental or like reasons but due to a fatal financial exposure.[16]

3.15 The Western Australian Farmers Federation also expressed concern about the current level of farm debt and the potential for property devaluation contagion:

> WAFarmers believes strongly that the current farm debt situation, which is believed to be in the vicinity of $64bn, is untenable.
>
> Aligned with a five-year average national agricultural gross production value of $42.24 billion (ABS 2014), this represents a debt to income ratio of exceeding 1.5, which at that level, is considered by the mainstream banking sector 'to be at significant risk' in terms of the industry's inability to service the existing debt.
>
> There are certainly sectors within the industry whose relative debt loading would be proportionally higher than the average, particularly grains, dairy and livestock systems dependant on the live export industry.[17]

3.16 The National Farmers' Federation (NFF) noted concerns about increasing rural debt levels. Despite capital investments, which 'ideally hold farmers in good stead into the future', the NFF argued that 'total farm debt levels at above $60 billion place the agricultural sector at considerable exposure to increasing credit costs and ongoing viability'.[18] The NSW Farmers submitted that the escalation of rural debt in Australia and the ability to finance this was 'a serious issue for the industry'.[19]

3.17 The committee sought evidence about farm debt and rural lending practices from relevant government bodies.

3.18 Treasury submitted that rural debt had trebled over the past 15 years.[20] It noted that rural debt had risen from around 100 per cent of rural output in the early

16 Dr Mark McGovern, *Submission 129*, p. 2.

17 Western Australian Farmers Federation, *Submission 127*, p. 2.

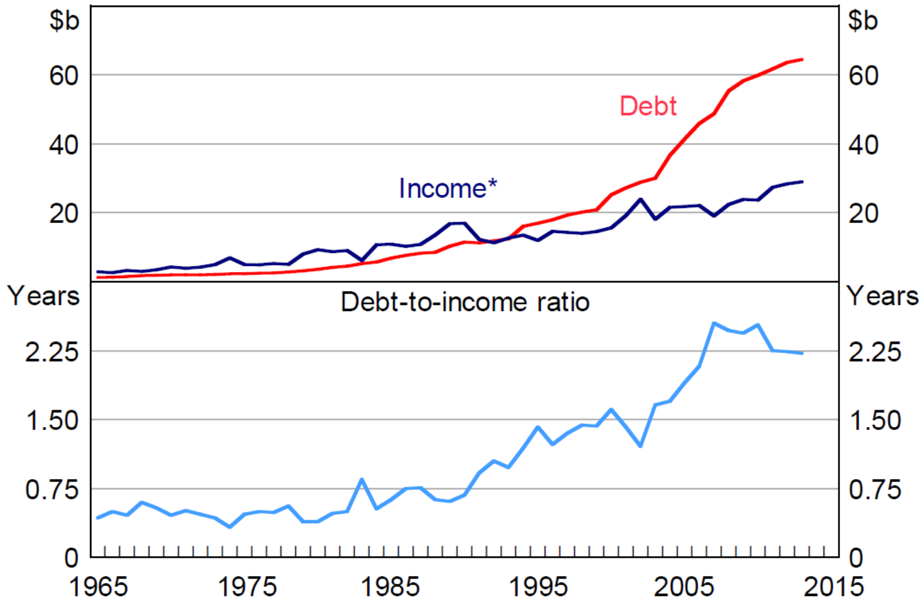
18 National Farmers' Federation, *Submission 124*, p. 7.

19 *Submission 125*, p. [1].

20 *Submission 133*, p. 5.

1990s to almost 200 per cent in 2012–13.[21] The growth in rural debt relative to income is depicted at Figure 3.1.

Figure 3.1: Rural debt and income



* Rural income is after deduction of taxes and subsidies on production and before deduction of depreciation, property income and cash operating expenses.

Source: Reserve Bank of Australia, *Submission 93*, p. 2; based on ABS, APRA and RBA Rural Debt Survey data.

3.19 According to Treasury, rising cost pressures, over the long term, had 'necessitated increases in productivity in order for farmers to remain profitable and keep operations viable'.[22] Land purchases have been a key cause of increased indebtedness, although Treasury noted that other sectors in the economy had also seen increased indebtedness since the 1990s. For example:

- between the early 1990s and 2012–13, the ratio of household debt to disposable income rose by almost 100 percentage points to 146 per cent; and
- over the same period, the aggregate credit-to-GDP ratio grew from around 80 per cent to approximately 140 per cent.[23]

3.20 Treasury added that much of the rural debt was 'held by a relatively small proportion of mostly large farms'.[24]

3.21 Ms Karen Schneider, Australian Bureau of Agricultural and Resources Economics and Sciences (ABARES), recognised that debt was an important source of

---

21 Treasury, *Submission 133*, p. 5.

22 Treasury, *Submission 133*, p. 3.

23 Treasury, *Submission 133*, p. 5.

24 Treasury, *Submission 133*, p. 5.

funds for farm investment and continuing working capital.[25] She also identified the many factors that have influenced the growth in farm debt over the past two decades which included:

> …lower interest rates, increased use of interest-only loans, structural adjustment—primarily the shift into cropping, which is relatively capital and input intensive—higher variability in incomes, increases in the size of farm enterprises, use of more intensive production technologies and the slowdown of loan repayments and increases in borrowing to meet working capital requirements during drought.[26]

3.22 The RBA acknowledged that rural debt had more than doubled over the past decade, explaining that the marked increase in debt over that period was:

> …partly driven by borrowing for farm improvements and capital investments. The reduction in farm incomes resulting from the widespread drought in the 2000s also contributed, as farmers increased borrowing to meet their working capital requirements.[27]

3.23 The RBA stated further that:

> Notwithstanding the high debt-to-income ratio, lower business lending rates and the slowdown in rural debt growth have led to a decline in the rural sector's interest payments as a share of income since 2008. However, recent RBA liaison with agricultural businesses indicates that some individual farms may be finding it difficult to access additional funding due to their existing high debt levels.[28]

3.24 According to the RBA, in recent years, there appeared to have been a slowdown in rural lending and debt growth, as well as a decline in the proportion of the rural sector's income allocated to interest payments (Figure 3.2).[29] The RBA attributed these developments to factors including:

- farmers increasingly recognising the importance of managing their balance sheets following previous episodes of drought;
- growth in rural incomes;
- higher perceived risk from climate variability;
- increased economic uncertainty;
- lower business lending rates; and

25 *Proof Committee Hansard*, 18 March 2015, p. 14.

26 *Proof Committee Hansard*, 18 March 2015, p. 14.

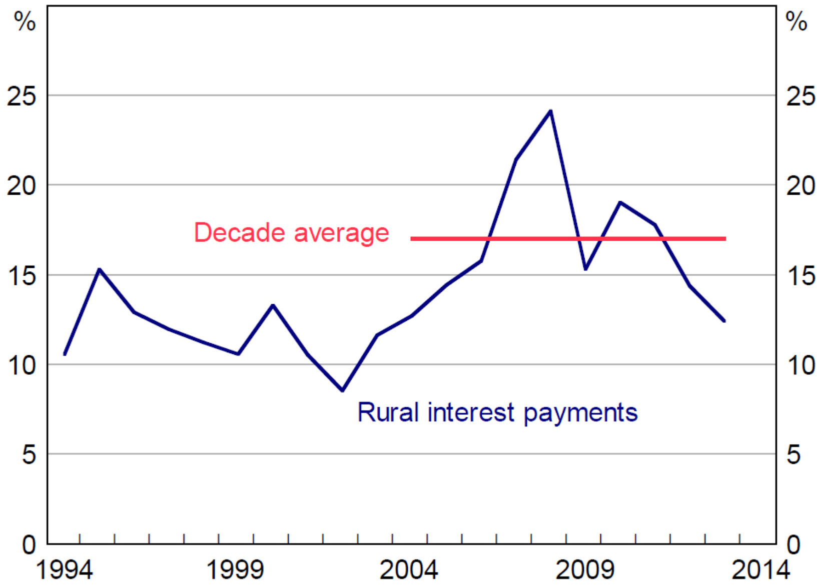
27 Reserve Bank of Australia, *Submission 93*, p. 2.

28 *Submission 93*, p. 3.

29 *Submission 93*, p. 3

- reassessments by financial intermediaries of the terms associated with the supply of credit, as part of a broader review of loan performance and lending standards since the global financial crisis.[30]

Figure 3.2: Rural interest payments* as a share of rural income



* Estimated using rural debt outstanding and the average business lending rate.

Source: Reserve Bank of Australia, *Submission 93*, p. 3; based on ABS and RBA data.

3.25 The Australian Bankers' Association (ABA) recognised that rural debt had 'grown significantly over the past 10 years'. It did not agree, however, with the contention that there was 'a rural debt crisis'. The ABA provided the following summary:

> The banking sector has a strong record in recent times of supporting the rural sector through the 'decade of drought' on the East Coast and more recently through a prolonged drought period in the West Coast grains industry. These areas have been recovering and rebuilding equity. Bank Pillar 32 Reporting indicates that less than 1.5% of loans to agriculture are more than 90 days in arrears. Bank losses on the portfolio of rural loans are less than 0.5%. Impaired loans, including 90 days plus in arrears are estimated by the ABA to be less than 3% of bank loans outstanding to agriculture.[31]

3.26 The ABA, however, was not disputing that there were people on the land struggling and that there were people being forced off the land, sometimes after multiple generations of working that land:

> We do acknowledge that there are farmers in specific areas and industries that are under financial pressure. In the case of Northern Beef Cattle

30 Reserve Bank of Australia, *Submission 93*, pp. 2–3.

31 *Submission 109*, p. 6.

> producers their position has been obviously exacerbated by disruptive events such as the live export ban and more recent drought. In light of recent droughts in Western Australia and more recently in Northern Queensland it may be timely for Government to again review the effectiveness of changes made to drought programs and assistance provided. The impact of drought affects producers, at all levels, regardless of whether the[y] hold bank debt.[32]

3.27 Mr Steven Münchenberg, ABA, cited figures taken from the northern beef industry at the end of the 2014 financial year, where the banks had 1,258 customers in northern Queensland and of those, 43 were 90 days in arrears equivalent to 3.4 per cent.[33] Importantly, he acknowledged that there would be customers who were keeping up with their repayments 'through selling assets including stock'.[34] While not disputing that there were segments of the agricultural sector currently in severe difficulty, the ABA contended that:

> …the proposition of this bill is based on there being some form of nationwide problem. They may be solutions that are needed to be looked at in particular circumstances. But this bill, which would have serious implications for the risk assessment of lending to agriculture across Australia, is a systemic response to an issue that is not systemic.[35]

3.28 According to the ABA, government policy should be put in place to respond to rural debt.[36]

Particular sectors and rural debt

3.29 There is no doubt that rural debt levels have risen over the last decade. According to the *Agricultural Competitiveness Green Paper*:

> Most of the rise in gross debt over the last decade occurred prior to 2008 and debt has been relatively stable since then. Key drivers of the increase included lower interest rates, increasing farm scale, structural change towards more capital intensive operations, and the availability of interest-only loans…Higher debt in the 2000s was also supported by rising land values, with these often not backed up with higher returns that could be earned from that land.[37]

---

32 Australian Bankers' Association, *Submission 109*, p. 6.

33 *Proof Committee Hansard*, 18 March 2015, p. 22.

34 *Proof Committee Hansard*, 18 March 2015, p. 23.

35 *Proof Committee Hansard*, 18 March 2015, p. 24.

36 *Proof Committee Hansard*, 18 March 2015, p. 25.

37 *Agricultural Competitiveness Green Paper*, p. 35, https://agriculturalcompetitiveness.dpmc.gov.au/sites/default/files/green_paper.pdf (accessed 16 March 2015)

3.30 The Green Paper noted further that some farms were experiencing debt 'at unsustainable levels, at least during times of poor cash flow'. It indicated that impaired loans had risen over the last two years and accounted for around 3 per cent of loans nationally. This rate was slightly above levels experienced for other Australian businesses in 2010, following the Global Financial Crisis. Pointedly, however, it noted that:

> Impaired loans may be significantly higher than the national average in some parts of the sector and some geographical areas.
>
> …
>
> The northern Australian cattle industry has been particularly affected by financial stress—due to a combination of drought and the mid-2011 government-imposed disruption to live cattle exports to Indonesia, which resulted in lower cattle prices, falling pastoral property valuations and consequently higher debt-to-equity ratios.[38]

3.31 Indeed, the Australian Beef Association informed the committee that the cattle industry was 'severely damaged' and needed radical action if it were 'to be a productive, sustainable and Australian owned and operated industry'.[39] It indicated further that it was unlikely Queensland cattle producers would 'ever be able to repay the current debt out of income'.[40]

3.32 The Australian Beef Association drew on their members' experiences to highlight the size of the debt burden. It noted that in 2001 the average debt per head of cattle was $191, which had ballooned out to $727 per head in 2011.[41]

3.33 Mr Ben Rees, an economist with the rural debt roundtable, could not reconcile the evidence regarding rural debt given by the ABA and the various government departments and agencies with that of farmers with on-the-ground experience. He explained:

> I was a speaker, along with Dr McGovern, at the Winton crisis meeting on 5 December. The Catholic priest of Longreach…said there were at least 43 people in and around Longreach that he knew were either in receivership or at risk. On Monday, I took the opportunity of going into Miles to talk to our local government agent, who helps people when they become involved in difficulties. She identified 12 people either in receivership or close to it, and many more, she believed, were at threat.

---

38 *Agricultural Competitiveness Green Paper*, p. 35, https://agriculturalcompetitiveness.dpmc.gov.au/sites/default/files/green_paper.pdf (accessed 16 March 2015).

39 *Submission 55*, p. 11.

40 *Submission 55*, p. 6.

41 The Australian Beef Association explained that ' Debt per Head is derived by dividing the total Queensland Cattle Producers' debt by the number of cattle in Queensland. Between 2001 and 2011 Queensland cattle numbers increased from 11.3 million and 12.6 million'.

> …Dr McGovern, Mr Walton and I have addressed a number of farmer meetings across Australia: a thousand people in Merredin, in Western Australia; 200 at Colac, in Victoria. I and Mr Walton addressed 70 at Hughenden in December 2013. Mr Walton was present. There were 500 members at Richmond, farmers, who attended. Dr McGovern and I addressed a meeting at Winton: 350 farmers. This idea that it is just confined to northern New South Wales and Queensland, to me, is pretty hard to believe.[42]

3.34 Clearly there is a mismatch in perceptions or understanding of the level and extent of rural debt. A major problem appears to stem from incomplete data on rural debt, and, while figures about aggregates are quoted, it would seem they mask the particular and serious difficulties facing certain sectors or regions in rural Australia.

Data on rural debt

3.35 In his submission, Dr McGovern stated that the overall rural financial condition was difficult to determine empirically due to the withholding or limited analysis of data.[43] Mr Walton stated simply that it was 'unclear how large the actual debt which is impaired or at risk'.[44] He stated:

> Full and accurate numbers seem very hard to acquire, reports by the banks that it is all ok flies in the face of ground truthed information. It is one of the shortcomings of the current information that clarity is not available. Whether the bankers are compelled to provide full reporting to the APRA [Australian Prudential Regulation Authority] is unclear, but for certain whatever data is available does not offer the requisite information for clarity around quantum.[45]

3.36 The RBA also observed that little public data were 'available on the performance of rural loans'.[46] In responding to the observations about the poor quality of data available on rural debt, the ABA noted that APRA's role in collecting data was 'very much focused on the stability of the banking system. It will only go to a level at which they are interested'.[47] Likewise, Treasury indicated that more data would be useful.[48]

3.37 Ms Schneider, ABARES, agreed that more information was 'always better than less information' and further that if ABARES had more information on levels of

42 *Proof Committee Hansard*, 18 March 2015, p. 35.

43 *Submission 129*, p. 1.

44 *Submission 128*, p. 14

45 *Submission 128*, p. 14.

46 *Submission 93*, p. 3.

47 Mr Münchenberg, *Proof Committee Hansard*, 18 March 2015, p. 21.

48 *Proof Committee Hansard*, 18 March 2015, pp. 28 and 29.

debt, it would be able to analyse the situation better.[49] A recent concerted effort brought together ABARES, the Australian Bankers' Association, the Gulf Cattlemen's Association and the National Farmers' Federation to share data in order to gain 'a more accurate picture of rural debt, particularly for the Northern Queensland cattle industry'.[50] According to Mr Peter Gooday, ABARES:

> In terms of the region where the problem is most acute, it is those regions in the report we did with the ABA and the NFF: northern New South Wales, northern Queensland, south-west Queensland. It is obvious there that the proportion of farm receipts required to cover interest payments is substantially higher than the rest of the country. There is no doubt that there are issues there. In terms of industries that are most affected at the moment, the Beef industry stands out as one where, again, the proportion of receipts required to cover interest payments is higher than most other industries…[51]

3.38 Mr Steven Münchenberg agreed with the view that there was a gap in information and indicated that after the joint exercise in 2014, the ABA had approached the government and suggested that it would provide, on a regular basis, information on the state-by-state basis and on an industry-by-industry basis.[52]

3.39 Dr McGovern argued that the Reserve Bank was in a position where it could demand relevant information and 'not be fobbed off' and was also in contact with the bankers directly.[53]

Committee view

3.40 The committee notes the importance of having a sound understanding of the challenges confronting rural businesses and communities. The need to hold a meeting in 2014 when the rural debt situation in northern Queensland had already been well established indicates that Australia's decision makers have not been well prepared to make timely and informed decisions. Moreover, the RBA, ABA and ABARES recognised that more data on rural debt would be helpful.

Recommendation 1

3.41 The committee recommends that the Department of Agriculture and Treasury consult with the banking sector and the relevant bodies who have identified deficiencies in the current information available on rural debt. The purpose of the consultation would be to progress a suitable data collection method to ensure that the quality of data available to government on rural debt

---

49 *Proof Committee Hansard*, 18 March 2015, p. 16.

50 *Proof Committee Hansard*, 18 March 2015, p. 13.

51 *Proof Committee Hansard*, 18 March 2015, p. 18.

52 *Proof Committee Hansard*, 18 March 2015, p. 24.

53 *Proof Committee Hansard*, 18 March 2015, p. 5.

would provide the information needed for decisions-makers to make timely and well-informed decisions.

Conclusion

3.42 The committee is grateful to the individuals who were willing to share their difficult experiences of managing businesses in regional Australia. While uncertainty and risk are shared by all businesses, the committee understands and appreciates the additional challenges agricultural enterprises and businesses reliant on them face.

3.43 The committee is mindful of the need for financial arrangements to be sustainable. It also notes that there was a divergence of views on the sustainability of Australia's rural debt. Based on the evidence before it, the committee observes that levels of debt and the ratio of rural debt-to-income clearly increased significantly between 2003 and 2008, and have remained high since then. However, increased indebtedness across other sectors in the economy has also occurred during this period. Annual growth in rural lending has slowed and rural interest payments as a share of rural income are currently significantly below the decade average. Even so, the committee understands that debt levels vary for different farm businesses, particularly for business that have encountered natural disasters and other challenges, and currently there are farming sectors under financial stress and in need of government assistance.