

Chapter 5

Committee view

5.1 The level and sustainability of rural debt is a complex issue encompassing the absolute levels of debt that rural businesses are burdened with, the income and profitability of these businesses, and the lending practices of Australian financial institutions. It is clear that some owners of farming businesses and businesses reliant on farms are under severe stress due to financial hardship. The committee also acknowledges that the agriculture sector faces special challenges, such as natural disasters and market fluctuations. Operating conditions and debt-to-income ratios have, for a sustained period of time, been demanding for many rural businesses. Despite existing government assistance programs being based on an understanding of the circumstances rural Australia is experiencing, the committee is aware that consideration of a long-term plan addressing more fundamental problems is required. In this regard, the committee appreciates the overall objective of the bill.

5.2 Based on the evidence received during this inquiry, broad observations have been made in this report about the nature and state of rural debt in Australia. The committee wishes to express its gratitude to the individuals and organisations that took the time to make submissions on these issues. The committee also acknowledges there is some interest within the community in establishing an ARDB that would, among other things, be involved in financial arrangements entered into by enterprises in Australian agriculture or associated industries.

5.3 As a legislation committee tasked with examining the proposed ARDB, the committee must focus on the provisions of the bill. This restricts the committee to considering the merits of a very specific proposal—the establishment of an ARDB within the RBA. The committee has a number of concerns with the bill as outlined in the previous chapter. For example, it is not readily apparent why the RBA should be tasked with the role of facilitating or managing rural adjustment and financial reconstruction activities. The proposal outlined in the bill would, if implemented, represent a significant change to the role of the RBA. The nature of financial assistance provided to businesses by the Commonwealth would also fundamentally change. There is a clear need to ensure that capital is allocated efficiently to the most sustainable and productive businesses. The committee also notes the argument that the proposal has the potential to distort the market for rural finance and, depending on how it is implemented, to increase the cost of finance.

5.4 The funding arrangements proposed for the ARDB also raise important accountability issues. Assistance to industry should be provided transparently either through specific budgetary outlays or tax concessions. Rather than money for the ARDB being purposely appropriated, however, the bill seeks to use the RBA's existing capital. The RBA's reserves provide a capacity for the RBA to absorb losses

when doing so is necessary to help ensure Australia's financial system remains strong. It is essential that the RBA has the reserves necessary for it to carry out these key operations.

5.5 The committee is certainly concerned about various challenges that parts of regional Australia now face. However, the committee is of the view that this bill is not an appropriate solution. Proposals such as this must be carefully developed and assessed, and should not be contemplated in isolation. The creation of a new Commonwealth entity could only be made following a comprehensive review of the nature and level of rural debt in Australia by a body expressly charged with such a task. A broader review would be able to receive evidence on and test various policy proposals for addressing problems and market failures that may exist. As outlined above, the committee is restricted to examining this particular bill.

5.6 Several comprehensive policy development processes that are considering matters relevant to this bill are currently underway. Of most direct relevance is the white paper on Australia's agricultural competitiveness that the government is currently developing. Among other things, the white paper will consider how market returns for farmers can be improved, as well as issues related to access to investment finance, farm debt levels and debt sustainability.¹ As part of the white paper process, on 20 October 2014 the government released a green paper. The green paper advised that the government has no plans to progress with a rural reconstruction bank that would provide concessional loans, such as an ARDB.² Rather, as the green paper explains, the government is seeking to develop an agriculture policy that will, among other things, increase returns at the farm gate.³ The government invited submissions on the paper, including on policy ideas to improve access to finance.

5.7 Also, the Joint Select Committee into the Australia Fund Establishment was set up to consider whether a fund should be established to support rural and manufacturing industries. That committee will also consider issues relating to bankruptcy and insolvency laws. Clearly, this Select Committee has a much broader remit than inquiring into one specific mechanism intended to assist farmers gain access to affordable credit and to manage debt. While the evidence before the committee suggests that the establishment of the ARDB is not the most appropriate way to assist farmers, it highlighted the need for effective government intervention. Importantly, the inquiry opened up fruitful avenues that clearly warrant further and serious exploration. Indeed, rather than end the debate, this inquiry has enlivened the conversation about farming in Australia and how to provide finance more effectively

1 Australian Government, 'Agricultural Competitiveness White Paper: Terms of Reference', <https://agriculturalcompetitiveness.dpmc.gov.au/terms-of-reference> (accessed 8 July 2014).

2 Australian Government, *Agricultural Competitiveness Green Paper*, 20 October 2014, https://agriculturalcompetitiveness.dpmc.gov.au/sites/default/files/green_paper.pdf (accessed 20 October 2014), p. 42.

3 Australian Government, *Agricultural Competitiveness Green Paper*, pp. vii–viii.

to farmers that would allow them to manage the feast and famine cycles that characterise the sector. This conversation needs to continue.

5.8 In addition to the white paper, this Joint Select Committee inquiry may also provide insights into rural reconstruction and development issues, and potential policy options that could provide an effective response. Consequently, the committee recommends that the Joint Select Committee on the Australian Fund consider the evidence presented during the inquiry into the Reserve Bank Amendment (Australian Reconstruction and Development Board) Bill 2013 and use it to inform its inquiry.

5.9 While the committee's position on the bill may disappoint those looking for immediate action, the committee cannot endorse a proposal such as the ARDB without being able to examine and assess alternative proposals. As noted in the previous chapter, the bill lacks detail. Other policy processes already underway are better placed to consider the issues that led to the bill being introduced. However, the committee would like the evidence it has gathered during this inquiry to contribute to policy discussions taking place elsewhere.

Recommendation 2

5.10 The committee requests that, during its deliberations on the establishment of a fund to support rural and manufacturing industries, the Joint Select Committee into the Australia Fund Establishment take into account the issues raised in the submissions received during this inquiry.

Recommendation 3

5.11 The committee recommends that the Senate not pass the bill.

**Senator Sean Edwards
Chair**

