

# Dissenting Report by Senator Nick Xenophon

## Rural debt: Crisis, what crisis?

1.1 Historically speaking Australia has had a proud tradition of agricultural production. It was not uncommon for families to own and operate farms for generation upon generation. However, a multitude of factors has contributed to the struggles of rural and regional Australia. The high Australian dollar, falling commodity prices, drought and extreme weather events, lack of support from State, Territory and Federal Governments and changes to lending practices following the Global Financial Crisis have all made participation and survival in the agricultural sector increasingly difficult to achieve. As a result, rural debt has skyrocketed. Indeed, Mr Ben Rees (an economist) described rural debt as 'taking on a life of its own' since 1993.<sup>1</sup>

1.2 At the outset I acknowledge the key role the Hon Bob Katter MP has played in instigating the concept of the ARDB, and the work of my co-sponsor of this bill, Senator John Madigan. Most importantly, I thank the submitters for sharing their powerful personal stories.

### The need for the Australian Reconstruction and Development Board

1.3 The Reserve Bank Amendment (Australian Reconstruction and Development Board) Bill 2013 aims to address this debt crisis by creating a 'specific board under the umbrella of the Reserve Bank, with the aim of promoting reconstruction and development in rural and regional areas'.<sup>2</sup> This board would be called the Australian Reconstruction and Development Board ('ARDB'), and it would be tasked with developing and implementing rural reconstruction and development policy. As the Explanatory Memorandum to the bill explains:

Rural Australia is 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 farms 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 circumstances of uncertainty and risk to nationally important agriculture and associated industries, reconstruction is critical to re-establish a sound financial basis, and development funds to maintain and sustainably develop capabilities.<sup>3</sup>

1.4 The concept of an ARDB is not entirely new in Australia. The Commonwealth Development Bank ('CDB') provided finance to primary production

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1 Mr Ben Rees, *Submission 2*, p. 2.

2 Senator Xenophon, *Senate Hansard*, 5 December 2013, p. 952.

3 *Explanatory Memorandum*, p. 1.

and small industry undertakings between 1960 and 1974 where funding was desirable but not obtainable through other means on suitable or reasonable terms.<sup>4</sup>

1.5 Additionally, the former Rural Credits Department of the Reserve Bank of Australia previously provided seasonal credits to statutory marketing authorities and rural cooperative associations for projects associated with primary production.<sup>5</sup> The RCD was established at a time when 'the size of the rural sector meant that its demand for seasonal finance was very large relative to the capacity of private financial markets'.<sup>6</sup> However, the RCD was disbanded in 1988 as by that time the private banking sector had adjusted to seasonal rural demand for credit.

1.6 While the extent of this adjustment may have been satisfactory to cater to the needs of rural and regional Australia, the needs of borrowers in the agricultural sector are once again not being met by the private banking sector. During the committee's public hearing Mr Walton described this mismatch in more detail:

...there is a heavy mismatch between the available capital arrangements between lenders and borrowers in agriculture. As these governments that we have had in Canberra for a number of years have removed various risk ameliorating systems—the single desk, drought relief and so on—agriculture has had to carry a higher level of risk and there has been no effective adjustment in the arrangements between financiers. So financiers are still lending the same product they would have been lending ages ago, years and years ago. They seem to be quite inappropriate to the risk taken today in agriculture. Mind you, I think that we have to find a new way of dealing with risk—and there are some people out there doing their very best in that line.<sup>7</sup>

1.7 In his submission, Dr Mark Govern described some of the reasons commercial banking arrangements have not been suitable for farmers:

Farm funding has become very difficult for many in the last year. The use of standard mortgages primed the current illiquidity in farm financing. Debt funding grew rapidly since 2000 despite obvious misfits between:

- mortgages that by design assume stable incomes and changing production and market realities;
- a rising disconnect between incomes and servicing obligations;
- expected and actually realized performances.<sup>8</sup>

1.8 The level and extent of rural debt is an issue on which several submitters disagreed. Despite evidence from Treasury that rural debt had trebled over the past 15 years,<sup>9</sup> and the RBA's acknowledgement that rural debt had more than doubled over

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4 Commonwealth Banks Act 1959, C2004C02847 (27 October 1993), ss. 72, 73.

5 Reserve Bank of Australia, *Submission 93*, p. 4.

6 Reserve Bank of Australia, *Submission 93*, p. 4.

7 *Proof Committee Hansard*, 18 March 2015, p. 3.

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

9 *Submission 133*, p. 5.

the past decade,<sup>10</sup> the Australian Bankers Association (ABA) refused to characterise the current situation as a 'rural debt crisis'.<sup>11</sup> Concerns about the lack of information on debt levels were described by Mr Walton in his submission:

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.<sup>12</sup>

1.9 While it may not be possible to put an exact figure on the amount of families in financial crisis, the tragic consequences of rural debt and the lack of access to finance were described by Mr Walton:

The phenomenon of suicide haunts our communities; this is often the end game of economic failure. We hear with disturbing regularity that one or more of these events have occurred in this district or that. The national Rural Health Alliance (May 2009) suggested men in regional and remote Australia are '1.3 to 2.6 times more likely to end their lives by suicide than urban counterparts'. They went on to list the first two factors relevant as financial insecurity and stress caused by drought, flood and bushfires. That authorities publicly spin the need for councillors to resolve this problem is a terrible insult, when most of this is a result of failed industry policy leading to empirically demonstrated low profits and finally overbearing debts and a feeling of complete abandonment. We can do better; we must do better...<sup>13</sup>

**1.10 NOTE: If anyone reading this report who is affected by rural debt believes they or someone they know may be at risk of self-harm, it is important to seek advice from beyondblue on 1300 22 4636 ([www.beyondblue.org.au](http://www.beyondblue.org.au)) or Lifeline on 13 11 14 ([www.lifeline.org.au](http://www.lifeline.org.au)).**

### **The functions of the ARDB**

1.11 The ARDB's reconstruction and development policy will be determined by the ARDB's three tasks: the facilitative task, the development task and the reconstructive task which are described in the bill's Explanatory Memorandum:

- The facilitative tasks consists of researching, reporting on and helping to develop the resilience, capabilities and ongoing financial viability of Australia's food and natural fibre systems, and any other Australian industries or sectors that the (ARDB) has identified as being at risk. The Bill also provides that this task must be undertaken in a timely way.
- The development task consists of contributing to the development of Australian agriculture, associated industries and infrastructure by developing and offering financial arrangements and reviewing financial arrangements.

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10 *Submission 93*, p. 2.

11 *Submission 109*, p. 6.

12 *Submission 128*, p. 14.

13 *Submission 128*, pp. 4–5.

- The reconstruction task requires the (ARDB) to fairly, reasonably and effectively reduce or eliminate the debilitating impact of certain financial arrangements. This relates to financial arrangements which, because of certain conditions or circumstances, threaten or reduce the ongoing viability or sustainability of Australian agricultural enterprises or associated entities. These conditions or circumstances...include design, inadequate evaluation, market or organisational failures, seasonal conditions, or any other adverse circumstances.<sup>14</sup>

1.12 An analogy for the proposed ARDB could be drawn with South Australia's HomeStart Finance. Since its establishment in 1989, HomeStart Finance has helped 63,500 South Australian households into home ownership, the overwhelming majority of whom would not have been able to obtain finance through traditional lenders. HomeStart Finance demonstrates how targeted assistance to a specific customer group benefits not only individuals and families, but the economy as a whole. Just as HomeStart's functions and policies help to achieve long term housing strategies in South Australia, filling a market void, the ARDB will identify what needs of farmers and producers are not currently being met by the private banking sector and will develop meaningful and effective responses to those needs in a timely manner.

### **Major lenders are not responding to this crisis**

1.13 The conduct of Australia's big banks must also be brought into question, particularly in relation to their responses to customers who are in financial distress. Journalist Colin Bettles recently reported on Bruce Dixon, a Western Australian sheep and grain producer who was confronted by receivers appointed by the ANZ a day after defaulting on his multimillion dollar loan with the bank. By this time the ANZ had already taken steps to obtain possession of the property, and the receivers had been instructed to speak with Mr Dixon about a timeline for his exit. Mr Dixon also alleges the receivers made veiled threats, stating that they were entitled to call the Tactical Response Unit if he refused to leave.<sup>15</sup>

1.14 Mr Dixon stated he defaulted on his loan (following an agreement made with the ANZ in August 2014) as his debt levels rose by \$500,000 in the space of 8 months due to the high interest rate applied to his account.<sup>16</sup>

1.15 In response to the actions of the receivers, the Rural Action Movement allegedly 'impounded' the receivers' vehicle by surrounding it with haystacks. Such a measure is clearly reflective of the desperation and frustration many farmers are feeling about the heavy handedness of banks in appointing receivers.

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14 *Explanatory Memorandum*, p. 4.

15 Farm Online, Receivers defend foreclosure procedures, 30 March 2015, available at <http://www.farmonline.com.au/news/agriculture/general/news/receivers-defend-foreclosure-procedure/2727742.aspx?storypage=0> (accessed 30 March 2015).

16 Farm Online, Receivers defend foreclosure procedures, 30 March 2015, available at <http://www.farmonline.com.au/news/agriculture/general/news/receivers-defend-foreclosure-procedure/2727742.aspx?storypage=0> (accessed 30 March 2015).

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## Conclusion

1.16 Whether the banking industry wants to admit it or not, Australia is in the midst of a rural financial crisis. The Reserve Bank Amendment (Australian Reconstruction and Development Board) Bill 2013 would go some way to responding to this crisis by providing a framework through which the RBA can address the needs of farmers and producers to ensure the long term survival of our agricultural industry.

1.17 We cannot rely on broad measures such as those contained in Basel III to remedy this situation. As Dr McGovern told the committee at its public hearing:

Basel III will worsen the situation potentially, because it is saying that, if the banks get it right, we can manage the banks, but they are not saying what happens to the economies. What you have to remember is we have got an introverted banking system which looks after the solvency of the banks and not the prosperity of the people—the Reserve Bank has both as a joint responsibility.<sup>17</sup>

1.18 Dr McGovern continued:

The legislation is already there; it needs an amendment so we can deal with today's problems and look forward. We have an opportunity to free up things and avoid needless loss of wealth and capacity. The one that really worries me is: classically what happens in these situations is that you lose critical, productive capacity. The country cannot export what it once did; it cannot feed itself as well as it once did; it then becomes less viable as a nation. That is the sort of thing that Basel III does not go anywhere near. Problems are systemic.<sup>18</sup>

1.19 Without appropriate Federal Government support we are at risk of jeopardising not only our ability to feed ourselves, but Australia's economy as a whole.

## Recommendation 1

**1.20 That the Reserve Bank Amendment (Australian Reconstruction and Development Board) Bill 2013 be passed.**

**Senator Nick Xenophon**  
**Independent Senator for South Australia**

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17 *Proof Committee Hansard*, 18 March 2015, p. 6.

18 *Proof Committee Hansard*, 18 March 2015, p. 6.

