

# Financial crisis in bush

By ANNABELLE BEALE

**A** RADICAL banking solution to Australia's rural debt crisis may be a lifeline for south-west Victorian dairy farmers, according to two financial experts who fear delay of the legislation could destabilise the Australian agricultural industry.

Local farmers and agribusiness/farm consultants travelled to Canberra last week to put pressure on political parties to support Federal Independent MP Bob Katter's push for a Federal reconstruction and rural development bank.

The Reserve Bank (RBA) Amendment Bill 2013 introduces laws within the RBA to enable a national rural reconstruction bank to buy an estimated \$5 billion of rural loans at high risk of default held by the major banks, exonerate farmers about 40 per cent of their loans and refinance the remaining debt at a lower interest rate of 2.5pc.

The legislation is a long-term solution from the Rural Finance Roundtable (RFR) Working Group.

As a short-term debt solution, the group proposed the controversial Farm Finance Package which has been criticised for its delayed distribution of eligible loans.

Warrnambool Veterinary Clinic dairy farm consultant Mike Hamblin and Coffey Hunt agribusiness accountant Garry Smith, who is also a Farmer Power representative, were among those on the Canberra trip.

"If we are going to have agricultural succeed across all industries, then we desperately need a solution to debt," said Mr Smith, who is also a member of RFR.

"People in the most vulnerable situations are being slapped with the highest interest - there have been 35 farms under bank control (in south-west Victoria) that



Warrnambool Veterinary Clinic dairy farm consultant Mike Hamblin and Coffey Hunt agribusiness accountant Garry Smith, who is also a Farmer Power representative, say a Federal Government reconstruction and rural development bank needs to be finalised before the estimated \$3-5 billion contested debt grows to a potential \$10b within six months.

## Farm debt levels skyrocketing in West

A CONFIDENTIAL document revealed to *Stock & Land* shows a West Australia bank was concerned it was at "tipping point" in 2011 due to farm debt increasing at an average of 9.1 per cent per annum following the banking system's deregulation.

The internal document exposes a steady increase since banking deregulation, with farm lending of up to 100pc in 2011 compared to less than 50pc in 2003.

Statistics show farm debt levels have continued to rise despite a steady drop in farm equity - with 2011 recording farm equity averaging 72pc and debt at \$640 per hectare compared to 2005, when farm equity was 82.5pc and debt \$250/ha.

The information revealed farm surplus was at an average \$56,000 deficit, or \$13/ha.

Suggested solutions were to lower farm operating costs and improve farm efficiency.

I am aware of and to my knowledge no farm has been sold to recoup the debt.

"Banks need a solution now, and so do farmers.

"If not, it will destabilise the market and erode equity right through the farming sector."

With a growing number of dairy

herds in Victoria under foreclosure, Mr Smith said a significant drop in farmland prices could reset the capital rural property market, resulting in deteriorating debt-equating ratios, with further property sales threatening the downward spiral.

The Australian Bureau of Agricultural and Resource Economics and Sciences estimates farm debt across Australia at \$66 billion, with some farmers paying interest rates of up to 16pc.

"The peak overseeing body (the Australian Reconstruction and Development Board, or ARDB) said it needed to be dealt with and pushed through immediately; if not, that \$3-5b contested debt could be \$10b within six months and spiral out of control," Mr Smith said.

"If the solution is not supported, the challenges with the farming community will flow out to

the business community, which is known as rural and economic collapse."

However, RFR chairman Rowell Walton said Mr Smith's \$10b bad debt forecast was "conservative".

"Falling values post global financial crisis are problematic.

"The National Farmers Federation president (Duncan Fraser) commented that he had been told by the banks they owned more equity than farmers indebted to them," he said.

"Part of the problem for agriculture has been the mismatch of finance to the very high volatility of prices and production.

It is anticipated ARDB (a third board of the Reserve Bank) will draft the final legislation but Mr Walton said with Parliament closing tomorrow, the issue would be stalled on allowing a political battle between parties until after the Federal election.



National Centre Farmer Health director Sue Brumby with Western District Health Service chief executive Jim Fletcher, Jacquie Cotton and Mark Atcheson.

## Farmer health service at risk

HAMILTON'S National Centre for Farmer Health is facing a grim future after being forced to shut down a key program aimed at improving the life expectancy of farmers.

About \$1 million was needed to continue the centre and its flagship service, Sustainable Farming Families, but a dispute between the State and the Commonwealth will see it axed from next month.

Farmers die on average two years before their town and city counterparts, according to the centre's director, Associate Professor Susan Brumby.

She said the "vital" program had worked hard to reverse high rates of cardio-vascular illness faced by those working on the land.

Rural isolation means many were slow to seek medical care or regular check-ups.

"We had hoped there would be further opportunities for funding - it's such a highly successful program," Professor Brumby said.

"I'm very disappointed."

She said more than 2500 people - many of them in drought- and flood-affected regions - had taken part in the program since 2003.

"Since the centre was built it has been our flagship program.

"In the past three years we've been trying to get funding for the centre."

Staffing at the centre has shrunk from 14 members to four.

Professor Brumby said only three projects remained in place before all funds would run dry at the end of next year.

Ironically, a group of Canadian researchers is visiting Victoria to explore the possibility of using a similar service back home.

Western District Health Service (WDHS) chief executive officer Jim Fletcher said it "was extremely disappointing that we can get national and international recognition, but we can't get local funding".

"I can't believe they will let something as successful as the National Centre For Farmer Health go under," he said.

"When you have international interest, why wouldn't you fund it?"

The two governments are locked in a standoff over who should pay for the centre.

The State has pointed to its national title as a reason Canberra should chip in, but the reality is that most of the centre's focus has been on Victoria.

Victoria has put \$250,000 on the table, providing the Commonwealth contributes \$500,000.

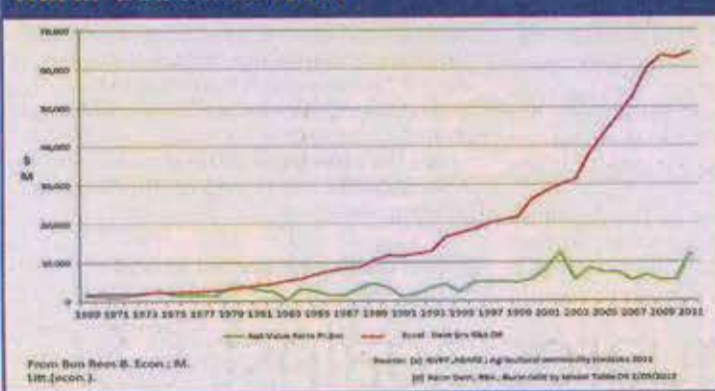
Meanwhile, he said WDHS would move to place the issue in the spotlight in the lead-up to the September Federal election.

The news comes as agricultural representatives from Alberta, Canada visit Hamilton to look at adapting and adopting SFF for their farmers.

"That the success of this program has reached the other side of the world, where funding is available for its delivery, is bittersweet for everyone involved by virtue of the satisfaction and pride that it will be used in another part of the world but, sadly, for the moment not in Victoria or Australia," Mr Fletcher said.

- SEAN MCCOMISH

### Rural debt and NVFP



## Intervention unlikely, despite tough times

VICTORIAN Farmers Federation president Peter Tuohey acknowledged it was tough times for Victorian agriculture but doubted the Federal Government would support the suggested rural banking solution.

In Canberra last week, the Rural Finance Roundtable working group briefed Treasurer Wayne Swan, Agriculture Minister Joe Ludwig and opposition Treasury spokesman Joe Hockey, John Cobb and Federal Member for Wannon Dan Tehan on the Australian agricultural crisis and suggested a Federal reconstruction and rural development bank.

"There is certainly a huge debt load within Victoria that is right across most agricultural sectors," Mr Tuohey said.

"If they set up another rural development bank, they would need government funding which would be similar to the Farm Finance (Package) concessional loans.

"It would be a good idea to do something long-term and bring interest rates back to a more friendly position to help farmers get back on their feet, but looking at long-term

debt I don't believe the Australian Government would come out in favour of this."

He said he needed to examine the details before commenting on the Victorian Farmers' Federation's support for the Federal reconstruction and rural development bank.

"I don't know if the government would borrow that money at a loss for such a huge amount to prop up any industry unless it was the car industry," Mr Tuohey said.

However, Warrnambool dairy expert Mike Hamblin, who attended the meeting with political representatives and Treasury, said "every one of them was aware there was a serious escalating rural debt problem".

"This is a solution we have put on the table and they are taking it seriously," he said.

Citing south-west dairy client statistics, he said from 1999 debt per cow had risen from \$1827 to \$4800 in 2011 coupled with land value prices spiking at about \$14,824 per hectare in 2009-10 compared to about \$6177/ha in 2006-07, which he attributed to

the sudden increase in competition for SW land due to the government's Managed Investments Scheme (Blue Gums), the influx of New Zealand dairies seeking cheaper farmland, industry's push for larger operations and banks' willingness to lend on these valuations.

"Land values have since softened to current uncertain values due to the lack of profitability associated with decreased commodity prices and the high Australian dollar," Mr Hamblin said.

"The reconstruction of rural debt as suggested by the RFR working group would soften these falling land values by assisting farmers to trade out of their current difficulty with reduced finance costs thus reducing the number of farms forced on to a market that is currently very depressed."

Moyne Shire mayor Jim Doukas called on banks, industry bodies and politicians to "step-up to the plate" and acknowledge Australia's agricultural debt crisis.

- ANNABELLE BEALE