

PARLIAMENT OF AUSTRALIA  
DEPARTMENT OF THE PARLIAMENTARY LIBRARY

*AUSTRALIAN RURAL BANK BILL 1977*

Date Introduced: 2 November 1977  
House: House of Representatives  
Presented by: Rt. Hon. P.R. Lynch,  
Treasurer

*Short Digest of Bill*

*Purpose*

To establish an Australian Rural Bank to provide finance to lending institutions for on-lending to primary producers for capital expenditure and debt reconstruction.

*Background*

In 1972, the Bureau of Agricultural Economics (BAE) concluded that there was a long term gap or deficiency in rural credit facilities and that the gap was unlikely to be breached without some form of government participation (BAE, Rural Credit in Australia, September 1972). The Green Paper (A Working Group, Rural Policy in Australia, 31 May 1974) concluded that, since in the absence of government action farmers would have difficulty in obtaining credit on terms reasonably related to the long productive life of their assets, there was a case for government involvement in the provision of rural credit. The November 1975 primary industry policy of the Liberal and National Country Parties included their proposal for the establishment of a National Rural Bank in conjunction with trading banks and other lenders. The Industries Assistance Commission (IAC) has questioned the adequacy of commercial longer term credit for the rural sector (IAC, Rural Reconstruction, 13 January 1976). More recently, the BAE in its report, A Review of Credit in the Australian Rural Sector, May 1977 stated that both the available data and the analysis of it, strongly suggest that additional credit would only be demanded by the rural sector if it were available on terms and conditions involving some concessional element. The BAE claimed that, if concessional credit is used for purposes other than the facilitation of fundamental resource adjustment, and hence is 'freely' available, it is likely to provide only temporary relief to continuing cost-price pressures as such concessional assistance can become capitalised into land values resulting in their becoming higher than otherwise. This report also highlighted the importance to producers of both the availability of short-term carry-on finance and flexibility in terms of loan repayment conditions. The Government announced in the 1977–78 Budget Speech its approval in principle of the establishment of a national rural bank, preferably taking the form of a refinance institution, complementing existing credit facilities.

The Australian Bankers Association (ABA) covering the private trading banks, whilst maintaining that there is no substantial rural credit gap and hence opposing the

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establishment of a National Rural Bank, agreed in a submission to the Government in December 1976, (to which the Commonwealth Trading Bank was a partner) that there could be merit in discussing an extension of rural lending facilities. The Commonwealth Banking Corporation, in a submission to the Government in December 1976, stated that an extension of rural credit facilities could best be arranged through a broadening of the scope of the Commonwealth Development Bank (CDB) but that it may be necessary to split the CDB into two separate entities, a Commonwealth Rural Bank and a Commonwealth Industrial Development Bank. The Australian Woolgrowers' and Graziers Council, in a submission on 13 April 1977, supported the notion of splitting the CDB. However, the ABA was strongly opposed to this proposal, and eventually advocated an Australian Rural Re-Finance Bank with representations on the policy board for the financial institutions involved.

The Government has decided to adopt a re-finance concept and this Bill provides for the establishment of an Australian Rural Bank (Bank), which is not intended to be a new direct lending institution, but rather, a re-finance institution meaning that it will borrow funds for lending to other existing financial institutions who will in turn on-lend the funds to individual primary producers. The Government will, however, control the Bank.

According to the Second Reading Speech, the major aim will be to increase the availability of longer term rural credit. In particular it is envisaged that the CDB will be able to on-lend funds from the Bank to primary producers.

Traditionally, the rural sector has obtained funds internally and also from a range of external sources. The increasing reliance on external sources in the last couple of decades is reflected in a rise in the level of total rural debt. Since the late 1960s, an increasing proportion of total rural debt has been met by the major institutional lenders (the trading banks and government agencies). The proportion of total rural debt (around \$3,100 million at mid 1975) associated with some form of government subvention or intervention increased from 27% to 41% over the four years ending mid 1975. Commercial sources of rural credit in recent years have been the trading banks (overdrafts), pastoral finance companies, assurance societies, hire purchase firms and other sources such as merchants, solicitors, vendor finance, trustee companies and family finance. Rural credit sources under government arrangement have included the trading banks (term loans and farm development loans), the Commonwealth Development Bank, Rural Reconstruction/Adjustment Schemes, Ex-Service Settlement Schemes and other government agencies (including State banks).

### Provisions

Various terms are defined in clause 3 including 'primary production' which covers production from agricultural, livestock, fishing and forestry pursuits.

Sub-clause 4(1) authorises the Governor-General to grant to a company by the name of the Australian Rural Bank Limited (the Bank), the authority to conduct banking business in Australia. The authority may only be given if the Treasurer is satisfied that the memorandum and articles of association of the Bank conform to the requirements in the Schedule (clause 5). These are: the main object of the Bank, is to conduct banking business in Australia, and, in particular, to provide finance to banks and

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lenders, considered appropriate by the Bank, with a view to increasing the availability of loan funds up to 30 years, for primary production of a commercially sound nature; the Commonwealth has the right to subscribe for or acquire shares in the Bank; and the Treasurer has the power to designate the Chairman of directors of the Bank, a director to represent the Commonwealth and 2 directors to represent primary producers.

When he grants the authority to the Bank the Governor-General may impose conditions appropriate to achieving the objects of the Bank having regard to the Bank's interest on its capital. The conditions may include general conditions to be imposed by the Bank on the banks and lenders to which it makes funds available regarding the on-lending of these funds by banks and lenders to primary producers and, in particular, regarding the purposes and periods for which the funds are ultimately made available by the banks and lenders to primary producers; no conditions shall relate to particular transactions of the Bank or of a bank or lender (sub-clauses 4(2) (4) (5) and (6)).

The Governor-General may amend the authority by varying, revoking or imposing conditions (sub-clause 4(3)), or may revoke the authority (sub-clause 4(7)).

Clause 7 provides for the making of grants or loans to the Bank by the Treasurer, on behalf of the Commonwealth, on such terms and conditions as he determines, including arrangements for the provision of finance by the Bank to banks and lenders to enable those banks and lenders to make loans to primary producers on terms more favourable than would otherwise be practicable; the Treasurer may fix interest rates for loans by banks and lenders, using Bank finance, to primary producers.

Moneys required by the Treasurer for making payments in respect of shares in the Bank and making grants or loans to the Bank, shall be paid out of moneys provided by the Parliament (sub-clause 8(1)). Such payments by the Parliament are subject to the provision that, moneys required by the Treasurer for making loans to the Bank, may be paid out of the Income Equalisation Deposits Trust Account (sub-clause 8(2)), subject to regulations prescribing maximum limits in respect of amounts which may be paid out of that Account from time to time, and rates of interest to be payable in respect of loans made to the Bank by means of moneys paid out of that Account (sub-clause 8(3)). Such regulations may also include other terms and conditions in respect of loans from the Account to the Bank (sub-clause 8(4)).

The Bank may adopt such policies as it determines in respect of the conduct of its business (sub-clause 9(1)) but must consult the Treasurer, if the Treasurer so requests (sub-clause 9(3)) and keep the Treasurer informed of its policies and proposed policies (sub-clause 9(2)).

The Bank will be required to furnish the Treasurer with an annual report for each financial year for tabling in Parliament (sub-clause 10(1)).

The Treasurer must also report to Parliament at least annually on the operation of the Bank (sub-clause 10(2)).

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Clauses 12 to 19 provide for amendments to the *Banking Act 1959*, similar to those made for the Australian Resources Development Bank, so as to give the Bank full bank status.

8 November 1977

Finance, Industries, Trade and Development Group  
LEGISLATIVE RESEARCH SERVICE

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