



Rabobank

Submission to the Senate inquiry into the management of the Murray-Darling Basin – impact of mining coal seam gas

Rabobank Australia & New Zealand

To: Committee Secretary
Senate Standing Committees on Rural
Affairs and Transport

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Who we are

Rabobank Australia & New Zealand (hereafter Rabobank) is a part of the international Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has more than 110 years' experience providing banking and financial services to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and operates in 48 countries, servicing the needs of approximately ten million clients worldwide through a network of more than 1,600 offices and branches. Rabobank is one of Australasia's leading rural lenders and a significant provider of business and corporate banking and financial services to the Australia's food and agribusiness sector. The bank has 94 branches throughout Australia and New Zealand.

Why this inquiry is important to us

Rabobank welcomes the opportunity to provide a submission to the Senate inquiry into the management of the Murray-Darling Basin – impact of mining coal seam gas. As one of Australia's leading rural lenders, with a 22% market share of the rural banking debt market and a significant provider of business and corporate banking and financial services to the agribusiness sector, we finance farmers and have significant exposure to agricultural land across the country, including throughout the Murray-Darling Basin. The longevity and sustainability of agricultural production systems is integral to our client's performance, local communities and supplying vital food to the nation and feeding the world.

In Australia, Rabobank provides both long term and seasonal funding to primary producers. The terms on which funds are advanced are dictated by the borrowers' production base and capacity to maintain and repay at the time of the advance. The ongoing performance of loan advances are dictated by:

- Economies of scale;
- Productivity;
- Efficiency per unit of asset;
- Serviceability;
- Management performance, including management of external risks (prices, weather, regulation etc); and
- Asset values.

When coal seam gas (CSG) mining activities are undertaken concurrently with agricultural activities on agricultural land, the size and scale of farming operations can be impacted, the production and efficiency base of the agricultural enterprise can be constrained and a new spectrum of operational risks could emerge. In our view, the net impact of CSG mining activities on a banking relationship may include a diminished production base that reduces a borrower's ability to service debt, a diminished asset base (groundwater constraints) and diminished land value, which affects borrowing levels. If a farmers' ability to make loan payments is constrained, the provision of short and long term funding is also likely to be limited. Should the trend toward concurrent CSG mining and agricultural activities continue on agricultural land, Rabobank suggests that asset values in all probability will diminish and that problem loans or defaults will rise. This could also have flow on social and economic implications for rural communities. However, at this early stage, the long term risks of CSG mining activities are not fully understood, and further research is required to build knowledge.

CSG exploration and extraction areas are vast and traverse many farmers' landholdings. If not properly managed these operations have the potential to impact on agricultural production across these areas, reducing food production and in the process reducing Australia's role in the global food and agribusiness sector.

Over the past two decades, Rabobank has been working with Australia's food and agribusiness sector to improve the sustainability of agricultural production and rural communities, through research and providing knowledge to rural communities. We make this submission because we are concerned that the current approach to CSG mining activities across the Murray-Darling Basin has the potential to compromise the past and future productivity gains that our clients have been working towards.

Rabobank believes that, given careful management and due consideration of each industry's needs, the agriculture and energy production should be able to co-exist. This does though require careful consideration of how agriculture can accommodate energy production, without impacting the long term sustainability of either industry. This also requires careful consideration of the contribution that each can make to the national interest, in the short and long term. Rabobank acknowledges the significance of alternate energy sources in Australia's energy mix.

The sustainability of Australian agriculture

Sustaining the productive capacity of agricultural land – particularly prime agricultural land within the Murray-Darling Basin, is integral to our client's ability to produce. Productive capacity refers to the capabilities of a parcel of land in terms of maximum output, and is key variable in a property's value. In 2008-09, the Murray-Darling Basin accounted for 36% of Australia's gross value of irrigated agricultural production and represents two-thirds of all water used by agriculture across the country¹. CSG activities could constrain the productive capacity of agricultural land by impacting groundwater supply and quality, affecting infrastructure, and de-intensifying production systems.

Groundwater is the lifeblood of many agricultural enterprises within the Murray-Darling Basin, and without adequate supplies of reliable groundwater of an appropriate quality, agricultural production would plummet. In 2009-10 more than one quarter of the water used in agricultural operations across the Murray-Darling Basin was pumped from aquifers². Throughout the various phases of CSG mining activities, both the integrity of aquifers and the water quality could be compromised. Due to the interconnected and fragile nature of the hydro-geological systems, the impacts of CSG mining activities could be far reaching, from both a flow level and quality/contamination.

The infrastructure that is built on-farm to develop a CSG mining operations also present challenges to agricultural activities. Networks of interconnecting gravel roads, well heads and connection pipes are just some of the impediments that farmers need to adapt to in their operations. Liability issues could also arise, should agricultural activities interfere with mining infrastructure, and vice versa, outside of pre-determined parameters.

Above-ground infrastructure associated with CSG mining activities also limits the agricultural operations that could be undertaken on a farm. Road and pipe networks can render many farms unsuitable for broad acre cropping activities. In many cases, grazing is the only viable option to undertake concurrently with CSG mining activities. A resulting de-intensification of agricultural land impacts property values, has long-term implications for remediation and for the use of the land post-CSG extraction.

All of these issues limit the productive capacity of farming land, and constrain property values. Rabobank recognises that in many cases, land resources are the most significant asset class held by farmers. A reduction in property values has financial implications for farmers and financial institutions. In addition, we acknowledge the broader social impacts in rural communities that stems from declining land values.

Our recommendations

Our recommendations are based on the primary objective of maintaining the sustainability and productive capacity of Australian agriculture. We recognise that farming is already a far more complex business than ever before, and CSG mining activities adds another dimension to this complexity. Farmers are managing with a near record high Australian dollar at a time of elevated commodity prices, while macroeconomic headwinds continue to drive considerable price volatility. Meanwhile, the Australian Government is developing a National Food Plan, which aims to protect Australia's food security, and to develop a strategy to maximise food production opportunities. To foster cooperation between the agricultural and energy industries and to prepare communities for change, we advocate consideration of the following six recommendations.

¹ Australian Bureau of Statistics, Water use on Australian Farms, 2009-10 (2011)

1 The fast paced development of CSG mining activities has left many rural communities behind, and information 'asymmetry' has resulted in rural communities having a lack of understanding and low confidence in the CSG industry. While Rabobank is not positioned to undertake assessments on this, we believe that the balance between agriculture and energy production needs to be redressed. The haste of CSG development across the east coast has been set by a commercial driver. While Rabobank is sympathetic to this, the rapid pace of development has isolated many rural communities. In our view, it is important to ease the pace of CSG development, and to engage rural communities and other stakeholders in dialogue, to pave the way for cooperative and sustainable development of both the agricultural and energy industries.

2 Information asymmetry can form an unnecessary barrier between many farmers and CSG companies. Rabobank believes that independent information should be made available to affected communities on CSG mining activities and the fair value of compensation, as well as the risks and opportunities of CSG mining activities (over the short and long term) should be provided to farmers.

3 Rabobank therefore advocates the use of the precautionary principle in the assessment of CSG activities, particularly in relation to groundwater assessments and licensing. In the absence of comprehensive knowledge on groundwater systems and community support for CSG mining activities, we recommend that the pace of development be slowed, and that activities be delayed until the impacts are better understood. While we understand that this lengthens the development process, we see it as a basic requirement, and one that should be undertaken to understand the impacts and prepare communities and industries for change. The process of reform takes time and requires extensive consultation and research to strike the right balance. The current process of water reform in the Murray-Darling Basin demonstrates this and we recommend that the development of CSG mining activities be slowed, and take on a similar knowledge-based consultation process. To this end, we suggest a Government-funded review of groundwater resources and potential impacts of CSG mining activities be undertaken, similar to the way CSIRO's work on the Murray-Darling Basin Sustainable Yields Project, has informed in preparation of the Basin Plan

Case study – Reforming Australia's water resources

The process of water reform in Australia has been a long and considered, with the COAG water reform framework developed in 1994 and the subsequent implementation of the National Water Initiative in 2004. It has taken almost two decades to begin the Murray-Darling Basin planning process, and with good reason. The planning process has involved the coordination and cooperation of many jurisdictions, numerous stakeholders, development of policies and management capabilities, supported by concurrent developments in knowledge and understanding of the system. While still evolving, this process demonstrates the importance of taking the time to seek independent and objective research and develop the required policies and management capabilities. Moreover, it demonstrates that time is required, and should be taken to engage with, educate and prepare communities and other stakeholders for a process of change.

4 Rabobank believes that more focus can and should be applied in the assessment of CSG exploration and production activities on the local scale effects. At present the assessment of CSG mining activities tends to focus on economic, social and environmental effects at the licence scale – that is, across hundreds or thousands of square kilometres. Further, Rabobank believes assessments at the licence area scale can overlook the adverse effects at local scales, because once averaged out across many square kilometres, the conclusion is often drawn that there is no significant effect from CSG exploration and production. This may not be the case at the scale of individual farms, where local impacts can be significant.

5 Rabobank encourages the consideration of a 'bond' or financial constraint being imposed on CSG mining activities, to provide some assurance to farmers and rural communities that the impacts of CSG mining activities could be limited to a 'predetermined' level or that funding is available to ameliorate to that level and to minimise adverse risks in the future. Also, the development of financial products such as insurance for landholders, in the event of interference with mining equipment may also serve to lift the levels of farmers' confidence in the CSG industry.

6 Finally, Rabobank recommends the implementation of a detailed, comprehensive national plan for evaluation of CSG exploration and mining activities with involvement at the Federal Government level in the investigation of CSG development to ensure Australia-wide knowledge, participation and cooperation in the CSG monitoring and governance rather than isolated State-based or regional management and supervision as well as a user-friendly appeals process that farmers can engage in when seeking support and certainty in dealings with the CSG industry.

In summary

Until such time as the comprehensive, detailed investigations into CSG exploration, mining and production activities are carried out, Rabobank is not able to opine as to whether the agriculture and energy industries can coexist. To enable cooperation between Australian farmers and the energy industry, it is important to slow the pace of CSG development, adequately build an understanding of CSG activities, impact and management within the agricultural community, develop

stronger and more comprehensive assessment processes and implement the appropriate guarantees and assurances. In our view, implementation of these processes will help to balance the interests of both the agricultural and mining sectors.