SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT REFERENCES COMMITTEE

Inquiry into industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector

Additional Evidence

First is the November 2014 GRDC Farm Business Update which argues grain margins "are not enough for anyone else to 'clip the ticket' along the way". It is pleasing they seem to agree with what we have been saying!

Second, the following link from Canada highlights the degree to which Australian grain farmers are being fleeced with levies and EPRs. The Canadians pay between 48c/t and $1/t.

http://www.grainews.ca/2015/02/19/the-new-wheat-lobby/?module=recent-articles&pgtype=article

Thirdly, the MD of GRDC broadcast the following to all GRDC email addresses on the day of his Senate hearing.

https://www.youtube.com/watch?v=DEWVoHsoJW8&list=PL2PndQdkNRHHJ3_fXIYfRJLRPdIebD6kf&index=4

Paul McKenzie

GRDC
Grains Research & Development Corporation
Your GRDC working with you

Farm Business UPDATE
SOUTHERN REGION

Funding agriculture's future

Grain growing farms are steadily expanding in scale to achieve efficiencies and manage risk. Along with management skills, this expansion often requires significant funding or capital. The challenge of securing capital was a focus at the Funding Agriculture's Future conference which brought together international and Australian experts to discuss the sector's future investment needs and consider potential models to achieve the desired growth. The conference was held in Canberra (June 2014) and convened by the Australian Farm Institute.

Federal Member for Hume and southern NSW farmer, Angus Taylor, presented striking numbers from the 'Greener Pastures: The Global Soft Commodity Opportunity for Australia and NZ' publication, including:

- an annual capital gap of $9 billion already exists today, to the extent that Australian agriculture must find innovative ways to attract domestic and foreign investment between now and 2050
- $600 billion in capital investment is needed to enable the required production growth
- a further $400 billion is needed to support farm turnover and succession.

Angus also said that leadership and commitment from all stakeholders is critical in unlocking the full potential of Australian and New Zealand agriculture.

The historical reliance on capital funding from banks, has large implications for the average family farm. How do family farms viably fund the succession of an increasing asset base to the next generation? How do they continue to grow despite many being at their peak borrowing capacity but having the management skills, machinery and labour to work a larger area?

The conference also heard from David Sackett of Growth Farms Australia and Frank Delahunty of F&L Delahunty Pty Ltd about the challenges for family farms in attracting investment capital.

They highlighted that:

- agriculture represents approximately 3 per cent of Australia GDP so investors have many other investment options to choose from
- investors tend to favour a three year time frame, which is a short period given the fluctuating agricultural cycle
- average earnings before interest and tax (EBIT) is in the range of four to six per cent which is not enough for anyone else to 'clip the ticket' along the way, and low when compared to alternative industry investment options, especially given the perceived volatility in earning generated by agriculture
- superannuation funds generally have large blocks of capital, $50 to $100 million, to employ which is not easy to place in agriculture in one deal and retain economies of scale. An investment of $2 to $500 million for example, is hardly worth executing as the impact on the overall portfolio risk is negligible to a super fund with $2 billion of assets under management
- seventy to eighty per cent of the average family farm asset base is held in land, a non-liquid asset. Therefore, it is not as easy to sell in and out of the asset compared to shares, for example, unless the likes of a property trust is created