



March 31, 2010

Mr. John Hawkins  
Committee Secretary  
Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear John

### **Inquiry into Access of Small Business to Finance**

The Western Australian Farmers Federation (Inc.) (WAFarmers) thanks you for the opportunity to make a submission to the Senate Standing Committee on Economics' Inquiry into Access of Small Business to Finance.

As background, The Western Australian Farmers Federation (Inc.) (WAFarmers) is the State's largest and most influential rural lobby and service organisation. WAFarmers represents approximately 4,000 Western Australian farmers from a range of primary industries including grain growers, meat and wool producers, pastoralists, horticulturalists, dairy farmers, commercial egg producers and beekeepers. Collectively our members are major contributors to the \$5.5 billion gross value of production that agriculture in its various forms contributes annually to Western Australia's economy. Additionally, through differing forms of land tenure, our members own, control and capably manage many millions of hectares of the State's land mass and as such are responsible for maintaining the productive capacity and environmental well being of that land.

In this submission, WAFarmers has not commented on all of the Inquiry's Term of Reference, but rather has focussed on those which we have received direct feedback from our members.

Finance is a significant cost to rural businesses. The report by the Western Australian Farm Inputs Task Force 2008, found that of the 'top 10' Western Australian broad acre farm input costs (in \$/effective Ha) were fertilizer (71), finance (54), personal (47), taxation (42), weeds and pests (34), fuel and oil (25), plant and repairs (20), contract (17), wages (15) and cartage (14). Finance therefore, represents 16% of the major annual farm costs, and this cost totaled \$4,331million nationally in 2008/09. This has seen the level of rural indebtedness increase significantly in recent years, from \$25,174million in 2000/01 to \$56,159million in 2008/09.

WAFarmers believes that the State's level of farm debt will increase through 2010 as the Western Australian industry responds to the 2009 broad acre crop which saw low yields, due to season conditions, combine with poor prices and high input costs. WAFarmers have taken numerous calls from members on this issue, and are aware, anecdotally, that there are farm

businesses experiencing difficulty accessing finance, or are accessing finance at very high rates.

An example of the difficulties facing farm businesses can be found in WAFarmers recent submission to the Australian Competition & Consumer Commission's Inquiry into the competitive effects of the proposed acquisition by the ANZ Bank of the deposit and loan books from Landmark Financial Services. In this WAFarmers, commented:

- The proposed acquisition would reduce competition for the supply of agribusiness banking products and result in the loss of a unique "whole of farm business" service provider.
- Traditionally, lending facilities provided by Landmark incorporate assessment of the value of a farm business in the decision making process. Effectively, if a farmer sells their produce through Landmark, the lender controls the farm cash flow. Purchase of merchandise, insurance and agronomic services through Landmark also provide an income stream to Landmark.
- These facets of this lender/borrower relationship in some instances will result in lending criteria being more flexible than is the case in a traditional lender/borrower relationship with a banking institution. Interest rates are generally of a higher level to compensate for increased risk in these instances but a lender such as Landmark will in all likelihood extend finance in times of seasonal downturn beyond which a banking institution will due to the associated business generated by the farm operation.
- Given seasonal difficulties in Western Australia over the past years, there will be borrowers within the Landmark loan book who have been managed by Landmark in a manner which would allow them to trade out of difficulties over time. The services provided by Landmark are in effect comparative to a lender of last resort. WAFarmers does not believe that this latitude would be continued under normal banking criteria imposed by the ANZ should this proposed acquisition proceed and these borrowers are likely to be forced out of the farming industry.
- The very real threat of the proposed acquisition should it proceed will be that the ANZ will cherry pick the loan book of "secure" borrowers, discard those that don't meet their criteria and retain the deposit book.
- Western Australia's agricultural industries and their associated communities cannot afford to lose these families and their industry knowledge from regional areas.

The attitude of many in the rural sector was summarised at the 2010 WAFarmers Annual Conference in a presentation by the National Farmers Federation's (NFF) Manager – Economics and Trade, who commented;

*"It is very easy to be suspicious about the banking sector when you hear about the profits they have acquired while receiving Australian Government support in the form of deposit guarantees. While the NFF notes that a banking sector making losses would be a far worse scenario than the current industry in a position of strength, one has to raise their eyebrow when they hear that in the 2009 financial year the big four banks earned underlying profits before tax of \$35 billion, or just under 3 per cent of Gross Domestic Product (GDP)."*

Over the past few years Western Australia farmers have been able to borrow money from several different types of lenders, virtually a 'three-tier' market;

- The first tier is traditional major banks.
- The second tier has been through non-bank lenders such as Landmark and Elders.
- The third tier is commercial agribusiness companies who are also involved in supply chain activities, such as grain accumulation and marketing.

Due to the often high cost of these funds through the three tier lenders, WAFarmers would like to see consideration of the establishment of a 'lender of last resort' for agricultural businesses. In previous years in Western Australia, the Rural Adjustment Finance Corporation (RAFCOR) fulfilled a valuable role. There are many examples of currently viable, well run, successful farming operations that are only operating today because at the time when banks thought they were unviable, RAFCOR gave them the necessary support.

In many cases, farmers' financial difficulty is purely a matter of timing, e.g. a young family succession planning, diversification, purchase of new machinery and responding to market signals. To maintain farm values and stop further deterioration of the continuing farmers' equity there needs to be a strategy put in place that will help those exiting the industry and protect the remaining farm businesses.

WAFarmers acknowledges that there will always be difficulties with the supply of finance to farm businesses, and concern over the cost of accessing finance. WAFarmers believes that another possible part-solution to this issue can be found in the modification of the existing Farm Management Deposits (FMDs).

As recently as December 2008, FMDs were reviewed in the Productivity Commission's Inquiry into Government Drought Support. In their report, the Productivity Commission noted that *"Farm Management Deposits (FMDs) are financial tools used to overcome the effects of income variability and help to manage risks. They can be used to prepare for periods of income deficit."*

WAFarmers submission to the Inquiry commented that one limitation to the effectiveness of the scheme, is its current 'per-business cap' of \$400 000, and that this should be increased. In the Western Australian farming environment, a reserve of \$400 000 is simply insufficient to cover the planting of a crop for many farm businesses. It stands to reason that, for an even wider group, the scheme is not capable of providing support over a multi-year period.

WAFarmers believes that the current 'cap' limits the capacity of individual farm businesses to make appropriate deposits, resulting in a limitation of their preparedness for, and recovery from, unexpected hardship. This position was however not supported by the Productivity Commission.

WAFarmers therefore requests that that this Inquiry consider the applicability of FMDs as a preparedness and risk management strategy which farmers can use in an environment of 'high interest rates'.

I thank you for consideration of this submission. Should you wish to discuss this matter please do not hesitate to contact me or WAFarmers Director of Policy, Alan Hill on 9486 2100.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mike Norton', with a stylized flourish at the end.

**Mike Norton**  
**President**