



**NAB SUBMISSION TO THE HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON REGIONAL AUSTRALIA'S INQUIRY
INTO THE IMPACT OF THE MURRAY-DARLING BASIN PLAN IN
REGIONAL AUSTRALIA**

1. Profile

National Australia Bank is a financial services organisation with over 40,000 people, operating more than 1,800 branches and service centres, and responsible to nearly half a million shareholders. We operate major financial services franchises in Australia, as well as businesses in New Zealand, Asia, the United Kingdom and the United States.

Each of our brands is uniquely positioned but built on a common commitment to providing quality products and services, fair fees and charges, and relationships built upon the principles of help, guidance and advice.

Our Business Banking is integral to our organisation. We are Australia's leading business bank with a team of over 5,000 bankers nationwide. The business includes operations, marketing and financial services professionals who service the full spectrum of the business sector, from small businesses through to Australia's largest ASX-listed corporations.

We have about a 30 per cent market share of lending to small and medium businesses (SMEs) and 23 per cent of total business lending. We have hired an additional 300 business bankers over the past two years.

We have total lending to business of \$185 billion, of which approximately \$125 billion is to SMEs. Our level of lending has grown 100% since 2005. During the height of the GFC our lending to small businesses grew by \$5bn whilst in aggregate the other banks reduced lending by \$28bn. APRA Banking Statistics illustrate the fact that NAB is the market leader in supporting its business customers. In fact in the eighteen month period from November 2008 to May 2010 NAB grew its business lending by

\$9.6bn whilst the rest of the industry collectively reduced business lending by \$46bn.

It is a commitment to provide direct finance to Australian business is unmatched by any other financial institution.

NAB's commitment and engagement with the Agribusiness sector

NAB Agribusiness is a platform within our Business Bank that offers specialised financial services to our agribusiness customers. Agribusiness proudly flies the flag for NAB across the Murray-Darling Basin.

For over 150 years NAB has been helping people run and grow successful agribusinesses. Today, more primary and post-gate producers choose to partner with us than any other financial institution. By listening to and learning from our customers, we've been able to develop a range of agribusiness products and services that can be tailored to individual business needs. Unlike some other entrants to the agricultural sector NAB is an Australian bank that has supported the sector through good times and bad. Our commitment to rural and regional Australia is genuine and importantly for the long haul.

NAB Agribusiness customers have access to our network of over 600 agribusiness specialists in over 110 locations across Australia. Our bankers use their local and industry knowledge to better understand and service agribusinesses along the supply chain, meaning that NAB's relationships spread from family farmers to global wheat exporters.

NAB Agribusiness currently has 214 staff within the Murray-Darling Basin located at 35 permanent locations (see attachment A). This figure increases significantly when we add in our drive in, drive out workforce. NAB has invested significantly in its representation in the Murray-Darling Basin during this time in branches and in employment of local staff. NAB is a genuine part of the local communities across the Basin.

NAB's lending in the Murray-Darling Basin area is significant. Our Agribusiness and nabBusiness branches alone have lending of \$18 billion as at November 2010. This is divided up between Business Lending (\$12B), Home Lending (\$4.5B) and leasing (\$1.5B).

2. The Inquiry.

NAB is a member of the Australian Bankers' Association and has contributed to the submission the Association has made to the Committee. We are supportive of and endorse its contents.

In our submission NAB wishes to specifically focus on the term of reference:

The direct and indirect impact of the Proposed Basin Plan on regional communities, including agricultural industries, local business activity and community wellbeing.

NAB's interest in the Inquiry is from two perspectives. Firstly as a major lender to the Murray-Darling Basin community. The potential of the Murray-Darling Basin Authority's Draft Plan to adversely affect the businesses and livelihoods of our customers is a matter of obvious interest to NAB.

Secondly, as a long-term and significant part of the Murray-Darling Basin community, NAB is concerned upon the potential socio-economic impact the Draft Plan may have upon our ability to maintain the significant financial services infrastructure we have invested and built in the Murray-Darling basin region for well over a century. The implementation of the Plan in its current form will flow on beyond the irrigator and agribusiness sector to the towns and communities of the Basin. This will lead to negative impact onto the broader business community; on the value of residential and business property; and the very sustainability of some Basin communities.

3. The MDBA Draft Plan

NAB notes the magnitude of the reductions in water availability for irrigators that have been countenanced in the MDBA's Draft Plan. The Guide as currently drafted would have a significant detrimental effect upon irrigation businesses in the Basin. For these businesses it has the potential to undermine their ongoing access to finance. On a wider level, as has already been witnessed, it generates significant uncertainty in the broader agricultural industry which directly impacts upon confidence and future investment in the agribusiness sector.

The scale of the proposed reductions in the MDBA Draft Plan has the potential to have significant economic and social costs on communities and businesses throughout the Basin. These are impacts that will be felt in agribusiness and in industries that support the agribusiness sector. Any negative impact upon the agribusiness sector in the Basin will subsequently have a detrimental effect upon the broader economies of the Murray-Darling Basin.

The Draft Plan's focus on environmental river flows at the expense of a focus on socio-economic consequences has led to understandable anxiety and a widespread loss of confidence in the Murray-Darling Basin. NAB believes in a plan for the Basin that recognises the need to balance the environmental and the socio-economic impacts of cuts to water allocations. Any proposed reduction in water flows for environmental reasons should be balanced with strategies and measures that manage and minimise the impact on the Basin's local businesses and the broader community.

NAB submits that the achievement of a genuinely balanced Plan is a priority for the Murray-Darling Basin. The *Water Act* governs MDBA's Draft Plan. The *Act* should be amended if this is required in order to achieve a genuinely balanced outcome that takes into account the interests of the Murray-Darling community as well as environmental river flows.

NAB recognises the need to restore the Murray-Darling Basin to environmental health. In 2004 as a member of the ABA we, with fellow banks, the agricultural sector and environmentalists, agreed on principles that were encapsulated into the National Water Initiative. In developing these principles it was recognised that improved water infrastructure, water efficiency savings, and the purchasing water from sellers voluntarily were vital to achieving a positive outcome for both the environment and the community.

The purchase of water entitlements and the investment in water infrastructure are significant elements of the MDBA's Draft Plan.

NAB submits that investing in infrastructure should be a priority in terms of any future water reform. Investing in infrastructure of the irrigator and broader agricultural industry will increase water efficiency, improve environmental flows, and assist in the ongoing viability of industry.

NAB welcomes the Government's announcement that any purchase of water entitlements from the irrigator sector is voluntary. We submit that the purchase of water entitlements from buyers should however be secondary to investment in more efficient infrastructure. Water entitlements are in many instances a vital asset to our irrigator customers in the Basin. Water entitlements maintain land value and support access to finance. The reduction of water entitlements therefore has an adverse effect upon not only production but the ability to access finance. It should also be noted that land value itself is reliant upon the availability of water for agricultural production: the removal of water allocations even on a voluntary basis will undermine land value.

We believe however that particular care needs to be taken to protect the interests of communities in any future implementation plans of the MDBA involving significant water buybacks. Current water buyback schemes coupled with permanent water sales out of Regions together with reduced allocations have resulted in adverse economic and social impacts on local agribusiness-reliant communities. Many of these communities are still

recovering from prolonged and damaging periods of drought. Further reductions and buybacks without adequate structural support for a re-adjusting community will only compound the problems these people and businesses are facing

NAB also submits that agribusinesses which are being compensated for a reduction in water allocation should also be compensated for what are often significant investments these businesses have made in directly-related infrastructure and equipment over a period of time.

The uncertainty the present situation is causing to business in the Murray-Darling Basin is significant. This uncertainty spreads much further than the irrigator industry – it impacts upon the entire communities that have established themselves around the irrigator and broader agribusiness sectors throughout the Basin. This uncertainty needs to be resolved for the benefit of such communities – and the solution with the minimal impact on communities is one focused upon improved water infrastructure and efficiency supported on a secondary basis with voluntary water buybacks.

There has been debate and comment, such as the Rizza Report, concerning the attitude of the banking sector to our customers in the Basin in light of the MDBA Draft Report. From a credit perspective NAB will continue to treat each and every transaction with our customers – farmers, businesses, and individuals - on their merits individually. NAB works closely to support our customers through the good times and importantly the bad. It is a tradition we have maintained in the Murray-Darling Basin for over a century and a half.

We look at all situations and work with our customers to find an acceptable situation to all parties. Whatever emerges from the final Murray-Darling Authority Basin Authority Report, we will continue to treat our customers affected in the same way.

NAB's interests ultimately are the same as our customers – to support long-term, viable, sustainable and successful agribusiness operations. Where that might not be the case in a changed environment of water entitlements, then we would look to work with our customer to assist them in future strategies and options through negotiation and, if necessary, mediation.

Through the Australian Bankers' Association NAB has met with the Murray-Darling Basin Authority and we look forward to continuing to be actively involved in the consultation process.