Rural Debt and Drought Taskforce

April 2016

Chairman's Report

Addressing debt and drought problems in rural Queensland

Rural Debt and Drought Taskforce

Top row, from left

Chair

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Members

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Contents

Abbreviations

ABARES	Australian Bureau of Agricultural & Resource Economics & Sciences
ABS	Australian Bureau of Statistics
APRA	Australian Prudential Regulation Authority
ARDB	Australian Reconstruction and Development Board
b	billion
BIS	Bank for International Settlements
CBA	Commonwealth Bank of Australia
CDB	Commonwealth Development Bank
COAG	Council of Australian Governments
CPI	Consumer Price Index
DAF (Qld)	Department of Agriculture and Fisheries
DRAS	Drought Relief Assistance Scheme
DRECS	Drought Relief from Electricity Charges Scheme
EC	Exceptional Circumstances
ECIRS	Exceptional Circumstance Interest Rate Subsidy
EWIR	Emergency Water Infrastructure Rebate
FHA	Farm Household Assistance
GFC	Global Financial Crisis
GOC	Government Owned Corporation
GVFP	Gross Value Farm Production
IDP	Individually Droughted Property
LVR	Loan value ratio
MLA	Meat and Livestock Association
MOU	Memorandum of understanding
MP	Member of Parliament
NDRRA	Natural Disaster Relief and Recovery Arrangements
NFF	National Farmers' Federation
NVFP	Nett Value Farm Production
OAFM	Office of Australian financial Management
ORA	Office of Rural Affairs
PSA.	Public Statutory Authority
QDAF.	Queensland Department of Fisheries
QIDC	Queensland Industry Development Corporation
QRAA	Queensland Rural Adjustment authority
RBA	Reserve Bank of Australia
RCD	Rural Credits Department
RFCS	Rural Financial Counselling Service
RMBS	Residential Mortgage Backed Securities
SA	Statutory Authority
SPV	Special Purpose Vehicle
SME	Small-Medium Enterprise
SW	South West
WTO	World Trade Organisation

Chair's foreword

Dear Treasurer,

It is with a clear understanding of the burden of responsibility to the people of rural and regional Queensland, that I present this report from the Rural Debt and Drought Taskforce.

I am deeply appreciative to the Palaszczuk Government for providing this opportunity and equally grateful to other Taskforce members for their shared passion and commitment.

Touring western areas of Queensland over the last four years as a Member of Parliament has provided me with a bird's eye view of the rural landscape. This unfortunately has at times, been a sad journey. I have watched the hardworking people in the many towns and communities that I grew up around, faced with extreme financial hardship, lacking the ability to see a way forward for their families and businesses.

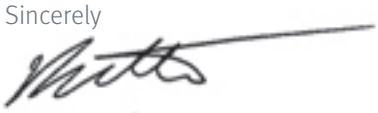
This is however, happening at a time when the future demand for our agricultural product has never looked brighter. Our investigations have clearly pointed to a strong and valuable industry but one which is inherently vulnerable to fluctuations in markets and seasonal conditions. The absence of effective government support will see a continuation down the path of crisis and rural decline.

However, we believe that with the right mechanisms, as outlined in our report we can allow farming industries to recover and prosper in the good times. As a result, the State will be able to harness the enormous potential of our agricultural sector to service the vast emerging markets of our world while continuing to provide Australian consumers with high quality food and fibre.

Through these recommendations the Taskforce hopes to provide generational change to the attitudes embedded in the minds of policy makers. In the event that effective changes are made we envision a new generation of success in regional Australia.

I cannot understate the urgency with which I seek your consideration of the solutions that we have put forward.

Sincerely



April 2016

Executive summary

Introduction

In recent years rural and regional Queensland has shown signs of increasing financial dislocation and consequential social decline. This is a problem coming from a combination of natural disasters and poor policy settings at both state and federal level. This has had a significant and widespread impact on the rural sector along with dependent communities.

Politicians and successive governments have acknowledged this problem but failed to properly identify the source. The problem became both more visible and acute in the western cattle industry following the impact of the drought and live export ban.

It became apparent that a taskforce was required to identify some of the key elements of this problem. The intention was to also investigate any common denominators in problems amongst our main agricultural industries. Achievable solutions that are identified could then be far reaching across many different rural pursuits.

The decline in the rural sector has seriously compromised the viability of most western towns and communities; however, with good management it can again provide the power required to help grow the Queensland economy.

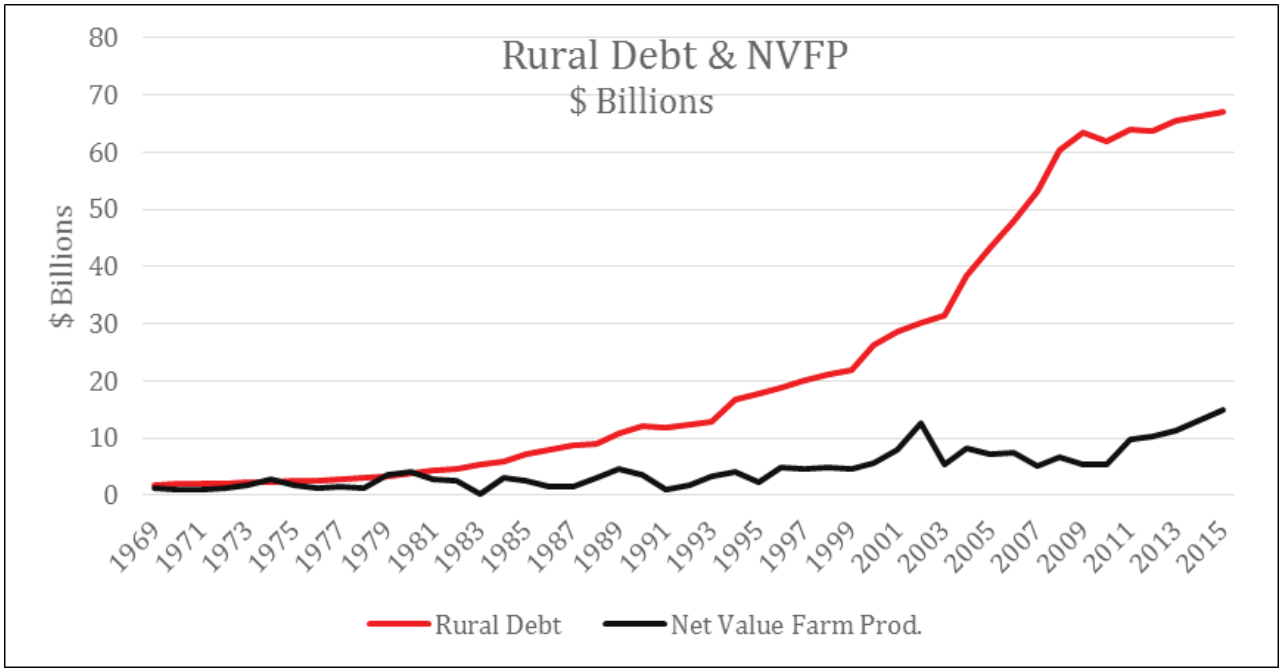
Outside of government services, rural activities form the most dominant industry group in Western Queensland. It follows that restoring the health of these industries will restore viability of towns. The most cost effective way for government to reinvigorate the entire outback is therefore to enable the agricultural industry to rebuild.

As a starting point, rural debt was seen as an exceptionally significant burden on the rural sector that spanned across most, if not all industries. The following graph (fig1) illustrates this well.

The data below demonstrates both the depth of the rural debt problem and just as importantly, shows that the problem has been growing for some time. This dispels the myth that the cause of the rural debt is limited to the impact of the drought or the live export ban.

In October 2015 the Queensland Treasurer, Hon. Curtis Pitt MP, announced the formation of a Rural Debt and Drought Taskforce to investigate both debt and drought across Queensland and identify and recommend solutions to Government.

Fig. 1 Rural Debt & Net Value Farm Production, Australia 1969 -2015



Compiled from ABARES Australian Commodity statistics 2015 and earlier editions, Debt from RBA statics Table D9 online.

The State Parliament approved a terms of reference which set in motion a series of public hearings, meetings and generated hundreds of submissions, all contributing to this report.

The problem

There is little doubt that following deregulation in 1983-84 the banks, in pursuit of market share in the face of heightened competition, made loans based on security levels offered by existing equity but without sufficient regard to the capacity of clients to repay[5]

Three decades ago, a senate Inquiry into Rural Adjustment, Rural Debt and Rural Reconstruction found that rural lending was unsound. Again in 1997, the Financial System Inquiry Final Report by Wallis[6] into the Australian financial system confirmed inappropriate bank lending practices in the wider community. Our evidence gathered shows that both sides of the parliamentary divide failed to address the early warnings, flagged by the report.

Governments embarked on a discretionary policy of asset inflation[7] fuelling both bank credit expansion and debt build up. These were two sides of the same coin. The Global Financial Crisis (GFC) in 2008 exposed the economy to a real world beyond asset inflation. Whilst the Office of Australian Financial Management provided support to the Residential Mortgage Backed Securities (RMBS) market, and Government guarantees were provided for banking activities[8], rural Australia was left to fend for itself. Consequently, financial dislocation erupted across rural Australia in general and rural Queensland in particular.

In the interests of shareholders, banks moved to protect asset portfolios. Revaluation of asset values downwards spread a wide net and brought into question the solvency of farmers who had not missed a payment.

Financial dislocation began to spread beyond the 'farm gate' as some producers were forced to seek credit from town businesses simply because their accounts had been frozen by the lender. These lenders sought to wind up distressed producers and often denied additional carry on-credit.

Debt to equity lending played a significant role in financing agricultural business so that, when the GFC came along with falls in asset values, this form of lending became the weakness in financial models built on ever increasing capital values. The scene was thus set.

The evidence

Policy failure is empirically supported by an anonymous survey conducted amongst participants at all Taskforce hearings across Queensland. The evidence is compelling in this debate over debt and its causes. Key survey findings include:

- 35% engaged in farm build-up programs
- 25% had been requested by banks to sell off farm assets
- 19% had been requested by banks to sell by a nominated time
- 39% would sell if a fair value was available
- 57% will need to renegotiate borrowings in 2016

Anonymous Survey of participants attending forums is provided at Appendix 3.

This percentage of distressed primary producers throughout rural Queensland is significant and requires major policy response.

The final 2013 MLA Report, Northern Beef situation analysis stated, "profit after interest is decreasing, and is mostly negative, as a result of increasing debt with no increase in profits. The majority of Northern Beef producers are not economically sustainable as they are not able to fund present and future liabilities."

This economic storm has a rural business and social dimension as well. In Barcaldine a participant from Longreach stated, "There has been a 60% downturn in business in Longreach. They have laid off 30% to 40% of staff. The lack of money and business flows through to community. People are moving out of the area to look for work elsewhere. State primary schools have half the enrolments." The situation facing this town is consistent with most others in the western grazing areas.

Extraordinary seasonal conditions overlaid with live cattle export ban has gripped industry, substantially exacerbating debt burdens following the GFC.

5 Rees Ben, Appendix 4.

6 Rees Ben, Appendix 4.

7 Rees Ben; Appendix 4.

8 Australian Office of Financial Management; 2016, 'Residential Mortgage–backed Securities' www.aofm.gov.au accessed 16 April 2016

Debt

The current level of debt in Queensland Agriculture is difficult to determine as financial institutions no longer supply needed information. 2011 QRAA figures are the latest available. This is unacceptable. Enterprises, markets and good policy all rely upon accurate information being available. Refusal to supply it is one basis for the recommendation to hold a Royal Commission.

Queensland agricultural debts totaled $17b in 2011 with over half held by beef enterprises. The "State of Queensland Agriculture Report 2014" noted "debt levels tend to be higher among the better performing farms". This greater reliance upon capital changes the farm risk profile. Exposures to the business strategies of financiers and to financial conditions increase, as many have discovered. Adaptability in times of adverse markets or natural disasters may be inappropriately constrained.

There is general agreement that situations have deteriorated badly in many areas of Queensland since 2011. Estimates provided in Appendix 5 along with the detailed analysis provide a basis for discussion. It is not just current incomes that are stressed. Capital balances are in disarray as land values halved from peak while debts rose. Even those without debts can be threatened as key financial ratios deteriorate across the industry. "Subprime Agriculture, and Australia?" (*Economic Analysis and Policy, 2014*), which was also distributed to all at the 2015 Treasurer's Round Table, discusses the implications. Essentially, debt reconstruction is needed if industry viability is to be restored.

Debt exposures can vary markedly between enterprises. A considerable proportion of farmers apparently hold no debts (but again there is no reliable data). However, many of these rely upon off-farm employment, which is scarce away from the cities. Additionally this strategy depletes resources on-farm and can involve displacement of others. Rising debts reduce employment in communities, particularly for the young who suffer unemployment rates in excess of 20 percent in many pastoral areas.

Drought

The very dry years of the early part of this century were punctuated by a number of natural disasters including cyclones and extreme floods and then a slide back into dry years. By 2015 drought had impacted upon 85% of the State. Farmers were exposed to further financial stress to manage their enterprises through adverse seasonal conditions.

As such some producers de-stocked and others hand fed to hold onto valuable breeder herds. Those that destocked found that restocking funds became a liability when applying for Centrelink income support. Charity often funded by those from urban centres, became their only means of income support in many instances. Unquestionably the impost of drought compounded GFC financial distress.

Live cattle export ban

The northern beef industry was subject to market failure in 2011 when the Australian Government banned live cattle exports. This distressed the industry in Northern Australia. As cattle sought markets elsewhere in Queensland, cattle values fell dramatically. Policy driven market failure in northern Australia generated an industry contagion effect, depressing cattle values state-wide. Combined with the drought this added significant pressure to already present financial troubles.

Drought policy changes

The removal of Exceptional Circumstance Interest Rate Subsidy (ECIRS) from available policy in 2011 further compounded financial dislocation in the rural sector. The shift in policy design was significant. Drought loans were available but only to those considered "long term viable". In the end, empirical evidence presented at Taskforce hearings suggests that those eligible were in reality accessing cheap credit rather than seeking drought assistance. Those most in need were left without support.

For those ineligible for "long term viable" loans, income support was available through Centrelink as Household Assistance. Income support though was means tested twice. An asset test precluded those with assets above $2.55 million. Centrelink was not concerned that a farmer was seeking income support because their assets were most likely illiquid. For those excluded from Household Assistance and holding illiquid assets, the only option was charitable institutions.

For those with assets below $2.55 million, Household Assistance became income tested. If farmers had de-stocked to live out the drought, the monies set aside for restocking first became caught in the asset test and then became a liability in the income test. Any funds held above a set figure were expected to be spent. That defeats the purpose of the destocking strategy in drought management. Any income entering the household is assessed under Household Assistance. In many cases at public hearings it was reported that not many qualified for the full Household Assistance benefit. Those who did not qualify were forced to rely on urban charities.

Role of charities

Many charities whose donations often flowed from metropolitan areas, not suffering from the effects of drought, provided income support to those both financially distressed by the GFC and drought stricken producers. Their contribution and support cannot be understated. Without the generosity of urban dwellers, some parts of rural Queensland would have collapsed into third world poverty. It is a poor reflection on the Government that they would prevaricate and argue that tinkering at the fringe of drought policy was all that was required to stop the food producing sector becoming so debilitated.

Conclusions

Evidence provided under the Taskforce activities and empirical data, summarised by the graph at (Fig 1), demonstrate unequivocally that debt has become a significant burden across most, if not all rural industries. There is no doubt that the compound effect of the GFC, drought and loss of the live cattle export market, has generated financial dislocation for Queensland agriculture in general and the western grazing industry in particular.

However, it was illustrated clearly through the qualitative evidence provided to the Taskforce at public hearings in the sugar cane districts, that this industry also has serious problems. When again considering the evidence provided by the broad acre sheep and grain industry, it is clear that the debt and drought problem is wide spread.

At a northern public hearing a wide spread threat of defaults was made evident. The situation was best illustrated by a local Member of Parliament who stated to the Taskforce that "One bank is in planning discussions with police officials in a provincial city regarding 53 possible actions in his region when the season breaks," (Appendix 5).

The Taskforce has made 15 recommendations to stabilise then reinvigorate our primary industries and to strengthen our rural communities throughout Queensland.

Recommendations

The Taskforce has made 14 recommendations to stabilise then reinvigorate our primary industries and to strengthen our rural communities throughout Queensland.

Recommendation 1: That the Government of Queensland establishes a Rural and Industries Development Bank.

The scope of the Rural and Industries Development Bank will include; the capacity to offer suitably tailored rural loans to businesses along the supply chain (i.e., including beyond farm gate); industry development; a commercial lending ability, including recapitalising for restocking and replanting.

Recommendation 2: That Government make provisions for a contemporary Farm Debt Reconstruction Authority with the ability to address untenable financial arrangements.

A contemporary model must be adopted to resolve fire sale or disputed farm sale problems; to equitably reconstruct financial arrangements, with loans for reconstructed businesses delivered in a viable form, to the commercial arm of the new Rural and Industries Development Bank.

Recommendation 3: That the State Government engages with all stakeholders to facilitate the uptake of a commercial Multi-Peril Insurance (income protection) product for all primary industries but with particular urgency for grain, cotton, sugar, pastoral industries and horticulture.

The Commonwealth has made funding available to facilitate uptake of commercial multi-peril insurance products. NSW has provided substantive funding and we are recommending that the Queensland Government facilitates action so that Queensland leads in the development and adoption of multi-peril insurance products.

Recommendation 4: That the Government initiate a Royal Commission to investigate financial conduct within the finance sector.

The Taskforce was presented with a number of written and verbal reports alleging serious financial misconduct. It was beyond the scope of this Taskforce to investigate these matters which deserve serious investigation. A Commission can build on this and other inquiries to provide improved future outcomes and to remedy past failures, while upholding and reinforcing the social licence provided from the public to the banking sector.

Recommendation 5: That the State Government as a matter of priority ensure that sufficient mental health workers are provided to identified struggling regions commensurate with the level of stress.

A number of verbal submissions indicated a strong need for assistance in this regard and a number of attendees showed heavy stress.

Recommendation 6: That the State extend and expand a funding model to facilitate intergenerational transfer of farm properties including stamp duty exemptions.

Intergenerational transfer has become a very difficult issue with the average age of primary producers growing. It is proposed that the existing QRAA facility be extended and that stamp duty exemptions apply for authorised clients (family transfers).

Recommendation 7: Extend productivity enhancement loans to include water infrastructure and vermin fencing with long repayment periods.

It is proposed that long periods apply, maximum value lift and to become relative to today's values. Of particular note is that just 15 of the 904 loans made available in Queensland were located in the electorate of Mt Isa, constituting a third of the state. It is clear the size of funding is ineffective in larger scale areas.

Recommendation 8: That the State Government Emergency Water Infrastructure Rebate be extended to de-silting of dams.

The Queensland Drought Relief Assistance Scheme provides a rebate on the purchase and installation of water infrastructure purchased for animal welfare needs. De-silting of dams is essential for maintaining water infrastructure.

Recommendation 9: That inside the Queensland Department of Agriculture and Fisheries (QDAF), an independent office of rural affairs be established.

Establish capacity inside the existing QDAF to collect comprehensive data, collate and report to the government and to recommend policy changes for improved outcomes for rural Queensland. It must be adequately resourced to provide appropriate information to government.

Recommendation 10: That a commitment be made to give preferential consideration to engaging local businesses and local authorities in the construction of new and improved infrastructure for drought effected rural areas.

It was identified that many rural towns rely heavily on infrastructure investment by the government. Many small businesses and councils however made the point that often government utilises external contractors to do work that could be performed by local businesses and Councils. This negated much of the possible benefit.

Recommendation 11: That significant direct public funding be made available to producers for continual learning opportunities to build their capacity to manage farm financial and climate risks.

Enabling producers across the viability spectrum to continually increase their skills and access professional support and advice will increase resilience to the challenges of non-performing debt and drought. The State Government should enter a funding partnership with the agricultural and finance sectors to deliver:

Access to objective business assessment and planning expertise

Subsidised business-cycle relevant business skills training

Access to commercial financial advisory services

More Queensland Legal Aid and the Financial Ombudsman services to improve initial access and ongoing availability

Free professional advice and representation during debt mediation processes

Continued funding of the Rural Financial Counselling Service (RFCS).

Recommendation 12: That the State Government provides additional financial assistance for children's education in severely affected drought areas until drought recovery is complete.

The State offer a short term financial assistance for families with no satisfactory options to educate their children.

Recommendation 13: The State government make strong representations to the Federal Government to revise the eligibility criteria of the Farm Household Allowance (FHA) so it is more accessible to operators of primary production enterprises.

Income support payments during hardship are important in any policy response that meets severe droughts or other challenges exceeding reasonable efforts to prepare. The current $2.55 million net farm asset cap excludes many commercial-sized farming operations in Queensland. As necessary to produce future income and difficult to sell, without discount during drought, essential farm assets should be excluded from the asset test as under the previous Exceptional Circumstances Relief Payments system. The off-farm income exemption should also be increased as this often goes to cover essential farm costs. Applications should be simplified so applicants do not need to pay Accountants to complete them. The cumulative eligibility limit of 3 years in a farming life does not acknowledge the variability of agriculture or the occurrence of severe droughts. Ongoing one-on-one assessment and mutual obligation provisions should replace a hard limit.

Recommendation 14: That the State make strong argument to the Federal Government that any drought that lasts longer than two years be declared a natural disaster.

When Exceptional Circumstances was removed it followed that risk fell entirely to the producer for changes in climate and for extraordinary conditions. Even with uptake of commercial multi-peril insurance, producers will still have to contend with longer droughts. It is suggested that past two years, a drought be considered a national disaster.

Response to the terms of reference

These comments address each of the terms of reference in turn. They are "the facts" as best we can determine them that capture the problems, options and preferred actions. A more complete analysis is provided in Appendix 6.

(a) Financial problems are serious to severe for many rural enterprises and communities across Queensland

(b) Industry, financial, institutional and market policies, settings and designs have all contributed to stresses as have drought and other natural disasters. Even the best business positions and decisions, on farm and in town, are challenged.

(c) While individual situations vary, there is little doubt that problems are pervasive in extent. Balance sheets are in disarray across industries.

(d) Problems show no real signs of self-rectification, with hope fading. Historically and conceptually, there is a role for government. Orderly workouts with apt balance sheet restructurings can help rectify current distresses with reduced losses of capacity and wealth.

(e) Profitable enterprises, well-capitalised industries and revitalised communities that contribute more fully and sustainably to the prosperity and wealth of Queensland are anticipated impacts.

(f) Key policy options involve initiating apt institutionalised means of goals attainment.

Policy goals properly include: land market stabilisation, restoration of key financial ratios to return enterprise viability; improved financial products; long term investment funding basis; income stream sustainability improvement; and rural employment stabilisation and growth.

Institutions suggested include a statutory Reconstruction Board, an Agriculture Development Bank and an independent Office of Rural Affairs.

Initiatives within COAG to improve drought, welfare and supply chain arrangements are needed. Industry and government engagement needs improvement, particularly in a number of identified areas.

(g) Actions then involve stabilisation, reconstruction, financial product improvement, ongoing monitoring, dispute resolution and select financing.

(h) Existing financial arrangements have incubated problems. The need for serious changes is recognised by many including some senior parties in banking and law. However, denial of problems remains evident, impeding needed changes.

Public and private Initiatives to help resolve *pressing and emerging* problems are needed.

Terms of reference for the Taskforce

Background

On Monday 19 October 2015, the Queensland Treasurer Hon Curtis Pitt MP, announced the establishment of a Rural Debt and Drought Taskforce (the Taskforce) to help identify and recommend solutions to the Queensland Government for addressing rural debt issues in Queensland.

On 10 November 2015, a motion was moved in Parliament by Mr Lawrence Springborg MP, Leader of the Opposition, to establish a Select Committee on Rural Debt and Drought to examine Queensland farm businesses' rural debt issues, which have been exacerbated by drought and propose policy responses. This was amended by the then Minister for Agriculture and Fisheries, Hon Bill Byrne MP, to a Government Taskforce to examine the same issues.

Terms of reference

The Taskforce is to consider key issues and various policy options in the development of recommendations to the Queensland Government including:

(a) The nature and extent of financial problems faced by agriculture and associated enterprises, Local Government and supporting communities in Queensland

(b) Identify the cause of problems and contribution of established policy to their magnitude

(c) The extent of such problems and effect on regional stability

(d) What strategies might be adopted and initiatives undertaken to rectify such problems

(e) The impacts that such strategies and initiatives might have

(f) Policy options available to a State Government to coordinate effective remediation

(g) The nature and desirability of some select actions, and

(h) Adequacy of existing financial systems to fund policy solutions.

Taskforce Members (left to right): Mr Russell Lethbridge – AgForce; Mrs Ruth Wade – QFF; Mrs Deb Frecklington MP - Member for Nanango; Mr Jim Madden MP - Member for Ipswich West; Mr John Daniels - Secretariat; Mrs Donna Stewart - Former Mayor of Balonne Shire; Mr Robbie Katter MP (Chair) - Member for Mount Isa; Mr John Nolan – Farmer; Mr Ben Rees - Farmer and Economist; Mr Andrew Jensen - Real Estate and Livestock Agent; Dr Mark McGovern - Senior Lecturer QUT Business School. Absent: Mrs Emma Forster – Former Winton Shire Council and Mr Stuart McKenzie - Mayor Quilpie Shire.

Taskforce processes

Following invitations from the Treasurer, the 12 member Taskforce commenced its work in Brisbane on 18 November 2015. The Taskforce website went live on 17 November 2015 **www.qld.gov.au/ruraldebttaskforce**.

The Taskforce gathered information through:

A call for written submissions - the Taskforce called for written submissions on 18 November 2015. The call for submissions was advertised widely in Queensland newspapers during November 2015. The initial closing date of 18 December 2015 was extended to 11 January 2016. In total, 123 written submissions were received. A summary of the issues raised in submissions is at Appendix 1

Regional meetings - the Taskforce held meetings in Brisbane and 13 regional centres during December 2015 and January 2016 to provide opportunities for people to share their experiences with rural debt and drought. A total of 467 people attended the meetings of the Taskforce. The meetings consisted of a 90 minute public meeting followed by 60 minutes of private sessions. Meeting participants included a cross-section of primary producers, business owners, financial service providers, stakeholder organisations and rural and regional community leaders. A list of meeting locations and dates is at Appendix 2.

Short survey - the Taskforce conducted an anonymous short survey of participants at its public meetings and through the Taskforce website to gain further information about rural debt and attitudes to it. In total, 139 surveys were completed; 119 from primary producers, 18 from local businesses and 2 from other sectors. Most of these surveys were completed by participants at the Taskforce meetings. The survey questions and the results for each question are available at Appendix 3, and

Economic analysis – The work of the Taskforce was assisted by analysis work undertaken by Taskforce members, Mr Ben Rees and Dr Mark McGovern. Their work has helped to provide a broader context as well as an understanding of the extent and nature of the problems faced, and insights into potential solutions. Summaries of their work are included at Appendices 4 & 5.

Rural finance

The following parts of the report present the information collected by the Taskforce in support of the findings, based on points raised in the written submissions and at public hearings.

This part discusses: financial system products; previous reports and surveys; and current policy and initiatives related to rural finance.

Financial system products

Consultation identified a view that the current rural development and lending system (commercial banks with assistance schemes delivered through QRAA) is not delivering the products necessary for development and maintenance of rural enterprises. There is regularly asserted a mismatch between available lending product and farm business needs.

Monitoring of debt

Concerns were raised at all regional meetings that there are widespread debt and financing issues for agricultural businesses across Queensland. There were suggestions that data (particularly QRAA Rural Debt Survey) needed to be updated to reveal the full extent of the problem. The latest survey is from 2011.

Interest rates and loan terms

Interest rates are at a relative historical low; however there was widespread opinion that interest costs were a significant pressure on agricultural businesses with high debt levels.

Due to the variable climate and the long term nature of enterprises in Agriculture, short term loans result in additional pressure on businesses. It was generally expressed that 'long term' should be over a period of 20-30 years.

Property valuation and impacts on credit risk ratings

Concern was expressed that the current system of valuation used by banks is based on recent sales within that region. An area with a high number of mortgagees in possession can result in valuations which collapse or may vary considerably over the term of loans. This has a particular impact on 'loan to valuation ratios' and credit risk ratings when loans are renegotiated either routinely by banks (every 3-4 years) or loans have to be renegotiated for some other reason, e.g., drought recovery.

The survey distributed during this process, concluded that 57% of businesses involved needed to renegotiate loans in the next year, while property values are depressed in many areas.

Financial sector conduct

Examples of inconsistency of approach and attitude have been identified across different banks in Queensland. Throughout the consultation process and in submissions, numerous issues were raised where producers felt they had been unfairly treated by banks. Conduct was of particular relevance when businesses were identified as 'at risk'. A need was highlighted to ensure that an effective framework / code of conduct was in place so that lenders and borrowers could work through mediation / exit processes in a fair and equitable way. Receivers and their actions after foreclosure were cited as areas of particular concern.

Of particular concern were assertions of improper conduct or even illegal actions of some of the operators in this space.

It is noted that the chairman saw the need to provide a number of submission to the Federal Inquiry into the impairment of Customer loans (current) and that a recommendation that the full powers of a Royal Commission be provided to ascertain with clarity the legality or otherwise of all allegations.

Banking sector regulations and advice

Concerns were raised that APRA regulations were impacting the flexibility of banks to manage loan repayments. For example, if delivered commercially, a principal and interest repayment holiday may be classified by APRA as a 'non-performing loan' which could result in a change to the loan's risk grading by the lender and so affect weightings of a bank's capital requirements. It was claimed that APRA provisions required demonstration of a 'willingness to pay' by borrowers with some repayments required even if reduced or interest-only. APRA did not confirm this level of intervention in loan management in verbal submissions to the Taskforce.

Current advice / conditions given by local bank managers can adversely impact property management practices. For example, businesses destocked for long periods are seen as unviable by the banking sector, hence, necessary destocking in drought may be prevented. Another anecdote was advice to keep cattle on farm which resulted in an inability to move stock and subsequent stock losses.

Financial counselling

Current service was identified as having a number of issues, namely availability of staff and (often distant) location of the financial counselling service, inability of the service to provide 'financial advice', and the advice often being sought or given after difficulties have escalated to a level where major changes are required.

Financial literacy

There was a view, particularly from those facing debt and drought recovery challenges that they would benefit from further development of skills to accurately assess their situation and develop / negotiate a recovery or exit strategy with financiers. There was an alternate view that this issue was a distraction because producers either already had these skills or that professional assistance was available. Additionally, there was comment that the flow on benefits from this action was not significant enough to offset producer circumstance.

Exit and adjustment

A significant issue from those who are leaving their property is the lack of money to start a new life. In addition many have not worked for other people and need additional help with reskilling and adjustment. The survey indicated that 19% of respondents had requests from their banks to list their properties for sale by a nominated time, so this was a major issue for participants.

Finance for succession planning

The average age of Australian Farmers is 53 (13 years above the national average for other occupations) (ABS 4102.0). Issues relating to difficulties with succession planning and intergenerational transfers were raised at almost every meeting, with strong emotional responses where family transfers were affected. The main issues raised were primarily availability of finance and also stamp (transfer) duty to facilitate intergenerational change.

Alternative financing options

Some people proposed development of alternative sources of recapitalisation separate to, or in conjunction with, traditional debt financing that would assist in freeing up a primary producer's own capital base.

Previous reports and surveys

A number of reports and surveys were cited in hearings and submissions suggesting an increasing debt problem driven by a range of issues. However there was a general view that there is a lack of reliable data on profitability and non-performing debt at a region-by-industry sector level.

Following is a summary of conclusions from various surveys and reports presented as evidence in submissions:

2011 QRAA Rural Debt Survey

The 2011 QRAA Rural Debt Survey (from QRAA website) showed that:

- Total debt increased $2.67 billion or 19% to $16.97 billion on the previous survey conducted December 2009
- Average debt per borrower increased by $152,000 to just over $1,000,000 per borrower.
- Five industries account for more than 80% of total recorded rural debt, these being beef (54% of total debt), cotton (7.6%), grain/grazing (6.8%), grain (6.5%) and sugar (5.7%)
- More specifically, the level of rural debt for the beef industry has increased by $1.3 billion (17%) over the past two years (to 2011) to a total of $9.18 billion; and
- The Survey found that 86% of the total debt was classified as "A" (borrowers who are considered viable under most or all circumstances) or "B+" (potentially viable long-term but are experiencing debt servicing difficulties) rated debt.

2009 & 2013 MLA Northern Beef Report

The overview of the 2009 report cast a sobering picture of the northern cattle industry, "In 2009, the northern beef industry is in its worst state since the beef slump of the 1970's with an average return on assets (ROA) from 0.3% to 2.0%. "Average beef producers tend to be spending more than they have earned in 6 of the last 7 years, indicating the northern beef industry is generally in a very unprofitable and unsustainable state."

Key findings identified in the 2013 report were that, the MLA Northern Beef Report indicated that while average profits in the sector achieved from 2001 to 2012 have been low, of concern, the profitability of the top performers had also been trending down. The report concluded; "profit after interest is decreasing, and is mostly negative, as a result of increasing debt with no increase in profits. The majority of Northern Beef producers are not economically sustainable as they are not able to fund present and future liabilities."

Notably the 2009 report was conducted prior to the recent drought and the live export ban. This stands as evidence to the fact that the industry was in trouble prior to these events and that problems were more structural in nature.

Gulf Cattleman's Survey Results, August 2014

The Executive Summary of this report states that; "This survey samples 26% of grazing enterprises in the gulf and cape region of Qld. Within that sample over 10% supplied full valuation and full financial information providing a credible representation of results. Generally a sample of 10% of a population is considered representative. We do acknowledge that those with financial struggles would more likely have undertaken the survey which may create a small skew of the full regional picture. However, these results are so worrying that we hold firmly that this data raises serious concerns." The report lists the following issues of concern since the Live Export ban:

- There has been a 28% decline in property value regardless of any infrastructure or herd improvements made since 2010, suggesting that much of this decline is a result of the Live Export Ban in early 2011.
- There has been on average a 22% increase in debt levels between 2010 and 2014, resulting from lack of cash flow and increased borrowings to cope (even though a large proportion of debt is already at risk).
- There has been a sixfold increase in debt held with small businesses and service providers in our small towns and regional centres.
- 20.8% of loans were developed where the bank manager did the full budgets and loan, and that the land holder was offered more money than they expected.
- 58.7% of businesses have been extremely affected by the changes to financial arrangements made by banks post the Live Export Ban, with 67.4% saying that these impacts will affect their viability into the future.
- 74% say that they have been unable to maintain herd and plant to the same standard, and 30% say that the value of their plant and herd has dropped by more than 40%, with a further 32% saying that their herd and plant have dropped in value by 30-40%.
- 58% say that they cannot maintain land condition (environmental health) to the same standard.
- 56% are not confident of future viability mostly due to high costs and low prices, with 40.8% also suggesting that debt is a significant factor.
- Better prices and a reduction in debt are the main outcomes needed for future viability.
- 71% would like to access financial planning, 45% will need to access Centrelink assistance, 54% would like to access counselling for mental health/depression.

ABARES 2014, Regional farm debt: northern Queensland gulf, south west Queensland and North West New South Wales, Canberra, December.

A submission outlined that; while focussed only on two regions in Queensland; a recent 2014 report by ABARES indicated that:

- Average farm business debt increased by around 4% in south west Queensland in 2013–14 whereas in the northern Queensland gulf region a small decline in average debt per farm was reported, partly resulting from sale of farm assets, and the proportion of borrowers more than 90 days in arrears increased from 1.9% at mid-2012 (23 customers) to 3.4% (43 customers) at mid-2014
- Around 24% of bank borrowers in the Gulf had loans exceeding $2 million
- The cost of servicing debt in these regions is expected to consume on average in excess of 15% of receipts broadacre farms nationally average 8%to 9%)
- Around 23% of gulf region broadacre farms are estimated to have had equity ratios of less than 70% at 30 June 2014; 14% in SW Queensland
- The proportion of Gulf broadacre farms with relatively high debt servicing commitments and relatively low additional borrowing capacity was historically high at around 20% (16% for the south west region)
- 1 in 5 farm businesses in those regions had no debt to banks.

2015 AgForce Survey

In April 2015 AgForce surveyed members on the impacts of the current drought. In total 138 responses were received from 31 shires currently or previously drought-declared. When at full capacity respondents managed over 380,000 cattle, 182,000 sheep and about 42,800 ha of cultivation. Due to respondent self-selection and skipping of questions some caution is warranted if extrapolating the findings more widely. The results indicated that:

- 44% responded that they had experienced up to a halving of their gross income

- 17% had greater than a 75% income reduction
- While ¼ reported no increase, 37% had increased their debt by up to 25%, 22% had increased their total debt by 26% to 50% and 11% said debt had more than doubled
- 64% reported that their total assets were reduced by 11% to 50% and 10% indicated that their assets had more than halved

In terms of the relative environmental, financial and personal impacts 46%, 65% and 59% respectively rated this drought worse than previous droughts they had experienced. Similar figures were recorded from 250 respondents in October 2013.

About a quarter of AgForce' s drought survey respondents highlighted their need for additional support from their bank, with some encountering difficulty in securing this support being at or past their limits on borrowing.

Other Information

There is no available data on the average interest rate charged on rural loans. A questionnaire of participants during consultation by the Taskforce showed that while 54%of participants are paying between 5.1% and 6.9%, some were paying rates over 11%. Some were even higher. Producers frequently reported that interest rates were increased (eg.2%) as loan risk increased. Given that 19% of questionnaire contributors reported that their bank has requested that their business be listed for sale by a nominated time, it could be expected that loan risk is a serious issue for these producers and that this may have impacted interest rates.

Current policies and initiatives

Farm and Rural Legal Service (Queensland Government)

The Farm and Rural Legal Service gives help and advice to Queensland rural producers who have severe debt related problems, are in dispute with their lenders, or are facing financial hardship relating to their business of primary production. The Farm and Rural Legal Service lawyer travels throughout Queensland to the most remote locations to give legal advice. The service helps rural producers on the farm, at a venue of the farmer's choice, at the local Legal Aid Queensland office or by telephone. For the 2015-16 financial year the Farm and Rural Legal Service will also offer legal help through 3 private law firms in central and north Queensland.

Rural Financial Counselling Service (Queensland and Australian Government)

The Australian and Queensland Government, provide funding for Rural Financial Counselling Service. The RFCS Program provides grants to organizations to provide free rural financial counselling to farmers, fishing enterprise operators and small agriculture dependent rural business operators who are suffering financial hardship and have no alternative sources of impartial financial information to manage the challenges of industry change and adjustment.

Australian Prudential Regulation Authority (APRA) (Australian Government)

APRA oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, private health insurance, friendly societies and most members of the superannuation industry. APRA establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions they supervise are met within a stable, efficient and competitive financial system.

Memorandum of Understanding (MOU) between the members of the Council of Financial Regulators

Memorandum of Understanding (MOU) between the members of the Council of Financial Regulators (Council) sets out the objectives, principles and processes for dealing with stresses in the Australian financial system. The MOU identifies the responsibilities of each Council member and is intended to facilitate a coordinated response to stresses in the financial system.

Queensland Farm Finance Strategy

The voluntary Strategy is for financial institutions and other providers of credit to farmers, farmers and their respective financial advisers and financial counsellors and representative organisations to work together to promote objective assessment of financial viability of farming operations, resolve financial problems as they arise; and promote a mechanism to achieve a timely and dignified conclusion to matters where a financial support arrangement is brought to an end, and so avoid the potential for conflict between the farmer and the financier(s).

Sustainability Loan - Primary Producer (Financed by Queensland Government and delivered by QRAA)

Sustainability Loans provide finance of up to $650,000 to cover capital costs to achieve a more productive and sustainable primary production enterprise. The loan term is up to 20 years with low interest rates fixed at 1, 3 or 5 years. Funds can be used for improving enterprise efficiencies, upgrading or diversifying operations, and achieving long-term sustainability. A range of activities that enable you to expand current operations to improve productivity or long-term sustainability, are eligible.

First Start Loan (funded by the Queensland Government delivered through QRAA)

First Start Loans provide finance of up to $650,000 to assist you in the early years of establishing your primary production enterprise. Obtain the finance you need to enter into primary production or to become a full-time primary producer. The loan term is up to 20 years with low interest rates fixed at 1, 3 or 5 years. Included in the eligibility criteria it is expected that you have equity of 50% in relation to the purchase, or 50% of set up costs for leasing and share-farming. The level of equity may be varied by QRAA in certain circumstances e.g. joint lending, stable off-farm income.

Transfer Duty Exemption (previously referred to as Stamp Duty)

Queensland currently provides a Stamp Duty exemption to the gifting of primary production businesses within a family but not for the sale of those businesses within that family. Australia's Future Tax System Review stated that Stamp Duty is a highly inequitable and inefficient tax which prevents the transfer of land to its highest and best use. All other Australian states and territories provide exemptions for family transfer of primary production businesses, with some variability in respect of relevant land use and business types.

These exemptions exist to assist family members retain, or take up ownership of family farms to encourage younger generations to stay on-farm.

In Queensland, the dutiable value is calculated by multiplying the unencumbered value of all the landholder's land holdings by the interests that make up the relevant acquisition. There are no available statistics on the frequency and value of inter-familial farm sales in Queensland, or on cases where stamp duty costs have hindered the transfer of farm land and businesses. The calculation for transfer duty is if the dutiable value is more than $1,000,000 there are $38,025 plus $5.75 for each $100 or part $100 over $1,000,000.

Role of government in rural finance

This part of the report discusses: financial system products; previous reports and surveys; and current policy and initiatives related to rural finance.

Reconstruction

Consultation revealed a call for changes to rural reconstruction involving:

- A Rural Reconstruction Board to help primary producers with their finance situations. Offer schemes similar to the previous Rural Adjustment Scheme, Small Business Debt Assistance Scheme, Young Farmers Establishment Scheme, and State Interest Subsidy Scheme which were offered through the previous Statutory Authority QIDC.
- A Rural Reconstruction Bank to help primary producers with their finance situations. Offer long term loans (20 years) to businesses which are as near as possible to the cost of funds to government.

Funding in both cases was envisaged to be from the Australian Government, the Queensland Government or a combination of both.

To provide context to current consideration of government's role in provision of rural credit, it is useful to consider previous roles. A number of these are outlined below:

Reserve Bank of Australia's former role in rural credit (1925-1988)

The RBA (and prior to 1959, the Commonwealth Bank) has had a broader role in the rural sector. Between 1925 and 1988 the Rural Credits Department (RCD) provided seasonal credit for periods of up to one year to statutory marketing authorities and rural cooperative associations to facilitate the marketing, processing and manufacture of primary produce. It also extended research grants and fellowships for projects associated with the promotion of primary production.

The RCD was created when the size of the rural sector meant that its demand for seasonal finance was very large relative to the capacity of private financial markets. By the 1980s, however, the commercial banking system had become the primary source of rural credit, and bank lending techniques had become well suited to the variable financing needs of rural producers.

Interest rates on RCD loans had also become more closely aligned with commercial rates and, by mid-1984, all were at fully commercial rates.

Commonwealth Development Bank

Between 1960 and 1974, the main function of the Commonwealth Development Bank was to provide finance related to primary production and industry undertakings (particularly small undertakings). In 1978, the lending activities of the bank were widened further to cover business activities generally, with a focus on small business.

Lending would occur in cases where the provision of finance was desirable and the finance was not otherwise available, either in full or in part, on reasonable and suitable terms and conditions. The legislation also provided that the Development Bank should have regard 'primarily to the prospects of the operations of that person becoming, or continuing to be, successful' and not necessarily 'the value of the security available in respect of that finance'. Along with the Commonwealth Bank of Australia (CBA), the Commonwealth Development Bank was converted from a statutory authority into a public company in 1990.The Development Bank was made a subsidiary of the CBA. The Development Bank was absorbed into the CBA's business banking division 'with the view that private markets were well equipped to meet rural financing needs'.

Agricultural Bank

The Queensland Agricultural Bank was established in 1902 and provided services such as Agricultural development finance, advances to cooperatives, primary producers and discharged soldiers. The bank continued operations until 1986.

Rural Reconstruction Board (1971- 1986)

Discussions between the Commonwealth and the States during 1970 recognised a need to provide assistance to persons engaged in the rural industries throughout Australia who 'were in grave financial difficulty'. As a result the Commonwealth offered to finance a Scheme for Rural Reconstruction to be administered by the States. The board was mostly funded by the Commonwealth with top up funds provided by the State Government. The Board was replaced in Queensland in 1986 by the Queensland Industry Development Corporation.

On the next page (Figure 2) is an extract from the legislation of 1971 setting out the purpose and method of operation and the limits of the facility.

Queensland Industry Development Corporation (1986-1996)

QIDC was established by the Queensland Government under the Queensland Industry Development Corporation Act 1985 and commenced 1 July 1986. QIDC was set up as a statutory author with the objectives to facilitate, encourage and promote the development and expansion of economic activity in Queensland with a view to enhancing economic growth and employment opportunities in the State and for the public benefit.

At its inception QIDC brought together the Agricultural Bank, the Rural Reconstruction Board and Industries Assistance Board. As an amalgamation, the QIDC did the following:

- Acted as a financier to the primary, secondary and tertiary sectors of the State's economy; and
- Acted as administrator of Schemes of Assistance for the Commonwealth and State governments to provide Venture Capital on behalf of the State Government.

Government schemes included the Rural Adjustment Scheme, Natural Disaster Relief Scheme, Small Business Debt Assistance Scheme, Young Farmers Establishment Scheme, Primary Industry Productivity Enhancement Scheme, Emergency Assistance Scheme, Rural Housing Scheme and State Interest Subsidy Scheme.

On 1 December 1996, the Queensland Government owned Suncorp and QIDC entities were merged into the publicly listed company Metway Bank to create Suncorp Metway. In September 1997 the State Government started to sell off its share with the final part of the Government sell downs occurring 31 October 2001. This resulted in a sale value of $1.3 Billion to the Queensland Government.

QRAA (1994-current)

On 1 October 1994, QRAA completely separated from QIDC and became a Statutory Authority, known as the 'Queensland Rural Adjustment Authority', that reported to the State Government. Although QRAA had changed names, it assumed the major activities of the Government Schemes Division of QIDC.

Further amendments were made to QRAA's Act and were passed in parliament in October 2004 to refocus the direction of the organisation and the scope of assistance programs that were offered. QRAA's primary function remains to properly and fairly administer State and Commonwealth approved schemes of support for Queensland industry.

Recent public inquiries

Two recent inquiries have been conducted.

Reserve Bank Amendment (Australian Reconstruction and Development Board) Bill 2013

The Australian Senate recently investigated the proposal that an Australian Reconstruction and Development Board be established as a third board of the Reserve Bank of Australia (RBA). Over 140 submissions were received. These and transcripts from hearings provide much information relevant to the current Inquiry.

The purpose of the board would be a specific entity tasked with examining, reconstructing and improving the financial status of the Australian agricultural sector and its associated industries and infrastructures. The ARDB activities would relate to agriculture and associated industries and infrastructure and help to develop:

- The resilience, capabilities and ongoing financial viability of Australia's food and natural fibre systems
- A profitable farming sector exercising good stewardship of the resources associated with production;
- Effective ways to mitigate the impacts of adverse events, particularly those associated with natural disasters, market failures and inadequate commercial financial arrangements; and
- The capability of agriculture to contribute more fully, responsibly and reliably to the economic prosperity and welfare of the people of Australia and the peoples of other nations.

Inquiry into the impairment of customer loans.

On 4 June 2015 the House of Representatives referred an inquiry into the impairment of customer loans to the Parliamentary Joint Committee on Corporations and Financial Services to report on 20 May 2016.

1971 *States Grants (Rural Reconstruction)* No. 61

THE SCHEDULE—*continued*

Part II—Debt Reconstruction

(1) Purpose

To assist a farmer who although having sound prospects of long term commercial viability, has used all his cash and credit resources and cannot meet his financial commitments.

(2) Tests of Eligibility

(a) The applicant is unable to obtain finance to carry on from any other normal source and is thus in danger of losing property or other assets if not assisted under the scheme.

(b) There is a reasonable prospect of successful operation with the assistance possible under the scheme, the prime requirement being ability to service commitments, and to reach the stage of commercial viability within a reasonable time.

(c) Assistance is merited and the applicant's difficulties are not substantially due to circumstances within his control.

(3) Nature of Assistance

The assistance to be provided may encompass where necessary:—

(a) A re-arrangement and/or a composition of debts to allow more time for payment.

(b) The negotiation of a concessional rate of interest for existing rates.

(c) Advances of additional funds for carry-on expenses, livestock and further property development, at reasonable interest rates.

(d) Where the State Legislation so provides, a protection order against any creditor who has threatened action for debt, to apply while the application is under consideration and subject to such extensions as the administering Authority may from time to time determine.

(4) Method of Operation

(a) A re-arrangement and/or composition may take the form of the Authority advancing money to pay off in whole or in part the creditors, (whether or not the debts have been written down by the creditors under (b) below), excluding the Crown. There may be an arrangement by the secured or unsecured creditors to postpone repayments of principal and to refrain from taking action against the debtor for a specified time. Composition arrangements require the agreement in writing of creditors.

(b) The possibility of creditors including the Crown, local authorities and public utilities being asked to defer or write-off part of their debts—possibly at a uniform rate but with due regard to priority of security—should be considered. Creditors should not be pressed to the extent that the availability of credit to rural industries is damaged.

(c) Additional funds advanced for carry-on expenses, livestock and further property development will be strictly limited to the minimum which the Authority considers is required to enable the farmer to carry on and free himself from dependence on the Authority's assistance within the term of the advances made to him by the Authority.

(d) In exceptional cases, advances for carry-on expenses and livestock may be made to a farmer who is not yet in immediate danger of losing property or other assets but who in the opinion of the Authority is likely to reach that position without such assistance, such cases being tested strictly against the remaining eligibility criteria.

(e) The rate of interest payable on advances made by the Authority to pay off creditors and also advances made for carry-on expenses, livestock, plant and property development, will be decided by the Authority on the circumstances of the particular case. The Authority will have the right to review the interest rates on individual accounts at any time and should review the interest rates at regular intervals. The Authority will ensure that the average interest rate over all loans made will be not less than 4 per centum per annum.

(f) Where protection orders apply it is desirable to establish a relationship with creditors such that the Authority is acting in combined interests of applicant and creditors, secured and unsecured.

(5) Limits

The Authority shall have discretion to determine:—

(a) The terms and conditions of any loan it may make up to a maximum repayment term of 20 years. In a number of cases an initial period of freedom from repayments of principal would be justifiable depending on the circumstances of the case and the interest rate to be charged.

(b) The proportion of debts paid off by advances in any one case.

(c) The total of advances which may be made by the Authority in any one case.

Extract from Hansard, States Grants (Rural Reconstruction) No. 61 – Schedule 1971.

Drought

This part of the report discusses: the impacts of drought, and current policies and initiatives to provide assistance to drought-affected communities.

The impacts of drought

Resilience

There is low resilience in some rural communities due to a succession of financial impacts (e.g. low incomes, drought, cyclone, markets, diminished capital value) which has not allowed for businesses to mitigate the impact of one before another begins.

Drought Policy

Consultation revealed a strong feeling that the National Drought Program Reform has had limited or negative benefit to communities, with inconsistent policy between governments. There was a call for a more conducive banking policy and complementary national drought policy.

Recovery and Impact of Live Export Market Intervention

Restocking was identified as a significant issue to getting back to profitability. Due to live export market intervention from the Australian Government occurring when enterprises were destocking from drought, significant numbers of stock were lost or sold at low prices and restocking will be expensive.

Inaccessible and Inadequate Drought Assistance

The criteria for assistance were often seen as too restrictive, with producers contesting viability assessments by QRAA. Many producers have not applied for assistance because they considered they would not meet the criteria. Concerns were expressed in some areas that the loans are too small and too short to make an effective difference. Problems were identified in coordination with negotiations with Banks and QRAA. Issues were also raised regarding the inaccessibility of Farm Household Allowance to many because of the net assets limit.

Current policies and initiatives

As at 1 January 2016 there are a total of 36 councils and five part council areas drought declared, with 40 individually droughted properties in a further seven council areas. Following is a list of current drought policies and initiatives

Australian Government Drought Concessional Loans Scheme (QRAA delivery agency)

Drought Concessional Loans are available to assist farm businesses recover from and prepare for future droughts and return to viability in the longer term. Loans are for eligible farm businesses for the purposes of restructuring existing eligible debt (including a Farm Finance Concessional Loan), providing new debt for operating expenses or drought recovery and preparedness activities, or a combination of these. Loan amounts will be up to 50% of total eligible debt to a maximum of $1 million. The variable concessional interest rate is currently set at 3.05% (from August 2015). The maximum loan term is five years and interest only payments are available for the loan term. The farm business must repay or refinance the remaining loan balance at the end of the loan term.

Drought Recovery Concessional Loans Scheme (QRAA delivery agency)

Drought Recovery Concessional Loans are available to assist eligible Queensland farm businesses that have experienced severe drought conditions.

Under the scheme, the Australian Government has provided Queensland with $15 million for the provision of Drought Recovery Concessional Loans to drought-affected Queensland farm businesses during 2015-16. Loans are for eligible farm businesses for the purposes of planting and restocking. Loan amounts will be up to 50% of total eligible debt to a maximum of $1 million. The variable concessional interest rate is currently set at 2.71% (from August 2015). Maximum loan terms of ten years apply, with interest only repayments for the first five years. Principal and interest repayments apply from years six to ten of the loan, calculated on the basis of a 10-year loan term. Refinance or repayment is required by the end of the loan term. The combined maximum loan amount available under the Drought Recovery Concessional Loans Scheme, Farm Finance Concessional Loans Scheme and Drought Concessional Loans Scheme will be up to 50% of total eligible debt to a maximum of $2 million in total. Within this, the amount for the Drought Recovery Concessional Loan component cannot exceed $1 million.

Farm Household Allowance

The allowance provides eligible farm families experiencing hardship with money to meet basic living expenses. The Australian Government has recently raised the net assets limit for eligible families to $2.5 million.

Queensland Government DRAS

Producers in a drought-declared area or who have an individually droughted property (IDP) declaration can apply for DRAS. DRAS includes a freight subsidy for transporting fodder, water, the EWIR (Emergency Water Infrastructure Rebate), which provides a rebate on the purchase and installation of water infrastructure purchased for animal welfare needs. Properties that have had their drought declaration revoked may be eligible for freight subsidies for transporting livestock returning from agistment and freight subsidies for transporting livestock purchased for restocking. DRAS generally provides a maximum of $20,000 per property per financial year on all freight subsidy and rebate types. This may increase to $30,000 with the approval of a drought management plan by DAF Extension staff. This can increase further up to $40,000 in the third and later years of a drought declaration. DRAS is currently being reviewed by the Queensland Parliament - Agriculture and Environment Committee.

Mental Health Programs

Queensland Health provides primary mental health support to drought-affected areas through the Royal Flying Doctor Service.

Water Licence Waivers

Annual water licence fees from 1 July 2015 until 30 June 2016 have been waived for Queensland producers in drought-declared areas. Affected landholders are advised of the waiver by letter.

Land Rent Rebates

Holders of rural leases (Category 11 leases used for grazing and primary production) issued under the Land Act 1994 are eligible for a rebate of 12% of their annual rent where that annual rent is more than the minimum rent of $235. The rebate is available for leases that are in drought-declared areas and for those that have an IDP. Landholders who are eligible for the rebate receive information with their annual/quarterly invoices.

Electricity Charges Relief for Water Supply

The Department of Energy and Water Supply operates the Drought Relief from Electricity Charges Scheme (DRECS) for customers in Energex areas and for non-Ergon Retail customers in regional areas. The scheme provides relief from fixed charges for accounts that use electricity to pump water for farm or irrigation purposes during periods of very low or no water availability.

For the majority of customers in the Ergon Region, DRECS is delivered by Ergon Energy Queensland, which is reimbursed by the government via monthly community service obligation payments.

Transport Concessions

Drought assistance measures provided by the Department of Transport and Main Roads include permits for increasing the maximum hay loading height, concessions on shifting droughted livestock, waivers and greater flexibility on certain vehicle registration conditions and fees and charges and increased school transport allowances for some families that drive their children to school or connect with a school bus run.

Other Issues affecting rural communities

This part of the report discusses a number of rural community issues and other issues affecting the health of rural communities that were identified through the Taskforce's regional consultation.

Children's education costs

Young families and the Isolated Children Parents Association advocated for equitable access to educational opportunities for children in rural and remote areas. In Queensland there are 8 shires that have no schooling above year 6 and another 3 which have no schooling above year 10. There is a growing gap between costs for boarding school and the associated rebates from the Australian Government and Queensland Government. Many parents have had to make decisions about living locations and decisions about children's education which have been to the detriment of families and often the children themselves.

An emergency education assistance package available in drought and post drought recovery for all effected Queenslanders is needed.

Mental health and wellbeing

It was identified in consultation that it is highly important when dealing with drought and debt that the mental and physical health of those involved is protected.

Local government rates

Rising costs such as rates and rents were raised in discussion. Many Councils in droughted areas have taken action to minimise or freeze rate increases, but there are limits to how long councils can maintain this assistance.

Local government projects

There were strong views that communities needed more engagement, consultation and long term solutions for infrastructure and involvement of local businesses in delivery of that new and improved infrastructure and a stated abhorrence to outsourcing, especially in time of severe disruption, as the employment provided was important to financial wellbeing of communities.

Rural businesses

Local businesses are closing or being impacted by huge decreases in turnover. Many small business owners who attended the meetings requested a freight subsidy for their businesses. Fishers in the north noted a reduced value of fishing licences due to the effect of the drought, with consistently lower catches.

Profitability

Costs have continued to rise, and prices received for production are not rising at the same rate. Producers also argued that their profitability is affected by market control by a small number of very large retailers.

This is a repeated statement from a number of industries and likely points to a lack of market power.

Contributions by Dr Mark McGovern at **Appendix 5** of this report provide a comprehensive rationale for this finding.

Weeds, pest and disease management

Weeds, pest and Disease management costs and productivity losses were identified as significant issues for all industries. Examples included; wild dog management, kangaroo management, cane diseases, etc.

Available fencing is expensive but effective and if capital needs can match income and depreciation periods then some minimal assistance may significantly improve productivity and production.

Electricity and water costs

Particularly in irrigation areas, concerns were expressed about water costs, electricity costs and the impact of changes to tariffs.

Agriculture policy

Producers questioned what type of farming business model the government supports; for example, corporate farming, and family farming, larger or smaller.

Multi-Peril / Income Protection Insurance

Many producers considered income protection insurance had merit and would be supported if suitable policies were available. Especially in the cropping areas it was seen as very beneficial with a business owner indicating that he was able to receive protection for his business as a result of a property owner's multi-peril cover. Notation should be made that a number of beef and cane producers indicated a desire to find a suitable similar product.

It seems imprudent to drag the chain in development of a contemporary product able to privatise a large portion of the risk of rural production especially given that our major competitors are well ahead of us in this regard.

Regulatory costs

There was a strong view that regulation of primary industry activities is having a major financial impact on profitability. Frequent examples cited were vegetation management, water allocations, transport costs (regulatory costs), and regulatory processes around production, and insurance policies outside of Category 5 cyclone areas. There was a call for bipartisan support and consistency on issues such as vegetation management.

Training

It was identified that there were also a number of producers who would like upskilling on how to run a business and help business to prosper in these changing conditions.

Natural disasters

The ongoing recovery from natural disasters was identified as an issue in coastal regions of Northern Queensland, which on top of the rural debt issues is having a resounding effect on local communities and their resilience.

Market concentration

Most industries cited the market concentration for purchasers of their product was impacting heavily on the market power of the producer and therefore price received.

In the northern cattle region it was identified that provision of an additional abattoir should be supported to address this particular industry need.

Current policies and initiatives

There are declining populations across rural Queensland, with concerns there will be significant changes shown in the 2016 Census. Outback Queensland youth unemployment increased from 17.4% to 25.6% from Dec. 2014 to Dec. 2015. Following is a list of current policies and initiatives:

Local infrastructure and employment projects

The Australian Government has provided $35 million for shovel-ready local infrastructure and employment projects. Funding will target projects that offer the greatest potential to stimulate local spending, use local resources and provide lasting benefits to the community.

Community assistance package

The Queensland Government is providing community support to help people under stress, assistance for organising community events and training and resources for community leaders.

Pest animal and weed management

The Australian Government has provided $25.8 million for programs to manage pest animals and weeds in drought-affected areas. This will provide work for rural contractors while helping producers to deal with the impact of feral animals on livestock and pastures.

This funding is delivered through regional natural resource management groups. It is expected that DAF will oversee these groups' delivery of the projects on behalf of the Australian Government.

Wild dog and feral cat destruction initiative

The Queensland Government has committed to providing an additional $5 million over 3 years to support new initiatives aimed at destroying wild dog and cat populations.

DAF has allocated $4 million to support wild dog projects in drought-affected areas and $1 million for feral cat research that will support future programs in national parks and key private conservation reserves that are heavily affected by feral cat predation.

Natural disasters

The Natural Disaster Relief and Recovery Arrangements (NDRRA) are a joint funding initiative of the Commonwealth and State Governments to provide disaster relief and recovery payments and infrastructure restoration to help communities recover from the effects of natural disasters. Most relief measures under NDRRA are funded 75% by the Commonwealth Government and 25% by the Queensland Government. There are four levels of assistance depending on the Disaster: Category A & B. Natural disasters often occur when we least expected.

A low-interest loan up to $250,000 can assist you to re-establish your primary production enterprise by covering costs such as repairing or replacing damaged plant and equipment, repairing or replacing buildings, purchasing livestock to replace those lost in the disaster event, and meeting carry-on requirements. These are low interest loans up to $250,000 over a maximum 7 years at 1.92% (category B loans), up to 2 years of which may be interest-only.

Appendix 1 – Summary of the issues from submissions

Issues Contributing to Rural Debt	Submissions
Local communities and economies are suffering due to no cash flow and limited populations.	2,4,5,7,10,11,16,17,19,23,25,26,27,28,29,36,38,49,56,67,76, 82,86,99,101,107,113
Agriculture has become unprofitable, continued low returns (until recently) and increasing costs.	1,2,3,4,6,9,10,13,19,22,24,25,31,32,33,44,49,53,82,85, 85,86,94,107,112,116,117,120
Banks are as responsible for their actions and have displayed unconscionable conduct in many situations.	2,3,4,8,11,12,19,22,24,32,34,37,40,41,58,65,71,75,83,101,107,113,115,116
Current government assistance in insufficient.	2,6,13,14,20,30,32,35,39,41,53,58,61,60,61,73,82,83,84,116,117,119
Live Export added to marketing issues for an extended period which created further financial pressure.	2,14,19,31,32,53,67,72,73,83,97,101,107,109,110,115
Successive droughts and floods contributed to current situation.	2,4,11,19,28,76,31,33,72,73,88,107,109,115
Growth of rates in arrears in local government areas.	7,15,16,17,23,36,38,54,55,57,62,66,99
Reduced local community populations and increased incidence of absentee owners on rural properties.	2,4,9,14,16,20,25,26,28,38,43,49,60
Vegetation Management laws have huge implication on equity, in particular on Mulga harvesting and future land values.	9,31,43,45,91,96,99,102,107
Increased land prices are not reflecting the profitability of properties.	2,3,4,19,22,31,43
Limited ability to prepare for drought due to continued severe weather events.	2,4,9,19,32,33,82
Suggested Solutions	**Submissions**
Government backed reconstruction bank or board which will help Agriculture Businesses which includes various schemes including interest only periods, succession products, low interest and long-term loans.	2,3,7,8,11,14,18,19,22,30,32,42,49,51,53,57,61,63,64,74,76,84,85,89,94,101,108,113,123
Review QRAA's current system. Banks will not support loans, the viability test is too stringent and loans are also difficult and time consuming to apply for.	2,4,6,13,14,19,20,25,30,32,35,39,41,53,58,61,60,61,73,84,88,89,91,108,109,116,117,118
Training for business owner's in particular financial literacy training.	14,19,21,22,24,25,31,43,49,51,60,61,67,76,77,86,91,107
Succession planning schemes which allow for transition finance and allow for stamp duty concessions for transfers.	4,14,19,22,25,32,34,39,41,49,61,69,86,91,96,116,117
Interest rate subsidies, similar to those received under previous Exceptional Circumstances policy.	1,2,19,22,25,31,32,33,36,39,61,7697,104,121
There needs to be a different approach to finance by the banking sector for agricultural businesses.	22,24,37,53, 91,97,106,109,101,113,115,121
The Banking sector needs to reconsider the length of loans for agricultural businesses.	28,31,39,41,49,64,101,113,115,121
Provide immediate funding to subsidise boarding fees for rural children in drought declared areas.	24, 29,32,47, 51, 57, 61,78,90,91
Further mental health support, in particular specialist services which come out to the client.	5,39,51,58,60,61,70,77,78,91,111
Improve the land valuation system to ensure properties are valued on profitability not on recent sales.	1,2,4,22,51,67,91,101,107,115
Multi-Peril Insurance or similar Income Protection Insurance	41,88,92,93,97,113,119
Pest animal control mechanisms and funding from the State Government.	6,9,28,30,31,48,65,86
Restocking finance.	2,14,19,33,54,61,70,116
State Government should support Local Government projects to help get money into rural areas.	2,19,26,27,44,57,60,76
Exit grants for older farmers who would benefit from an incentive for leaving. Also re-skilling grants similar to those included in the previous Exceptional Circumstances policy.	8,53,60,67,77,86,91
Nationally consistent Farm Debt Mediation legislation.	51,60,73,86,95,109
Banks need to freeze interest payments while areas are drought declared.	2,4,13,19,33,34
State Government to provide assistance which allows for mitigation measures like fodder storage and water infrastructure.	20,38,43,73,74
Waive local Government rates while in severe drought until the drought declaration has been revoked.	19,49,58,61,78

Appendix 1 – Summary of the issues from submissions continued

Additional or Contributing Issues	Additional Solutions
• Borrowers need to seek third party advice. Businesses should use consultants, lawyers and accountants. • Sales agents should be accountable for overselling properties. • The media sensationalise the issues for industry, there is no endemic problem. • State Government Waives costs over droughts for example rates, rents, and registration. • APRA have harsh provisioning for bad debts. • Australian Tax Office is a big holder of debt for agricultural businesses. • Banks should consider that it takes 5 years to recover from a natural disaster be it flood or drought. • Government should avoid intervening and allow the finance industry to manage the issue. Note - Suncorp does not encourage additional and specific funding for restocking. • Many people are self-assessing negatively for QRAA loans. • Poor data available across regions on economic activities and debt. • Banks charge penalty rates when businesses are already struggling. • Market control by a few for example Coles and Woolworths. • Global Financial Crisis. • Additional costs of the BJD quarantine to individual businesses. • Current assistance is designed for broad acre lenders in grazing or cropping (not horticulture).	• A supportive National Drought Policy that does not change for political reasons. • A supportive policy for family farms as opposed to corporate farming. • Queensland Government DRAS needs to include a rebate for the de-silting of dams. • Need a responsible use of profitability metrics for sale of properties. • Local Business support (contractors, town businesses) • Banks should remove fee of getting out of fixed loans. • Royal Commission into the behaviour of the banking industry. Remove confidentiality clauses on settlements. • Code of Conduct for banks and receivers. • Remove APRA's harsh provisions on risk on agricultural loans. • Reduce regulatory burden on business. • Fix inefficiencies in public infrastructure (Communications and Roads). • When drought is declared apply a freeze to all farm debt obligations. • Tax deductions for infrastructure especially water infrastructure. • Reduce debt without tax implications. • Update the QRAA Farm Debt Survey. • Effective R&D and adoption practices to address rising production costs. • Need further industry benchmarking data for more realistic sales of properties. • Employment and infrastructure projects in rural areas. • Provide money to landholders for land management activities. • Fund a professional advice service for 'getting into debt'. • Provide a government backed guarantee to reduce capital costs and encourage banks to refinance long term viable producers. • Comprehensive costs and charges audit to should be commissioned to identify and alleviate the impacts of regulatory processes that impact on the bottom line of the cattle industry. • State Government should support local organisations like Aussie-Helpers and Salvation Army etc. • More Financial Counsellors are needed in certain areas where there are significant financial issues. Possible return of the Queensland Farm Finance Service. • Beef Breeder Build – proposed program of leasing breeders across Queensland. • Reward good land managers in drought through a management rating system. • Establish a Rural Debt and Drought Establishment Committee. • Recovery planning for businesses. • Re-establish the 'Minister for the Regions'. • Donation system set up to benefit those truly in need of help. • BMP should be a mandated program across the state. • Floor price for commodities. • Support local Agriculture manufacturers such as the Lockyer Valley Fruit and Vegetable Processing Company. • Reduce Land Rent costs, has become a significant cost for businesses. • Fund regionally based Queensland Agriculture Courses (Bachelors). • Long term low interest loans available from super funds and government bonds (2% for 30 years).

Appendix 2 – Public meetings of the Taskforce

The taskforce visited centres across Queensland to discuss rural debt and drought issues. The dates, times and locations of these meetings were:

Wednesday 9 December 2015

Normanton, 2.00-5.00 pm, Normanton Town Hall

Thursday 10 December 2015

Hughenden, 8.30 am – 12.00 pm, Diggers Entertainment Centre

Winton, 2.00 – 5.00 pm, the Neighbourhood Centre

Tuesday 15 December 2015

Barcaldine, 11.00 am -2.00 pm, Barcaldine Town Hall

Wednesday 16 December 2015

Charleville, 8.30 am -12.00 pm, RSL

St George, 2.00 pm – 5.00 pm, St George Skills Centre

Tuesday 12 January 2016

Mareeba, 1:00pm – 4:00pm, DNRM (John Charles Room) - 28 Peters St

Wednesday 13 January 2016

Innisfail, 8:30am – 12:00pm, The Con Theatre

Ingham, 2:30pm – 5:30pm, TYTO Conference Centre (Hall)

Thursday 14 January 2016

Ayr, 11:00am – 2:00pm, Burdekin Theatre

Wednesday 27 January 2016

Dalby, 11:30am – 3:00pm, Dalby Golf Club

Thursday 28 January 2016

Gympie, 8:30am - 11:30am, Civic Centre (Fossickers Room)

Bundaberg, 2:30pm – 5:30pm, Bundaberg Civic Centre (Supper Room)

Friday 29 January 2016

Brisbane, 9:00am – 12:00pm, Primary Industries Building – 80 Ann Street

Appendix 3 – Survey results

Q1	Which Shire is your farm located in? (139 survey respondents)							
	Balonne	**10**	Charters Towers	**1**	Longreach	**1**	Quilpie	**2**
	Barcaldine	**14**	Cook	**1**	Maranoa	**3**	Richmond	**3**
	Biggenden	**1**	Croydon	**3**	Mareeba	**6**	Sunshine Coast	**1**
	Blackall/ Tambo	**4**	Dalrymple	**2**	McKinlay	**4**	Townsville	**1**
	Boulia	**1**	Etheridge	**3**	Murweh	**11**	Western Downs	**1**
	Burdekin	**9**	Flinders	**19**	Noosa	**1**	Winton	**14**
	Carpentaria	**4**	Gympie	**10**	North Burnett	**2**		
	Cassowary Coast	**1**	Hinchinbrook	**5**	Paroo	**2**		
Q2	Are you a: Primary producer? 119 (86%) Local business owner? 18 (13%) Other occupation? 2 (1%)							
Q3	What age is the manager of your farm/business?							
	26 – 30	**5**		46 – 50	**14**		66 – 70	**16**
	31 – 35	**3**		51 – 55	**29**		71 – 75	**11**
	36 – 40	**7**		56 – 60	**14**		76 – 80	**3**
	41 – 45	**17**		61 – 65	**19**		81 – 85	**0**

QUESTIONS		YES	NO	Blank/other
Q4	Do you have a workable succession plan in place to manage your farming/business operation – that will provide for your retirement?	**37%**	**56%**	**7%**
Q5	Will you have to renegotiate your loans in the next year?	**57%**	**39%**	**4%**
Q6	Did you engage in a farm build-up program?	**35%**	**58%**	**7%**
Q7	What interest rate % range are you currently paying on debt?			
	0.0 – 5.0 **15%** 5.1 – 5.9 **24%** 6.1 – 6.9 **30%** 7.1 – 7.9 **15%** 8.1 – 8.9 **6%** 9.1 - 9.9 **3%** 10.1 – 10.9 **3%** 11.1 – 11.9 **1%**			**8%**

QUESTIONS		YES	NO	Blank/other
Q8	If a fair market value was offered to you for the sale of your property/business tomorrow, would you sell it?	**39%**	**57%**	**4%**
Q9	Has your bank/financier requested that you sell off farm or other assets?	**25%**	**75%**	
Q10	Has your bank requested that your farm/business be listed for sale by a nominated time?	**19%**	**80%**	**1%**
Q11	If multi-peril insurance (risk mitigation insurance) was available at an affordable price, would you take it up?	**55%**	**28%**	**17%**
Q12	Would access to a low interest, long-term loan allow you to return stability to your business more quickly?	**79%**	**11%**	**10%**
Q13	Have you applied for drought assistance through QRAA? Yes, successfully **13%,** Yes, unsuccessfully **20%**		**60%**	**7%**
Q14	Are you in receipt of the Australian Government's Farm Household Allowance?	**21%**	**75%**	**4%**
Q15	Is the Farm Household Allowance adequate to meet both day to day needs and emergency expenditures?	**8%**	**35%**	**57%**

Appendix 4 – Review by Mr Ben Rees

There is little doubt that following deregulation in 1983-84 the banks, in pursuit of market share in the face of heightened competition, made loans based on security levels offered by existing equity but without sufficient regard to the capacity of clients to repay" - Senate Standing Committees on Rural and Regional Affairs and Transport, December 1994.

Policy Problem

Across Australia, GFC dislocation became the catalyst that exposed protracted long term policy failure and questionable bank lending practices. The shape of the two curves, Rural Debt and NVFP, cannot be explained other than by debt to equity lending. The flat lining of NVFP whilst debt escalates, demonstrates empirically that Government policy-makers ignored the 1994 findings of the Senate Rural and Regional and Transport Committee into Rural Adjustment, Rural Debt and Rural Reconstruction.

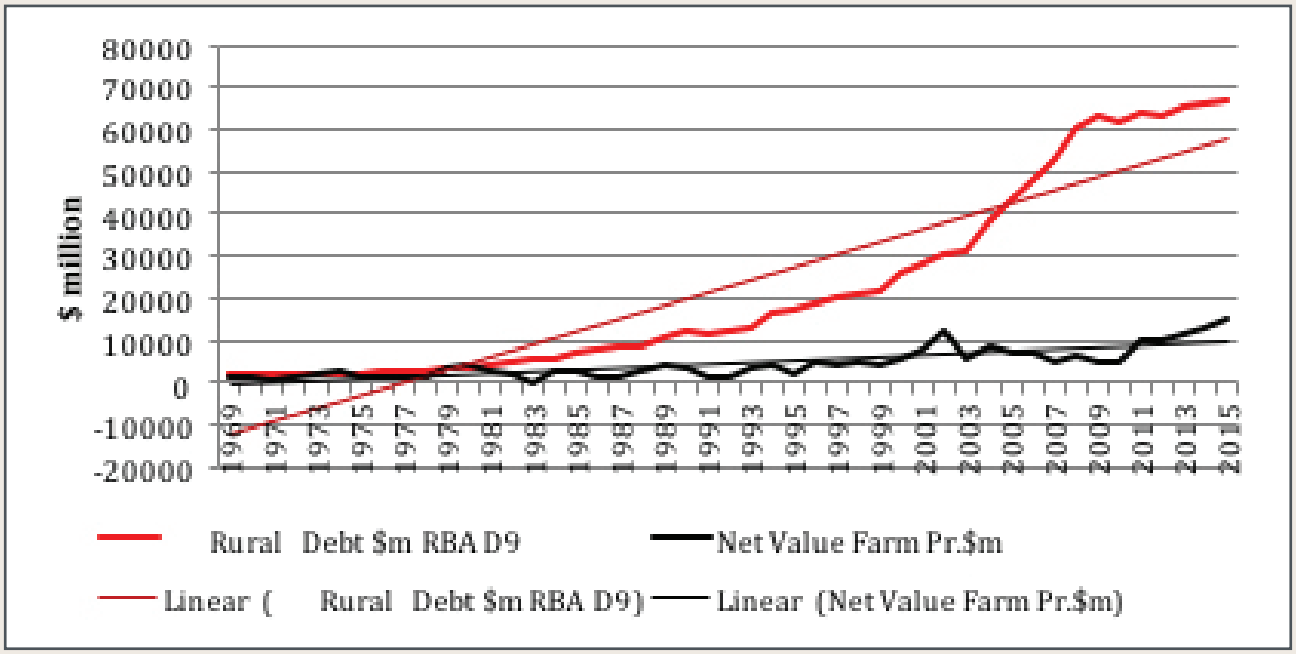
In 2008-09, the GFC exposed debt to equity finance by banks as an inappropriate, high risk and unsustainable lending practice. GFC capital market financial dislocation flowed directly back to farm asset values upon which mortgages had been raised.

Decades of inflated farm land values were exposed as overvalued relative to income and written down to more realistic levels. The effect of this was to undermine the solvency of farmers who had believed in entrenched Government policy based upon economies of scale. Other farmers who had borrowed to finance, improved on farm efficiency to lift productivity, also became ensnared in post GFC asset value write down.

Debt to equity lending came to Australia as a consequence of an international policy direction of asset inflation adopted to engineer recovery in western economies from the deep economic dislocation of the 1980's to early 1990's. Overseas, asset inflation was identified as "financialisation of households"[5]. In more recent times, this policy direction has been transformed into quantitative easing.

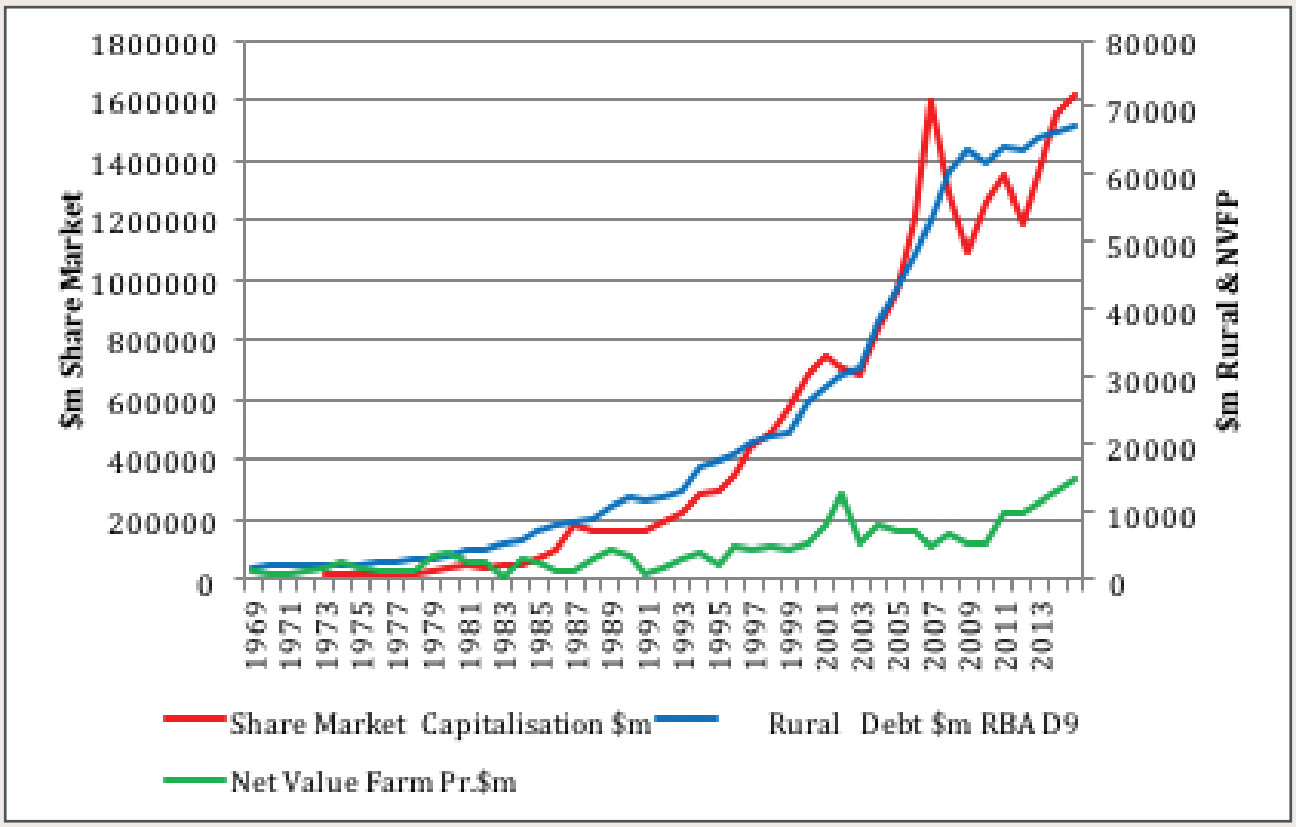
5 Lopez, I and Rodriguez, E., 2011 'The Spanish model', New Left Review, 2nd series, 69, p.10.

Chart 1 – Australian rural debt and nett value farm production, 1969-2015, by year.



Source: Rural Debt; RBA online, Table D9 Rural Debt by Lender NVFP; ABARES Agricultural commodity statistics, 2015 Table 13, p.13;
Note: NVFP is used as an approximation of before tax farm income.

Chart 2 – Australian rural debt, nett value farm production and share market capitalisation, 1969-2015, by year.



Source: Compiled from RBA Statistics online: Table D9 Rural Debt by Lender; Table F7, Australian Share market, ABAREs Agricultural commodity statistics; Table 13 Australian farm returns, costs and prices

Discretionary asset inflation policy can be inferred from Chart 2. As share market capitalisation rises steeply, rural borrowing rises in sympathy inferring rising land values. The shape of the debt curve implies that rural land prices rose in tune with asset prices in the wider economy. The effects of the GFC asset price collapse are visible from 2007 in the share market value and rural lending in 2008. Share market valuation collapsed 31.3% between 2007 and 2009. This is consistent with the reported collapse in rural land prices which in some instances fell 40% plus.

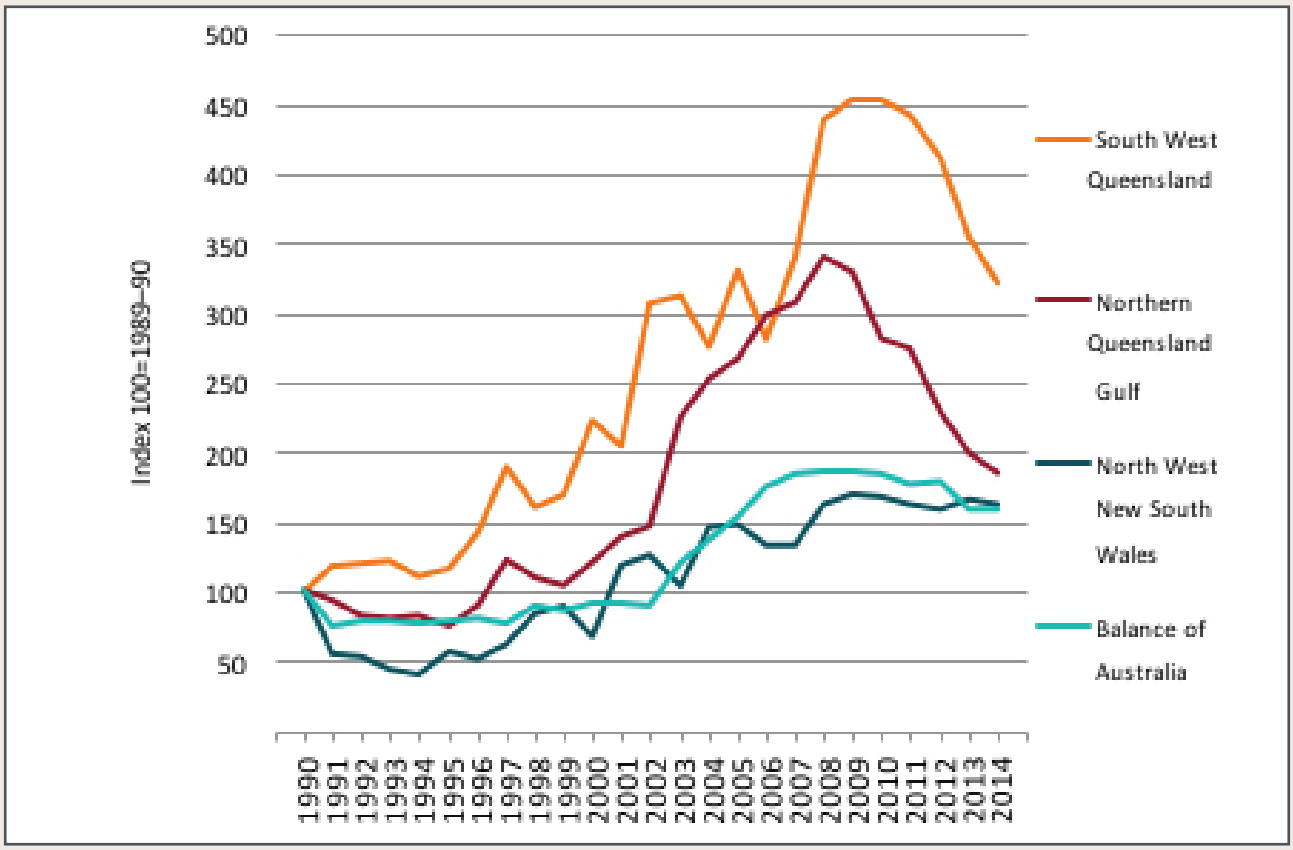
Farmers borrowed in a pre-GFC policy engineered environment of rising land values. Banks lent accordingly, in the misguided belief that asset inflation driven by Government policy would continue ad infinitum. The GFC became a severe reconnect with reality for both borrowers and lenders. Lenders had the inherent protection of mortgages that obligated borrowers to repay debt. Farm incomes became the only means of repayment but, such mortgages had never been structured to be repaid from income. Severe financial dislocation suddenly erupted in rural Australia.

This short discussion examines major issues that emerged during Task Force deliberations. They were unrealistic land values that collapsed post GFC, low farm income, drought, uncontrollable input costs and the low interest rate solution.

Rural Asset Values

Chart 3 implicitly describes asset inflation fuelling land values between 1995 and 2008. Estimating from the chart, in the Northern Queensland Gulf region land values rose 353% between 1994 and 2008. In this region the post GFC collapse in land values is approximately 48.5%. In South West Queensland, chart estimates suggest that land values rose by 309% between 1994 and 2008; and, collapsed 28.9% post GFC.

Chart 3 – Change in land values of broadacre farms, by region 1901-2014, by year.



Source: ABARES, 2014, Regional Farm Debt Report, Northern Queensland gulf, south west Queensland and North West NSW, p. 32.

Policy assumed that rising asset values increased wealth of asset holders. Increased wealth was expected to encourage investment to improve economies of scale, lift on-farm efficiency, increase productivity; and, achieve international competitiveness. The converse of this policy approach is that collapsing land values confiscates wealth asset values whilst liabilities remain constant to rising. The post GFC imbalance between assets and liabilities is now the policy problem. Political wishful thinking that contemporary historically low interest rates will somehow restore wealth levels and rescue the sector is fanciful.

Drought and the live cattle export ban were both post GFC events that compounded GFC dislocation in rural Queensland in general and in the cattle industry in particular. Pastoral Queensland became engulfed in events beyond farm gate control. Those events were strongly policy related resulting in falling farm real incomes, collapsing land values, and enterprise solvency. Rural communities and regions were inevitably drawn into subsequent financial dislocation.

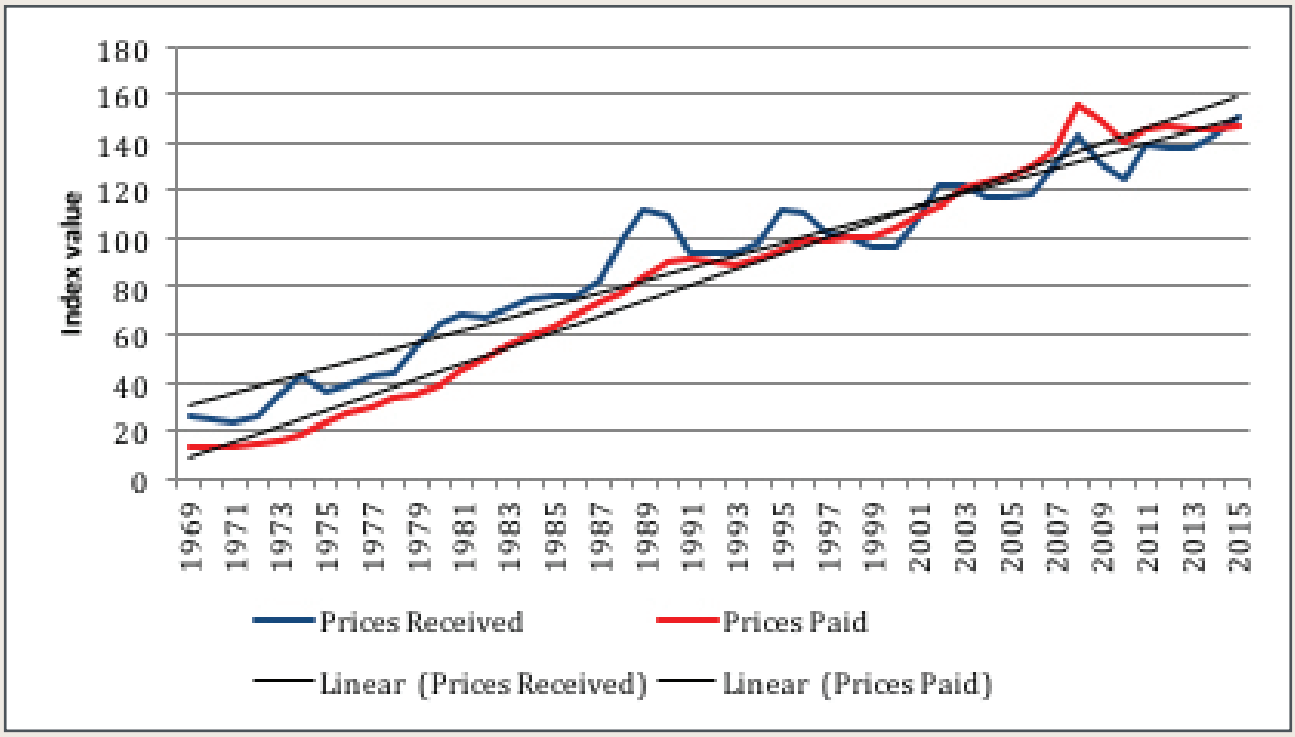
Low Farm Income

A number of submissions commented upon low farm incomes and uncontrollable cost imposts. Low farm income is related to long term declining farm terms-of-trade. Farm terms-of-trade is the ratio of farm prices received to prices paid which are the components of farm terms-of-trade.

Chart 4 provides empirical evidence that costs (prices paid) were rapidly closing the gap with prices received from 1990. By 1999, trend lines crossed over and the cost curve rose above prices received from 2003 and remained above until 2014. In 2015, price relationships improved but for most of the previous decade and a half prices paid overshadow prices received. Real farm incomes eroded under such price relationships which form Farm Terms of Trade.

The explanation for this phenomenon lies in market structures and the consequent mal-distribution of market power. Prices received are determined in markets that comprise purely competitive farmers selling into output markets that are characterized by highly concentrated ownership and control.

Chart 4 – Indices: Prices paid & prices received, Australia, 1969-2015, by year.



Compiled from ABARES, 2015, Agricultural commodity statistics, Table 13.

Farmers purchase inputs in markets that are also similarly monopoly structured. Consequently, agriculture operates under a hybrid market system in which purely competitive sellers experience severe disadvantage selling into and purchasing from monopoly structured input and output markets. Real farm income must decline under such market power imbalance.

Real Farm Income and Farm Terms-of-Trade

Onward trend in real commodity prices need not of itself produce a loss of national income nor a decline in the profitability of commodity producers if the decline in real commodity or manufactures price is the result of higher productivity. Beating the commodity price cycle. NFF 1995[6]

This official view of the National Farmers' Federation epitomises the entrenched myopic direction of agricultural policy in Australia. It seems that policy direction believed efficiency gains led to rising productivity and overcome an 1850's pervasive law in economics known as Engel's Law (Rees L.H, 2014). Engel's Law says that as incomes rise in a modern advanced economy, the proportion of income expended on food declines. This established Law in economics explains farm sectoral decline relative to the wider community in growing modern economies.

A contemporary University of Massachusetts research paper has this to say: *Engel's Law continues to be relevant today across countries as well as across households within countries.* Richard Anker, Jan. 2011[7]

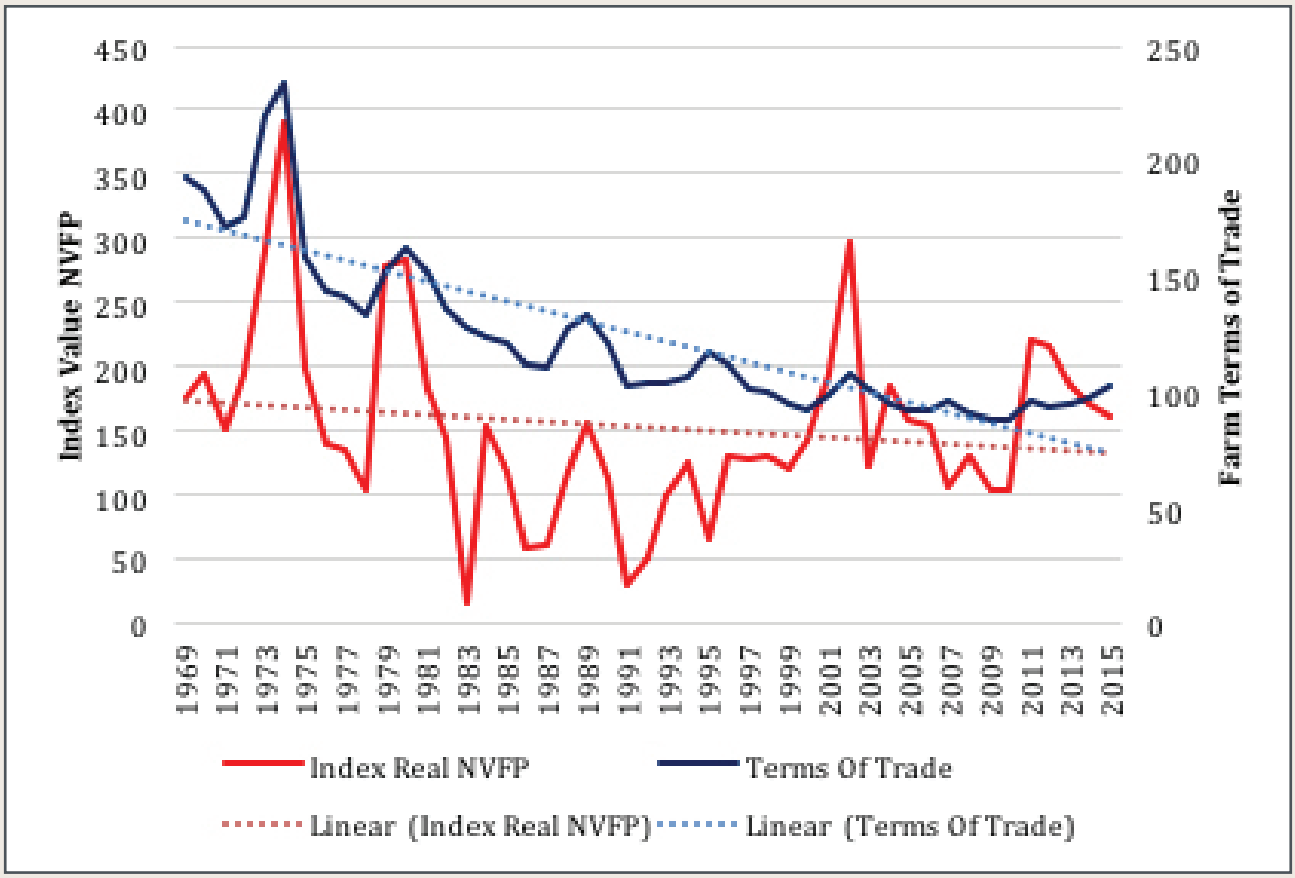
Farm policy in Australia has complete disregard for this established Law in economics.

Chart 5 shows empirically that Australian policy direction structured upon efficiency and productivity gains has not met policy maker's expectations of lifting profitability and maintaining the purchasing power of farm income. Between 1970 and 2010, the purchasing power of real farm income fell from an index value of 194.4 to 103.8, or 46.6%.

6 National Farmers Federation (1995). Beating the commodity price cycle. Canberra, NFF.

7 Anker, R., 2011, *Engel's Law Around the World 150 Years Later*, Working Paper Series, No. 247, PERI, University Massachusetts, pp.35-36.

Chart 5 – Farm terms of trade and index value NVFP.



Source: Compiled from ABARES, 2015, Agricultural commodity statistics, Table 13

At times, purchasing power had fallen more steeply. More recently, purchasing power of real farm income has improved over the worst years; but, remains below the real income levels of 1969-70. Repayment of debt from declining real income is not a realistic policy expectation.

Banks lent on declining real incomes that were expected to be covered by the policy strategy of rising asset prices. The GFC showed little respect for Australia's "informed" policy makers. Financial dislocation in rural Australia became a major symptom of significant policy failure. The live cattle export ban became another misguided policy decision compounding financial dislocation.

Drought

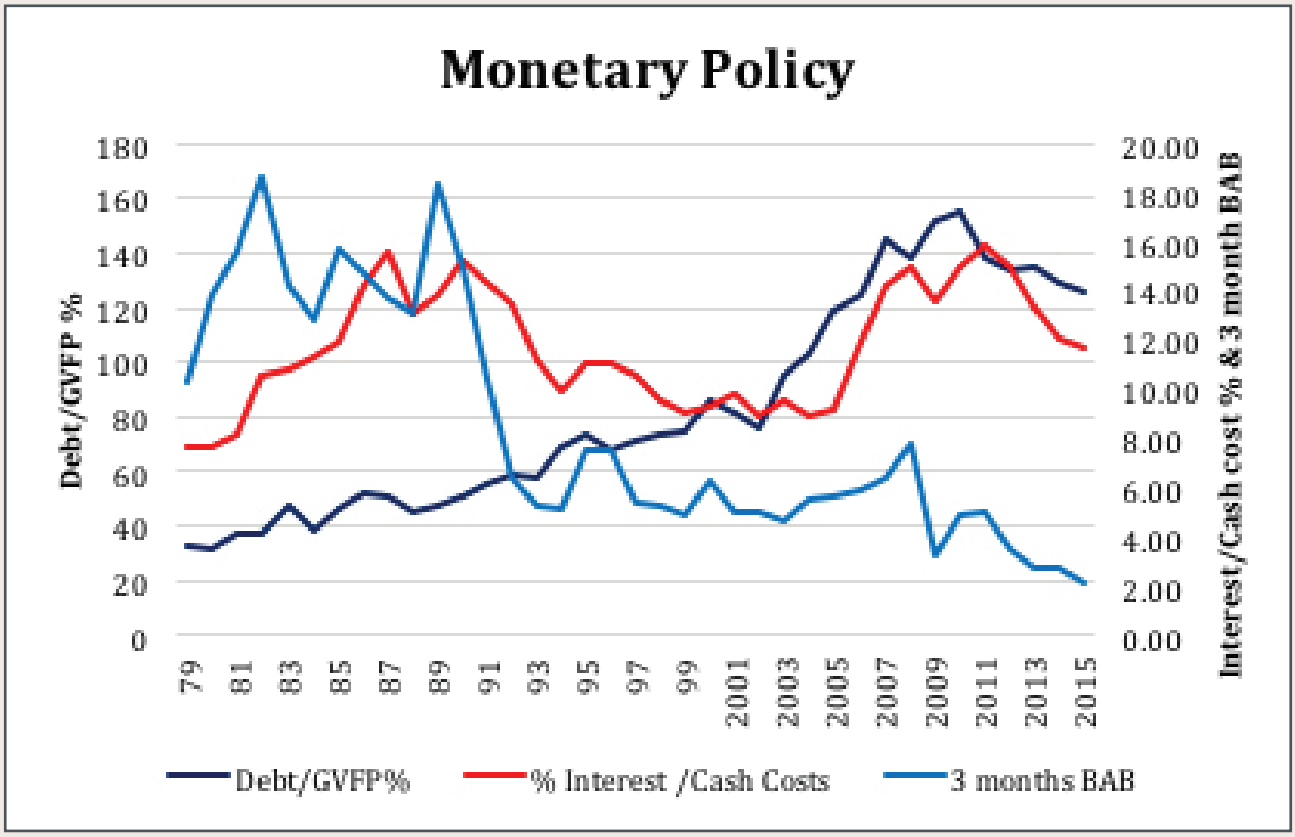
Drought added a further dimension to financial dislocation in rural Australia. Enlightened drought policy based upon risk management theories was introduced in 2014. Effectively, established support from the farm sector and consequently rural communities was withdrawn and replaced with "market" philosophy. Risk management drought policy has failed on two counts.

Firstly, an asset means test excluded from assistance any farm business with assets above $2.55 million. The fact that assets were illiquid was of no consequence to policy makers. This asset means test is largely responsible for unprecedented rural reliance upon urban charities for survival.

For those with assets below $2.55 million, Household assistance was available through Centrelink. This benefit was income means tested. Any household income flowing into the farm household reduced benefit entitlement. In many cases, farm households complained that entitlements became so piffling that it was not worth the effort to apply. Once again, these people were forced to look to urban charities for support and survival.

Means testing drought assistance must go down as an historic blight on modern economic policy. In a modern advanced economy, it is untenable that a nation's major food producing sector is forced to rely on urban charities for survival. Such economic philosophy takes rural policy into the extremes of austerity economics.

Chart 6 – Monetary policy



Source: Compiled from; RBA Statistical table online; Table F 1.1 Money Market Yields ABAREs Agricultural commodity statistics 2015 and earlier editions; Tables 13; and, Table 73, Note: The 3 month Bank Accepted Bill yield is used as an approximation of monetary policy stance.

Drought assistance needs urgent policy reform and made less "academically" focused. This financial crisis has identified an urgent need for rural income safety for industries producing under the vagaries of nature. Modern rural policy should also embrace adequate exit finance for financially distressed farmers. Contemporary policy focus upon mental health would appear little more than political posturing without a farm income safety net and exit finance for distressed producers.

Low Interest Strategy

It is commonplace to hear policy makers and commentators refer to the contemporary low interest rate environment as some sort of policy "fix". They infer that such policy direction should return industry to profitability and growth through investment. This is little more than the uninformed using the cheap credit solution to rationalize policy failure. This section discusses why this political view is unrealistic.

In Chart 6, prior to 1996, interest rate direction as determined by the Treasurer in the annual Budget strategy.

Post 1996, interest rate settings became the province of an independent Reserve Bank pursuing its Charter of:[8]

(a) stability of the currency

(b) maintenance of full employment

(c) economic prosperity and welfare of the Australian people

Monetary policy seeks to influence the demand for money through managing the price or cost of credit. The cash rate is the official policy instrument used in contemporary monetary policy. In Chart 6, the three month bank accepted bill rate is used as an indicator of monetary policy stance i.e. tightening or loosening of policy.

8 Davis K; Lewis M 1975, 'Monetary Policy in Australia'; Longman Cheshire, p. 27. References: ABARES; 2015 Agricultural commodity statistics, and ,earlier editions ABARES 2014; Regional Farm Debt Report, Northern Queensland gulf, south west Queensland and north west NSW.; 2014; RBA Statistical tables online; NFF, 1995, Beating the commodity price cycle, Davis and Lewis; 1975, Monetary Policy in Australia, Lopez I. and Rodriguez, E., 2011, 'The Spanish Model'; *New Left Review*, 69.

For almost two decades, "easy money" or "cheap credit" generated a banking environment of intense competition for market share. Asset holders would see this environment as favourable to build upon existing assets, increase wealth, and enterprise performance. Potential asset holders would see "easy money" as an opportunity to begin a program of wealth creation. This after all is the policy objective of easing monetary conditions: promote growth and prosperity through investment and consumption expenditure. For asset holders, so long as assets equalled liabilities, investment was sound. A desire to create wealth through cheap credit fuelled asset inflation in the wider community.

Between 1989 and 2003 monetary policy was eased reducing the price of credit from 18.4% to 4.7%. This period of easy money triggered a rapid rise in farm sector debt to GVFP ratio from 47.3% to 94.67 %. Meanwhile NVFP rose by 20.8%. It stretches the imagination to accept that income could fund repayment of debt. As rural land values escalated, debt had to be funded by rising farm equity. In the SW Queensland region, land values rose from an estimated $100 to $310 per hectare. This is an increase in enterprise wealth of 210%. In the North Queensland Gulf region the estimated rise in land values is 75%. Asset inflation policy was at work.

If a linear trend line is imagined through the interest BAB rate curve from 1994 to 2007 when the GFC began to emerge, rural debt to GVFP increases from 68.9% to 144.9%. Across Australia, debt to GVFP would peak in 2010 at 155.67%. It was in 2008 post GFC that asset prices began to collapse in the wider community. The Share market collapsed 31.3% over the next two years. By 2008, Chart 3 above showed contagion had spread to rural land prices in the North Queensland Gulf region. Although land values began to moderate in SW Queensland in 2008, it was12 months later before the collapse in values emerged. Further easing of monetary policy stance to levels that reached historic low cost of credit did not redress land value collapse.

Under ongoing asset inflation and cheap credit policies, debt to equity finance appeared sound practice. From 1994, to 2009, land values in SW Queensland are estimated to have risen by 309%. In the North Queensland Gulf region, between 1994 and 2008, land values rose by 386%. Under these levels of rising land prices, tightening of monetary policy between 2005 and 2008 would have affected investment decisions only at the margin. Ostensibly, asset inflation financing of government policy to promote economies of scale, rising efficiency, increased productivity and international competitiveness, made political sense. In reality though, such policies did not understand the nature and structure of originate to distribute banking systems.

The "Originate to Distribute" banking model functions by transferring the original mortgage to a special purpose vehicle (SPV), which then classifies the mortgage into classes of asset pools. The asset classes are then rated by recognised ratings agencies. Securities, based upon these asset pools, are subsequently sold into capital markets. The model presented several advantages to the banking sector. Reliance upon deposits for asset growth was considerably reduced whilst capital adequacy ratios became less of a burden. The GFC exposed the weakness in this model as being dependent upon the quality of mortgages held in asset pools. Rural mortgages were not considered of sufficient quality for securities sold into capital markets. It was the consequent devaluation of securities by the capital market that flowed back to the quality of bank lending and farm land values.

The devaluation of farm asset values that followed the GFC suddenly collapsed farm balance sheets. Liabilities, accrued in the halcyon days of asset inflation, suddenly became out of balance with asset values upon which liabilities had been structured. The imbalance between liabilities and assets was the financial question that overrode all other considerations by financiers. There are examples of farmers who had never missed a repayment; but, were suddenly confronting a solvency question of imbalance between assets and liabilities. Banks were protected by mortgage document obligations whilst farmer solvency was unprotected.

Summary

The weakness in the low interest rate argument is exposed in graphical analysis. Firstly, bank lending had been structured on the expectation that the policy of asset inflation would continue to support their growth strategy of debt-to-equity lending. The post GFC demand for asset quality in pools of mortgages meant that debt-to-equity lending was exposed as high risk lending.

Secondly, bank asset portfolios were protected by the client obligation to repay debt. Farm income was the obvious means of debt repayment; but, debt-to-equity mortgages had never been designed to be repaid from income. The financial sectors role in debt-to-equity lending was conveniently overlooked. Financiers proceeded to protect asset portfolios and enforce repayment of debt. Forced sales, foreclosures and liquidations followed.

Analysis demonstrates years of "easy money" or "cheap credit" policies underwrote the rural debt problem. In such an environment, banks fought for market share, some farmers sought to empire build whilst others just wanted to improve on farm efficiency and productivity. It seems naive in the extreme that politicians and commentators expect contemporary cheap credit policy to somehow self-correct an entrenched problem created by years of cheap credit.

Appendix 5 –Economic analysis – Dr Mark McGovern

These notes contain a range of materials developed from research activities undertaken to help inform Taskforce (and Joint Committee) endeavours. Parts have been circulated to Taskforce members during deliberations. Some have been drawn upon in the Chairman's Report.

Overview

Rural Queensland is at a cross roads. Our inquiries have revealed unduly high levels of financial stress and underlying despair on farms and in towns across the State, and nation. While individual situations vary, the situations of many usually highly productive enterprises are currently unsustainable due to a combination of adverse external conditions. Sometimes, despite the best intents and efforts, things go wrong.

Current problems will not self-correct as impoverishing practices and policies are now pervasive in industries and regions. Rural credit and other reforms are needed if many enterprises and communities are to continue and, one day again, prospers.

Conclusions, as to the situation:

(a) That serious debt problems are pervasive and worsening in many regions of Queensland.

(b) That for many normally productive enterprises events made key financial ratios unsustainable.

(c) That drought is a major contributor to these problems, but serious systemic faults, market failures, policy mistakes and regulatory laxity are foundational.

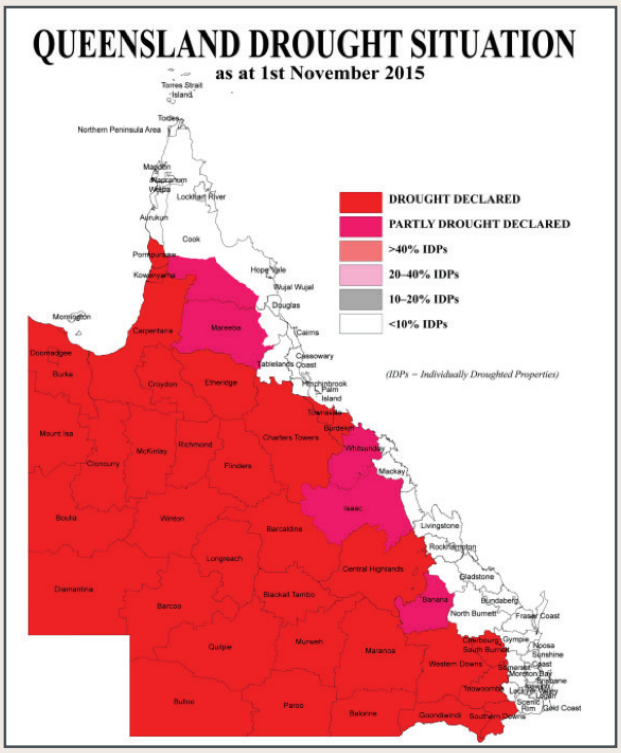
(d) That Queensland beef businesses are particularly exposed but problems are across all sectors.

(e) That key financial measures which have continued to deteriorate since the GFC. That falling values of lands held as security have undercut a significant proportion of the around $20b in Queensland farm debts.

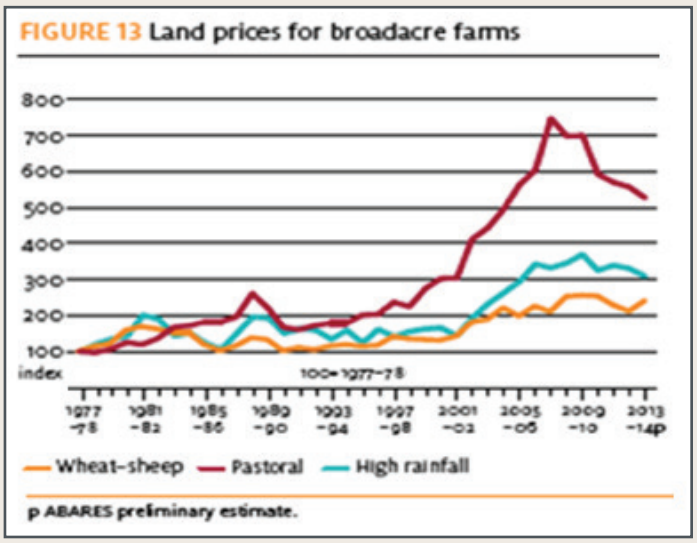
(f) That a range of State initiatives and interventions are necessary to:

- maintain industry capacities and contributions to the economy,
- rectify foundational problems,
- rebuild sound finances, and
- restore enterprise and community viability.

Drought hit 85% of Queensland,



... while farm land prices rose, and fell.



Conclusions, as related to the terms of reference

These comments address each of the terms of reference in turn. They are "the facts" as best we can determine them that capture the problems, options and preferred actions. All warrant discussions, critical evaluations and active development.

(a) Financial problems are serious to severe for many rural enterprises and communities across Queensland.

(b) Industry, financial, institutional and market policies, settings and designs have all contributed to stresses, as have drought and other natural disasters. Even the best business positions and decisions, on farm and in town, are challenged.

(c) While individual situations vary, there is little doubt that problems are pervasive in extent. Balance sheets are in disarray across industries.

(d) Problems show no real signs of self-rectification, with hope fading. Historically and conceptually there is a role for government. Orderly workouts with apt balance sheet restructurings can help rectify current distresses with reduced losses of capacity and wealth.

(e) Profitable enterprises, well-capitalised industries and revitalised communities that contribute more fully and sustainably to the prosperity and wealth of Queensland are anticipated impacts.

(f) Key policy options involve initiating apt institutionalised means of goals attainment.

Policy goals properly include: land market stabilisation, restoration of key financial ratios to return enterprise viability; improved financial products; long term investment funding basis; income stream sustainability improvement; and rural employment stabilisation and growth.

Institutions suggested include a statutory Reconstruction Board, an Agriculture Development Bank and an independent Office of Rural Affairs.

Initiatives within COAG to improve drought, welfare and supply chain arrangements are needed. Industry and government engagement needs improvement, particularly in a number of identified areas.

(g) Actions then involve stabilisation, reconstruction, financial product improvement, ongoing monitoring, dispute resolution and select financing.

(h) Existing financial arrangements have incubated problems. The need for serious changes is recognised by many including some senior parties in banking and law. However denial of problems remains evident impeding needed changes.

Public and private **Initiatives to help resolve *pressing and emerging* problems** are needed.

Initiatives

Establishment of a Reconstruction Board with broad competence and powers as well as a Rural Industry Development Bank would provide an institutional basis to support needed industry and market changes.

Agricultural policy priorities need to be extended to include farm income development and protection, along with sound industry entry (and exit) pathways. Additionally, the establishment of a Royal Commission appears warranted due to persistent and widespread reports of systemic financial abuse and misconduct.

Drought needs to be included as a natural disaster with revisions made to current natural disaster arrangements to improve their accessibility, coverage and effectiveness.

Finally, an independent Office of Rural Affairs and a joint commitment made by the Parliament to maintain an inclusive Initiative for Rural Prosperity would provide strategic intelligence and practical coherence in Parliamentary, government and public deliberations. There are also a number of specific areas where Departmental service and support practices need improvement.

Serious problems need serious responses. Developing initiatives would provide the representatives and people of Queensland with critical core capabilities that can expedite the successful repositioning of rural enterprises and communities.

Efficient, effective and equitable ways to address serious problems in rural areas in a timely manner can follow. Clearly further analysis, careful structuring and detailed development will be critical as will the staffing and roles of others engaged in meeting the serious problems we face.

Adapting to a changed world

In changed times, how we change is critical. We may be driven by events, or we may choose to react with insight and care. Adaptation is essential for survival when the world changes in significant ways. Some practices and policies adopted over recent decades need to now change if we are to not just survive but thrive in the post GFC world.

At the heart of this Report is a desire to see better outcomes for those working and living in rural Queensland. Too many influences needlessly limit outcomes today. Needed changes appear well within the influence of the Queensland Government, acting directly and in concert with relevant public and private agencies.

Many enterprises need to reposition to meet the challenges that have now emerged. However, legacy problems persist. The most obvious is the large debt overhang, due in large part to opportunistic practices that thrived when questions of loan serviceability were given too little attention.

Past Australian generations have found ways to successfully transition their industries and communities. It is now up to this generation to work together to address pressing problems and to restore viable arrangements that again sensibly reward enterprise and the resources employed. Communities so based can again thrive.

Two Thoughts

"There is little doubt that following deregulation in 1983-84 the banks, in pursuit of market share in the face of heightened competition, made loans based on security levels offered by existing equity but without sufficient regard to the capacity of clients to repay" (Senate Rural and Regional Affairs and Transport References Committee, 1994)

Over 22 years of policy inaction have cost us dearly

The idea that banks can be managed by their directors solely in the interests of their shareholders is no longer acceptable… Given the explicit or implied guarantees that all banks required in the crisis, public and fiscal authorities representing taxpayers will have to be permanently recognised as stakeholders… the free market ideal … was buried … in Alan Greenspan's famous recantation … "those of us who looked to the self-interest of lending institutions to protect shareholder's equity – myself especially – are in a state of shocked disbelief." (Kaletsky 2010)

All lose from unsound financial relationships. It is just a matter of the distribution of losses.

Argument

Debilitating problems need to be addressed quickly, before conditions deteriorate further. Ten areas of initiatives are identified:

1. Market failure correction – reconstruct enterprise resource positions.
2. Financial stress resolution – refinance in ways that suitably recognise production, industry and market realities.
3. Inadequate income correction – rectify constraints, particularly those associated with supply chain, policies and external environment.
4. Industry populations are stagnating or falling - remediate risky pathways associated with overly difficult entry and exit.
5. Financial misconduct and fraud are widely reported – investigate carefully and reform as need be.
6. Drought impacts are excessive compared to enterprise resources – reincorporate adequate drought preparation and recovery arrangements.
7. Drought is a serious natural disaster – recast natural disaster policies.
8. Strategic industry understanding is woeful – revive public policy capabilities.
9. Policy volatility imperils investments - agree key directions and stances.
10. Industry-government engagements appear needlessly inefficient and ineffective – recast processes and policies.

There are clear primary responsibilities and promising lines of action for the Queensland Government in areas 1, 2. 5 and 8 to 10. These include new institutional arrangements. Initiatives 3, 4, 6 and 7 involve working with the Commonwealth and other States in complementary ways.

Beyond denial…

Actions are needed now

Actions in the community and public interest are needed urgently. Our inquiry has found serious widespread problems growing unchecked. Our recommendations provide a basis for prudent policy responses that can help restore enterprise and community viability across the State.

A deteriorating rural situation across Queensland

It is abundantly clear from our inquiries that many people and businesses in rural Queensland face very serious financial problems. An overwhelming combination of institutional, seasonal, market, systems and policy failures threaten a growing number of operators, employees and families as enterprises founder and communities struggle. Under current conditions, many debts are unserviceable, on farm and in town.

Four examples can help put the current situation in an immediate focus:

1) 57% of Taskforce Survey respondents will have to renegotiate their loans in the next year. This is a very high proportion. As many statements attest, refinancing can trigger serious problems and receivership, even when loans were apparently being fully serviced.
2) Youth unemployment in outback Queensland is the worst in Australia at 28.4% in Jan 2016, up from 17.7% in Jan 2015 and 9.5% in 2014.
3) A report was received from a local Member of Parliament that one bank is in planning discussions with police officials in a provincial city regarding 53 actions in his district when the season breaks. While some maintain an ongoing moratorium on foreclosures, others appear very active.
4) Clear statements of serious concern made by several senior bankers at the Treasurer's roundtable appear fully justified. We are not dealing with just "a few problem farmers". Rather we are facing widespread financial stress with enterprises collapsing and communities impoverished.

Problem basis

Farm purchase and development involves long-term commitments with borrowers exposed to major risks beyond their control. Many submissions and the wider literature demonstrate lenders favour short-term funding and contract enforcement on lender terms. Such major distortions undercut market efficiency and loan performance.

Loan evaluations and management frequently appear deficient. Automatic assumptions of "borrower fault" are common, an unsustainable and unfair bias.

Three sets of external influences have now made conditions particularly perilous:

- GFC impacts and COAG Agricultural policy changes raised risks sector-wide. Conditions are now very different from when many loans were first arranged.
- Farm asset values have fallen, impairing loan security backing. Even well-performing farms are then exposed.
- Market disruptions and natural disasters have impacted incomes, with debts rising and capital position run-down.

Holding individual borrowers solely responsible for the effects of unexpected external changes involves failures in logic, economics, law and common decency. Better responses are needed now.

The jobs set...

Terms of reference and key conclusions

In investigations and reporting of the Task set, members have given due regard to these Terms of Reference:

"The Taskforce are to consider key issues and various policy options in the development of recommendations to the Queensland Government including:

(a) The nature and extent of financial problems faced by agriculture and associated enterprises, Local Government and supporting communities in Queensland.

(b) Identify cause of problems and contribution of established policy to their magnitude.

(c) The extent of such problems and effect on regional stability.

(d) What strategies might be adopted and initiatives undertaken to rectify such problems.

(e) The impacts that such strategies and initiatives might have.

(f) Policy options available to a State Government to coordinate effective remediation.

(g) The nature and desirability of some select actions.

(h) Adequacy of existing financial system to fund policy solutions." (with numbering and emphasis added)

These terms can be grouped into three parts:

I. problems of debt and drought (terms a-c),

II. potential strategies and initiatives (d- e) , and

III. options and select actions (f-h).

Investigations and analysis undertaken are reported within this structure along with key findings. They provide the basis for 14 major recommendations.

What we found...

Expressed using the terms of reference, **key conclusions** in brief include:

(a) Financial problems are serious to severe for many rural enterprises and communities across Queensland. Reports are plentiful of problems being worsened by recovery actions of mortgagees and their agents.

(b) Causes include:

- Inadequate incomes, excessive debt and falling asset values;
- Federal government actions and COAG's removal of drought support;
- Ongoing severe drought and other natural disasters.

(c) Industry, financial, institutional and market policies, settings and designs have all contributed to stresses as have drought and other natural disasters. Even the best business positions and decisions, on farm and in town, are challenged.

(d) While individual situations vary, there is little doubt that problems are pervasive in extent. Balance sheets are in disarray across industries. The scope of effects such as actual or pending insolvencies point to comprehensive systemic failures that seriously threaten economic capacities, regional stability and wealth in many areas.

(e) Problems show no real signs of self-rectification, with hope fading. Even when drought breaks, farmers and financiers generally agree that recovery will be slow and difficult for many, and impossible for some. Historically and conceptually, there is a role for government in orderly workouts which will help rectify current distresses and enable continuance of some enterprises and restructuring of others with reduced losses of capacity and wealth.

Strategies involve stabilisation, reconstruction, refinancing and capacity build up, with the Table detailing some features. Each requires distinct institutional responses with re-establishment of some public capacities.

(f) Profitable enterprises, well-capitalised industries and revitalised communities that contribute more fully and sustainably to the prosperity and wealth of Queensland are anticipated impacts of balance sheet rejuvenations after initiatives are developed and undertaken in prudent and effective ways.

(g) Key policy options involve initiating apt institutionalised means of goals attainment.

Policy goals properly include:

- Land market stabilisation, on farm and in town.
- Restoration of key financial ratios to return enterprise viability.
- Improved financial product design and use.
- Funding basis maintained over time.
- Income stream sustainability improvement over cycles and events.
- Rural employment stabilisation and growth.

Institutions suggested and areas targeted include:

- Reconstruction Board (a Statutory Authority, SA)
- Agriculture Development Bank (a Government Owned Corporation, GOC)
- An independent Office of Rural Affairs (ORA).
- An Inclusive Initiative for Rural Prosperity.
- Initiatives within COAG, specifically drought, welfare and supply chain harmonization.
- Food, Finance and related Industries through Industry Enhancement Ministries and public sector processing sector initiatives.
- Agricultural Industry representative bodies through direct Initiative involvement and via Primary and related Industry Ministries.

Welfare and related responsibilities of the Commonwealth can be advised and managed through this process so key existing agency capabilities are maintained and prudently developed.

(h) Select **actions** involve:

a. Stabilisation

b. Reconstruction

c. Product improvement

d. Ongoing monitoring and dispute resolution

e. Select financing via the Agricultural Development Bank

An outline of potential arrangements is provided in "A Detailed Discussion"

(i) **Existing financial arrangements** have incubated problems. The need for serious changes is recognised by many including some senior parties in banking and law. However, denial of problems remains evident, impeding needed changes.

Analysis of current and capital performances demonstrate a need for active government involvement, including in the funding stream and product areas. Only then can market and systemic failures as well as undue stresses on enterprises and communities be prudently addressed.

Revision of bankruptcy laws as announced by Prime Minister Turnbull is an important Initiative. Clearly the current government believes there are serious concerns, particularly the excessive carrying of risks by enterprises and difficulties in restructuring finances. Both are central concerns here also.

The suggested ethos is one of responsible public industry engagements complementing those of private finance to provide an operating environment in which agricultural producers may entrepreneurially achieve greater returns with more prudent capital formation and growth. We are currently far from this.

Businesses and communities may then prosper in more sustainable clusters and skilled public private partnerships. Rural areas could return to being significant major contributors of capital and employment demand. Earnings can be more sustainably built on existing strengths to provide foods and fibres of higher quality and higher value that meet current and future consumer demands well, in both Australia and overseas.

What to do...

Initiatives

Members of the Taskforce considered that these recommendations would be the focus of deliberations:

1. That a **Reconstruction Authority** with broad competence and powers be established by the Queensland Government.
2. That a **State Agricultural Development Bank** be established.
3. That effective farm **income protection** become a policy priority.
4. That policies and practices be adopted that assist the sound **industry entry** of new and inter-generational farmers and their families, as well as sound **exit**.
5. That a **Royal Commission** inquiring into all matters of rural finance raised before this Taskforce, and in some other places, be established.
6. That **drought** in excess of 24 months be recognised as a natural disaster.
7. That existing **natural disaster arrangements** be revised so as to better accommodate identified problems such as those associated with income support, assistance access criteria, insurance and education expenses.
8. That an independent **Office of Rural Affairs** be established.
9. That a joint commitment be made by the Parliament to maintain an inclusive **Initiative for Rural Prosperity** until economic conditions in rural areas suitably mirror those in other areas of Australia.
10. That the responsible **Queensland Ministries** engage and respond with more urgent intent and insight to specific requests for improved government service and support arrangements.

How to do...

Charter responsibilities and policy goals

1. Reconstruction Authority

Acting within its charter;

a. to resolve fire sale or disputed farm sale problems,

b. to equitably reconstruct untenable financial arrangements,

c. to supervise acceptable farmer exit arrangements and

d. to maintain regional economic capacities.

2. State Agricultural Development Bank.

Acting within its charter;

a. to promote prudent rural industry finance and associated practices,

b. to provide effective long term finance in a form that recognises production and market realities facing rural enterprises at various stages of their development and along the supply chain,

c. to otherwise act as a Bank under the direction of its Board.

3. Farm Income Protection

a. to identify problems in existing income schemes.

b. to guide the introduction of effective commercial policies.

c. to establish supply chain margins, and their sustainability.

d. to protect family member savings and retirement funds.

4. Industry Entry and Exit

a. to identify problems facing potential entrants, and those exiting.

b. to guide the introduction of effective entry and exit pathways.

c. to expedite sound property planning and prudent resource management.

d. to assist in the adoption of good business practices as enterprises develop.

5. That a **Royal Commission** inquiring into all matters of rural finance raised before this Taskforce, or in some other places, be established

a. to inquire into practices, policies and procedures associated with rural

i. Property lending

ii. Loan management

iii. Valuation

iv. Bankruptcy

v. Other areas as arising

b. to inquire into conduct and strategies associated with such practices and procedures, and the impacts of such conduct or strategies.

c. to identify structures and institutional stances that facilitate such activities, and their impacts upon enterprise and sectoral performance.

d. to investigate the adequacy of existing means of communication, dispute settlement and relationship management (including finalization).

e. to investigate the legality, broadly and particularly, of any such things.

f. to evaluate the adequacy of existing legal and regulatory protections associated with financial products, contracts and relationships,

g. to recommend how any such things might be improved, and

h. to recommend amnesty for witnesses, and/or to offer amnesty within guidelines that include restorative justice efforts.

6. Drought

To initiate actions

a. to return drought policy to WTO accepted natural disaster assistance schemes and arrangements.

b. to change existing policies so that more adequate, effective and supportive public policy recognition and actions occur across the stages of a drought.

7. Natural Disaster Arrangements

To work independently and in conjunction with other governments

a. to better accommodate identified problems with income support, insurance, education expenses and health services.

b. to more quickly and adequately incorporate sound, well-considered responses to problems as they arise.

c. to build arrangements that remain competitive with the schemes of other nations.

8. Office of Rural Affairs

a. to report to the Parliament through its Agriculture Committee on the ongoing situations of rural enterprises, and the impacts of existing and proposed policies (of any public or private parties) on them.

b. to develop matters arising in this Report.

c. to investigate and develop references for the Parliamentary Agricultural Committee

d. to relate current and emerging rural problems to relevant ministers.

e. to investigate problems of competition and investigate apt responses.

f. to work in conjunction so as to advise ministers of potential policy options.

g. to critique particular policy proposals.

h. to act as a place of record on matters rural.

9. Initiative for Rural Prosperity.

To maintain an effective ongoing means

a. to better frame, research and inform policies and practices that support the development and prudent employment of resources in rural regions, so as;

i. to promote the prosperity, resilience and well-being of Queenslanders affected directly and indirectly by rural economic activities.

ii. to promote within Government forums development of an income safety net for Agriculture consistent with wider community programs.

Service and support arrangements.

To work more fully and purposefully with industry so as;

b. to improve the effectiveness and affordability of government services and support arrangements.

c. to ensure that critical input or process costs do not become excessive during periods of severe enterprise stress.

Why do "this"...

Why the initiatives?

Today we need some new institutional arrangements that can efficiently and equitably assist in the repositioning of distressed rural enterprises, industries and communities.

Why a Reconstruction Board?

Financial reconstruction takes place all the time. For a variety of reasons, a proportion of businesses will always fail. Financiers sensibly recognise that holding debts that are no longer regarded as serviceable is in the interests of no one. Essentially, an arrangement that was once agreed is "no longer viable", for whatever reasons.

Fault is today commonly attributed to the borrower without examination of situations. This is a major problem. Additionally, investors who wish to enter agriculture will hold off due to perceptions of excessive risk. Redressing such imbalances and being seen as ready to do so is the pivotal role of a Reconstruction Board.

Sometimes parties can agree on a new arrangement. Other times they cannot. From reports, mediation can be ineffective and biased. An independent third party is needed.

"Viability" like beauty can be in the eye of the beholder. Perceptions matter. If perceptions about an industry change, so does the perception of viability. While we may use a range of numerical or other measures to indicate recent and current performance, all indicators of the future are imaginary. All reasoning as to viability is essentially contingent on what is to come.

Every investment financing decision involves future earnings as imagined at the time of decision making. Prudent investment evaluation requires initial and occasional reviews. Otherwise speculative risks exist, whether recognised or not by the parties.

Lenders usually require some security and both freehold and leasehold title are used in Queensland. (Native title is not considered here.) While freehold has been historically unencumbered in both use and transfer, changes initially associated with tree clear vegetation in Queensland affected use and so productive value. Leasehold is different as lease issued and changeable by a third party, the Government of Queensland, forms the basis of security. Lease terms and conditions affect the value of the security. An agreed perpetual lease may be practically little different to freehold but a short-term, contingent and/or renegotiable lease is markedly different.

The values of both a lease and a financial contract reduce with the time remaining: for example, a 10-year agreement in its ninth year has different value and risk profiles than one in its first year. So a financier short on capital and looking for quick capital recovery might preferentially impair loans involving newer leases, or even freehold title for bankrupting irrespective of performance.

Much land in Queensland is leasehold, particularly across the pastoral areas. Three parties then influence performance: lease-issuer (government as titled owner of the land), lease-holder (tenant farmer) and lender (credit provider).

In both cases, interdependencies mean that the performance of one party may be influenced by the actions of any. Today in Queensland, three parties influence the performance of financial agreements secured by land leased or held freehold. Yet only one appears to be held responsible when agreements sour.

Even robust agreements are influenced in unappreciated ways. So, as has been reported, serious current and capital impacts occur when a bank manager directs that a grazier going into a drought not sell cattle. Financially, the stock asset may remain as part of the security but keeping the cattle raises costs (and diminishes revenue if cattle are eventually sold in poor condition into a depressed market). The operator's cash position worsens under this "other party" direction and operator debts would rise (unless there is some offsetting accessible asset, perhaps deposits, superannuation or tradeable losses?). As the property degrades, the land owner also suffers, be it the individual freehold title holder or the people of Queensland via the State.

Queensland currently has direct financial and capital interests that go essentially unrecognised. Problems occur when only two parties initiate, conduct or finalise an agreement without consideration of, or by, the third. When things are going well few problems may arise as there typically is a convergence of interests between the parties.

Receivership presents many serious problems unless the interests of all three parties remain aligned. This is true even with freehold as an unmaintained farm can have serious externalities. For example, neighbours can be affected by feral weeds and pest build-up on an under-attended property; local communities lose people for fire- fighting, fetes, footy and fellowship; and new tenants or owners face additional restoration costs depressing the realisable value of the property.

In good times, a forced exit usually leaves a farm unattended for a short period. This is not true today when sales are slow and numerous. Unchecked fire-selling drives capital losses up rapidly so the interests of all three parties need to be represented.

A Reconstruction Board is an independent third party that can help balance the interests of all parties when an existing financial relationship is under serious stress when serious capital losses are possible. The Board is not itself a lender. Rather it seeks to broker a mutually acceptable and fair settlement between the parties. Depending on the circumstances, a Board may organise representation of the public interest, or this might involve a specific public party role. Routine considerations and evaluation measures can be built into existing processes at minimal additional cost.

Such a Board has the capacity to make its own assessments of the situations and prospects of the various capitals and their holders. The Board may act as an arbitrator in disputes. Additionally it may be empowered to issue "cease and desist" or like orders if it so determines. Clearly it is up to the sponsoring government to specify the particular powers and roles of its authority.

Why a Rural Development Bank?

Perhaps the most contentious discussion has centred on the desirability of a rural development bank. One submission asked a string of sensible questions. Complete answers depend upon the decisions of government, the institutional arrangements they establish and the ways these are conducted and developed in conjunction with agricultural and financial industry initiatives and actions.

Questions, with brief comments, include:

- *"If the mainstream banks will not fund a business, why should a government entity do so?"*

(c) Commercial banks have been increasingly focussed on capturing market share and loans that offer them short-term, high cash-flow financier returns via interest, fees and the like. Development activities need time and cash flow is delayed. Recovery after destocking in drought and establishing an orchard are examples. Development banks can offer a funding bridge that might not be commercially attractive. Goals differ with bank type. Sometimes, when global liquidity (money availability) is tightening (as seems likely to continue), there simply may not be "enough commercial funds to go around".

Even the best are exposed in a credit crunch. One driver in establishing QIDC was commercial reluctance to continue to lend to cane producers because of a particularly poor market price and financier perceptions that they could make more money elsewhere. Public providers can act when such failures occur in funding markets. Importantly, QIDC did not offer loans that did not stack up on their criteria.

- *"Interest rates are currently as low as they have been in a generation so is there really a need for a rural reconstruction bank?"*

(d) While nominal rates are lower than they have been, they are high after adjusting for inflation. More significantly, trebling debts with at best modest rises in net earnings sees a markedly greater total interest impost on the industry. Earnings coverage of interest is lower (raising attributable risks). Thirdly, reconstruction is a separate step. It involves setting up for refinancing including establishment of a payout acceptable to the current financier. Any bank, private or public, would then be expected to exercise detailed due diligence before taking on a new customer in a development relationship. Some will always exit. Others should be able to enter or remain and grow without undue risks.

- *"There is always a great range in management practice and capability in rural businesses, just as in any business, so should poor practices be rewarded by government assistance."*

(e) An assumption here is that performance reflects only individual management and capability. Market failures, policy decisions, natural disasters and flawed systems affect all, and there are situations that even the best managers will not be able to deal with. Those who happen to be most financially exposed at the time are likely to be the ones to go. Poor timing is the trigger, not productivity or capability or investment potential. Further, capital losses and financial risks rise for all when distress is widespread and fire sales occur. Sectoral blight can, if left unchecked, take out even the most skilled and capable. Financial blight does not discriminate in favour of the productive.

The submitter provides answers to some other questions in his introductory comments.

> *Compared to conventional, mainstream businesses, rural industry is higher risk as it is very dependent on weather conditions, market prices and the ideological whims of government... Agricultural businesses (especially pastoral) requires finance with a longer term view. ... Access to finance at competitive rates and flexible conditions is absolutely necessary for a strong rural sector.*

Such sentiments underpin the Taskforce Recommendations. His final comments add another element.

> *I do not support the establishment of such an institution on a permanent basis, though I do believe that governments (both State and Federal) because of their complicity in the development of the present crisis, have a responsibility to assist producers deal with it.*

Recommended public bodies would vary activities with industry situations. A development bank has scope to innovate and offer specialist products. Financiers and an Office of Rural Affairs can work in complementary ways. One of the most rewarding aspects of Taskforce processes was the way many people constructively discussed possibilities and offered reasoned support and criticism. Positions and opinions developed from industry and community dialogues catalysed by Taskforce activities.

Recovery from "the present crisis" is likely to take years. "Business as before" thinking never solves a crisis. It is time we moved on.

Why an Office of Rural Affairs?

A major communications breakdown has led to the current dearth of relevant, let alone reliable, information. Understanding is consequently patchy, at best. A highlight of the Taskforce process was how communications and understanding both built during inquiries. This needs to continue further and an Office of Rural Affairs is recommended as both a hub and critical friend.

Public sector capacities in primary industries and rural areas have been slashed physically and intellectually. Compare the high quality of relevant information that the Department of Primary Industries was able to supply in 1997 to Queensland attendees travelling to the Rural Finance Summit in Canberra to the very limited information available to this Taskforce. Private parties have moved in to supply individual farmers with information but a classic public good problem is starkly evident.

Industry representation capabilities locally and in key centres have been diminished as available budgets fell, sometimes faster than net farm returns. This appears true for Agriculture, Finance and Government. A tendency to overly systematise meant that "outliers" (who are where problems and standout successes both start) were dismissed rather than forensically examined.

As problems and successes both grew there was little information, industry appreciation and organisational understanding. We need to restore effective individual and joint presences. Inclusive clusters can support sustained growth and dynamic development. Effective inter-industry hubs can help restore a good chance at profits and prosperity across the State.

Why an Initiative for Rural Prosperity?

Agriculture and rural areas need to transition from their current downward trajectory. Some enterprises already have but it seems that many are stalled. A key lesson from economies in transition elsewhere is that only some societies do it well. Others fall apart. Shared purpose and continuing social cohesion are hallmarks as are realistic and grounded leadership.

Given its history and familiarity with adversities, Queensland could be expected to transition well. Celebrating a State of Origin win is easy because most know the game and its ongoing role. While the players act as a team with focus and purpose on the field, they are also often applauded on the field for what they choose not to do.

Disillusionment with current policies and political rhetoric is growing around the world as populations realise that their incomes and standards of living are declining, Eight years after the GFC began, many economies around the globe are worse off on key measures. This is clearly evident across many rural areas of Queensland also.

The reasons are important. They have been canvassed elsewhere in this Report. More important now is to accept that current problems need significant changes in public and private practices. Several existing policies are ill-suited to current circumstances. Adaptation is then the surest path to managing survival risks.

Recovery, a new generation of farmers and a fresh wave of development will take years. Risks associated with policy settings need to be reduced. Governments always need to act on issues arising, but a successful State is able to maintain sufficient continuity in key areas so that investments are not needlessly exposed.

Why a Royal Commission?

Many comments made during our inquiry involve serious issues of improper conduct and potentially criminal behaviours. These need to be fully and carefully explored, but proper investigations are beyond our resources and brief.

There are a number of influences that can be expected to encourage opportunistic behaviours in the financial relationship. To name a few:

The short term incentive structures in play during loan negotiations.

- Aggressive pursuit of market share.
- Information asymmetries.
- Imbalances in financial understanding.
- Existence of tight oligopoly.
- The subjective nature of valuations.
- Isolation.
- Imbalances in professional support access and affordability.
- The difficulties of performance reporting.
- Fragmentation in loan management.
- Evident imbalances of power.
- Distortions in the market place.
- A lack of regulatory oversight.
- Extensive use of confidentiality conditions.
- Multiple apparent opportunities for fraud and exploitive conduct.
- Exposures arising from government policy changes.
- The high likelihood of punitive adversarial behaviours as loan failure builds, and
- *"little doubt* "that banks have *"made loans… without sufficient regard to the capacity of clients to repay"*

When there is so much smoke, and such abundant kindling, an absence of fires would be extraordinary.

A Royal Commission is preferred as even basic information has been very difficult to obtain. The repeated refusal of the financial sector to provide basic financial information is a case in point. This is despite direct requests from Treasurers and other elected representatives. Policy and market performance both depend on adequate information.

The wider question is one of fraud, innocent or otherwise, and its poisonous effects on enterprises and societies. Investment and development stall when suspicions build unchecked and trust breaks down. Issues need to be dealt with, not denied.

One day, a banker suggested that often we would all be better off without confidentiality as this hides all manner of practice, on all sides. The opportunist and thief can easily hide. Commendable conduct and prudent decisions remain hidden. Pervasive unease builds while successes and exemplars are little distinguishable in the fog of finance.

The existence of clear systemic failures and inadequate institutional responses means that a Royal Commission could help drive out deeply embedded problems.

Restorative justice and amnesties as deemed appropriate have a part to play in the restoration of sound financial practices and prudent decision making.

Why not these Initiatives?

The existence of such serious, pervasive problems and failures is understandably difficult for many to accept, especially when they are not yet directly affected and there is little living knowledge of events which arguably last occurred over 80 years ago.

The instinctive "no problem" reaction could be on track but accepting it involves a "no Plan B strategy" with associated risks that are most considerable. We might term this a **risks in denial problem**.

Arguments such as those in "Subprime Agriculture, and Australia?" (McGovern, 2014) have now been put in multiple places, including to those at the Treasurer's Debt Round Table, with specific requests for comments on any problems. The silence has been deafening, including from the Bankers Association.

So it seems fair to assume a **debt-deflation problem** (Fisher, 1933; Minsky, 1992, for example) that will render even prime borrowers (and lenders) as subprime if allowed to continue unchecked.

A widening gap between rising debts and falling real asset values is at the heart of the problem. Both lender and borrower are threatened, especially when incomes fall as they typically do. Such a gap currently appears most pronounced for cattle enterprises but it is evident to some extent from submissions and hearings in all districts.

"But surely the market can still sort it out?" some will ask. Yes, but it is asset markets not product markets that would do the sorting, but on grounds that have nothing to do with economic performance or community contributions. We might term this a **dominant market problem**. One market drives other markets in contrary directions.

An effective stabilising presence in asset markets is needed. An effective third party is needed if markets are concentrated, on either side. Farmers and bankers can do very little, individually or through representative groups, especially in an open economy. Central banks and specialist public institutions historically and currently perform this market-correcting role.

Those who would say "no" to a **reconstruction authority** need to provide alternative solutions to the risk in denial, debt-deflation and dominant market problems. Suggestions are welcome.

But what of a **development bank**? The first three key problems that "naysayers" need to address here are those of liquidity stress, enterprise need and product innovation.

Firstly, a bank may simply "not have enough money to go around". **Liquidity problems** involve flows of funds issued where a financier may not have enough funds available to support its loan books. For example, funds supplied to credit markets can shrink reducing the quantity of "monies in circulation" (and perhaps changing terms) while potentially also raising the rent paid on "monies held" (interest).

While rents (interest rates) are currently falling (in nominal but not necessarily real terms) due to the greater correction in the demand for funds, an investor sensibly considers a 20 year or more exposure in the development of a rural enterprise. Uncertainties combine to drive down expectations of realisable investor yield (Keynes, 1936). Such financial calculations depress "animal spirits" and hold investment below economically desirable levels, potentially for many years.

Enterprise need centres on questions of how financial arrangements can help or hinder the development of enterprises over business, product and event lifecycles. The rural world is not static (despite the models) or still (despite managerial preferences). It is essentially dynamic and open, and so highly exposed to (a range of) natural and human influences. Adaptability is important.

Commercial banks have increasingly focussed on products that embody assumptions of constant incomes and manageable external events. While allowances can be made, the institutional bias is clear.

Over recent times, multinational enterprises (MNEs) increasingly resorted to funding via the money market or equity issues. Banks report responding by offering multinationals interest rates of 4% pa while small-medium enterprises (SMEs) typically paid 6% pa. (Fees and other incomes from payments system and transactions processing might offset the lower MNE interest for the bank.)

Agricultural enterprises typically pay a higher farm investment interest rate again, arguably because of greater risk and management costs. However, farm enterprises typically run several bank accounts and potentially commercial credit accounts. It is the asset and liability positions across all accounts that needs to be appreciated. While some existing banks do this well, others apparently do not. Long term planning and financing strategies appear to be infrequent.

These are all things that a well-constituted development bank can be expected to do. Queensland is fortunate in having a number of the needed capabilities and skills at hand, particularly in QRAA. However, the existing Adjustment Authority is neither a bank nor a development agency. Further, it manages a variety of government payments streams. As QIDC experience demonstrate, particular care must be taken in design of an appropriate functional mix.

Product innovation has occurred in terms of details but the overall adequacy of current product design in debatable. Discussions revealed some awareness of this and a few innovations of merit. Overall, however, the situation appears to be one of resistance to product change. This can be expected in an oligopoly or like dominated market.

More can be said on product innovation at a later stage but one key feature is the relationship to income flows. If income serviceability is now again a priority, the balance between debt levels and anticipated interest rates needs to be struck carefully. A lower interest rate if sustained allows a higher debt to be notionally carried by the same income. A higher serviceable debt reduces the needed adjustment to bring asset values back into line with debt financing possibilities. Capital adjustments trade off with interest receipts. Lesser adjustments "now" constrain financier receipts "over time", and vice versa. Penalties attached to disruptions to income flows also need attention.

These are the two Initiatives that involve most considerations of concepts from economics and finance. There are also important practical, governance and design issues that should be properly addressed at an appropriate time.

Complementing these are the **two Initiatives for the Parliament** that have economic and financial impacts. Parliamentarians may choose other ways to achieve the objectives of strategic intelligence capacity (Office of Rural Affairs) and policy effectiveness and coherence over time to support Rural Prosperity. The initiative of a **Royal Commission** appears one that the population will demand, sooner or later. Acting early to stem any abuses seems sensible on economic, social, financial and other grounds.

How to rebuild foundations for mutual successes?

The five institutional initiatives are captured in Items 1, 2, 5, 8 and 9. They can provide the needed functional basis for more effective government actions. They complement some existing capabilities, help reposition others and offer some important new capabilities. Together these enhanced capabilities support enterprise pursuit of successful outcomes from Items 3, 4, 6 and 7.

Ultimately considerations revolve around parties who pool their assets and manage an ongoing relationship with each expecting returns and gains in some ways. Some are working as expected but an excessive number are failing, generating serious viability problems. Systemic risks are pervasive, so system changes are needed.

Assets involve distinctive usable resources, or capitals. Capitals can be termed physical (natural and built, for example), human (labour, management and initiative) and societal (monies, property rights regimes, infrastructures and community capacities).

Farming involves use of specific physical assets (land and improvements) by "enterprising" humans (farmer, workers and families, say) supported by societal capitals typically offered and managed by providers termed private (monies, in recent times) or public (infrastructures, for example).

Important interdependencies exist. However, each party typically focuses on one particular capital. Major problems follow when any consideration (excessively) involves only one capital holder. Unfortunately, this is exactly the current model: each party is essentially expected to optimise "my" position irrespective of the positions of "others".

This fixation has led to serious problems. Not only have lenders since the early 1980s "made loans… without sufficient regard to the capacity of clients to repay" (Senate Rural and Regional Affairs and Transport

References Committee, 1994). They also assumed an ability to manage affairs (increasingly "from afar") and to boost security values unendingly (by continual increases in credit). Those assumptions failed globally in 2008. While some seek to float from these same dodgy, dangerous foundations, the prudent have moved on.

The suggested institutional arrangements can help address four major areas of need:

- **Organisational**, with better relationship resolution management via a Reconstruction Board that adequately and equitably considers all interests.
- **Financing**, with financial arrangements and products that support enterprise successes via a specialist bank. Well-targeted products can meet financing needs left subserviced by commercial operatives.
- **Understanding**, with improved monitoring and response to rural problems, via a dedicated agency that can directly assist and inform representatives.
- **Commitment**, expressed through an inclusive Initiative agreed and honoured by all parties.

Serious failures in existing relationships can then be efficiently, effectively and equitably addressed.

And if we act...

Sensible ways forward, today and tomorrow

Communities Hanging and Hoping

In written, oral and private submissions hundreds of people discussed how they felt threatened by circumstances beyond their control, how they struggled with income inadequacies and related feelings, and how external decisions confounded their best efforts. Feelings of alienation and a sense of helpless drift vied with expressions of hope, mutual care and determined resolve. Even the most successful and resilient individuals will struggle under such conditions. Consequent physical, mental and community health stresses were raised repeatedly.

There is a tendency amongst entrepreneurial individuals such as farmers to take undue responsibility, and sometimes undeserved credit, for their successes. This leads unfortunately to a divisive mindset with a tendency to dismiss the struggling other. Denial is common, including among associates and advisors.

Both delay effective response. Problems spread in unchecked contagion. Bankruptcies needlessly rise, illustratively from 3 per cent to 25 per cent of the group. Wealth destruction becomes sector wide as asset values remain depressed (perhaps for decades, as in Japan). Infectious diseases should be treated promptly, and so should a spreading rural financial malaise. Needed tools and capacities are at hand. They just need to be effectively organised.

"We can smell the rain, if we can just hang on..." was the feeling in Winton last December. Now some rain has come, but not for all. Still, recovery will be long. Run-down needs to be reversed, and capacities restored. While this is recognised widely, no feasible paths are apparent to many on-farm or in-town, and their financiers. Without a structured forward path, financial contagion threatens from fire sale recovery actions of financiers.

Without a pathway, many will needlessly exit. Generally, it is not that they are not good farmers or business people. Rather conditions turned against them.

With no sensible pathway evident, few children can remain. "They are our greatest export" was how one person put it. Business and community renewal stalls. Decline accelerates. Few can see viability or substance in all the talk about succession planning.

Enterprises, people and communities feel on the edge. This disconnect between (decades of) talk of a golden future and lived realities is stark. Even words like "income", "debt" and "farmer" struggle to find a place in the talk of the golden future. Yet they are the realities on the ground.

Time to Stabilise, Reconstruct and Refinance

Under current conditions and markets, fire sales with needless destruction of wealth and economic capacity will continue. Stabilisation with orderly workouts can deliver better individual and systemic outcomes, as it has in the past.

Effective reconstruction resets balance sheets for some, and provides an exit path for others. Both borrower and lender balance sheets can be made more viable, with better outcomes realised all round. As crippling debt overhangs are removed from borrowers, financiers no longer need to carry excessive loans on their books, or the additional capital provisioning that this entails.

Some bank managers already recognise this and are reconstructing selected loans. Others are not, instead depressing markets with fire sales and continually worsening problems sectorally.

Specialist Agricultural Banks have long been a feature in Australia and around the world. Recognition of production, market and like realities was part of organised finance, including for farmers entering the industry. Product design and management incorporated this. Today such recognition is very limited, and often attenuated by counter-productive organisational arrangements.

The Challenges of Transitions

The insights of local managers and specialist finance fell out of favour in the times of easy credit-for-all systems but the need for these skills is increasingly evident. There are now clear management problems for a significant number of financiers. Liquidity stresses are also building on banks and financiers around the world making it more difficult for them to fund existing loan books.

While many did report good relations with particular lenders, Taskforce members heard of numerous examples of commercial malpractice and worse. Senate Inquiries confirm this. Proper investigation of this important area is beyond our terms of reference and resources. A well-constituted Commission is needed to investigate the roots, nature and extent of abusive practices, systemic failures and the underlying malaise in rural finance.

Prosperity and development build on long-term commitments to profitable enterprise, prudent investment and productive capitals. The incompatibility needs to be rectified. Prudent product and process innovations will be part of any sustainable rectification.

Income streams link economic and financial performances, but all have been increasingly inadequate across primary industries. Submissions received, indicative balance sheets and statistics all attest to this. Sectoral income problems exist: industry returns are broadly unable to sustain let alone sensibly develop the resource base. Drought and the like just made underlying problems more evident.

Restoring a Fair Go and Sustainable Prosperity

Situations vary, as we might expect given: resource endowments; the vagaries of weather; the volatility of markets; the variations in policies; and decisions made. All five play important roles. Note that it is only in the fifth that those in rural enterprises have much influence. Even here, decisions made by "others elsewhere", typically in government and finance, can impact adversely on business, work, family and home.

Unchecked, conditions will worsen. While we all make our own way in the world, sometimes things are particular tough, for whatever reason. All the efforts of even the most responsible and prudent may be confounded by the accidents of life and history. These are such confounding times.

In our recommendations and Report the goal is to improve successes and to build feasible paths where none now effectively exist. Accessible paths are needed that maintain and develop capacities, resources and factor incomes that drive production and community viability over the years, whatever the conditions.

Challenges

Adapting to Changed Times

Queensland history is replete with situations of struggle and successes as we made our State a better and more prosperous home. Learning from past experiences, sensible ideas and modern realities, this generation can now choose its contribution to our rural history. The Taskforce 14 recommendations offer ways we can build industries and communities of which we could all be justly proud.

> *"Changes instituted over the last 30 years have led to an increase in short-sighted behaviour, with less spending on the kinds of long-term investments … that would generate high rates of sustainable growth" (Stiglitz, 2016).*

This comment from a Nobel Prize winner and former World Bank Chief Economist is mirrored in hundreds of places in the submissions received. Debt problems largely reflect a failure to provide viable long-term investment arrangements on farm and in town.

This Report can be the catalyst for significant policy reforms. The need for changes has been amply demonstrated to all Taskforce members in their inquiries. Simply doing nothing is not a sensible option as current trajectories will result in needless loss of economic capacities, rising unemployment and increasingly impoverished communities.

The changes proposed can help rectify problem industry trajectories. Individual enterprise and rural communities can again prosper when market failures, systemic imbalances, policy flaws and investment realities are well addressed.

As Albert Einstein once said, "We cannot solve our problems with the thinking we used when we created them". Changed thinking that improves the products, processes and performance of rural finance can be the key to unlocking "high rates of sustainable growth" from better positioned enterprises and revitalised communities across Queensland.

However, investment and associated financial activities bind past, present and future. Legacies exist so potentials are constrained in ways that may now be mal-adaptive. Apt transitions are needed.

The overarching goal is for the various involved parties, private and public, to work out how to work together well to get good recoveries in the least time across the State without needless risks, losses of important productive capabilities, or heedless wealth destruction. In so doing they will establish a firm basis for future enterprise and community member successes.

Serviceability

Farm debt rose rapidly across Australia between 1998 and 2008. If a picture tells a thousand words, then the Figure explains rapid Queensland farm debt growth to at least $17b. Servicing incomes were erratic with inadequate growth. Serviceability was always going to be a problem.

Many loans were effectively justified by speculations, typically involving unlimited Asian demand or asset inflation. Finance was deregulated, easy and not always well reasoned, on either side. Not only can we expect disproportionately more enterprises to fail. Those with financial arrangements tailored to manic "good times" assumptions, can be expected to struggle in these depressive "dog days" (Garnaut).

Such were the "never had it so good" times we all shared pre GFC. Now, we have to deal with a major debt overhang in many rural regions of Queensland. Problems have spread well beyond the farm. As one Taskforce member put it:

In small regional centres in times of hardship, small business is called upon to 'carry' local primary producers. Banks will not assist and at present there are local businesses in severe financial trouble by virtue of the fact that they have extended credit to their customers, and the farmers are unable to pay their accounts: i.e. fuel outlets, grocery stores, hardware shops. In our area the thrift shops are doing a roaring trade while the local clothing store that employs upwards of 30 people is experiencing financial difficulties.

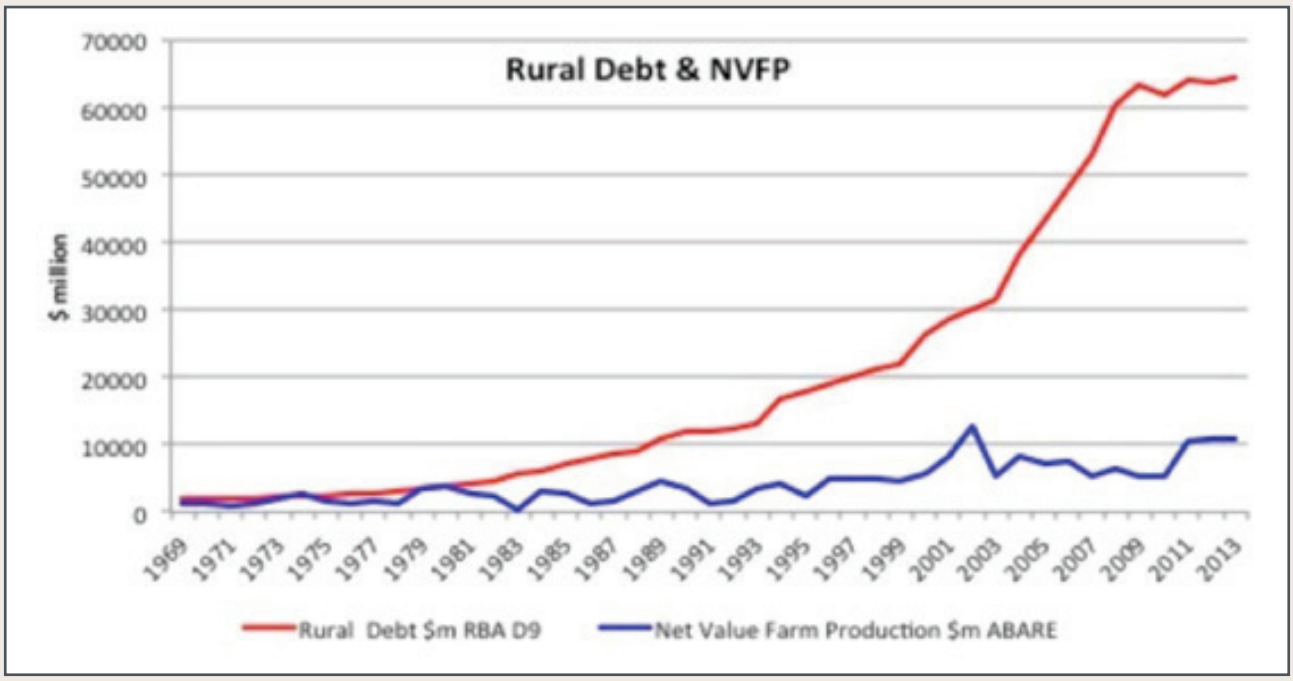
Incomes and prospects under current systemic influences

It may be tempting to think that the many problems and the limited, sometimes truly dismal, prospects identified in the Taskforce investigations are confined to the sample presenting. Investigations outlined in this Chapter demonstrate that **problems are pervasive and systemic**.

Operational returns

> *2014 "Incomes for Queensland broadacre farms are forecast to average $39,000, the lowest for the state in the 37 years the ABARES survey has operated.*

Australian Farm Debt Rises as Income Struggles



(Rees 2013 using ABS, ABARES)

"The proportion of receipts needed to fund interest payments is expected to be around 8 per cent nationally but is projected to reach 16 per cent in Queensland with around one third of Queensland farms recording negative farm cash incomes." (ABARES, 2014)

In the event, average Queensland farm incomes were $68,000 but farm profit estimates of $-77,400 showed significant average net losses as did rates of return. Capital depreciation meant that rates of return that included capital appreciation were more negative than rates excluding it (ABARES, 2015).

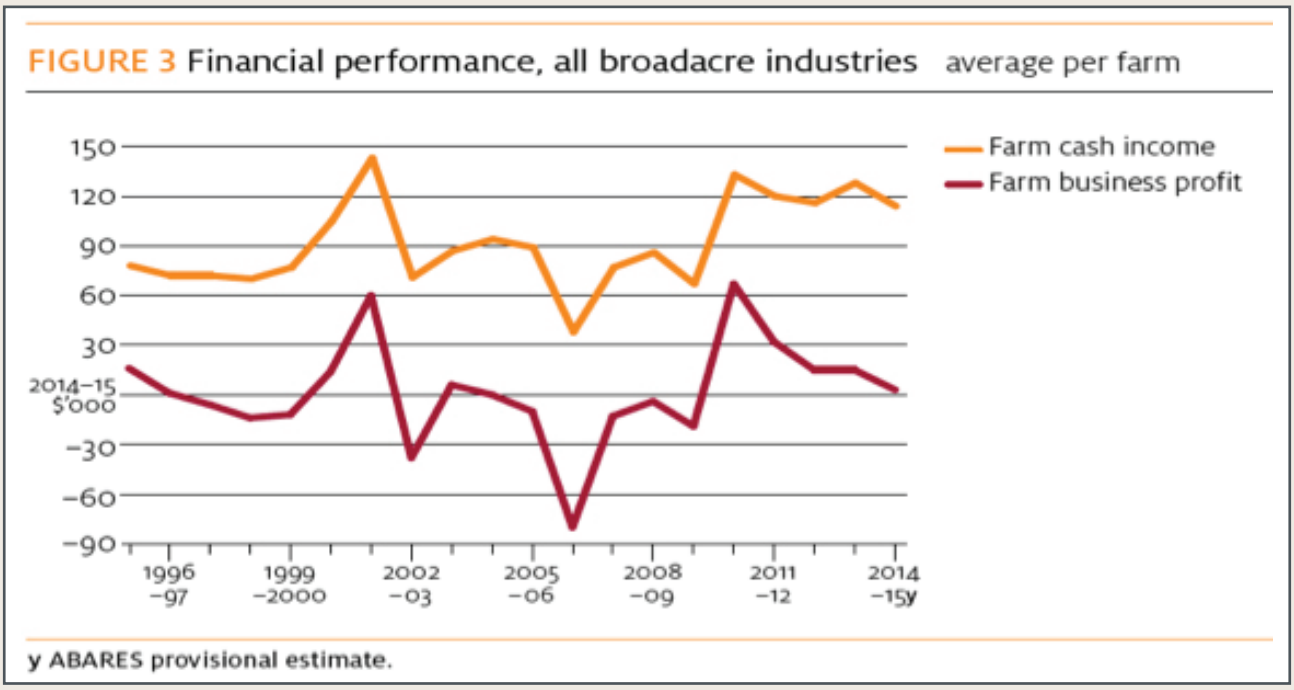
Such figures are not the result of individual losses "here and there". An unusually high level of losses accompanied market and weather disruptions across the State. However, situations had deteriorated across the nation since 2010-11 (as in ABARES' Figure 3 below). Average broadacre farm profits were expected to decline to zero nation-wide as the gap (in constant dollar terms) between incomes and business profits widened. Additionally, such estimates may well have an optimistic bias (McGovern, 2008).

Queensland Farm Incomes

Financial performance of broadacre farms, by region average per farm

	Farm cash income			Percent of farms with negative farm cash income		Farm business profit	
	2013–14p		2014–15y	2013–14p	2014–15y	2013–14p	2014–15y
New South Wales							
111: NSW Far West	121 400	(37)	107 000	39	38	–14 300	–9 000
121: NSW North West Slopes & Plains	102 300	(20)	49 000	22	34	–20 400	–73 000
122: NSW Central West	115 200	(14)	130 000	24	22	36 600	47 000
123: NSW Riverina	187 400	(12)	188 000	17	9	74 900	90 000
131: NSW Tablelands	55 600	(19)	52 000	18	16	–41 900	–26 000
132: NSW Coastal	8 400	(97)	9 000	54	52	–64 400	–58 000
Victoria							
221: VIC Mallee	188 700	(22)	116 000	29	39	85 300	–16 000
222: VIC Wimmera	241 700	(13)	50 000	11	31	134 600	–62 000
223: VIC Central North	84 200	(13)	95 000	18	20	–10 700	–13 000
231: VIC Southern and Eastern Victoria	53 800	(18)	55 000	22	21	–22 800	–16 000
Queensland							
311: QLD Cape York and the Gulf	14 700	(481)	440 000	62	13	–3 600	–143 000
312: QLD West and South West	208 000	(37)	134 000	41	32	–203 000	–221 000
313: QLD Central North	88 300	(55)	41 000	46	19	–314 000	–167 000
314: QLD Charleville – Longreach	75 100	(44)	96 000	48	50	–87 600	–60 000
321: QLD Eastern Darling Downs	71 500	(26)	84 000	21	26	–33 700	–23 000
322: QLD Darling Downs and Central Highlands	81 200	(19)	93 000	21	20	–55 600	–36 000
331: QLD South Queensland Coastal	32 700	(28)	46 000	37	22	–68 600	–45 000
332: QLD North Queensland Coastal	15 000	(102)	31 000	55	50	–67 600	–49 000

Source: (ABARES, 2015)



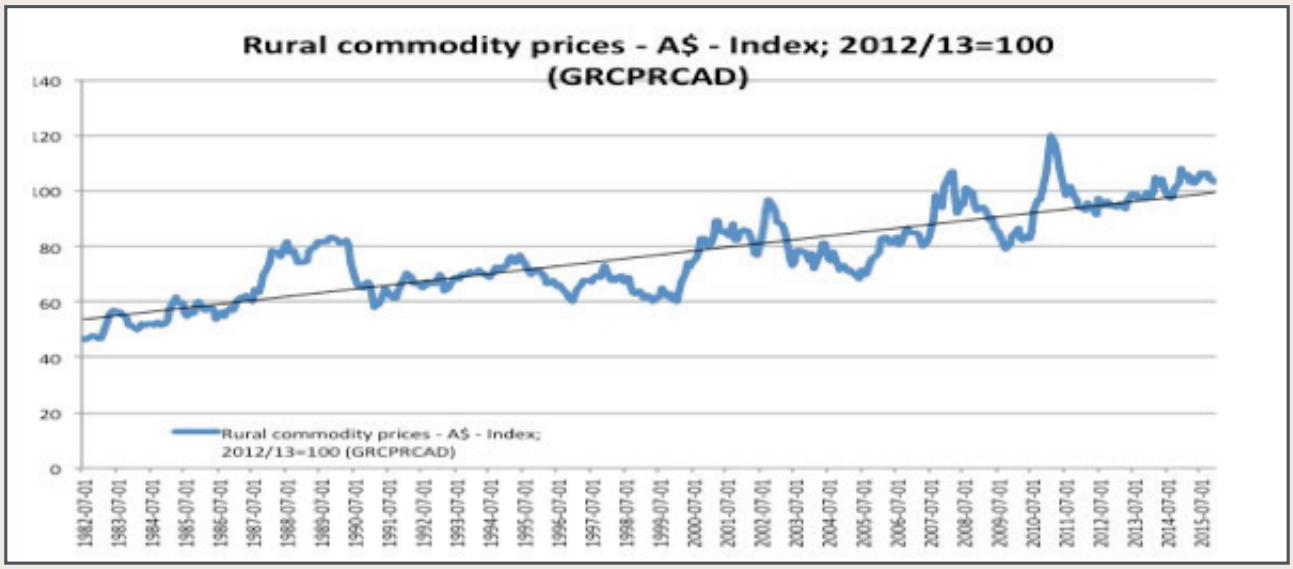
Source: ABARES (2015)

Industries with profits as a declining share of income are being squeezed financially. Business profits oscillating about zero for a sector nation-wide indicate a doubtful future, and in Queensland performance has been worse.

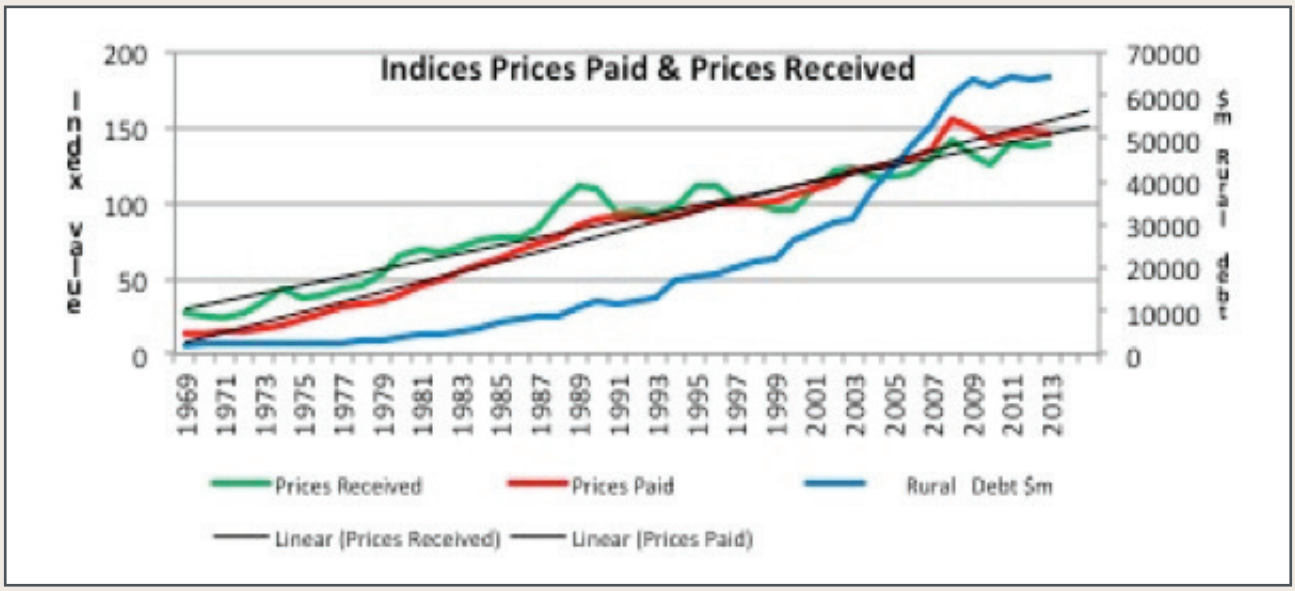
So what is the explanation? There are many possibilities, including external factors such as commodity prices. However, the Australian dollar price index of rural commodities has been trending up, as in the Graph below, with increasingly above trend rises since 2012. Domestically, prices for "food and non-alcoholic beverages" as measured by the CPI have risen for each quarter but four (with three being in 2012).

So farm income and profits have deteriorated despite generally favourable price movements in final markets.

Rees (2014) analyses the deterioration in the terms of trade for agriculture. Prices paid (for inputs) have generally risen faster than prices received (for outputs). Note particularly the recent levelling-off of prices received despite continuing rises in external commodity and domestic food prices. Also while effects are evident from the 1989, 2002 and 2008 price peaks, the sharp 2011 peak has no apparent effects.



Source: RBA I02



All the while, debts rose. "Curiouser and curiouser" Alice might say surveying this rural wonderland, but we must move on.

These observations challenge price pass-through assumptions that have underpinned four decades of agricultural and trade opening policies in Australia. Empirically, price pass though has not occurred as has been assumed. Theoretically, this is to be expected in markets with few suppliers and buyers.

Price pass through from markets to producers is distorted and apparently income reducing. Supply chains structures and conduct produce significant "imperfections".

Australia wide, farmland prices fluctuated around a flat (wheat-sheep and high rainfall zones) or slowly rising (pastoral) trend up until the late 1990s. Subsequent price rises over seven or so years were rapid and extensive (pastoral and high rainfall both by around 2.5 times, wheat-sheep around 1.7 times.) Price indexes peaked between

2007 and 2011. Major (pastoral), moderate (high rainfall) and less certain (wheat sheep) corrections saw land price indexes projected as down around 30 per cent in pastoral areas and down around 15 per cent in high rainfall by 2013-14.

Notes:

1. *The ABARE index apparently includes an adjustment for inflation while the price is apparently unadjusted. Such adjustments understate asset price falls when inflation remains elsewhere. This would explain a relatively steady index recently despite average prices falling in the lower figure. Financiers work on the latter realisable price rather than some adjusted index.*

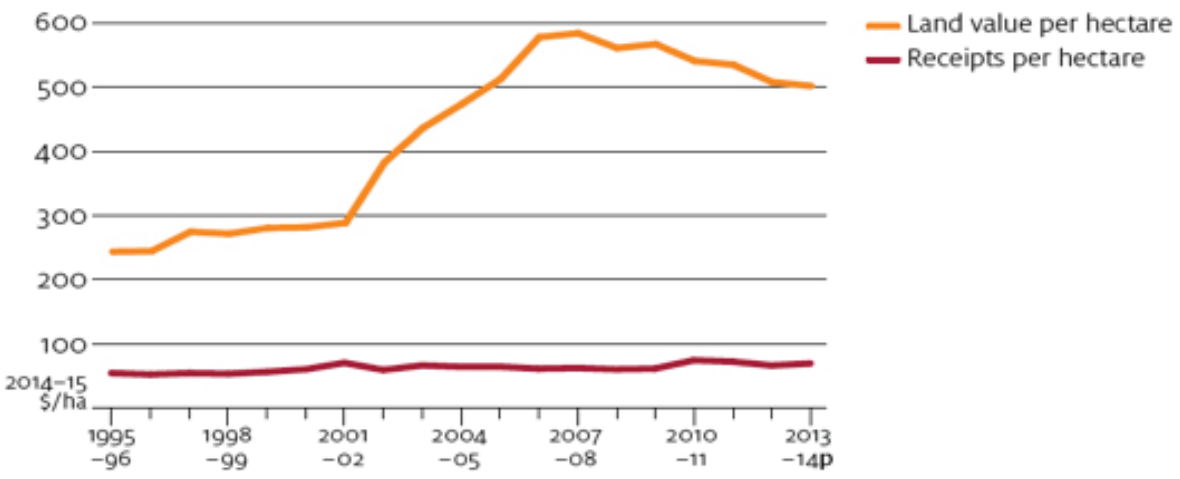
2. *Land price Index basis year of 1977-78 followed the collapse of cattle prices and the beef industry remained distressed. These depressed property prices led to an exaggerated apparent growth. Rebasing to the mid 1990's would allow clearer comparisons. (GCADS reports use a 1989-90 base.)*

3. *Additionally, the demise of the sheep industry since the late 1980s while grain was relatively buoyant would both impact on wheat-sheep. More disaggregated figures would be useful.*

The very rapid rises in average land prices between 2001 and 2007 occurred despite steady average farm receipts. This phenomenon is central to current problems. While the ABA might proclaim that "lenders would always have regard to loan serviceability" their members generally did not exhibit such regard. Significant speculation is the only plausible explanation when average national farmland prices double in under a decade while average returns are steady.

Regional variations were significant with some areas relatively little affected by speculations and others "outperforming". The Gulf Cattlemen's Association Debt survey details the experiences in one region.

FIGURE 14 Land prices and receipts per hectare, broadacre farms average per farm



p ABARES preliminary estimate.

Problems with policy formation

ABARES routinely reports that Australia wide in the year of reporting "the best 25 per cent of farms" returned 9 or so per cent on assets, with the reported return fluctuating up or down. Each year some farms will do well, and others poorly. Next year the same, except that those doing well this time may be different to those previously.

Unfortunately there is a widespread but mistaken interpretation that "best" farms do well each time. The return of "the best" in a year is mistakenly interpreted as the return of a same "best" each year. This mistake sets a spurious standard for Agriculture and has led to misguided policies and unrealistic expectations. Industry myths, such as this, cloud perceptions on farm, across industry, in policy circles and elsewhere.

Economies of scale are another area of pervasive myth. In any situation there may be economies from amalgamating properties but whether gains exceed the costs of finance is the first important empirical question. As is tragically evident today, empirical answers were infrequently sought when establishing financial contracts, or public policies. The second important question of changes in risk profiles also went comprehensively unaddressed.

The failure in price pass through discussed earlier is another area of myth persisting unchecked. It is relatively easy for a competent authority to check this, but the last such authority was perhaps the Queensland DPI in the late 1990s. Staff then undertook relevant production and market analysis of high quality that could support well-grounded policy understanding.

Single policy decisions can also make a big difference with the banning of live exports in 2011 a standout example. This event and its impacts were one of the most commonly raised issues in submissions. Income flows were disrupted on both sides of the Australian border. Cattle intended for export displaced those intended for the domestic market, with prices and incomes dropping accordingly across the State.

Possibly the biggest single blunder however, was when the ECIRS (Exceptional Circumstances Interest Rate Subsidy) was cancelled by COAG with no transition strategy in March 2013 (to the reported "surprise" of some Ministers attending). Sectoral risk immediately rose across all agricultural industries as government ceased to be a de facto partial guarantor. The fact that this is so little appreciated, even today, underlines how superficial considerations of rural finance have been. While the disruption to live export flows has been rectified, the ECIRS decision stands uncorrected with its pervasive effects undermining rural financial performance and industry stability.

Consequent upwards re-rating of the risk of farm borrowings coincided with a write down in land asset values held as security and, as seen, loans had been widely offered on an inadequate income basis. It is little wonder that (some) financiers were in panic, with (some) farmers soon following, especially those who had been hit by an historic drought.

The underlying problem here is overuse of overgeneralisation. Economies of scale arguments present a possibility that needs proper empirical

investigation as part of prudent investment evaluation. Instead mantra replaced analysis. Public sector agencies were stripped of oversight, competence and resources allowing a misinformed market to develop unchecked. Some, opportunistically seeking to take advantage of incentives or exploitable opportunities on offer, sought undue immediate gains. This last was repeatedly raised in submissions.

Eight years after the Global Financial Crisis began, the things being discussed are now recognised globally as having been commonplace. Unsound perceptions, including those of fool-proof sophisticated finance and perfectible markets, allowed a pervasive speculative mania to take hold. Lending on inadequate incomes was justified by a presumed surety of asset growth. Flawed financing was global, as was the stunned surprise that things might go wrong as "investments" failed (in textbook fashion). Results have been devastating for many. In Queensland, some have lost their whole life's work, and others the accumulated assets of generations.

While some in Agriculture and Finance clearly rejected myths and ill-founded commercial, financial and public policies on the basis of their own experiences and investigations, many with no means of alternative understanding simply accepted the catastrophic conventional wisdom. The few warnings that were raised went unheeded, or were derided.

Ill-informed enterprise, policy and market operatives can be expected to fail to deliver.

The provision of well-understood information of good quality relevant to investment and operational needs is to the private and public good, as is pro-active investigation of ill-based or potentially exploitive arrangements and conduct.

Failures are evident in the provision of loans with inadequate servicing incomes; myths about industry performance; failed policy positions on such things as economies of scale and ECIRS impacts; failure to recognise let alone appreciate supply chain pass through problems and their effects. Such failures need to be reversed.

Requisite competencies need to be re-established.

Reversing the run-down problem

Theoretically and apparently, globalisation favours activities in urban nodes. Countryside concerns may be seen as fringe since "trade will always deliver" needed foods and like products.

Such a belief ignores four economic realities:

- imports need to be paid for;
- open first-world nations provide markets of first resort;
- providing variable (not total) costs are covered, external firms;
- can be theoretically expected to dump when competition is imperfect; and
- dumped products suppress domestic returns to producers without necessarily reducing consumer prices; and
- Maintenance of a diverse viable industry mix is a feature of high performing economies and nations.

Australia's worsening external wealth position (net obligations now over $1 trillion), worsening food trade imbalances (involving some sectors and "FTA partners"), documented and suspected cases of dumped foods, and stagnant sectoral incomes are the realities of Australia and its "limited viability" Agriculture. Insufficient factor returns have evidently driven sectoral run-down in many parts of Queensland.

Compounding this are inappropriate assumptions of competitive markets along supply chains. Most rural input and output supply chains feature oligopolies. Effective regional monopolies are also evident. Ignoring such realities, policies and talk of competitive supply chains are misleading.

Oligopoly theory is long-established as are the appropriate policy stances in such markets. However, it goes unrecognised in policy circles. Oligopoly ("few sellers") involves a few firms supplying a market, with oligopsony involves "few buyers". High concentration ratios mean that most product volumes pass through just a few firms at one or more stages along a supply chain.

There are three distinctive possibilities associated different modes of conduct by members of the oligopoly.

A. When "the few firms" **compete** then a loose oligopoly/sony is in play and effective competition may occur to some extent in some areas (e.g. supply arrangements, product qualities, customer service, price and so on).

B. *Tight* oligopoly/sony involves areas of inter-enterprise **cooperation** with market dominance likely. Cooperation may be:

   a. *explicit* with specific agreements as in collusion, cartels and the like aimed at maintaining industry conditions (such as number of players) or market conditions (such as price or quality profiles); or

   b. *implicit* with industry and market conditions to be maintained via common understandings of such things as beneficial common strategies (tit for tat, price leadership and like), enculturation of common values and industry positions, regulatory arbitrage and capture, agreed standards and protocols followed.

Note that an oligopolistic industry may employ a range of positions and so appear as competitive in some areas while cooperative in others. For example, banks may compete on product features but maintain a narrow price band for interest rates while enjoying price signalling provided by a central bank. Complementary strategic choices can be expected by rent seekers taking advantage of their market positioning.

Apt regulatory responses differ. The nature of investigations by, and requisite credible threat of, a regulator both vary.

- Legal processes have sought, with some but limited success, to address areas of untoward explicit cooperation (Ba).
- Implicit cooperation (Bb) is much more difficult since there is typically no direct communication and motivations for some cooperation is difficult to discern let alone demonstrate.
- Efforts at moral suasion have generally failed.

"Competition policy has been noteworthy for its failure to effectively address instances of parallel pricing that may have an economically analogous effect to explicit price-fixing" (Devlin, 2007)

Well-constituted public statutory authorities (PSAs) offer a solution. Theoretically markets of oligopoly/sony can be expected to be inefficient, to engage in parallel pricing or barometric price leadership and exhibit supra-competitive enterprise outcomes. Effective monitoring, credible threat capabilities and, at times, direct regulatory interventions can be incorporated into a competent PSA. Alternately or additionally, a public competitor can be introduced to provide both choice and information insights, and accessible public spaces in private works can be required.

Both have been used in the past, in Queensland and across Australia. There is again a role for both today.

Firm strategies under globalisation and oligopoly/oligopsony need to be monitored and addressed when inefficient or supra-competitive outcomes are apparent.

A Public Statutory Authority (PSA), public access arrangements and a Government Owned Corporation (GOC) acting as a public competitor can improve market, industry and Agricultural enterprise outcomes.

Incomes need to be improved if agriculture is to have a future, with profits reasonably attainable by farming enterprises

Rectification of capital imbalances

The fundamental capital problem is a mismatch between assets and liabilities in an increasing number of rural enterprises. The financial positions of even the best owner/operator will deteriorate if asset values continue falling. Fire sales of farm land depress the positions of all owners of "like" land.

Debts and other enterprise liabilities that continue rising unchecked are terminal if not addressed. Even the most competent producer may be caught exposed when incomes are disrupted by external events beyond their control. However, things get really serious when asset values are disrupted by external events. This is the real but under-appreciated threat.

Financial valuations do not discriminate on the basis of economic capacity or industry contribution. Today, valuations are heavily market driven so a depressed market drives many caught exposed into insolvency and, too often, indiscriminate poverty even though they might be fine business people running highly productive enterprises, on farm or in town.

Prompt actions are warranted. If the depression needlessly persists, experiences elsewhere are that what may have started as a "3%" (of borrowers) problem can become a "25%" problem, or worse if crises then build to breakdown supply, banking and other systems.

The fundamental capital problem in parts of Queensland today is **the mismatch between the falling land assets and rising debt liabilities of rural enterprises**. Half of Queensland farm debt is in the beef industry. An example will be used to illustrate how the problem arose, and how it might be rectified.

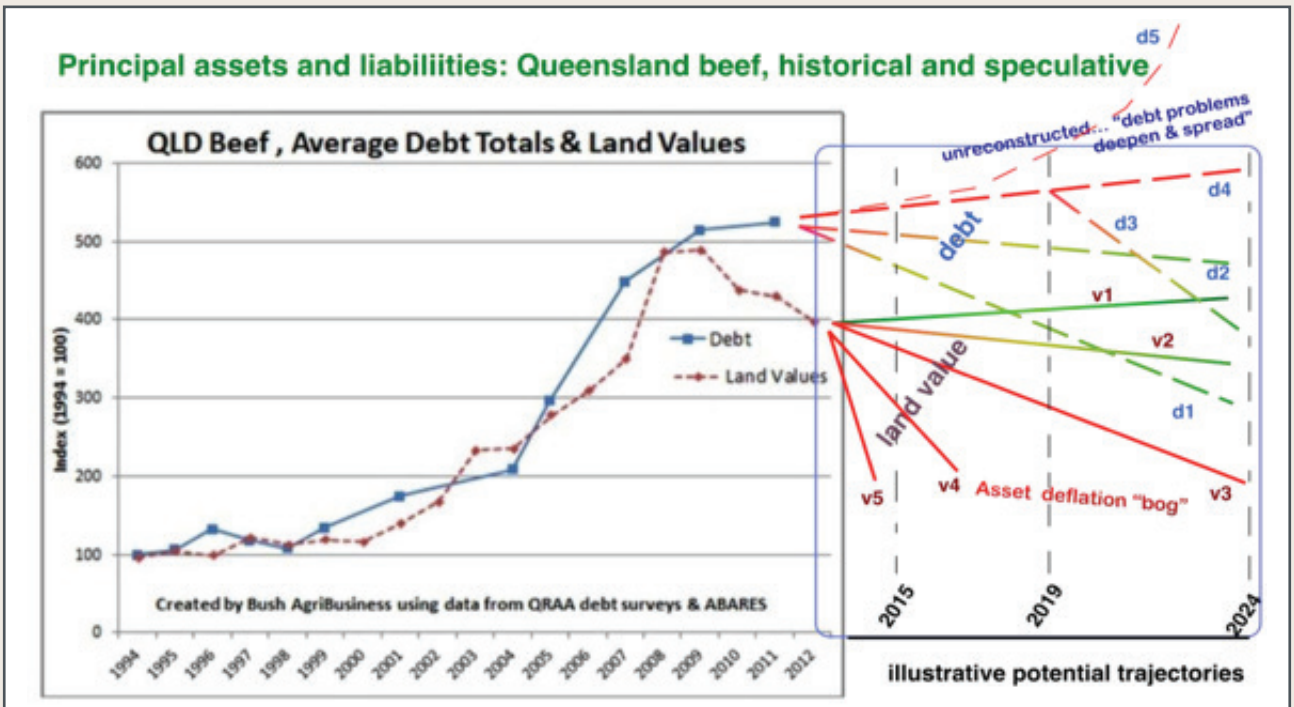


Figure 1 Increase in Debt relative to Increase in Land Prices

Sources: Bush Agribusiness 2013 (left graph) and McGovern 2015 (right speculative trajectories)

Queensland beef debts and land values: an illustrative scenario

A plot of Indexes of average debt and land values for the Queensland beef industry

(land values). Relative equity positions are maintained when the lines remain close and move together. When land (red) moves above debt (blue) relative farmer equity improves. Unfortunately the reverse appears after 2007. The increasing gap between debt (blue) and land values (red) indicates an accelerating transfer of farmer equity to financier.

Unfortunately, after 2011 some major banks refused to supply needed data to QRAA, so how the situation developed in the last six years is uncertain. This failure to adequately inform industry, government and the market despite repeated requests, including from senior Ministers, is troubling.

In the absence of needed information, McGovern (2015) added potential pathways for debt and land values on the right side to illustrate possibilities as part of an information sheet distributed at all Taskforce meetings. Favourable effects on farmer equity shares are coloured green while (continuing) adverse effects are coloured red.

If the market was self-correcting, land values would have risen (v1 or v2 say) while debts fell (d1 or d2 say). After the first hearing, it was clear from the comprehensive survey in the Gulf Cattlemen's Association submission that this had not happened.

We assume first that their 2011 debt and 2012 land positions were similar to the State average, something which from discussions seems reasonable and if anything conservative. Grafting their potential 2015 positions (red ovals, see note) we can see that the debt index exceeds the d5 path (which approximates interest compounding on 2011 debts). Land values had fallen further, by over 25% (tracking path v4). Farmer equity transfers had continued with the debt index twice the land value index in 2015. Debt problems had increased and spread: "debt owed to small businesses and other service providers increased six-fold" in 5 years, for example. Land values were closing down onto the "bog top" seen overseas in similar episodes when stagnant asset values remain depressed for two decades.

Notes:

1. *The survey was carried out in August 2014 and no improvement was reported to the Taskforce. Discussions at Normanton and subsequently were also in 2014-15 and 2015 terms. For simplicity all are referred to as "2015". This ensures that indicators remain as conservative estimates.*

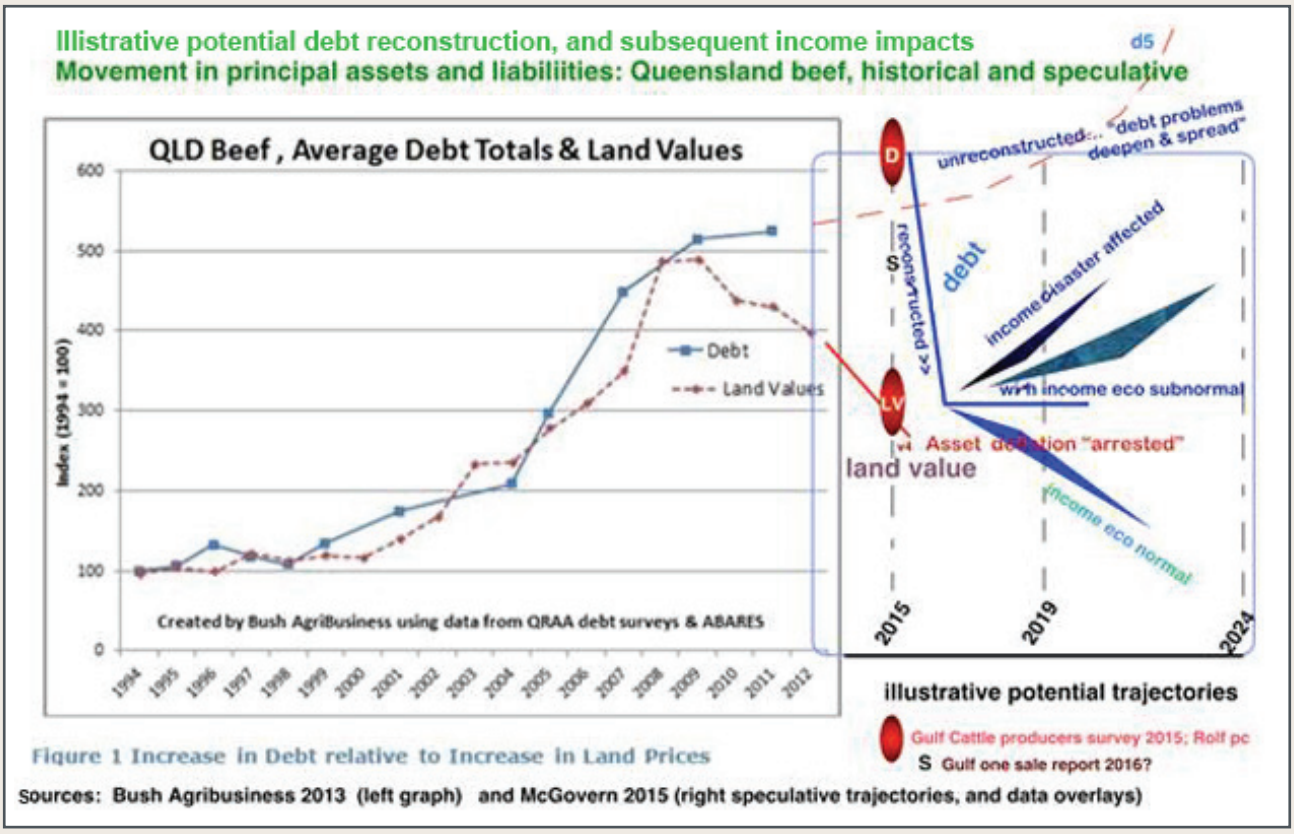
2. *Generally, -60% ± 30% of peak is a useful rule of thumb for the bog top and range of values experienced in these asset deflation events. Japanese residential property reports, for example, are of broad falls, by as much as 90% from peak. Values have not revisited peak after more than two decades and appear increasingly unlikely to do so.*

3. *Conveniently, indexes for 2008 are close to 500 in both cases so each 100 point move in the index is about 20%.*

There are two possible ways forward: debts fall or land values rise. As an interesting example of the latter, there was one report of a good property selling at close to peak land value while Taskforce members were in North Queensland. Such a position is shown as S, and the interest rate reported was 3.75%. Whether this was a teaser rate or a long term setting was unknown. The former would see the borrower likely in trouble when the introductory rate expires or the loan is refinanced. The latter may illustrate that lower interest rates allow higher values to be supported by the same income. Financiers face a trade-off in setting loan conditions: the higher the interest rate (and bank current earnings) the lower the affordable asset price. One goal in any refinancing of distressed loans is to use lower interest rates to avoid excessive asset value write downs and associated equity losses.

More common, however, is unaffordable high debts that need to be written down until they again become serviceable with likely incomes over the loan term and approximate asset values. This is the situation shown for the blue debt line after 2015. A new debt base is set close to land values, but debts will rise again if incomes are disaster affected or otherwise less than expected (the upward wedges below). The debt becomes truly serviceable and farmer equity grows sustainably when "normal" economic returns exist (the downward wedge). Normal returns are those sufficient to fully service, maintain and sustain all factors of production, including financial factors.

It should be noted, that bankers and other financiers do write down some farm or other business debts in the normal course of business with provisions regularly made for such things. However, write-downs alone are inadequate when land values are de-stabilised and willing new financiers are not on hand. Further, reports of some bankers refusing to provide payout figures to enable refinancing indicate that a range of strategies are being employed in this area. The investigations needed lie beyond this Taskforce, but would properly be a matter for an appropriate authority to investigate as a matter of priority.



Note: lower interest rates for term loans (or other arrangements) can allow a lesser write down of debts and higher sustainable land values.

Managing a "more orderly" transition

Any industry sector spread over a State with the soils, climates and volatile weather of Queensland will demonstrate variability in circumstance and performance. Farmers individually can make a difference, but if trend incomes are deteriorating debts are excessive, asset values are falling, the weather is a disaster or markets are dominated, then even the best farmer or community will struggle.

With all five influences variously in play, it is little wonder that Taskforce members saw so much evidence of extensive personal, physical and financial stresses. Left unattended, things will continue to deteriorate with needless losses. Enterprises will fail. Productive capacities will be lost. More jobs will go. People will suicide. Communities will mourn their personal, household and business losses. All will continue until circumstances change.

Some prefer to wait for luck, a change in the weather or a market. It is widely recognised that markets overshoot, at tops and bottoms. Responsible societies make their own fortune, avoid over-reactions and work out strategies to deal with "challenging times" before impacts become excessive. Cohesive communities work with insight to make their own luck. There are losses in any transition through adverse events, but minimising needless losses supports recovery, viability and resilience.

There are three key steps:

1. **Stabilisation** of markets to prevent overshooting as distress selling depresses asset values, sometimes in repeated waves.
2. **Reconstruction** of enterprise viability via balance sheet adjustments to restore sensible relativities between:
    - o assets and liabilities (in the enterprise capital account, KA),
    - o revenues and costs (in the operational current account, CA)
    - o flows of funds variously incoming, holding, accumulating and outgoing (in the time-sensitive finance account, FA)
3. Development of funding products, contracts and commitments that can provide a mutually beneficial basis for appropriately desirable development of the Rebuild, product and succession problems

Table 1 provides an outline. Note that each steps involve a range of parties and best results are achieved when individually and mutually beneficial outcomes can be achieved. Each type has a distinctive role to play:

- SA, a Statutory Authority such as the "Reconstruction Authority" (Initiative 1) which facilitates adjustments, informed markets and good practice lending. It has powers to curtail needlessly damaging strategies (such as fire selling), settlements (particularly those that are punitive, dissipative or unduly onerous) and speculations (with risks that ignore prudent financial ratios).
- GOC, a Government Owned "Agricultural Development Bank" Corporation (Initiative 2) which can act as a long term lender, a third party financier bridging current refinancing problems and a development financier. It can act to catalyse needed changes, while also returning a dividend to government.
- IndD involving Joint Industry Development engagements would involve the above, relevant Government Departments, private commercial enterprises, universities and others in ongoing reviews of economic and financial situations. Management would be by a small, independent Office of Rural Affairs reporting to the Parliament (Initiative 8).
- ComF or Commercial Financiers would continue providing much finance but from a more informed platform through, in time, better products and relationships within a loose oligopoly. Untoward practices by borrowers, lenders, governments and regulators that incubate problems would be effectively appreciated. With proper commitments (including by Parliament, Recommendation 9), rural lending will become a more attractive proposition as incomes grow with risks reduced all round.
- acknowledges that open processes and good information from whatever sources make markets work best. The best way to practically address market or system failures is to introduce compensating products or mechanisms, and private parties play key roles. In particular, farm income balancing options need to be assessed and, if appropriate, encouraged (Initiative 3).

The Queensland Government has the relevant powers and responsibilities to act alone in each of these areas. Its institutions can broker major improvements in the performance and successes of Queensland rural enterprises and in the rural lending books of banks.

This will open the way to industry and regional rejuvenation. Sound industry entry and exit, (Recommendation 6) need good appreciation of the potentials: operationally (costs, returns and production risks); financially (including flows of funds and market risks); for various factor incomes (given production, systems and market realities); and for capital formation.

Queensland built much of its capital from rural factors, and it can again. Factors include the human, natural, physical, societal and financial contributions that make production and development happen. A coastal Shire brochure with a stated goal of attracting investment from elsewhere captured the decline well. Strong factor incomes, capital formation and surpluses allowed it to support its own development and that in other parts of the State for most of the last century. Its fortunes may be restored when recommendations such as those made by the Taskforce are adopted.

Excessive borrowing is a symptom of inadequate factor incomes and limited capital formation. Rural areas, and the State as a whole, will underperform and strategically go backwards until issues of depressed factor incomes and capital deformation are properly addressed.

Given the serious nature of many cases of reported financial misconduct it can also establish a further inquiry. A Royal Commission (Recommendation 12) can build upon insights and evidence gained from Senate and Joint Committees as well as this Inquiry. Restoration of proper and prudent financial relationships between borrowers and lenders is essential and a Royal Commission can catalyse needed changes more effectively and efficiently than alternative investigations.

Drought is effectively unaddressed in current national policies and the Queensland Government can offer leadership in rectifying a serious blunder. Treating drought as a natural disaster (Recommendation 14) and redressing identified shortcomings in existing natural disaster arrangements are key steps in maintaining needed economic capacities and jobs when uncontrollable external natural influences disrupt or destroy enterprise operations, finances and capitals.

In several areas, joint initiatives through COAG and other fora will be needed. Factor incomes depend critically upon both financial and supply chain arrangements. Some problems arise well beyond the borders of Queensland. Again the State can take a key leadership role and help fill a significant policy vacuum.

Table 1: Enterprise Balance Sheet Restoration and Capacity Development Activities

Acc	Item	Goals	Key Process	Dom
Basis as Assets and Liabilities				
KA	Land Asset price	Arresting fire sale impacts Related to income potential	Stabilisation Reconstruction task	SA SA
KA	Debt	Feasibly related to serviceable asset value	Reconstruction goals Debt write-downs Balance sheet restoration, or exit	SA+ Com F GOC & Com F
Relationship basis				
FA	Funding product	Long term funding (debt / equity / other) Affordable interest across enterprise life cycle Accommodation for market and production realities	Basis for ongoing viable relationship Tailored finance Matching reasonable enterprise revenue expectations situation aware and adaptive management	GOC & IndD design
FA	Funding contract design	Contractual balance Disputes	Best practice protocols Third party oversight	SA SA
FA	Funding commitment	Risk optimisation Funding security conditions Refinance offer	Income balancing Commercial Finance and GOC ("Ag Bank") offers: initial, ongoing and completion terms and conditions	+ Com F & GOC
Operating environment				
CA	Income	Clarity on income potentials Risk reduction	Income profiling Scenario assessment & policy needs Income protection Risk assessment & policy needs	IndD IndD
CA	Profit	Supply chain balances Dominance & regulation	Monitoring of domestic and external imperfect competition impacts Intervention strategies	SA SA IndD
CA	Perform-ance	Operational improvements Development stages	Adjustment Development evaluation and funding	SA GOC

Columns

(1) Account Elements: Capital Account (KA), Finance Account (FA) and Current Account (CA)

(2) Item targeted

(3) Policy focus'

(4) Types of processes

(5) Institutional domicile: Statutory Authority (SA). Government owned corporation (GOC), Joint industry development engagements (IndD), Commercial Financiers (Com F), and other +

GOOD CHANCES AT SUCCESS and a FAIR GO ALONG THE WAY?

Today the chances of success are low, needlessly, for too many farmers. We live with the legacy of an imperfect past: some things we put in place worked, but others did not. We need to fix things that are not working well now before further capacities and wealth are needlessly lost.

A "fair go" captures a long held Australian belief, one arguably under challenge.

> *"What happened to us? Australia used to be the land of the fair go. A bit daggy, sure, a bit thin on cultural atmosphere and a bloody long way from everywhere except even-daggier New Zealand.*
>
> *"But what we lacked in cultivation we made up for in decency. We didn't judge people on wealth or breeding and we were wide open with opportunity. Everyone got a fair go. So we said.*
>
> *"Many people still say it. But look around. Increasingly, Australianness seems to involve the strong beating up on the weak. " (Farrelly, 2015)*

The structures we put in place and how we transact both influence our economic journeys. Both can be improved, and need to be if sustained growth, good opportunities and thriving business and communities are to return to rural Queensland. This is the underlying challenge.

Much can hinge on how a simple idea is developed. Take drought preparedness. Edwards argued that farmers could and should prepare independently for drought.

The first concern of 'the father of economics' was "A Theory of Moral Sentiments" (Smith, 1976 [1759]). Economics as a science of society relies upon underpinning value systems and assumptions as to ethics and morality. The last thirty years or so have been dominated by a particular combination. It is now failing along the lines that might be expected from theoretical and historical analysis. Better combinations are now needed, as is currently most evident across rural Queensland.

Addressing unserviceable debts, rural and other

Unserviceable debts are evident in rural areas around Australia. As demonstrated, problems are particularly pressing in drought-affected areas of Queensland where a proportion of loans are unlikely to be repaid under current conditions.

McGovern (2014) documented the problems, with copies circulated widely including to those attending the Treasurer's rural debt roundtable prior to the commencement of Taskforce activities. Comments were invited. To date none have been received, formally or informally. The document and some other materials currently stand unchallenged.

Importantly, the situations of rural enterprises vary with some still performing satisfactorily. However, there is much to be very seriously concerned about in the large number of written and oral submissions received by the Taskforce. Concerns deepen and are reinforced by review of Federal Parliamentary Inquiries.

Additionally, it is surprising and very concerning that financiers and public agencies have yet to provide basic information on rural financial conditions. Indeed, there was evident confusion and dissention at Brisbane debt roundtables called by Treasurer's Swan (2012) and Pitt (2015).

Given the absence of such information, estimates and scenarios must be used. The one in the previous section was provided by McGovern in 2015 as part of a Taskforce "Handout" distributed at all hearings. An update (provided in Brisbane) using Gulf Cattlemen figures and comments from Rolf indicates how, in the absence of effective responses, conditions worsened between the two roundtables. What might happen next has also been illustrated, but the reality realised will depend upon our decisions and actions.

On a positive note, there are some but limited signs of responsible recognition of problems. Some banks, apparently recognising that financial problems and economic performance need not correlate, are supporting the maintenance of enterprises and seeking an orderly workout.

Others still seem intent on fire sales with, for example, a submission by the local Member in Ayr stating that over 50 forced sales were planned by one bank in discussion with Townsville police. Disorderly workouts, especially in drought, maximise the losses for all. Needless destruction occurs of not just productive economic and societal capacities but also of wealth, individual and common.

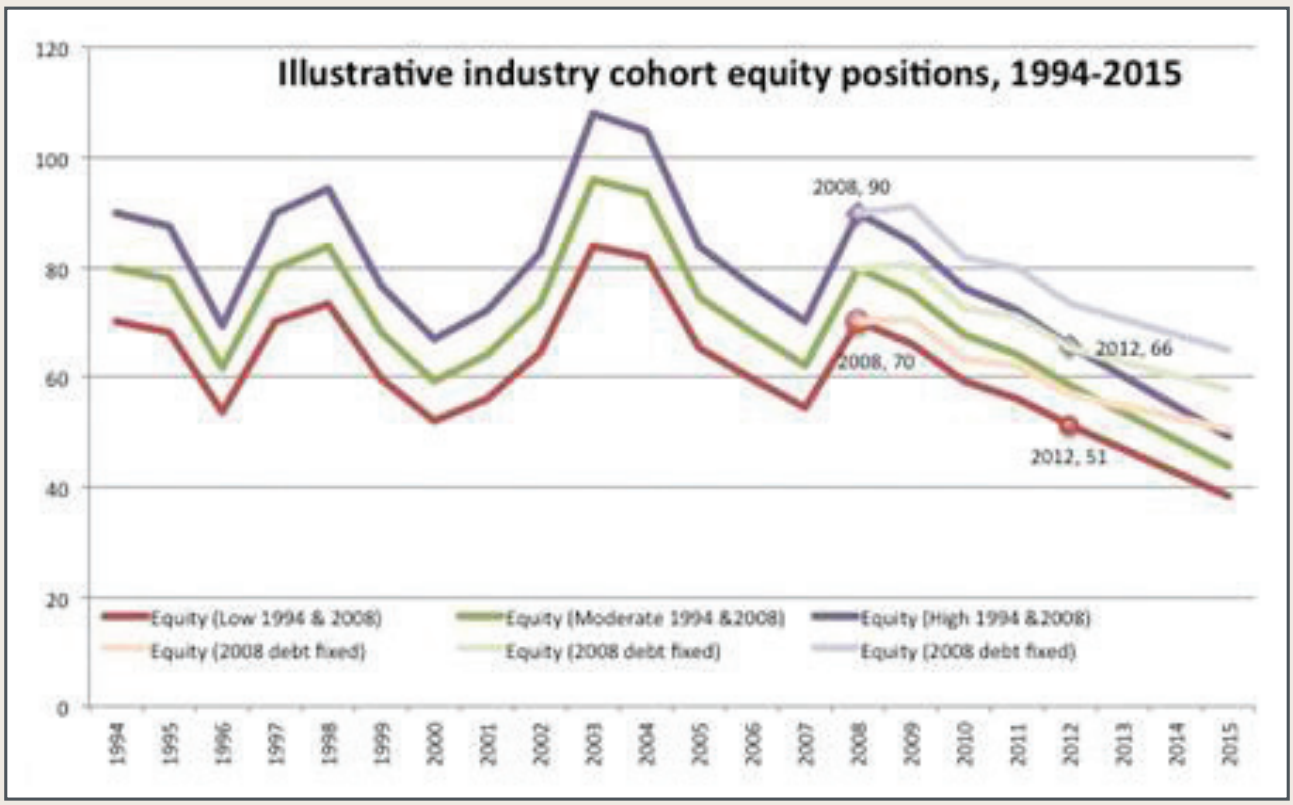
The way a society resolves debts says much about it (Graeber, 2014). Australians have addressed unserviceable rural debts in the past with reasonable success. How will this generation address today's problem debts?

Equity = Sharing, how?

Equity is used to mean both "fairness" and "share of an asset". We first consider financial equity by building on the earlier considerations of land value and debt indexes. Illustrative equity positions are shown in the Figure for three Queensland beef cohorts which commenced in 1994 with 90%, 80% and 70% equity (here termed High, Moderate and Low). Happily for present purposes these same equity positions also reoccurred in 2008. In between, much happened with 2008 being the third equity peak of the equity "waves". The 2003 peak was the highest across the 21 years.

The too and fro in equity positions over the years may well have lulled both lenders and borrowers into a false sense of security and, it was assumed, there were always the promised hordes of cashed up foreign buyers splurging in the global farm land rush for an easy off load.

Unfortunately by 2012 previous troughs had been passed on a lengthy downward path. Beyond 2012 we must speculate, until financiers provide publicly-important information. Considerable evidence supports the plausibility of this path and speculation. For example, and as detailed in McGovern (2014), NFF leaders reported financier information that average equity of all indebted farmers across Australia was at below 50% by late 2012. (This corresponds to the brown "low" equity dot. Also recall that around half of farmers were reportedly debt free.).



Note: Dark lines show the effects on equity of land value and debt changes for groups starting from chosen equity levels. The lighter lines which assume constant debts illustrate the effects of land values alone on equity positions.

Yet denial of problems continues in many places. Improper disclosure in 2012 has likely fostered a further 10% fall in farmer equity by 2015, and remember that this is equity in an asset that has likely halved in value. This is a classic trap, one RBA deputy governor Battelino warned of in 2007 (McGovern, 2014). Unfortunately he was ignored, but financiers and public officials were warned. A scramble to salvage something from seriously devalued collateral likely drove the wave of fire sales. Securitisation markedly complicated things, as did reliance on stock and machinery capital values.

The full story must be left for another place. The effect is clear, however. Mechanisms in play saw billions transferred from farmers to financiers as the debt-deflation spiral took hold. All lost to some extent but contract conditions and transfer mechanisms worsened borrower losses. Previously conventional outcomes reversed, savaging many borrower positions in a process that will continue until significant changes are introduced.

Orderly workout?

"The Commonwealth government assisted the Sates in a series of salvage operations … In many cases, a writing-down of debts and restructuring of financial obligations were all that was involved. In other cases, bankrupt settlers were given a lump sum on the condition that they vacated their holdings, their properties were divided and …." lands redistributed (Campbell, 1967)

While reconstruction has long been an episodic part of life in rural Australia, the urban experience is limited, so far.

Internationally, an unusual thing happened in the early 1980s. Banks had always allowed for bad debts, traditionally including a provision in both the calculation of interest rate margins and account allocations. This provides capacity to work though many problem loans. Bankruptcies still occur, but options exist which can benefit all parties. This can include those not directly involved but potentially exposed if contagion were to occur.

However, after establishing loans for such things as recycling surplus oil funds from the Middle East to South American nations for consumption smoothing purposes, US and other financiers dropped their previous "work through" approach to problem loans. Defaults and impoverishment followed as essentially "designed to fail" finance (borrowing was to support consumption not investment) was interpreted in terms of over-riding rights of the lender or bond holder to: enforce contract conditions literally; direct expenditures; and to claim any assets.

This was an ultimate entitlement, one ushering in a new age. Thirty years on we live with the results. The presumption of over-riding lender rights (eg, as in ABA Code of Conduct) has resulted in serious asymmetries and systemic mal-adaptedness. Financial systems and individual arrangements all sit on an assumed but untenable entitlement.

Denial of problems has made matters worse. To illustrate:

- Rural debt problems would likely be largely addressed now (instead of being markedly worse) if greater honesty had been shown by "denialists" in 2012 at the Rural Finance Roundtable convened by then Treasurer Wayne Swan.
- We would now have decent data and informed policies if genuine efforts had been made to respond to the initiatives of Agriculture Minister Barnaby Joyce.
- Reminders about trust and the unique position of banks by Prime Minister Malcolm Turnbull would not have been publicly dismissed within hours, with "undeserving" customers derided as "unreasonable" and "trying to embarrass". (AFR 22/4/2016).
- The good efforts and insightful findings of the Committees predating this one would have been enacted in a range of policy responses that would have restricted and resolved the serious risks now faced by the economy, and our banking system.

How we now collectively respond to impaired customer loans in these historically significant times will make a real difference to the prosperity and well being of the Australian people. The report of this Committee can help make the differences real.

The Challenge

Reconstructing debts, revitalising enterprise, repositioning institutions and reemploying resources while resolving serious, debilitating debt overhangs and unstable systems is the challenge we all now face.

"The facts" increasingly demonstrate that new policies are needed for new times, and as Keynes famously retorted "when the facts change, I change my mind. What do you do sir?"

This is a question faced across our land. The rural sector appears to increasingly recognise that "the facts" have changed, and policies (originally developed in the much different 1960s and 1970s) are under challenge. In part, this is because of the pain and wealth losses already experienced, individually and collectively. Still there is an entrenched opposition that not only denies new realities but actively subverts efforts to change things. Opportunistic and systematised financial predation is too often evident.

Changing "my mind" is one thing, changing "my actions" is another. This is especially so within entrenched systems. Those benefitting from systematised incentives particularly struggle. This appears so even when they know that the results are perverse.

A banker first explained this clearly to me in 1986 while undertaking field research in the then distressed sugar industry. Head office had set a loan growth target for all branches irrespective of local economic conditions. A little later, before the sugar price really collapsed, another banker proudly explained how he had financed the purchase of a cane farm using two personal loans (each at his lending limit) over just two years (with a speed boat thrown in).

Thirty years on, we are living through the third and likely greatest shakeout. Not reconstructing but bundling up loans into a greater, more risky firm has resolved each previous round. Not only is the lenders entitlement an ultimate, it is guaranteed globally by the citizens of nations.

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Appendix 6 – Addressing the terms of reference, at length

Mark McGovern

The terms of reference are each explicitly addressed in turn in this Chapter. Terms are grouped in three Sections: Problem; Strategies and Initiatives; and Policy Options

1.1. Problem

(a) The nature and extent of financial problems faced by

a. agriculture and

For an unusually large number of agricultural enterprises,

- routine production and consumption activities have become difficult to manage financially;
- debt stresses are very evident and disputes seem difficult to resolve equitably;
- property owners and leasees faces major capital losses if fire sales occur under present conditions .

b. associated enterprises,

Those in the supply chain are affected as

- suppliers because of decreased demand and stresses associated with credits they have extended;
- produce purchasers because of lower, uncertain flows of often poorer quality product;
- supply chains are then made less resilient with areas of capacity loss likely.

c. Local Government, and

While some Local Governments have delayed rate increases, there appears to be limited failure to pay rates.

d. supporting communities in Queensland.

Many communities appear depressed with:

- limited activity, uncertain incomes and attendant financial stresses;
- rising unemployment and out-migration depressing housing prices; and
- rising imposts in maintaining physical, economic and societal capitals.

Communities members, whether from farm or town, usually put on a brave face and support each other as best they can. However, it is clear from hearings that many are very highly stressed by forces beyond their control and, sometimes, comprehension. A significant number need “a break for the better” if they are to put their lives and businesses back on track, or even to retire with something.

In all, enterprise and systemic failures are occurring, at an apparent accelerating pace. Industry and regions are being hollowed out as economic, financial, community and natural capacities are run down. Select interventions are needed as such declines rarely self correct. Until needed interventions occur, businesses and the families they engage will increasingly be hurting across rural Queensland.

(b) Identify

a. cause of problems and

Causes include:

- Inadequate incomes due to uncritical acceptance of product prices that do not cover production costs.
- An inability to adapt financial arrangements to adverse conditions associated with public policy changes and natural disasters, notably prolonged drought across much of Queensland.
- Market failures, including those due to imperfect competition associated with (tight) oligopoly and oligopsony in many food supply chains.
- Confusions about productivity, and a failure to realise that it need not deliver profitability or competitiveness in open economies.

b. contribution of established policy to their magnitude.

Policy changes have been destabilising. For example:

- Removal of previous "exceptional circumstances" policies and support arrangements with no transition arrangements allowed is now seen to have been irresponsible as financially risks were raised "by fiat" Recently droughted regions have had the misfortune to stumble into a new policy vacuum.
- Unilateral closure of export markets, such as cattle to Indonesia in 2011, and the risks of other such events reduces incomes, stresses supply chains and increases risks. Finances suffer accordingly with third party responsibilities currently unrecognised.

Policy foundations need attention. For example:

- Neoclassical market theories pivot on prices that cover just average variable costs are misspecified and financially unsustainable. No lasting industry can be built from such a basis, as empirical evidence demonstrates. Australian policies are preoccupied with markets and not with industry development, returns on investment, capital formation under imperfect competition and the like.
- Naïve market-oriented policies in common use assume no transactions costs, with costless entry and exit of producers, technologies, establishments (as in economies of scale arguments) and consumers. Bankers and other financiers set real transactions costs at their discretion. Receiver technologies currently appear expensive and needlessly destructive. Livelihoods and real people are caught in the theoretical fallow between economics and finance.

(c) The extent of such problems and effect on regional stability.

Problems are now pervasive in major industries and many droughted regions. Other regions live on the edge. Few if any regions rest on a stable economic basis with sound financial prospects on offer. Unemployment and underemployment have risen markedly, especially in remote areas and where depressed agricultural situations overlapped with the winding back of mining development projects. Failure rates are excessive, despite the best efforts of many. Systemic bias ensures asymmetric reward distributions with external regions often benefitting disproportionately

1.2. Strategies and Initiatives

(d) What strategies might be adopted and initiatives undertaken to rectify such problems.

Rectifying strategies would involve:

1. Stabilisation, of enterprise positions and industry production capacities
2. Arresting of contagion that imperils the previously sound financial positions of neighbours.
3. Avoidance of needless losses and desperation workouts
4. Recognition of untenable financial positions
5. Reconstruction of unworkable balance sheets
6. Apt refinancing of reconstructed enterprises
7. Equitable exit of retiring operators.
8. Feasible entry conditions for new operators.
9. Re-establishment of sufficient income streams to justify investments.
10. Development of capacities and returns so as to ensure resilient factor maintenance and rejuvenation of farms, towns, communities and regions

Key issues involved include:

1. Destabilising decision making, flawed procedures and negative-sum outcomes, for parties, industries and societies
2. Uninformed risk assessments spread blighting investment, capital and wealth positions of even "the most financially healthy neighbours".
3. Asset deflation as fire sales drive "mark to market" valuations down (potentially very rapidly) in affected areas.
4. Pervasive misinformation and denial delay responses and increase adjustment costs. This is particularly problematic when rigid or formulaic approaches displace well-grounded dialogues between regularly engaged parties.
5. Balance sheet pretence serves no one well. If the numbers don't add up then "just hoping" increases risks asymmetrically with excessive losses likely.
6. Financial products that fail to recognise production and market realities will fail excessively, no matter how good the operation or operators on either side.
7. Expectations of excessive risk bearing can close an industry as operators choose to invest and operate elsewhere, especially if income expectations are also low. Those engaging in higher risk areas such as agriculture need some reasonable surety.

8. Additionally, those entering need acceptable well-based expectations of income, return on investment and risk. Enterprising entrants contributing multiple factors of production need to discern at least adequate returns to each factor at an acceptable risk level.
9. Framed in the Short Run, market failures associated with imperfect competition (particularly from oligopolistic behaviours along supply chains) need rectification. Framed in the Long Run, at least normal economic returns need to be earned for enterprise and industry continuance, with above normal returns for capital formation.
10. Sufficient factor incomes underwrite viability, resilience and development of all entities in an economy. Markets that deliver inadequate incomes offer no future. Nor do intellectual positions that fail to recognise investment realities, innovation and development pathways or the dynamics of a capitalist economy.

Associated initiatives include establishment, maintenance and development of:

1. A stabilisation authority or capability.
2. Real time property intelligence capabilities, with stress testing routinely reported and tactically undertaken.
3. Orderly workout procedures
4. Realistic financial appraisal procedures, initially and over the life of the finances
5. Forensic evaluation of stress mix contributing to financial fractures
6. More adequate financial products and arrangements.
7. Equitable exit arrangements that recognise personal and household needs.
8. Entry programs and arrangements that are predisposed to success.
9. Policies and practices that properly recognise relevant intellectual contributions (including those from production economics, investment analysis, open-economy industry finance and risk management and international economics).
10. Adoption of well-based and well-adapted approaches to economic innovation, development, investment evaluation and the like.

(e) The impacts that such strategies and initiatives might have.

The intent or broad impact can be caricatured as:

1. Stop, while we plan better outcomes.
2. Don't infect others.
3. Don't panic.
4. Be realistic, and stop spurious denials.
5. Restore feasibility, if possible.
6. (Re-) Financing in ways that might work.
7. A decent chance to leave.
8. A reasonable chance to succeed.
9. Building returns on investments and potential realisation needs relevant insights and opportunities, not dated one-school ideologies.
10. Ensuring an apt mix of needed capacities, and their development.

The specific impacts include:

1. Market overshoot and financier unilateralism arrested with "clock stopped" on interest and legal safeguards allowing continuing enterprise operations while business and financial adjustments are negotiated.
2. Informed markets and participants can act insightfully and responsibly to support better investment reviews and reasoned outcomes.
3 Maintenance of economic capacities, optimisation of party positions and minimisation of wealth destruction.
4. Investment evaluation and monitoring based on sound analysis, de-risking the sector and reducing speculative exposures.
5. Identification of bases of failures, and successes, allowing "fit for purpose" re-positioning, ongoing operations adaptedness and resilience building.
6. Availability of fit-for-purpose finance that expedites economic growth and development in financially responsible ways.
7. Retirees who can live reasonably, even if external conditions were adverse.
8. Effective rejuvenation of industries and communities, regional employment growth, development and enhanced national or international contributions.
9 Enterprises that are profitable and rural folk who can not only earn a living wage but also invest in their children, communities and businesses.

10. Regions and a nation that can develop so as to responsibly meet the various needs and aspiration of its people, and enhance well being globally.

1.3. Policy Options

(f) Policy options available to a State Government to coordinate effective remediation.

Agriculture is the major user of land in Queensland and the basis of economic activity in extensive areas of the State. The State has clear constitutional authority and power over the legal ownership and transfer of land title. It sets the conditions of land leases.

Land use is operationally usually devolved to Local Governments but these are creations of, and subordinate to, the State which selectively overrides Local or National processes.

- A State that can regulate land can establish an authority to monitor market performance and to intervene when market failures occur, when risks rise asymmetrically, when conduct is unbecoming due to externalities, and the like.
- It can similarly regulate land use through the systems and protocols established, monitoring activities and legal actions.

States in Australia take a leading role in economic and community development through a range of regional, industry, network and cluster activities and policies.

This may not sit well with "level playing field" approaches such as those espoused currently at the Commonwealth level in trade and competition areas since there are premised upon the unimportance of such things. A level playing field never develops, nor does it provide any place for life, enterprise or investment. "It" is essentially a denial of time and place so as to accommodate simple models and arguably simplistic thinking. Economies have become reduced to caricatures of trading with no heed given to the impacts of trade (despite the availability of relevant alternate theories).

- State development can be reinvigorated with policies that prioritise the foundations of economic and financial success, things such as realisable investment returns, worthwhile employment and sustainable factor incomes. Regions that offer decent prospects have a future. Others stagnate.
- Generationally, the Commonwealth and States were once aligned in their thinking and complementary in their actions with strong economic outcomes. Arguably this has not been so for four decades. Commonwealth managerial preoccupations and external peering see it focussed on things other than development, industry and capital formation. Conflicts between State development initiatives and Commonwealth levelling predispositions attest to this. This strategic misalignment with attendant contrary policies and dissipation of efforts needs attention and Queensland can take a leading role.

Natural disasters hit Queensland particularly hard, with the latest drought the latest in a long list of product and capital destroying events. Developed nations have a suite of responses since they recognise the importance despite the difficulties in recovering from losses of income and capital quickly if lasting economic and financial damage is not to be suffered.

The 2013 removal of drought assistance without any transition plan demonstrates not only a failure to recognise such things but also a clear lack of appreciation of significant risk impacts. COAG in what was reportedly a "confused" meeting heedlessly raised the financial risk rating of agriculture while blithely ignoring transition issues. "All will be well" assumptions effectively say "all care but no responsibility", something legally not tenable for automotive mechanics. So why should those who profess to understand economic mechanics be allowed to continue?

Stance

Some argue that operators should put funds aside for not just the proverbial rainy day but for any natural disaster or business event. However, this proposition ignores four key issues:

- The ongoing and long-standing cost-price squeeze means that profits are scarce and sufficient operating surpluses are rare.
- It is often the case that funds are better directed towards reducing debts, or perhaps productivity enhancing investments.
- Major capital expenses can rarely be sufficiently funded from a series of operating surpluses. If they could we would have a tiny finance industry. In some ways, the growth of finance arrangements in size and duration reflects this inability to self-fund.
- Even if an enterprise could self fund for a period, what happens if the natural disaster and its impacts persist for longer than provided for?

Unfortunately, currently popular policy approaches do not even begin to conceptualise such things. Enterprise realities are thus excluded, making for fundamentally flawed policies.

Our biggest export

At one hearing a comment was made that "Our children are our biggest export". The town and district appeared as very attractive places to live to the casual observer. Even here serious existence problems increasingly became evident as the hearing unfolded.

The ability to earn a living is foundational to those who wish to live in a community. Without it, people retreat to the fringes, or move to areas of greater opportunity. Studies have shown that for many mobility is limited, so rural ghettos can form when there is a pervasive lack of accessible opportunity.

Economic and social mobility in place has been a feature of many towns and districts. Balances struck enabled coherent, capable communities. Today mobility is for those leaving, or flying into and out of production enclaves. Many who remain are stuck in place, hopefully waiting for opportunities to return or perhaps engrossed by addictions. Comments made indicated the appearance of divided two-tier communities with some places more oriented to one or another tier.

This is a serious societal development. Disadvantage, crime and the like become endemic if the process goes uncorrected. Not only is there a city and rural fragmentation there is now also degenerative fragmentation within rural regions.

A commitment a living wage irrespective of place was long an aspiration in Australian policy, and often in reality. Indeed its acceptance was central to agreements after lengthy deliberations before Federation when the choice was made to favour paid over slave labour in the cane fields, amongst other things.

Not only did such foundational commitments once favourably differentiate Australia and its economic performance from many other nations. Regional inequalities were also lessened. Australia also developed rapidly to become one of the most modern and desirable of nations. Rural economic and societal recidivism is a potential result of dimmed hopes and prolonged uncorrected financial stress.

Other

Issues of ethics and the practice of law were raised in many discussions. Not only are financial contracts seen as unbalanced, there is a consistent claim that interpretation is effectively one sided and compromised. Such issues deserve the full attention of responsible agencies.

For decades the prevailing ethos has been one of private interests expressed via a supposedly competitive market supplanting deliberative or principled public intervention. The behaviours of some receivers have drawn particular adverse comment. Valuers who allegedly refuse to provide a copy of a valuation to a farmer who has paid for it indicate the existence of far deeper problems.

We could go on, but it became increasingly clear during hearings that direct actions by well-constituted specialist agencies of the State are likely to lead to the most effective, efficient and equitable outcomes.

As in times past, Queensland must take some direct actions to maintain critical industry, community and regional capacities. A return to prosperity requires well-employed land, labour and capital operationalized via financially viable enterprises and households in effective communities. Once, and potentially, accepted effective balances delivered more sustainable factor employment, incomes, finances and viability; current balances do not.

(g) The nature and desirability of some select actions.

Orientation

Current conditions derive from something much more than a normal business cycle. An extraordinary cycle peaked around 2009 with a downward debt-deflation spiral now underway.

If we were in 1906 then the State of Queensland would have the necessary response capabilities at hand. Queensland issued its own currency and an Agricultural Bank was operating. Currency issue ceased in 1910 when the Parliament of the Commonwealth prohibited private and State issued currencies and granted itself sole authority.

The Bank traded successfully and independently until absorption within the Queensland Industry Development Corporation (QIDC) and subsequently in the Suncorp-Metway conglomerate. These Government Owned Corporations (GOCs) were both capital assets that delivered dividends to the Government and capable financial agencies trading successfully across Queensland.

Privatisation realised capital funds from asset sales but no further dividends flowed. Private shareholders now competed with depositors/customers and borrowers for the dividend pool, with Government excluded. Arguably, Board and managerial preoccupations moved to "putting shareholders first", whatever the weather.

Exacerbating this is a Commonwealth aversion to anything to do with adverse weather. Despite its responsibilities, the Commonwealth has succeeded in running down nearly all support to Agriculture, with only New Zealand competing with us in the rush to zero. Tight and arguably largely inaccessible loans and welfare provisions are all that remain. Meanwhile the rest of the world has been increasing subsidies via a range of support measures and restrictive trade practices, formal and informal.

Sensible assessment of policy performance is needed. Ongoing evaluative processes would have avoided the current financial data drought. While we rush to respond to bio-security risks, eco-fin risks go unrecognised. Malaise is already extensive. Theory and history attest that contagion, enterprise collapse and financial distress will continue to increasingly impoverish those on farm, in town or city.

History, including that of Queensland, and relevant theories also demonstrate what might be done. In the last 110 years the State had lost capacities that are important in enhancing the development and welfare of the State and its residents. It can still choose to restore at least some of these.

The underlying question is one of representation and reaction. The many representations made to the Taskforce deserve considered response and effective reactions. After all, why should families suffer needlessly – or businesses and communities falter needlessly – when effective responses have been identified?

This is not to argue that there will be no losses, personal or capital. However, doing nothing effectively maximises losses while reducing future prospects. The lesson from three dozen serious financial crises around the world is that select interventions do make a difference, and that solidarity expedites transitions while reducing capital and other losses significantly.

Areas of select actions

Actions are needed now to effectively respond to the malaise widespread across Queensland. Degenerate finance is contagious so "helping some helps all" principles apply, as they do in biology.

Key areas include:

1. Enterprise stabilisation and rebalancing. Orderly workouts can be well managed by a Reconstruction Authority.
2. Natural disaster response. Underlying orientations need revision with more effective policies and protocols developed with apt modifications made to the existing Framework.
3. Finance. Improved products and direct financial channels are needed to rectify significant organisational, market and systemic problems.
4. Representative oversight. Representatives need to be well informed on an ongoing basis and in a timely manner if they are to effect their responsibilities well.
5. Inclusive dialogues. Apt recognition of interests and return realisations is a hallmark of wealthy economies, resilient communities and progressive democratic-capitalist societies.

Clearly situations vary and actions should avoid "one shoe fits all" approaches and the like. In some ways we are simply relearning past lessons so we can better address current pressing needs. However, we also propose reworking approaches and strengthening foundations so that sustainable prosperity may become more realisable for enterprises and communities across Queensland.

(h) Adequacy of existing financial system to fund policy solutions.

The existing financial system has revealed a number of inadequacies that demonstrate inabilities to manage or fund potential solutions. These include:

- An apparent inability or unwillingness since 2011 to provide basic information on farm financial situations.
- Failure to prudently monitor or advise on industry debt serviceability.
- Inadequate investment analysis in loan discussions.
- Confusion about risk assessment.
- Collective denial of problems, something clearly at odds with Taskforce observations, submissions and analysis.

- Failure to innovate products as business conditions changed.
- Bureaucratic inertia and organisational fragmentation of processes.

Unfortunately, the financial system has demonstrated reluctance to acknowledge let alone address financial and process problems made evident to the Taskforce.

Individual financiers and associates vary in conduct and performance. This is very evident in oral and written submissions received. Some financiers deserve praise, but others apparently do not. Unfortunately overuse of confidentiality means it is difficult to differentiate let alone comment appropriate. Limited information can quickly lead to (discounting of) major moral hazards and serious market failures. To their credit a number of financiers have recognised these issues but the collective position remains unchanged.

Nationally, poor conduct and performance have been most starkly documented through Senate Inquiries. However, determination of right and wrong is not the task of this Taskforce.

The Taskforce appreciates that there are variations in the skills and conduct of financiers, and members have reinforced this publicly at hearings. However, variation is itself a problem – especially when claims of confidentiality impede any investigation or discernment between those who are skilled and behaving properly and "others".

Such things demonstrate a systemic inability to not only find policy solutions but also to self-correct issues of imprudence, misconduct, perverse incentives and the like.

Perverse incentives include those associated with lending targets for branches. Not only does this encourage imprudent lending. It seems that those likely to be promoted will have met such targets by means fair or foul, leading to a self-reinforcing cycle of growing imprudent lending. Finance is too important to be managed and marketed like fast food.

There is an important external constraint on the Australian financial system. With Basle III and the like, global liquidity appears to be tightening. Funds available for lending may well reduce in quantity, and the claimed rent on monies (interest) may rise irrespective of RBA actions

Further, small-medium enterprises (SMEs, which include most rural businesses) routinely pay 2% more than large enterprises (including multi-nationals, tax paying and otherwise), a reversal on earlier times. Commonwealth efforts to use its rating to broker low interest loans have had "limited success". Ministerial comments that proposals to act as loan guarantor without any risk exposure to the public defy logic.

Such things indicate serious practical and funding limitations in the financial system. A skilled, specialist agency is needed if credible progress is to be made.

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16-104