QFF QUEENSLAND FARMERS' FEDERATION

Primary Producers House, Level 3, 183 North Quay, Brisbane QLD 4000
PO Box 12009 George Street, Brisbane QLD 4003
qfarmers@qff.org.au | (07) 3837 4720
ABN 44 055 764 488

Submission

2 May 2017

Manager, Standard Data Collections
Australia Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

Via email: statistics@apra.gov.au

Dear Sir/Madam

Re: Agricultural Lending Data Collection

The Queensland Farmers' Federation (QFF) is the united voice of intensive agriculture in Queensland. It is a federation that represents the interests of 15 of Queensland's peak rural industry organisations, which in turn collectively represent more than 13,000 primary producers across the state. QFF engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland primary producers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland
- Queensland Chicken Growers Association
- Queensland Dairyfarmers' Organisation
- Burdekin River Irrigation Area Irrigators
- Central Downs Irrigators Ltd
- Bundaberg Regional Irrigators Group
- Flower Association
- Pioneer Valley Water Cooperative Ltd
- Pork Queensland Inc.
- Queensland Chicken Meat Council
- Queensland United Egg Producers
- Australian Organic

QFF welcomes the opportunity to comment on the *Agricultural Lending Data Collection Discussion Paper*. QFF provides this submission without prejudice to any additional submission provided by our members or individual farmers.

The united voice of intensive agriculture

Background

Agricultural lending and the level and type of debt held by the agricultural sector is an important and perpetual topic of discussion. Currently, these discussions are not based on reliable information but emotive accounts of poor bank experiences and anecdotal evidence of lending practices and debt levels.

In 2011, Queensland agricultural debts totalled $17 billion. There is general agreement that the level today is much higher and some situations have deteriorated since then. However, the current level and quality of debt is difficult to quantify as financial institutions no longer supply the information needed. From 1994 to 2011, the Queensland Rural Adjustment Authority (QRAA) conducted biennial rural debt surveys which provided valuable information to inform the 'rural debt' discussion[1].

Any reliable and regular information gathered by the Australian Prudential Regulation Authority (APRA) on finance, lending, and debt across the sector will be an improvement on the status quo and will be useful for future discussions and actions. However, it is important to ensure that the level of data being collected is comprehensive enough to enable meaningful discussions and resultant policy settings, and ensure it does not have a distortionary effect on the performance of capital markets.

Proposed data collection

QFF continues to highlight that the banking sector, and increasingly farm businesses, operate across state jurisdictional lines. As such, a nationally consistent approach to collecting agricultural lending data and a standard framework for recording that information is supported.

The proposed ALD collection categories/measures, industry classifications, frequency and timing are a much-needed improvement on what is currently available. However, while the proposed data collection would be useful to help inform discussions, it is not detailed enough to provide a comprehensive picture of lending and debt across industries and states.

The proposed data collection will pick up the magnitude of lending, level of debt and businesses in arrears. However, it will not determine the quality of debt across the sector, which is an important element for identifying how debt quality shifts in response to events impacting the sector where government action is triggered. For example, drought – approximately 84 per cent of Queensland is currently drought declared; natural disasters – the recent Severe Tropical Cyclone Debbie has already seen financial assistance activated in 10 local government areas; and the live exports ban.

The limited scope of the proposed data collection will fail to identify 'productive debt' (so does not cater for some very successful farm businesses that are highly geared) or structural changes occurring across the sector. While useful, QFF considers the proposed data collection will only provide a limited view, highlighting the extremes and missing out on valuable data segments.

The terms of reference for the most recent QRAA Rural Debt Survey (2011) were to:
1. establish the extent, nature and size of gross rural indebtedness in Queensland
2. categorise rural loans into five debt rating categories based on debt servicing ability and long-term profitability / viability prospects
3. provide information and comparison to previous years, including any other relevant factors and issues on rural industries
4. obtain interpretation and comment regarding the survey findings from financial institutions and peak industry bodies within the rural industries.

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[1] QRAA, 2017. 'Rural Debt Survey' (http://www.qraa.qld.gov.au/news-and-events/rural-debt-survey)

The most important element missing from the proposed ALD collection is point 2. Under the Rural Debt Survey, debt was rated A–C providing more meaningful information on the sector's indebtedness:

A	Viable under most or all circumstances
B+	Potentially viable long-term but are experiencing debt servicing difficulties
B1	Experiencing debt-servicing difficulties and a deteriorating debt situation but with continuing support from lenders
B2	Experiencing debt-servicing difficulties and a deteriorating debt situation
C	Non-viable.

This information provided greater insight into the quality of debt across the state and industry category. It was used to identify the main industries and regions suffering from debt stress and shifts in debt levels. It underpinned better policy discussions and can be used to inform more targeted extension and training needs, such as financial literacy and the need for financial risk mechanisms (e.g. agricultural insurance). To ensure an accurate whole of sector picture is realised, QFF encourages APRA to collect information to at least this level of detail.

Reporting coverage

Limiting the collection of data to Authorised Deposit-taking Institutions (ADIs) and Registered Financial Institutions (RFCs) will omit important agricultural lending institutions such as QRAA and its equivalent in other states. QRAA's current loan book is around $600 million. This is likely to increase under a new and expanded Board charter when QRAA transforms to the Queensland Rural and Industry Development Authority (QRIDA) on 1 July 2017.

Duplication in Queensland

On 21 March 2017, the *Farm Business Debt Mediation Act 2017*[2] passed the Queensland Parliament. The Act requires QRIDA to undertake rural debt surveys (Part 3B, Division 1, p. 94). The first survey is to be completed by 30 June 2018 and will then be conducted every two years, unless a national debt survey of a comparable nature is conducted. QFF encourages APRA to expand the scope of the proposed ALD collection to negate the need for QRIDA to undertake a separate and duplicative data collection process.

Confidentiality and publication of data

QFF understands that the Department of Agriculture and Water Resources (DAWR) intends to publish aggregated industry-level statistics on agricultural lending to promote a common understanding and contribute to informed public debate. QFF notes and welcomes that stakeholders will be consulted at a later date on any proposed statistics. In the meantime, QFF recommends that the publication of data: has a non-reportable cut-off if the data set is too small to adequately hide entity level data (i.e. for small industries); and if there is doubt on the confidentiality of the proposed publishable data, that it be checked by an appropriate industry organisation before publication to ensure confidentiality of entity level data.

Development of assistance

'It may also assist with developing and implementing individual and community assistance measures.' QFF is cautious of the use of this data to inform assistance measures, and would need to see further information on how it would be used to inform government response and assistance. The proposed ALD collection will not provide a total picture of farmers and communities under stress or suffering financial hardship that may need assistance.

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[2] Queensland Government, 2017. (https://www.legislation.qld.gov.au/LEGISLTN/ACTS/2017/17AC007.pdf).

If it was the government's intention to base assistance measures this data, there are many individuals and communities within the agricultural sector that will not be captured and may inadvertently miss out on assistance administered by the government. Blanket assertions to regions, communities or industry categories can leave out sub-sections of the sector that are preforming against the trends picked out of an incomplete data set.

Concluding comments

Accurate and regular data collection is critical to better informing agricultural debt discussions, government policy positions and responses. A nationally consistent approach and a standard recording framework is the logical and appropriate way to collect agricultural lending data. The data collected must be detailed enough to provide a comprehensive picture of lending and debt across industries and states – the proposed ALD collection currently is not.

Collecting data such as this is no simple task. If this is to be pursued by APRA, it must ensure the reporting coverage includes all relevant agricultural lending institutions and the right information is collected from the start. Experience in Queensland has shown that lending institutions will commit to a national data collection process, so APRA must capitalise on this commitment and get it right first time.

Yours sincerely

Travis Tobin
Chief Executive Officer