

A hard line on loans

Agriculture Primary producers have to contend with price volatility, droughts and government regulation, but even thriving concerns can be killed by taking on too much debt – and the banks are not getting any kinder, writes **Matthew Cranston**.

Roger Carrigan is one of the many unfortunate Australian farmers who have had to leave the land and miss out on the prospect of an agricultural boom. Just as Australia planted its biggest cotton crop in history, Carrigan was forced off his property, Avymore, north of Moree in NSW, by a bailiff hired by one of the big four banks.

"Once banks realise they don't want you, you have no chance," Carrigan says.

"I am empathetic towards other farmers in the same situation because I know what can happen and the experiences that face them are daunting."

Carrigan, like other farmers who have been forced off the land for a multitude of reasons, has signed a confidentiality agreement with his bank not to discuss the reasons of the failed farming enterprise.

But since cutting ties, the bank has gone on to sell Carrigan's 1700 hectare freehold property with a full planting of cotton for more than \$5 million. The property included a water licence valued at more than \$2.3 million.

Cotton yields across the area are now breaking records, with good water volumes and a stronger global cotton price.

While Carrigan's case is a tough one, it wasn't that hard to find. Farms in receivership or administration litter the advertising sections of newspapers and websites.

Every week another beef cattle, dairy, cropping, or horticulture operation goes into some form of administration.

There are plenty of reasons: the strong Australian dollar hurting export demand, poor weather (a third of Queensland is now in drought), regulations such as the ban on live exports, falling property values, poor marketing of product, high costs and unmanageable debts are all responsible.

On Monday *The Australian Financial Review* reported that the nation's top insolvency experts have well over 80 distressed farming operations on the books, ranging from a those worth a few million dollars to those worth more than \$100 million.

The financial situation is difficult to comprehend given that only 4 per cent of broadacre farms have both an equity ratio of less than 70 per cent and negative cash income, according to the Australian Bureau of Agricultural and Resource Economics and Sciences.

The previous 20-year average for the amount of equity in an operation was 5 per cent – indicating that the farmers' financial position has actually improved in the past few years.

The Australian Bankers' Association's director of policy, Stephen Carroll, says it's important not to get carried away by the dramatic events that happen on some farms.

"This is not a crisis," Carroll says.

"The banks have industry specialists for the agribusiness sector so they are able to do much better due diligence, whereas in other sectors they are served by generalist business managers."

He suspects the reason why so many farms are falling into financial difficulty is because of their size and the greater proportion of risk that is bitten off relative to other types of business.

"I would expect that you would see more farm businesses going into receivership or administration because of the large investment in capital improvement."

Capital improvement refers to land purchases or equipment. These items require bigger debt and bigger risk.

"Because of the larger licks of investment the equity is lower and the ability to service is lower, and so the risk is higher and when there are price fluctuations they can get caught out," Carroll says.

One of the country's biggest suppliers of capsicums, zucchinis and tomatoes, Barbera Farms in north Queensland, was one operation that was forced into receivership under the weight of debt.

Guy Barbera has managed to turn the operation around and it is only just back on its feet but not without a drawn out receivership process in which the bank sold off his farms.

"The banks are all the same," Barbera says