Financial Impact of Cattle Export Restrictions to Indonesia

The financial impacts of cattle export restrictions on producers and other stakeholders in Northern Australia

Report to the
Department of Agriculture Fisheries and Forestry

Prepared by Hydros Consulting

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Important Notice
This report has been prepared to provide the Department of Agriculture, Fisheries and Forestry (“DAFF”) with information relating to the potential financial impact of the restrictions imposed on cattle exports to Indonesia by the Australian Government.

This report contains information of a general nature only and is not to be considered as a recommendation or a definitive statement on any potential impacts of the cattle export restrictions. Accordingly, this report (and any matter derived there from) is provided without any liability whatsoever to the preparer of this report or any associated documentation.

The information in this report does not constitute financial, tax, legal, commercial or credit advice and DAFF should seek independent expert advice in relation to those matters.

All projections, forecasts and other forward-looking statements (“Forward-Looking Statements”) and calculations in this report are for illustrative purposes only, using assumptions and estimates described herein. The Forward Looking Statements are based on certain assumptions, which may not be realised or estimates, which may prove inaccurate. In addition, the Forward-Looking Statements involve a number of risks and uncertainties. Actual results may be materially affected by changes in economic, tax and other circumstances. Factors that could cause actual results to differ materially from the Forward-Looking Statements include, among other things, changes in interest rates, changes in applicable tax rates, general economic conditions, changes in applicable legislation or Government policy and the changes in supply and demand for cattle. The consultant disclaims any responsibility for any errors or omissions in the financial calculations set forth in this report and make no representations or warranties as to the accuracy of the assumptions or estimates on which they are based. The reliance that the Recipient places upon the calculations and Forward-Looking Statements in this report is a matter for the Recipient’s own commercial judgement. No representation or warranty is made that any calculation, Forward-Looking Statement, assumption or estimate contained in this report should or will be achieved or is or will prove to be accurate.

Disclaimer
This report is written for DAFF prior to the resumption of exports of cattle to Indonesia in material numbers. As a result this report does not benefit from the information that can be gained from a detailed assessment of financial impacts once cattle exports resume in material numbers.

Information from a large range of stakeholders was obtained in preparing this report in a very short timeframe, being less than ten days. Unless the stakeholder specifically wished to be quoted, all comments made by a stakeholder are unattributed. In addition, with the approval of DAFF, an undertaking was given to all stakeholders that any source information provided would not be provided to any other party and would be destroyed upon conclusion of this report.
# Financial Impacts of Cattle Export Restrictions

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1.0 Summary of Key Findings

This report is based on the experience the consultant has in raising capital and discussions with stakeholders, including producers, accountants, finance brokers, councils, export agents, transport companies, ports, real estate and stock agents and industry associations.

This report was targeted to get qualitative as well as financial information from small and medium producers in the Kimberley and Northern Territory and service providers to those producers. Therefore, this report is not designed to reflect a statistically valid sample of either the industry or a select group, but rather it reflects the financial information, perceptions and experiences of a number of small and medium scale producers. The report was commissioned to give the Australian Government as complete a picture as possible of the impacts across the farming sector of the temporary suspension of the live cattle trade to Indonesia.

This Project was completed within 10 days. Financial information was accessed and/or discussions held with over 80 parties.

Below is the summary of key findings.

Operational Issues

1.1 Export of cattle takes place predominantly throughout the dry season due to the lack of access experienced during the wet season, particularly for producers who are not situated near sealed roads. Accordingly, many producers consulted who were not situated close to a sealed road were not able to sell the majority of their cattle prior to the export ban being put in place. This was exacerbated by the late wet season in 2010/2011, as there were significant transport issues due to roads being reopened at later times than has been experienced in prior years.

1.2 A significant proportion of producers who provided information sell more than 80% of their cattle to Indonesian markets.

1.3 Smaller to medium producers typically export their stock at later times than the very large producers, due to the need to aggregate stock between producers in order to economically ship cattle. This, in conjunction with 1.1 above, meant that many of these producers sold very little of their stock bred for the Indonesian market prior to the export restriction being in place.

1.4 It was advised that Cattle destined for other markets have dropped markedly in price. Prices appear to have declined from $2.10 per kg prior to the export restriction to $1.60 per kg in recent sales to other markets. For a 320kg animal, this is a reduction of revenue of approximately $160 per head. At the same time, the costs of production have either remained static or increased, and other costs incurred, such as additional transport costs to other markets.

1.5 There was pessimism amongst producers and other stakeholders consulted as to whether the Indonesian market will reopen to a significant extent this year. It was advised by a number of parties contacted that only 3-5 abattoirs will likely obtain the necessary accreditation to slaughter cattle in Indonesia in the near term. It is also widely believed that the demand from these abattoirs will be satisfied by larger corporate stations.
1.6 A significant proportion of cattle will be over the 350kg Indonesian weight limit by early August. This will preclude them being available for that market. An alternative for these cattle is to sell domestically or wait until next season and sell them over 420kg into the Middle East or Malaysian market. However, this has the potential to significantly increase supply to the Middle East (relatively small markets) and may have price implications.

1.7 It was advised that transport and other costs to ship cattle to other domestic markets are estimated at $150 per head from Kimberley to Harvey, $250 per head from Northern Territory to Murray Bridge and $136 per head from Northern Territory to Longreach. Given the lower beef prices domestically and the lower demand for Brahmin in southern markets, this is not seen by many producers as a viable large scale exercise. The long transport distances may also have ramifications on cattle welfare compared to shipping transport. In addition, encouragement of cattle to move to southern markets could potentially affect prices for cattle producers situated in southern markets. This could potentially cause southern producers to experience adverse financial consequences.

1.8 It was advised by producers contacted that some stations have been approached by domestic buyers to sell cattle at $1.40 per kg (before transport costs). An increasing number of stations advised that they could potentially sell cattle into the domestic market at $1.40 or below (albeit at a potential loss) in order to obtain some cash flow.

1.9 Stations which provided information appear to have made a return of approximately 3-4% in the last 2-3 years. With a reduction on prices received of nearly 25% per kg (based on advice from stakeholders consulted), many stations may operate at a loss this year if they did not sell cattle prior to the export restrictions.

1.10 Many producers contacted this year are cash flow negative. Given the potential for limited access to the Indonesian market and the fact that cattle from larger operators could potentially fill a significant proportion of any ongoing exports, a significant proportion of cattle may not be able to be exported prior to the beginning of the wet season. This effectively means no or very limited revenue for many producers until exports can resume in the dry season in 2012, unless those producers have good physical access during the wet season (which is predominantly not the case for small and medium producers).

1.11 A high proportion (80% plus) of station owners costs are fixed, being made up of fuel, rates, animal husbandry, lease costs and minimum required personnel costs. Many stations have already incurred mustering costs or continue to do so in order to maintain necessary animal husbandry or try to sell their herd into a market.

1.12 Many stations have reduced costs to a level which is minimal to operate the station. This includes reducing employees/contractors and deferring maintenance.

1.13 Times for payment for suppliers of many cattle producers appear to have extended in a number of instances.

1.14 Prior to the export restriction, it was advised (on an informal basis) by valuers and real estate agents that property values (unimproved) in the Kimberley were typically $600-$650 per cow unit (carrying capacity) for good quality properties. There have been no sales since the export restriction. Informal Appraisals by very experienced estate agents have reduced values to $350-400 per cow unit, based predominantly on uncertainty of trade resuming in the short term, increased ongoing price uncertainty as
well as the increased risk generally that is now perceived for producers who are dependent on live cattle exports.

1.15 Real estate agents have advised that appraisals for the value of cattle “in the paddock”, which is the basis upon which cattle are valued when sold as part of the sale of a cattle station, indicate have declined from $550 per head to $250 per head for Kimberley properties. This is again a result of uncertainty of the trade in the short term and the greater perceived risks associated with the live export trade. A number of properties in Northern Territory were on the market prior to the export restriction. Almost no sales enquiries have been made since the restriction. This is significant as many sales enquiries are made during the dry season when properties are more accessible by road.

1.16 Many producers and other parties consulted advised that cattle remaining on a property after the time they would usually be sold has the potential to lead to overstocking and degradation in feed available. This could affect the quality of cattle into 2012 and thus could affect prices received.

1.17 The $5,000 payment which has been offered to producers appears to have not been taken up to any significant extent. There appears to be is a marked reluctance by many producers, due to the perceived social stigma associated with claiming social security benefits, to contact Centrelink. Therefore, despite this assistance being identified by Government as a business payment (which are often delivered through Centrelink in other instances), the issue of the payment being processed through Centrelink helps create an impression that this is similar to a social security benefit.

1.18 Many service industries, such as transport, export agents, ports etc have shed staff or dramatically reduced staff hours worked since the export ban in an effort to cut costs.

1.19 Many service industries who provided information have significant debt (50% plus secured against other assets), with revenue reduced by 50%+. A number of owners of these industries may have to sell other assets they own in order to reduce debt and/or make debt repayments or have the potential to default by the end of 2011.

1.20 Smaller export agents have high demurrage costs for contracted ships per day. There appears to be no widely held insurance in businesses contacted for this loss and it has been advised that there has been little success to date in finding alternative uses for the ships.

**Banking Issues and Reactions**

1.21 A significant proportion of producers who provided information have bank debt. Of these many have gearing levels in excess of 40%. This gearing ratio is based on values achieved prior to the export ban. Serviceability is often based on Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) ratios with common EBITDA ratios being 0.5 i.e. cash serviceability is based on half of EBITDA being available to service debt.

1.22 Debt levels appear to be at historically high levels for a number of borrowers. Station owners who were consulted advised that they borrowed additional amounts to undertake improvements (e.g. fencing) in the belief that this was a good season due to the good rains experienced.
1.23 Many borrowers contacted who have significant (40% plus) debt levels may find it difficult to meet the December interest payment, with EBIT levels being negative for many borrowers and unlikely to improve before the next dry season. Borrowers with lower debt levels often advised that they will either use cash reserves or borrow additional money to make the repayment. Generally, banks have not advised borrowers whether future interest payments will be capitalised.

1.24 Banks may potentially look to the value of the cattle to recoup their debt, as this is a more readily saleable asset than the entire station, although they lend against the entire station. This is similar to lending against water entitlements in the Murray Darling basin, where banks could look to recoup their debt from the sale of water, which is a more readily saleable asset.

1.25 Most borrowers who were consulted in this study have been contacted by their banks to discuss the situation. These discussions often involve discussing the ability of the borrower to meet their interest payments (typically due in June and December).

1.26 With the increase in risk associated with the fall in values and in cash flow banks may have increased their margins by at least 2% to allow for the greater risk now perceived with the export market. Interest rises in excess of this have also been discussed.

1.27 Some banks have requested local valuers to value a number of properties in the regions since the export ban. The valuers have typically been unable to do this due to the uncertainty of the market.

1.28 A number of banks have requested that borrowers demonstrate they do all they can to mitigate the cash flow situation. As cattle are traditionally valued as a separate asset, banks may potentially view cattle as a separate and more readily realisable asset to the station itself. Valuers have advised that the lease value of stations sold “bare” (i.e. without cattle) often trade at a steep discount due to the need to restock and time lag of cash flows.

1.29 Some banks have some borrowers in its asset administration (credit) department since the export ban. The staff working in asset administration may not necessarily have an agriculture background or be as familiar with a borrower’s circumstances and undertake action without the benefit of this background and/or knowledge.

1.30 Many borrowers who were contacted as part of this study with significant debt have not been offered increases in working capital lines to cover expenses until revenue is earned in 2012.

1.31 Given the late start to the dry season and therefore revenue from cattle sale, some borrowers advised that they may use an overdraft to make the interest payment.

1.32 Banks could potentially now be more conscious of the risk associated with the live cattle reliance on the Indonesian market and are likely to ascribe higher risk (and thus increased margins and lower debt levels) in the future.

1.33 The application of Accounting Standard AASB 131 may require assets dependant on cash flow from assets, which are negatively affected by the export ban to be written down. The write downs (which would particularly affect service industries) may cause a series of events related to banking covenants which lead to a breach of loan covenants (e.g. gearing).
Potential Mitigations

1. A proportion of farmers do not have the skills to negotiate with banks when in financial difficulty. This may produce non optimal outcomes for preservation of equity. To assist in dealing with this issue Government could consider establishing a part time position to negotiate with banks when a borrower in financial difficulty so requests. Accountants may often not fulfil this role with borrowers in real financial distress due to concerns over payment of fees if significant work is undertaken. In addition, this role could help to make consistent banks interaction with borrowers in financial stress by agreeing a code of conduct. This role is not a rural financial adviser, although it may work with the financial advisers. This is a bank liaison role. It could also fulfil the function of providing on going feedback to Government on how banks were managing borrowers in a practical sense.

2. Many borrowers are experiencing current working capital restrictions or expect to do so in the next one to two months. As noted above, banks may be reluctant to provide further working capital due to concerns over existing exposure. One way in which to alleviate this is to provide working capital interest subsidies on new working capital facilities for a period until the end of the dry season in 2012, by which time producers should potentially have earned revenue. This could take the form of a subsidy of the interest component of any new working capital facility. i.e. additional funds which were advanced rather than on existing drawn or undrawn facilities. It would be necessary to have sufficient measures in place to avoid price increases, such as the interest or fee cost of the facility could not be greater than the borrower was originally paying. It would also potentially be only for working capital facilities which were additional facilities. Despite increasing the banks’ exposure to the borrower, the bank may be willing to provide extra facilities under this arrangement as it provides the borrowers time to gain revenue and goes part of the way to meeting the banks cost of doing so.

3. The banks could be encouraged to not take action to recover debts prior to the end of the dry season 2012. By this time markets may have had time to recover and some uncertainty potentially taken out of the industry. However, there is no compulsion that the Government can utilise to require the banks to not undertake recovery of debts. By delaying a debt recovery, it provides some opportunity to borrowers to maintain equity in the business. The most practical way to achieve this could be to have active engagement on this with very senior management of the banks. The use of the special adviser as referred to above would also assist this as then Government could be actively informed on the practical aspects of the policy.

4. Many borrowers with debt in excess of 40% may have difficulty paying the December 2011 interest payment. An appropriate bank policy in this regard could be to capitalise interest for this and potentially the June 2012 payment. This may be the only real alternative to banks selling a property as the borrower does not have the funds to service the loan.

In addition, in the normal course of events, unpaid interest attracts penalty interest at a much higher rate than what is otherwise payable. This higher rate of "interest on interest" can escalate debt balances very quickly and lead to a rapid decline in any equity that is remaining in the property. Accordingly, a potential mitigation could be to both encourage the banks to capitalise the interest for the December 2011 and June 2012 payments as well as not to charge penalty interest on these amounts. It is important to be aware that this can only be encouraged by Government, as there is no practical mechanism to insist the banks do so.
This could also involve encouraging the banks to not move to a different regime of paying interest which may lead to an effective increase in the interest cost. Again, this encouragement cannot take the form of compulsion.

5. There appears to be reluctance by many producers to access government support mechanisms through Centrelink. There also appears to be a reticence to complete detailed forms for other grants due to the complexity and lack of comfort with the process. This may change over a significant period of time as producers become more familiar with accessing benefits or access benefits through less public methods than attending a Centrelink office, such as by applying over the internet. However, not all producers would be comfortable in utilising such measures.

This could be assisted by the process being run through accountants completing the necessary paperwork rather than the producer directly. As a professional relationship between the producer and the accountant, this would be a confidential process and avoid social stigma issues. It could also help ensure that applications for assistance received by the Government were more complete as they are completed by a finance professional, resulting in less administration cost to the Government. In addition, as the producer may not have the funds to pay the accountant directly for what they consider is an uncertain process, it is recommended that the Government, as part of the package, pay the accountant an amount for each successful application is made. This could help ensure that the accountant is motivated to submit complying applications.

6. A targeted campaign to educate producers as to the availability of Government assistance measures could also be of assistance. There is a general knowledge that a $5,000 payment is available but a general lack of awareness as to the criteria to access the second payment. Other assistance measures should also be made known once they are put into place, either through banks, accountants, organisations such as the Northern Territory Cattlemen’s Association, as well as leaders in the cattle producing community. This can be through a short “flyer” which is distributed.

In addition, given the goodwill which has been demonstrated through the direct on the ground contact with cattle producers recently, it would be recommended that this be done also through face to face contact at meetings of cattle producers. Other parties could also be invited to these meetings, such as accountants, industry groups and certain service industries, such as stock agents. These meetings would have a number of benefits, including:

- demonstrating to the community that the Government is taking ongoing dialogue seriously and is listening and understands the financial pressures they are now experiencing;
- provide a forum for cattle producers to air their grievances;
- provide a forum for cattle producers to share ideas and experience as to how to mitigate financial impacts. E.g. by particular ways that costs have been reduced, areas where agistment is available, how stock agents may be able to negotiate sales, agistment, etc for groups of producers on more advantageous terms;
- being able to educate producers as to practical Government assistance that is available.
These would not be large public meetings. Large public meetings have the potential to be dominated by a few individuals who may have a particular grievance or agenda, leaving others with little time to discuss practical matters they may be keen to explore in a smaller forum. It would be envisaged that meetings are between 10-15 people. The exact number and individuals who are invited to these meetings would be determined in conjunction with producers who are the leaders in the geographic area being targeted.

Given the familiarity by producers with the State and Territory agriculture departments, who have a more daily active involvement with these parties, it is important for these forums to be coordinated by the States and Territories, but with significant Federal Government involvement. This could involve important coordination and a “pre meeting” between the Federal and relevant State or Territory Government to agree the agenda and approach. It would also involve talking to leaders in the producer community prior to the meeting in order to obtain their feedback and views on the optimal agenda and how to facilitate the meeting.

It is recommended that the process to have these meetings be commenced as soon as reasonably practicable in order to assist producers understand that the Government is concerned with the impact on their business and would like to help mitigate the impact where practical.

7. It may also be beneficial for any direct assistance provided to producers in the form of cash not be paid to producers directly but be paid to a supplier with whom they have contracted (for transport, fuel, lick etc). Banks under their security traditionally have access to all funds the borrower receives. Accordingly, there is a potential risk that money provided directly to the borrower could be utilised by a bank to offset an overdraft or other debt and not be available to the producer to purchase required goods and services. This process for paying these invoices directly could be streamlined and the invoices paid within normal credit terms (30 days) on presentation of an invoice and delivery docket and a declaration that the goods were utilised on the station.

8. Given the high fixed cost structure of the cattle producers (greater than 80%) it could assist for Government to reduce these costs where possible. Major costs comprising fuel, labour, direct cattle costs (feed, lick, etc), rates and land lease costs. Although lease and rates costs are a State and Local Government matter, it would be of assistance to defer the land lease and rates costs. Both costs have been increasing significantly in recent years and represent a cost which is not related to the ability to generate revenue from a property. Local councils are already aware of many producers may not be able to pay rates. Accordingly, a potential mitigation could be to defer (interest free) rates and lease payments due for 18 months or even waive them for financial hardship. However, the rates and lease payments are a State Government (either directly or through their control of local Government) responsibility with no power by the Federal Government to waive these, so would by necessity involve their agreement. It will also have flow on effects. For example, the councils in the Kimberley rely on rates from pastoralists for $1.26 million of revenue. This primarily is used for road maintenance, with councils already considering deferring some road maintenance due to the expected revenue shortfall. Accordingly, some measures may be considered to fund the council for uncollected rates in the short term.
2.0 The Project

This report has been prepared for the Department of Agriculture, Fisheries and Forestry ("DAFF") to provide information on the financial impacts on stakeholders in northern Australia of the restriction in cattle exports to Indonesia announced by the Australian Government on 7 June 2011. In particular this report addresses the financial capacity of stakeholders, and particularly producers, to remain commercially viable throughout the next 12-18 months as revenue is not earned but costs (including loan repayments) continue to be incurred. This report was targeted to get qualitative as well as financial information from small and medium producers in the Kimberley and Northern Territory and service providers to those producers. Therefore, this report is not designed to reflect a statistically valid sample of either the industry or a select group, but rather it reflects the financial information, perceptions and experiences of a number of small and medium scale producers.

Critical to the ability to remain viable is the current financial capacity of stakeholders, access to capital and the policy initiatives undertaken.

2.1 Organisations Contacted

Financial data was accessed, on a confidential basis, from a large range of stakeholders in preparing this report, in a short period of time. Discussions were held with over 80 stakeholders and financial data reviewed from a significant number of producers and other businesses. Stakeholders included:

a) Cattle producers  
b) Service industries, such as transport companies, export agents and ports  
c) Finance brokers  
d) Real estate agents and stock agents  
e) Industry bodies  
f) Councils  
g) Accountants

All information was accessed on the basis that:

- it would be provided to the Consultant alone and not be distributed to the Government or any third party;  
- no mention of any individual would be made in the report without that individual’s express permission;

Stakeholders were very cooperative in providing data on this basis. If these undertakings were not provided, it was understandably apparent that very little financial data would have been provided.

2.2 Methodology – Conceptual Framework for Financial Assessment

In undertaking this project, Hydros has applied a conceptual framework consistent with capital market practice in assessing finance and investments and allocation of capital. This approach is often overlooked in a traditional economic assessment and therefore is not able to assess the practical issues associated with financial practicalities and adjustment mechanisms.
Given the major market for the cattle export is Indonesia, the imposition of export restrictions has adversely affected economic activity, cash flows, ability to service debt and asset and equity values. The speed and suddenness by which the restriction was imposed left almost no time for producers to transition and locate new markets in a commercial manner in order to preserve their cash flows.

### 2.3 Ability to Deal with the Financial Impact of a Loss of Market

For the purposes of this exercise, we have developed a framework for assessing the financial impact of the sudden loss of market and producers ability to adapt in the short term. This framework focuses on identifying the practical financial consequences to a producers cash flows and their ability to access capital, whether working capital or longer term loan funds.

This can be summarised as follows:

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<td>Indicators of ability to absorb financial shocks</td>
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<td>Indicators of available non committed capital</td>
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On all the measures indicated above, many producers have a limited ability to adapt in the short term to the loss of the major market and are likely to suffer severe financial pressure.
3.0 Operational Consequences of Lack of Alternative Markets

In the event of a sudden loss of market, the two responses that have been immediately apparent are attempts to locate an alternative market and moves to change producers operating regime.

Most producers contacted sell the majority of their cattle (approximately 80% of total herd) to Indonesian markets.

It was advised that approximately 30% of producers consulted were able to sell the majority of their cattle prior to the export restriction being put in place. These producers were predominantly on a sealed road where the late wet season did not affect truck access.

Of the remaining 70%, the majority of their herd was left unsold. If it was under contract, the buyers generally invoked Force Majeure under the purchase contract and cancelled the contract for stock which had not been delivered. Force majeure is generally not an insurable event.

As an alternative, producers have

1. Attempted to sell stock into alternative export markets, such as the Middle East and Malaysia. These markets traditionally pay less than Indonesia (but have less specifications for the animals they will accept) and are smaller markets than Indonesia. Sales that did occur were generally for less than would be received for Indonesian cattle. Contracts were cited of $1.60 per kg (steers), as opposed to the price received by producers who were able to sell to the Indonesian market prior to the export restriction of $2.05 to $2.10. For a 320kg steer, this represents a loss of revenue of $160. There is also a widespread belief amongst many producers that the Indonesian market will take advantage of the oversupply and potentially force prices down further when it does recommence at previous levels.

Further, with significant number of steers in cattle yards which were already purchased, agents would as a matter of course utilise these cattle to meet any demand that may exist for the export market prior to purchasing additional cattle from producers.

One large exporter advised that:

“I have to feed and look after in stockyards more than enough cattle right now, at considerable costs without any real prospect of a market. I would not consider buying more cattle until these ones were exported and abattoirs were accredited. To date, not even the best abattoir has been accredited and we have no comfort when this will occur”.

2. Sell into domestic market targeting markets at Longreach, Harvey or Murray Bridge. However, in these markets, Brahmin cattle are traditionally not preferred and utilised primarily for mince and other by-products. Further with a cost to truck and sell from Kimberley to Harvey of $150 per head, from Northern Territory to Murray Bridge of $250 per head and Northern Territory to Longreach of $136 per head, costs are generally prohibitive.
Further, many producers are aware of an MLA report “Assessing the value of live exports to regional Australia” (2007). As this report notes:

“Bos indicus cattle bred for live exports are a non-preferred breed for the Australian domestic market. Southern WA export processing capacity is limited and ‘instant’ export markets are not available. Northern WA producers would be at the mercy of a single large abattoir, a limited number of small plants and limited sales, for a non-preferred breed, to store cattle buyers and feedlotters.”

It goes on to note that prices could fall by 50 cents per kilo and additional animal husbandry and transport costs could be 21 cents per kilo. These figures appear to have been accepted as reasonable by many in the industry of what could occur in the market.

Accordingly, there is a very real and genuine despair by producers as to what to do with their stock.

As one producer noted:

“My cost of production is about $1.20, and I am one of the better ones. If I receive $1.60 for 2,000 head, at an average of 320 kg, that leaves me with around $240,000 before I take out the extra costs I have incurred in keeping the animals and the extra transport. That is even before I start thinking about living expenses or servicing my debt even if someone will take the cattle at all!"

NB: the numbers quoted appear reasonable given other sources of information

The window for the supply to meet the demand of the Indonesian market should it open up or to supply other markets is also closing and exemplifies the conundrum the situation has created. Once wet season commences in September/October, then it will be physically impractical to move cattle from many stations to the export port. However, it may not be practical to move the cattle prior to this time as there is no certainty of market or finance available to meet these costs in the light of the uncertainty.

The need to keep cattle on country for longer than is usual, or the need to transport them long distances by road train also has the following consequences:

1. Cattle may be over the 350 kg specification for Indonesian markets. Many producers who could not sell their herd earlier in the year advised that they believe over 50% of their cattle that would have been within weight specification will no longer be so by early-mid August. This limits export to smaller alternative export markets such as the Middle East and Malaysia or sale to the local market.

2. Pasture may be degraded as animals stay on country for longer than usual. This could limit the capacity of the station for the next 1-2 years and contributes to a reduction in the capital value of the station. Many station owners consulted do not have the resources to transport and agist the stock and may not be able to secure debt funding to do so. In addition, many stock agents and producers advised that they expect on station cattle mortality rates to be significantly higher in the coming year due to the stress on the pasture.
3.1 Ability to Reduce Costs

The stations appear to have little ability to reduce costs as they have very high fixed costs relative to variable costs. I.e. they must incur the vast majority (80% plus) of their costs to allow the operation to continue as a going concern and ensure animal welfare is addressed.

Typically, costs are made up of animal husbandry (lick, vaccinations etc), labour, maintenance, fuel, selling costs and payroll. Another significant cost is rates and lease payments. Accordingly, a potential mitigation would be to defer (interest free) rates and lease payments due for 18 months or even waive them for financial hardship. However, the rates and lease payments are State Government (either directly or through their control of local Government) responsibility with no power by the Federal Government to waive these, so would by necessity involve their agreement. It will also have flow on effects. For example, the councils in the Kimberley rely on rates from pastoralists for $1.26 million of revenue. This primarily is used for road maintenance, with councils considering whether to defer road maintenance due to the expected revenue shortfall.

Most costs have increased in recent years. The cost of lick etc is related to the oil price, with fuel costs also increasing substantially. In addition, rates and lease payments have increased substantially in recent years in line with revaluations of properties. Lease payments for some producers who provided information increased more than 400% in 2008/9.

The ability to reduce costs is limited, with most producers contacted estimating that fixed costs (i.e. costs that must be incurred) represent at least 80% of total costs. This has been confirmed with accountants. For example, despite limited sales occurring, mustering (with the associated costs) must still occur in order to provide animal husbandry, including taking weaners, vaccinations etc. In addition, due to the desire to preserve their station from overgrazing, many producers are purchasing hay to feed stock if they can afford to do so.

The controllable costs are generally regarded as payroll and maintenance. The vast majority of stations have reduced staff but are limited in their ability to do so as mustering and other activities must continue. In addition, many stations who provided information advised that they have ceased maintenance and capital expenditure except for emergency maintenance. This in turn could affect the valuation of the properties if they become run down over time as maintenance continues to be delayed. This was confirmed by valuers, agents and producers. As one agent noted:

“If a bore on a property breaks down, which is a significant source of water for cattle in an area of the station, this could be an immediate animal welfare issue. Whilst it may have been known that the pump probably needed replacing before it broke down (and normally would have been repaired in advance of it breaking down), maintenance being deferred would have these types of impacts. These types of examples are expected to increase as costs are further deferred.”

The cost that has been avoided is sales costs (commissions etc). However, this would have been paid directly out of the proceeds of sale, so would have been funded from that sale. The vast majority of the overall running expenses of a station are not directly related to the sale.

Traditionally, for many smaller to medium stations with significant debt, the operating costs of a station are financed by an overdraft until the sale proceeds are received.
Accordingly, many producers consulted with significant debt who did not sell their cattle prior to the export restriction being put in place have increased their overdraft. Many of these may have little drawdown capacity on their overdraft to pay ongoing expenses until sales in the dry season in 2012.

“As an example, one producer has run down remaining cash reserves, almost fully utilised an overdraft and sold a modest share portfolio in order to meet operating costs. It is unlikely that this producer will be able to meet operating costs until the end of the dry season.”

3.2 EBITDA

EBITDA is a function of costs of production and sale price received. Numerous studies have been completed on the cost of production for producers in various regions in Northern Australia. Typically, these studies demonstrate a cost of production for small to medium producers of between $1.10 per kg (for very well run properties in northern Australia) through to $1.40 per kg. Various producers and other parties with whom contact was made confirmed the reasonableness of these figures.

“On producer noted that “I received a call from a domestic agent to sell steers at $1.40 to Queensland (before transport costs, which I have to pay). I told him we can’t make money at that price and wouldn’t be selling. I may now have to call him back and say I am a seller as I need some cash, even if it means I am losing money.”

To illustrate the point in relation to one head of cattle (assuming the recent sale price of $1.60 per kg).

<table>
<thead>
<tr>
<th>Per Kg</th>
<th>Total $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of One Head of Cattle (steer) (400kg)</td>
<td>$1.60 per kg</td>
</tr>
<tr>
<td>Transport and costs (to Longreach)</td>
<td>34 cents</td>
</tr>
<tr>
<td>Cost of production</td>
<td>1.20</td>
</tr>
<tr>
<td>EBITDA</td>
<td>6 cents</td>
</tr>
</tbody>
</table>

NB: This animal may have been under the 350kg limit if it was able to be sold earlier in the season
NB2: Costs sourced from Department of Resources, Northern Territory Government
NB3: This was advised by a number of sources as the price a station may be able to produce beef for on average

This compares to previous export prices of $2.05-10 per kilo, with transport costs being 10-15 cents per kilo to the nearest export port. This would have provided an EBITDA number for a 320kg head of cattle (the weight that steer could have been if sold previously of approximately $250, as follows:

<table>
<thead>
<tr>
<th>Per Kg</th>
<th>Total $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of One Head of Cattle (steer) (320kg)</td>
<td>$2.05-2.10 per kg</td>
</tr>
<tr>
<td>Transport and costs (to export port)</td>
<td>10-15 cents</td>
</tr>
<tr>
<td>Cost of production</td>
<td>1.20</td>
</tr>
<tr>
<td>EBITDA</td>
<td>80 cents</td>
</tr>
</tbody>
</table>

Therefore, EBITDA has reduced by approximately 90%.
In addition, these figures do not take into account the extra costs of lick and handling associated with cattle being on the property longer or of higher transport costs to Harvey or Murray Bridge.

As this demonstrates, many producers with debt, at current sale prices, would potentially be unable to make interest payments from operating income. With costs being incurred that would not otherwise be incurred due the need to manage animals beyond the time they would usually be sold, and with low ($1:60) sales prices and transport costs to more distant markets, EBITDA will be negative (or at best marginally positive) for many producers who were not able to sell their cattle prior to the export restrictions. Many producers who provided information without debt who did not sell their cattle previously are also using savings to pay costs.

In addition, an improvement in EBITDA may be unlikely prior to sale of cattle next year. With a well-run producer incurring an EBITDA of $1:10 - 1:20 per kg under normal conditions, it is also forecast by many producers and other parties contacted that prices for next year will be unlikely to recover as producers attempt to sell more cattle to earn revenue. In addition, it may be the case that animals could potentially be in poorer sale condition (although still healthy), due to the inability to afford the normal degree of lick and animal supplements and a degradation of the pasture as animals have been on the property for longer than usual. This could also contribute to lower revenues next dry season.

Stock agents confirmed that significant losses were potentially inevitable as lower domestic prices could result from the oversupply and long distance transport costs could also further reduce the price paid to the producer to unsustainable levels.

“This was summed up by one agent as “If a beast 350kg beast is worth $1:60 per kg, it is $560. With freight costs from Northern Territory to Murray Bridge at $250 per head, producers just can’t make money, especially as prices will probably dip further.”

3.3 Valuation

The valuation of properties and cattle appears to have been severely reduced since the export restrictions. This is exacerbated with cattle stations due to the low number of stations which are traditionally sold. With just over 200 cattle stations in Northern Territory, valuers advised it only takes 2-3 sales to occur at a particular price to influence a valuation. Experienced real estate agents and other credible parties advised that they knew of stations which they believe may need to be sold for financial reasons prior to the end of the year, which would provide hard evidence of values.

Valuers advise that there is considerable uncertainty at this time in valuations caused by:

- uncertainty of cash flows and profitability due to the uncertainty associated with the market and cattle prices and potential losses associated with current and expected cattle pricing;
- escalating risk profile of the industry. I.e. it has happened once, it could happen again. This is heightened by the traction being given to the lobby aimed at banning live exports completely;
- a lack of station buying enquiries since the export ban and sales that were being negotiated not proceeding after the ban was imposed.
Valuers have advised that property values did increase to 2008, driven mainly by corporate buyers. As these have exited the market, prices were trending downwards but in an orderly fashion as the market corrected for the absence of these corporate buyers. This orderly correction may have caused some of the very highly geared producers to exceed leverage ratios and be required to sell their properties. However, it would appear reasonable to assume that, although these would have been sold at a loss, the debt may have been fully recovered and a significant part of the equity recovered. This may be unlikely if properties were required to be sold, with the sharp reduction in values caused by the export restrictions.

Many valuers and estate agents advised that they believed stations had reduced in value by approximately 40-50% after the export ban. However, they also advised that it was extremely difficult to undertake a formal valuation given the lack of sale evidence and uncertainty since the export restriction. Prior to the export restriction, agents advised that property values (unimproved) in the Kimberley were typically $600-$650 per cow unit (carrying capacity) for good quality properties, with appraisals by very experienced estate agents having reduced values to $350-400 per cow unit after the export restriction. In Northern Territory, the valuers and agent's opinion is that values have reduced from $1,200 per cow unit to around $700-750 per cow unit. Many agents and valuers also advised that the effects on the market and valuations could take 3-5 years to rectify, even if the export market resumed as normal in 2012.

One experienced agent advised that:

“I know if I had to sell a property before the end of the year, there is a very high chance I would not be able to sell it and if I could, the value may be 50% of its previous value. The cash flow or capital growth potential just isn’t there to justify a price greater than this any longer. Everyone is just waiting for the first station to be put on the market that needs to sell. This will be hard evidence that people can’t ignore.”

Another agent noted that:

“The market will take at least 3-5 years to come back. Confidence in the ongoing viability of the export market has been shaken to its core and that is what drives cattle stations up here.”

These comments are consistent with other stakeholders consulted.

This has an immediate effect on equity values. For a producer previously geared at 50%, if values of cattle stations have reduced by 50%, they are now effectively geared at 100% and have lost all equity in the property and have a limited ability to financially start again if the property is sold. This has the potential to cause social issues in communities affected by these events and is already causing social stress.

As one producer noted:

“I went to my neighbour yesterday. He was sitting in the dark eating. When I asked him what was wrong he replied “It just hit me that I have spent a lifetime building up this property and I have spent money mustering cattle that I can’t sell. I’ve had a really bad day”.”
Although this report focuses on the financial impact of cattle export restrictions, the social impacts and what can be done to alleviate social and emotional pressures on a community reluctant to reach out for formal help, should be considered.

3.4 Other Issues
There appears to have been a marked reluctance to take up the $5,000 assistance offered by the Government. This is seen by some as “too little too late”. A social stigma also exists in these communities from applying for benefits.

One producer noted that:

“I have never been in a Centrelink office in my life and never thought I would step foot in one. The only reason I am applying for the money now is that I can’t pay my suppliers, and they don’t deserve not to get paid just because I can’t sell my cattle.”

This is exacerbated by the degree of financial literacy amongst some in the smaller and medium holdings. Whilst there are many very astute and commercial businesspeople amongst these producers, there are some producers who are not so in relation to financial matters. This has an impact on the degree to which they may be comfortable to complete paperwork in relation to assistance.

This issue may be addressed as producers become more familiar and comfortable with accessing benefits or access benefits in a lower key manner than attending a Centrelink office (e.g. through the Internet). However, this may not address this issue for many producers.

This issue could also be addressed by encouraging accountants to undertake this application process on their behalf in a confidential manner. It will also encourage producers to seek financial and banking advice from accountants while they are meeting them to discuss the application process.

It is also recommended that a special adviser be appointed by the Government. To allow for producers’ differing levels of financial literacy and to alleviate some producers’ discomfort in dealing with banks, Government could consider establishing a part time position to negotiate with banks when a borrower in financial difficulty so requests. This is not financial advice but may entail working with financial counsellors. Accountants may not fulfil this role with borrowers in real financial distress due to concerns over payment of fees if substantial work is required.

An important part of this role could be to agree a code of conduct with financiers. Although voluntary, this code of conduct, (which have precedents, for example in South Australia by the State Government and banks in the case of financial issues caused by the drought), could address a number of issues. These include:

- explicit recognition that the restriction of exports is a non foreseeable “extraordinary” event which has affected the whole industry in a short period of time and producers will need some time to recover;
- measures to assist producers in allowing them to access working capital;
Financial Impacts of Cattle Export Restrictions

- agreement not to charge penalty interest or increase rates/fees until exports resume. This includes not adjusting the repayment schedule which could lead to an effective increase in rates;

- agreement that any interest rate subsidies on working capital is for new drawings only and no measures will be taken to circumvent this. E.g. setting up a new working capital facility which is in reality only a refinance of an existing fully drawn facility;

- agreeing to capitalise interest payments;

- encouraging borrowers with difficulty to talk to the special adviser and professionals;

- not to take any action to realise assets or to reduce undrawn facilities without a mediation process with the borrower, in which the special adviser is involved (with the borrower’s consent);

- undertake all reasonable measures to ensure the borrower obtains independent financial advice;

- encouraging borrowers to keep the lines of communication open with their bank;

- not placing loans into credit/asset administration areas unless this mediation process has been undertaken;

- if borrowers are placed into credit/asset administration, ensure that the file is handled by someone within the bank with extensive agriculture experience;

- if any assistance payments are paid direct to the borrower, quarantine these payments from offsetting debt or paying interest. I.e. recognise these payments are to assist the producer pay operational costs of the station.

This role is not a rural financial adviser, although it may work with the financial advisers. This is a bank liaison role. It would also fulfil the function of providing ongoing feedback to Government on any relevant issues between borrowers and banks generally in a practical sense.

3.5 Service Industries
There are a large number of industries which service the cattle producing industry. These industries have suffered with the cessation of export sales. In addition, many of these companies, being predominantly service industries with little hard assets, traditionally borrow money secured against other assets, such as the personal home.

Examples of the way in which these industries have been affected include:

- exporters, which have suffered a 70%+ reduction in sales. Exporters have contracted ships to take the cattle and are incurring ongoing costs without any real likelihood of being able to utilise the ship elsewhere, despite efforts to do so. With a loan for the business often secured against other assets, these assets may potentially need to be sold to repay the debt;
transport companies have potentially experienced a significant reduction in revenue. Many transport businesses, due to a large spike in delays in receiving payment, will now contract only through an agent (e.g. Elders or Landmark), as the agent guarantees the payment. The fee these agents are paid to guarantee the payment (approximately 5%) is added to the cost of the transport for the producer, thus increasing the producer’s costs. The issue in receiving payment appears to be common in the region and is placing working capital constraints on these businesses;

stock agents have experienced a marked decline in stock sales. One agency last year in June sold 10,000 head of cattle. This June, they sold almost no cattle;

ports in the region rely for a material part of their revenue from the live cattle exports at this time of year. The number of staff has reduced, with fewer hours also being worked by a number of the casual staff. The reduction in revenue reduces funds available for upgrades, which has the potential to reduce capacity in the future. This has the potential to add costs to producers from the region who may then need to transport cattle to more distant ports. In addition, the potential loss of skilled staff as paid hours are reduced, such as crane operators, could hamper capacity as these skills can be difficult to source.

4.0 Banking Implications of the Export Restriction
The availability of finance is critical to the ability of producers to continue operations. Due to the highly seasonal nature of the cattle season on Northern Australia, cash flows are traditionally very “lumpy” and many producers rely on the availability of overdrafts to meet ongoing expenses. This is not unusual in the agricultural sector. However, it can mean that there is a greater vulnerability of producers to large scale sudden events, such as the cessation of cattle exports.

4.1 Debt Levels
Bank debt for many producers has typically been growing over the last 8-10 years. This has been driven by the increase in lease values over that time driven by new buyers coming into the market. There are producers who may have purchased a lease during that time, and needed to pay higher purchase amounts (and therefore potentially borrow more) than previously. In addition, there are producers who may have already owned their lease who may have borrowed greater amounts against the rising value of their lease to pay for capital improvements and increase their stocking rates. This has translated to many producers having debt, with a material portion of these having greater than 40% debt. This gearing ratio is based on values achieved prior to the export ban.

This is a critical measure for financiers, which will often have Loan to Valuation (LVR) ratios. This LVR indicates the proportion of the asset represented by debt. For example, an LVR of 55% means that total debt is 55% of the asset market value. Accordingly, there is an adequate buffer of equity to fully repay the debt should the asset be sold. Any amount received on sale in excess of the debt will be paid to equity (i.e. the owners).

Banks typically review a producer loan every twelve months. Part of this review represents an update on the LVR ratio. If there has been a potential for the asset value to fall, the bank may seek a valuation. If the valuation indicates that the total debt is above the LVR ratio allowed, then the borrower may potentially be asked to repay part of the loan in order for the LVR ratio to again be within agreed limits.
Valuers and agents have indicated (referred to elsewhere in this report) that values of leases may have dropped approximately 50% with the value of cattle also declining markedly. (These indications were informal or appraisal based, as there is currently too much uncertainty in the market to be able to perform formal valuations). Accordingly, if a borrower had an agreed LVR ratio of 45% consistent with the value prior to the export ban, the borrower has the potential to now have an LVR of 90%. i.e. 90% of the sale of the assets would be allocated to the repayment of debt. Under the loan documents, exceeding an LVR ratio would ordinarily be an event of default and the bank may have the right to ask for repayment of the loan in order to restore the LVR ratio or sell the property to recover the debt. However, banks appear to be aware that this is not a realistic option in the current market, with the uncertainty and lack of buyers.

In order to repay at least part of the debt, bank may look to sell the more liquid (i.e. more easily saleable) part of the security, in this case the cattle. There is usually a ready market for cattle and fairly predictable pricing. The bank may then sell the land separately on a “bare” basis to recover the balance of the debt at a later date. However, due to the collapse in the demand and prices for cattle, this is also not a realistic option. Despite this, some producers advised that they were considering the sale of cattle as a means of generating some cash, even at current prices. The bank, under its loan security, would have first call on these funds to repay the debt, unless it opted to allow the borrower to keep the funds for working capital purposes. However, this is a matter at the discretion of the bank.

In terms of the collapse in the projected LVR, banks appear to have to date typically taken one of three courses of action:

1. Setting a policy of not undertaking any valuations for the next twelve months and see where the market “settles”. This is prudent for the time being given the lack of sale evidence. However, given the lengthy time period valuers and agents advise it may take for values to recover, there is the potential for values obtained in twelve months to still be much lower than prior to the export restriction. However, this does address the immediate breach of the LVR.

2. Reduced values across the board. It was advised that some banks were considering reducing the value of stations as a policy and is considering its options in the light of this revaluation. However, in light of the lack of buyers, it would still appear unlikely that a bank would declare a breach of an LVR ratio, at least until the sales market begins to recover.

3. Asking for valuations and appraisals. Some banks have asked for valuations. Valuers do not feel they can provide these due to the lack of sale evidence. However, some banks have asked some borrowers to obtain appraisals by a real estate agent (as opposed to a sworn valuation by a valuer) of the property. These appraisals have pointed to the expected marked deterioration in sale proceeds. Again, it appears unlikely that an LVR breach would be declared (at least until the sales market begins to recover).

These actions have been dictated by the fact that banks appear to be aware that it would be unlikely that the entire debt would be recovered if properties with higher LVR ratios were sold. However, the lower values of stations will still potentially affect gearing ratios and equity values. Once there is evidence of sale prices, banks may potentially then make a decision whether it can recover its debt from the sale in light of whether the debt has a prospect of being serviced.
While the debt is not being serviced, there will potentially be a motivation by the banks to exit the loan as soon as the loan can be substantially repaid. This would mean that equity available to borrowers from the sale would often be at much lower levels than previously valued. There will most probably be a greater motivation by the bank to delay a sale in the event the debt is being serviced. The other issue is that many producers could potentially have higher debt levels over the next twelve months due to operational expenses being met by an overdraft and accrued interest.

4.2 Serviceability

Serviceability is often based on EBITDA ratios, with common EBITDA ratios being 0.5 i.e. cash serviceability is based on half of EBITDA being available to service debt.

A significant number of producers with significant borrowing do not know how they will be able to meet the December interest payment, as EBITDA will almost inevitably be negative or negligible for many producers. This is demonstrated earlier in this report. It would appear reasonable to expect that borrowers who do not have access to cash reserves or other assets will have difficulty in meeting the December 2011 or even the June 2012 payment.

Accordingly, if interest payments cannot be made, it will most likely be capitalised, further increasing the debt burden and future interest payments. However, given the limited market for sale of stations, and the uncertainty of the sale prices, it appears unlikely banks will force sales until there is clear evidence of sale prices.

Banks may also be entitled to charge penalty interest on unpaid loan payments (at much higher interest rates) under their loan documentation.

Many banks appear to be considering increasing their interest margins by at least 2% as a result of the increase in perceived risk associated with the export cattle industry. Pricing of money lent is a function of the risk of the loan. With further risk, pricing will logically increase. In addition, with the uncertainty in relation to future cash flow and asset values, there would appear little incentive to provide competitive interest rates in order to attract customers. It would also appear reasonable to assume that competition by banks for new customers would not be expected to be present in the cattle station market for some time.

4.3 Reaction of Banks

Banks’ consideration at this time could most probably be to limit their further exposure to only what is necessary, and to encourage stations to reduce expenditure. Many borrowers have been in discussions with their banks, with the discussion encompassing how the borrower will meet their debt obligations. It is reasonable to assume that the banks would most likely try to avoid becoming de facto station owners by taking possession of properties. With little prospect of a successful sale in the nearer term, there appears little incentive for banks to foreclose on stations immediately.

However, there are a number of actions that the banks may consider:

4.3(a) Working Capital and Expenses

If borrowers have access to no or little funds to pay for basic operating expenses, then the banks may have little choice in reality but to pay minimal expenses. However, this would appear to not be operating the station as a going concern, but would undertake only that expenditure necessary for animal welfare and to preserve the value of the security.
There are also instances where borrowers have been asked to demonstrate they do all they can to mitigate the cash flow situation. However, as noted earlier in this report, the ability to reduce costs is limited and has largely already been reduced since the export restriction was put in place.

Many borrowers consulted as part of this report have not been approved increases in working capital to date. It is important for borrowers to receive certainty in this regard in order to provide an assurance of whether the station has enough cash flow to operate until the dry season 2012 on a going concern basis.

In order to encourage banks to advance further working capital, a potential mitigation is for the Government to provide an interest rate subsidy for further advances on working capital. This will assist the banks partially offset the costs of the further advance, and provide an indication how important the Government believes it is for banks to assist producers through this “cash crunch”.

4.3(b) Interest Rates
Banks now potentially could ascribe a higher risk to the export cattle business and have increased rates accordingly. Some banks are considering increasing rates by around 2%, with some instances being discussed of potential increases up to 6%. This increase in cost of funds will inevitably increase the debt payable and therefore reduce the equity available on a sale of the property.

Banks may also have the legal right to impose penalty interest on borrowers if a payment (or other) default has occurred. To date, many banks have not provided a commitment to waive this penalty interest.

If the Government were to provide interest rate subsidies on working capital, it is important to receive appropriate undertakings from the banks in relation to interest rate increases. If banks are to increase interest rates or other fees, the benefit of any subsidies to the borrower is diminished. It is also important that any subsidies be provided on new working capital loans only in cases where the loans would not otherwise be made. To do otherwise is subsidising loans with little tangible benefit to the borrower.

4.3(c) Loan Management
Some banks have placed some borrowers in their asset administration (credit) department. The staff in asset administration may not have an extensive agriculture background and their primary motivation is potentially to exit the bank exposure for the least loss as possible. This may not be conducive to making strategic decisions designed to assist borrowers to cope with a cash crunch. Accordingly, it would be recommended that banks are encouraged to resist placing borrowers into their credit department and that they be managed by local personnel with specific agriculture skills and knowledge of the client background wherever possible.

One way to assist in overcoming this issue is to provide the services of a special adviser. A “compact” or code of conduct will help agree how borrowers may be managed during this time and enable producers to obtain assistance in dealings with banks if the borrowers requests. It also provides an avenue of information and feedback for producers as to the measures being taken "on the ground", rather than relying on information from other non-direct sources.