Agribusiness Postcard

Ferrier Hodgson

14 March 2014

CULTIVATING CHANGE IN THE GOULBURN VALLEY

The Victorian Government is offering cheap loans to profitable Goulburn Valley orchardists to help them buy out less-fortunate neighbours affected by the SPC Ardmona fall out and difficult market conditions. What will this mean for you or your clients?

Over recent months, the media has been dominated by debate surrounding SPC Ardmona's (SPCA) request for $25 million of Federal Government assistance to prevent its closure. Whilst SPCA's Federal request was unsuccessful, it did receive $22 million from the Victorian Government and the recent announcement that it has signed a $70 million deal with Woolworths appears to have secured its future, at least in the short term.

While this is good news for many orchardists and the wider Goulburn Valley community, what appears to have been forgotten in some circles (although certainly not by growers) is that back in April 2013 SPCA announced a significant reduction in the amount of fruit it would take from local growers. The quantity of peaches and pears proposed for processing by SPCA in 2014 may be 42 per cent less than the amount processed in 2013.

In an industry that was already distressed due to factors such as the high AUD and high input costs, the reduced quota has left many growers struggling and looking to exit the industry. The problem, however, is that the lack of confidence in the sector generally has meant there has been a limited number of purchasers looking to buy Goulburn Valley orchards and a lack of exit options for struggling growers and their financiers.

Last week, the Victorian Government announced a fund of $16 million to support the exit of those growers affected by the reduction in SPCA intake quotas. The support is in the form of concessional-interest loans to existing orchardists wanting to buy out those wanting to exit. Loans of up to $650,000 will be made available at an interest rate of 4.5 per cent for three years commencing on 1 July 2014.

On face value, this initiative appears to be a positive way of transitioning unprofitable orchards to better operators. In our opinion, however, issues will remain for vendors and their financiers.

What impact on value?

Growers wishing to exit the industry are likely to be those who have already lost their quota and pulled our their trees.

It is therefore reasonable to assume that prospective purchasers will need to replant the orchard with more profitable varieties. A process that will take a number of years to produce fruit or revenue. As a result, it is likely purchasers will only be prepared to pay for the value of the land plus a modest premium

Last week, the Victorian Government announced a fund of $16 million to support the exit of those growers affected by the reduction in SPCA intake quotas. The support is in the form of concessional-interest loans to existing orchardists wanting to buy out those wanting to exit.

On face value, this initiative appears to be a positive way of transitioning unprofitable orchards to better operators.

for infrastructure. This could lead to a reduction in farm values.

On a brighter note, the 2014 season is shaping up to be better than average for fruit growers in Goulburn Valley. When coupled with the impact of the financial incentive programme, this may lead to an increase in confidence in the region and boost the number of orchard sales, allowing growers to realise value for years or generations of work.

Financiers beware

Approximately 750,000 fruit trees in the Goulburn Valley were targeted for removal following the reduction in the SPCA intake quota last year. Some have already been removed but many remain.

In an already distressed industry, the cost of removing these trees will be beyond many growers' financial capacity, leaving abandonment of those trees as the only option. But the story does not end there.

Growers have obligations to manage the biosecurity risks (eg: pests and disease) associated with fruit trees and can be personally liable for damages if a neighbouring property is infected as a result of abandoned trees.

In response to industry concerns last year, the Victorian Government introduced legislation to ensure unwanted fruit trees are not left to create a risk. Under the proposed legislation, if a grower is unwilling or unable to remove abandoned trees, they can be cleared by the Department of Primary Industries (DPI), with the cost paid back by the landholder at a later date.

In the event the landholder does not repay the DPI, it is likely a caveat will be lodged on the property for any outstanding charges, potentially impacting any funds realised in a sale by the grower or the grower's financier.

With the cost of removing tress and associated ground remediation estimated at approximately $3,000 to $3,500 per hectare, the total impact on funds realised could be considerable.

Conclusion

There continues to be a significant amount of restructuring occurring in the horticultural sector, especially in Victoria's Goulburn Valley. Whilst the concessional loan package recently announced by the Victorian Government is likely to result in some movement in the stagnant orchard market, the impact on values remains to be seen.

The Ferrier Hodgson Rural and Agribusiness team has undertaken many varied assignments in the horticultural sector, including for orchards and vineyards in the Goulburn Valley and Sunraysia regions. Our team is well regarded in the field and brings knowledge, hands-on experience and the benefits of industry networks to our service offerings.

For further information please do not hesitate to get in touch with Stewart McCallum or Matt Backwell on the numbers below.

Stewart McCallum
Partner
+61 3 9604 5660

Matt Backwell
Director
+61 3 9604 5174

Ferrier Hodgson's Rural & Agribusiness Team regularly sends an *Agribusiness Postcard* detailing the latest news and trends in the sector. If you have any comments or suggestions, please contact Stewart directly at stewart.mccallum@fh.com.au. If you know of others you think would be interested to receive the *Agribusiness Postcard*, please send us their details.

If you would like to change your subscription details click here and select "Want to know More?".

If you wish to see previous editions of the Postcard click here.

Ferrier Hodgson

For more information about our services, please contact one of our offices. Or find out more at: **www.ferrierhodgson.com**:

Sydney: Steve Sherman
+61 2 9286 9905
steven.sherman@fh.com.au

Adelaide: Martin Lewis
+61 8 8100 7657
martin.lewis@fh.com.au

Perth: Martin Jones
+61 8 9214 1405
martin.jones@fh.com.au

Malaysia: Andrew Heng
+60 3 2273 6227
aheng@fhmh.com.my

Melbourne: Peter McCluskey
+61 3 9604 5109
peter.mccluskey@fh.com.au

Brisbane: Will Colwell
+61 7 3834 9205
will.colwell@fh.com.au

Singapore: Tim Reid
+65 6416 1400
tim.reid@fh.com.sg