



Implications of the Federal Budget on Agriculture

The Federal Budget was not expected to have a huge impact on the Agricultural sector, and from this perspective, the budget didn't disappoint. New policies directly targeted at agriculture are limited, with much of the focus on climate and the environment. But some economy-wide initiatives, such as changes to company tax rate and superannuation requirements, will have a significant impact on the agricultural sector.

In terms of numbers, total expenditure in the agriculture, forestry and fishing sectors is estimated at ~\$3.5bn in 2010/11, before declining by 15%pa (real terms) over the forward years. This mainly reflects lower expenditure on drought assistance due to an assumed return to normal seasonal conditions. Significant spending is forecast in 2010/11 on 'Natural resources development' (~\$1.8bn) which is largely driven by the *Water for the Future* package.

The major fresh initiative aimed directly at the farm sector is the trial of a new Drought Policy in WA. The primary objective of this initiative is to improve primary producers' preparedness for drought, incorporating measures such as business planning and capacity building. We welcome reform to drought assistance as existing policies are retrospective, constrained by lines on a map, and do not encourage optimal decision making. In particular, the existing policy of interest rate subsidies encourages higher than optimal risk taking and contributes to the farm sector's debt burden.

The multiple environment and climate change initiatives will have varied impacts on farming communities. For example, Landcare funding will assist landholders in addressing land degradation issues. But the Reef Rescue program will impact on farming practices in the Qld cane and cattle industries. More Murray Darling Basin water buybacks, part of the *Water for the Future* package, could further dislocate irrigation communities. Those communities must continue to adapt as the government seeks environmental sustainability. Finally, the Climate Change Research Program will study issues such as soil carbon and livestock emissions. The implications for agriculture are likely to be both positive and negative.

Reforms are also aimed at Quarantine and Biosecurity. The main initiative is \$32.5m aimed to fund various Biosecurity measures including the development and trial of a new mode of operation. The government retained their commitment to reform the export certification process, aimed at improving IT systems and removing 'red tape'. We believe that legitimately protecting our 'clean image' whilst removing obstacles and costs to conducting business should be primary objectives.

Infrastructure improvements are critical to the rural sector. Most notably, the government is continuing with its rollout of the National Broadband Network (NBN). According to the government, the NBN aims to provide 90% of premises with broadband with speeds of up to 100 megabits per second. This is 50 times faster than most people experience today. They intend to connect all other premises with technologies that will be able to deliver 12 megabits per second or better. Admittedly, a large proportion of primary producers will fall within this bottom 10%, but it's a step in the right direction. Improved communications and information dissemination is crucial for improving farm sector productivity. Funding aimed at improving regional road and rail infrastructure is also welcome.

The FarmReady package is focuses on addressing skills shortages; however it is mainly concerned with climate change. Other skills issues – for example in the areas of finance, succession planning and marketing – have not been addressed. Labour shortages and the issues surrounding a declining and aging workforce have not been targeted.

Small business reform, such as taxation and superannuation policy, will have a significant impact on the farm sector. The reduction in the company tax rate to 29% in 2013/14 and to 28% from 2014/15 will promote investment. Furthermore, for eligible small business's the tax rate will be cut to 28% in 2012/13. Changes to depreciation schedules for small businesses should reduce tax burdens and improve simplicity. But the proposed increase in the Superannuation Guarantee from 9% to 12% by 2019 will slowly add to business costs. Nonetheless, it is good economic policy when viewed in light of an aging population and the requirement to boost the national savings rate.

Finally, the proposed Resource Super Profits Tax (RSPT) will have some second round impacts on the farm sector. The structure of the RSPT will result in more investment in the mining sector and increased output. This will result in greater competition for labour in rural areas, exacerbating farm sector labour shortages. There will be increased competition for rural services such as mechanics, storage facilities and transportation (i.e. fly-in fly-out operations). Finally a larger mining sector may result in increased competition for natural resources such as land and water.



Figure 1: Summary of expenses – agriculture, forestry and fisheries

	Estimates			Projections	
	2009-10 \$m	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
Wool industry	42	43	43	43	43
Grains industry	141	145	136	142	148
Dairy industry	48	46	46	47	47
Cattle, sheep and pig industry	170	174	177	183	183
Fishing, horticulture and other agriculture	254	231	226	218	218
General assistance not allocated to specific industries	23	22	21	21	22
Rural assistance	753	440	75	49	49
Natural resources development	1,271	1,841	1,680	1,302	1,011
General administration	629	644	634	620	621
Total agriculture, forestry and fishing	3,330	3,587	3,038	2,624	2,342

Source: Budget papers



Please view our website at www.research.commbank.com.au. The Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and its subsidiaries, including Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 ("CommSec"), Commonwealth Australia Securities LLC, CBA Europe Ltd and Global Markets Research, are domestic or foreign entities or business areas of the Commonwealth Bank Group of Companies (CBGOC). CBGOC and their directors, employees and representatives are referred to in this Appendix as "the Group". This report is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy any securities or financial instruments. This report has been prepared without taking account of the objectives, financial situation and capacity to bear loss, knowledge, experience or needs of any specific person who may receive this report. No member of the Group does, or is required to, assess the appropriateness or suitability of the report for recipients who therefore do not benefit from any regulatory protections in this regard. All recipients should, before acting on the information in this report, consider the appropriateness and suitability of the information, having regard to their own objectives, financial situation and needs, and, if necessary seek the appropriate professional, foreign exchange or financial advice regarding the content of this report. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this report. Any opinions, conclusions or recommendations set forth in this report are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by the Group. We are under no obligation to, and do not, update or keep current the information contained in this report. The Group does not accept any liability for any loss or damage arising out of the use of all or any part of this report. Any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The Group does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met. Past performance is not a reliable indicator of future performance. The Group has provided, provides, or seeks to provide, investment banking, capital markets and/or other services, including financial services, to the companies described in the report and their associates. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject any entity within the Group to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to the Group. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior written permission of the appropriate entity within the Group. In the case of certain products, the Bank or one of its related bodies corporate is or may be the only market maker. The Group, its agents, associates and clients have or have had long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in such interests or securities as principal or agent, including selling to or buying from clients on a principal basis and may engage in transactions in a manner inconsistent with this report.

US Investors: If you would like to speak to someone regarding the subject securities described in this report, please contact Commonwealth Australia Securities LLC (the "US Broker-Dealer"), a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (the "Exchange Act") and a member of the Financial Industry Regulatory Authority ("FINRA") at 1 (212) 336-7737. This report was prepared, approved and published by Global Markets Research, a division of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and distributed in the U.S. by the US Broker-Dealer. The Bank is not registered as a broker-dealer under the Exchange Act and is not a member of FINRA or any U.S. self-regulatory organization. Commonwealth Australia Securities LLC ("US Broker-Dealer") is a wholly owned, but non-guaranteed, subsidiary of the Bank, organized under the laws of the State of Delaware, USA, with limited liability. The US Broker-Dealer is not authorized to engage in the underwriting of securities and does not make markets or otherwise engage in any trading in the securities of the subject companies described in our research reports. The US Broker-Dealer is the distributor of this research report in the United States under Rule 15a-6 of the Exchange Act and accepts responsibility for its content. Global Markets Research and the US Broker-Dealer are affiliates under common control. Computation of 1% beneficial ownership is based upon the methodology used to compute ownership under Section 13(d) of the Exchange Act. The securities discussed in this research report may not be eligible for sale in all States or countries, and such securities may not be suitable for all types of investors. Offers and sales of securities discussed in this research report, and the distribution of this report, may be made only in States and countries where such securities are exempt from registration or qualification or have been so registered or qualified for offer and sale, and in accordance with applicable broker-dealer and agent/salesman registration or licensing requirements. The preparer of this research report is employed by Global Markets Research and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, the New York Stock Exchange, Inc., any other U.S. self-regulatory organization, or the laws, rules or regulations of any State.

European Investors: This report is published, approved and distributed in the UK by the Bank and by CBA Europe Ltd ("CBAE"). The Bank and CBAE are both registered in England (No. BR250 and 05687023 respectively) and authorised and regulated in the UK by the Financial Services Authority ("FSA"). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for retail customers and are not available to them. The products and services referred to in this report may put your capital at risk. Investments, persons, matters and services referred to in this report may not be regulated by the FSA. CBAE can clarify where FSA regulations apply.

Singapore Investors: This report is distributed in Singapore by Commonwealth Bank of Australia, Singapore Branch (company number F03137W) and is made available only for persons who are Accredited Investors as defined in the Singapore Securities and Futures Act and the Financial Advisers Act. It has not been prepared for, and must not be distributed to or replicated in any form, to anyone who is not an Accredited Investor.

Hong Kong Investors: This report was prepared, approved and published by the Bank, and distributed in Hong Kong by the Bank's Hong Kong Branch. The Hong Kong Branch is a registered institution with the Hong Kong Monetary Authority to carry out the Type 1 (Dealing in securities) and Type 4 (Advising on securities) regulated activities under the Securities and Futures Ordinance. Investors should understand the risks in investments and that prices do go up as well as down, and in some cases may even become worthless. Research report on collective investment schemes which have not been authorized by the Securities and Futures Commission is not directed to, or intended for distribution in Hong Kong.

All investors: Analyst Certification and Disclaimer: Each research analyst, primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the report. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing, and interpreting market information. Directors or employees of the Group may serve or may have served as officers or directors of the subject company of this report. The compensation of analysts who prepared this report is determined exclusively by research management and senior management (not including investment banking). No inducement has been or will be received by the Group from the subject of this report or its associates to undertake the research or make the recommendations. The research staff responsible for this report receive a salary and a bonus that is dependent on a number of factors including their performance and the overall financial performance of the Group, including its profits derived from investment banking, sales and trading revenue.

Unless agreed separately, we do not charge any fees for any information provided in this presentation. You may be charged fees in relation to the financial products or other services the Bank provides, these are set out in the relevant Financial Services Guide (FSG) and relevant Product Disclosure Statements (PDS). Our employees receive a salary and do not receive any commissions or fees. However, they may be eligible for a bonus payment from us based on a number of factors relating to their overall performance during the year. These factors include the level of revenue they generate, meeting client service standards and reaching individual sales portfolio targets. Our employees may also receive benefits such as tickets to sporting and cultural events, corporate promotional merchandise and other similar benefits. If you have a complaint, the Bank's dispute resolution process can be accessed on 132221.

Unless otherwise noted, all data is sourced from Australian Bureau of Statistics material (www.abs.gov.au).