



Budget 2016-17: Agriculture

May 2016



We welcome the measures announced to support and promote Australian Agriculture.

At NAB, we're confident in the future of Australian agriculture and we're proud to continue our support of Australian farmers and agribusinesses as they take on the world.

Khan Horne
General Manager, NAB Agribusiness

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Key initiatives

The 2016-17 Budget includes a number of measures for agriculture, relating to water and drought, infrastructure, innovation and trade as well as revenue and savings measures.

Water and drought

- **\$2 billion** in concessional loans (10 year period from 1 July 2016) to establish the National Water Infrastructure Loan Facility. Loan recipients will make interest only payments for up to the first five years, and have a further 10 years to repay the principal and any additional interest.
- **\$9.5 million** for the National Water Infrastructure Development Fund, to fund water infrastructure feasibility studies in northern Australia, with the cost being met by redirecting funds from the Rural Research and Development for Profit program.
- **\$7.1 million** to fund additional Rural Financial Counsellors who will provide free financial advice to farmers in drought-affected areas.

Transport infrastructure

- Up to **\$593.7 million** in additional equity to the Australian Rail Track Corporation over three years from 2016-17 for land acquisition and pre-construction works on the inland rail project. This does not commit the Commonwealth to construction, which is likely to cost several billion dollars.
- **\$220 million** for the Murray Basin rail project, upgrading grain lines in western Victoria, matching the Victorian Government contribution.

Innovation and trade

- **\$50 million** over four years to the Australian Grape and Wine Authority to promote wine tourism and Australian wine overseas.
- **\$15 million** over four years for a carp control programme.
- A two year pilot program to improve access for farmers to training and information about co-operatives collective bargaining and innovative business models, with the costs being met from existing departmental resources

Revenue and savings measures

- A reduction in the Wine Equalisation Tax (WET) rebate cap from \$500,000 to \$350,000 on 1 July 2017, and to \$290,000 on 1 July 2018 and tighter eligibility criteria from 1 July 2019.
- Savings of \$9.2 million to the Managing Farm Risk Programme, with a means test limiting eligibility to farm businesses with annual revenue of less than \$2.0 million.
- An extra \$2 million annually from changes to agricultural levies from 1 July 2016, including:
 - a mandatory levy of \$0.50 per tonne on all hay and straw prepared for export, replacing a voluntary levy;
 - cessation of various deer levies and custom charges from 1 July 2016;
 - an increase in the Emergency Plant Test Response Levy for growth of private plantation logs; and
 - an increase in the citrus levy by \$1.50 per tonne.

Reaction

NAB view

The 2015-16 Budget delivers a modest set of initiatives for agriculture, reflecting a subdued overall revenue environment.

The 2.5% corporate tax cut for small businesses will benefit many farmers, and with the drought continuing to bite in many parts of the country, the additional \$7.1 million to fund additional Rural Financial Counsellors is very welcome.

The National Water Infrastructure Loan Facility has the potential to provide new investment in water infrastructure. However, funding for the scheme is spread over 10 years and is dependent on states and territories choosing to proceed with projects. Further, with the states already long able to borrow at rates not significantly higher than the Commonwealth, it remains unclear whether the scheme provides substantial incentives to invest.

Additional equity for the Australian Rail Track Corporation for inland rail is a good start, although the project will require several billion dollars to construct and this funding has hitherto not been forthcoming.

The backpacker tax issue remains a major issue for industry. With backpackers making up around a quarter of the agricultural workforce. They will face a substantial tax increase from 1 July 2016 which could reduce the availability of labour and increase costs for producers, especially the labour intensive \$10 billion horticultural industry.

Industry view

The National Farmers Federation had a mixed reaction to the budget. While it welcomed the 2.5% tax cut for small business, there is disappointment that there is insufficient funding to commence construction on inland rail (despite welcoming the cash injection) and outright anger that the backpacker tax issue remains unresolved.

National Farmers Federation President Brent Finlay said that:

“There were literally thousands of farming families, agricultural businesses and tourism operators who were desperately hoping the backpacker tax, in its current form, would be abandoned in tonight’s Budget ... It is now time for the Government to respond to the risk imposed on the sector by a measure that will chase working holiday makers away from Australia and, in the process, decimate the agricultural workforce.”

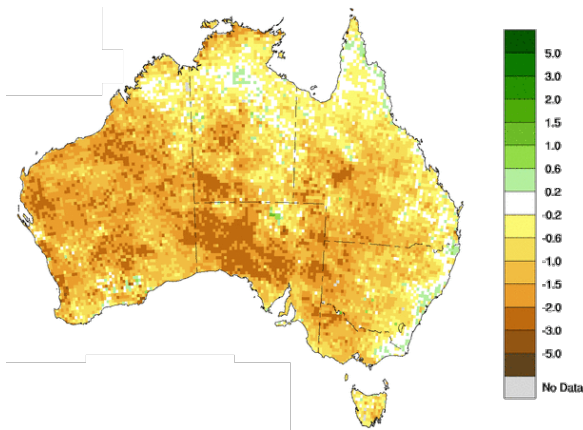
The National Farmers Federation’s pre-budget submission sought a number of measures in the budget, including improved funding for forecasting at the Bureau of Meteorology, funding for Landcare, the construction of the inland rail project from Melbourne to Brisbane and a compromise for the ‘backpacker tax’ at 19%.

GrainGrowers expressed similar sentiments to the National Farmers Federation while the NSW Irrigators Council supported the carp control programme.

Water and drought

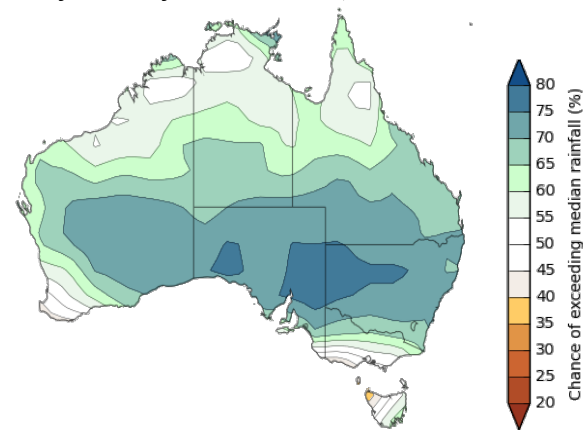
Vegetation greenness anomaly

Six months to 30 April 2016 (NDVI)



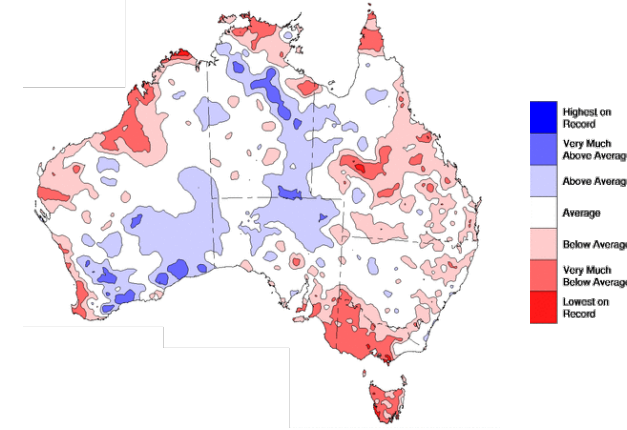
Three month rainfall outlook

May to July 2016



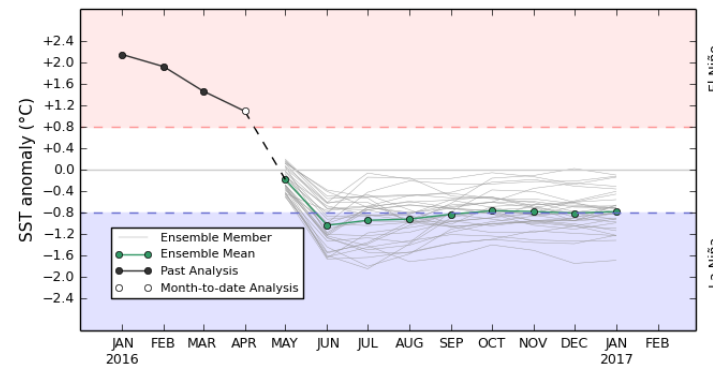
Australian rainfall deciles

12 months to 30 April 2016



BoM POAMA El Niño outlook model

Monthly mean NINO34



The budget provides \$2 billion in concessional loans over 10 years from 1 July 2016 to establish the National Water Infrastructure Loan Facility. Loans will be provided to the States and Territories to support major water infrastructure projects. Loan recipients will make interest only payments for up to the first five years, and have a further 10 years to repay the principal and any additional interest.

With the states already long able to borrow at rates not significantly higher than the Commonwealth, it remains unclear whether they will seek to access the programme.

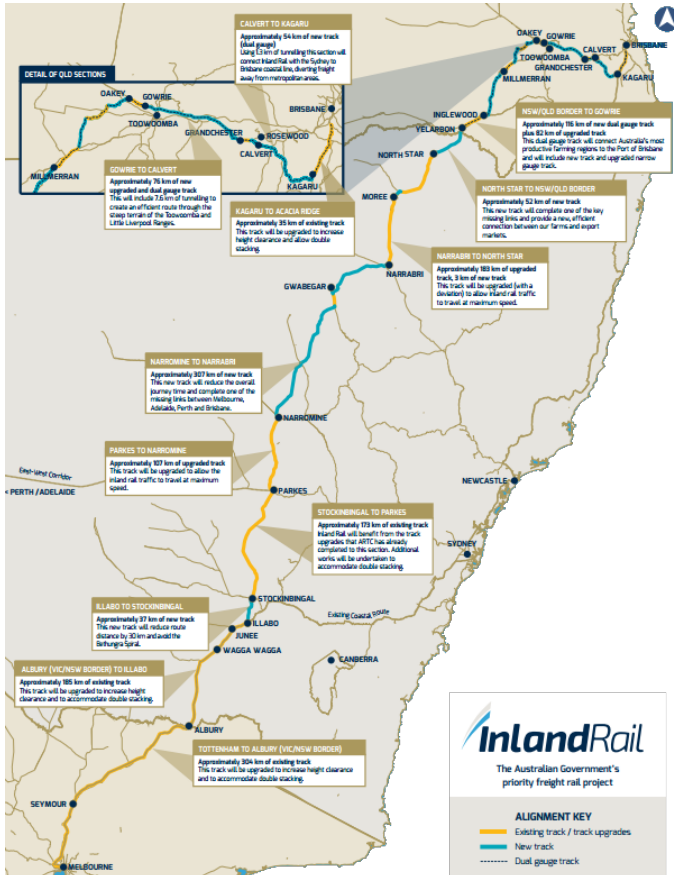
The budget also provides \$9.5 million for the National Water Infrastructure Development Fund, to fund water infrastructure feasibility studies in northern Australia, with the cost being met by redirecting funds from the Rural Research and Development for Profit program.

With many parts of Australia still very dry (particularly in Queensland, Tasmania, Victoria and parts of South Australia), the budget provides \$7.1 million to fund additional Rural Financial Counsellors who will provide free financial advice to farmers in drought-affected areas.

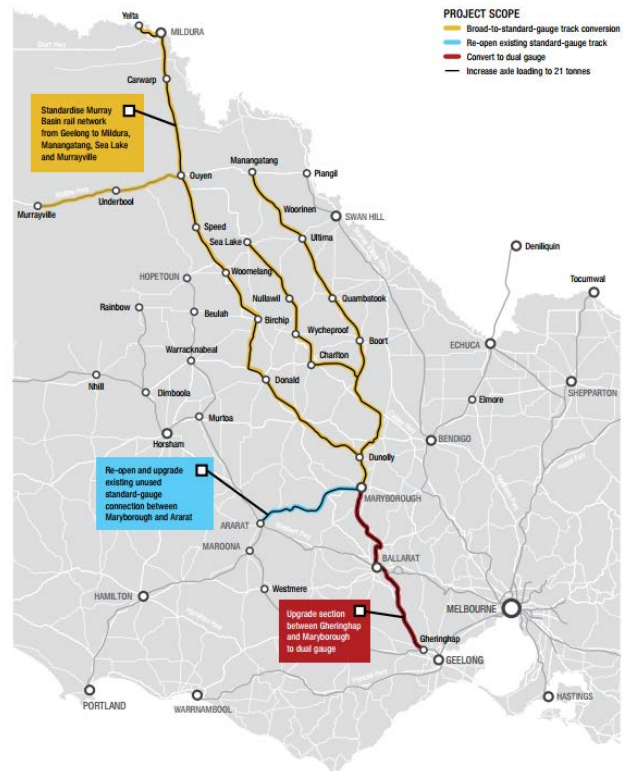
Source: Bureau of Meteorology

Transport infrastructure

Proposed Inland Rail alignment ARTC 2016 preferred route



Murray Basin rail project Scope of proposed works



The Australian Rail Track Corporation will receive up to \$593.7 million in additional equity over three years from 2016-17 for land acquisition and pre-construction works on the inland rail project. This does not commit the Commonwealth to construction, which is likely to cost several billion dollars.

The inland rail project has been under development for several years and found strong support from the National Farmers Federation. The project would use a combination of new and existing (upgraded) rail lines to create an inland freight route from Melbourne to Brisbane via Parkes, bypassing Sydney and substantially improving service levels and journey times.

The budget provides \$220 million for the Murray Basin rail project, matching the Victorian Government contribution. The project will upgrade and gauge standardise the Mildura and four associated branch lines primarily used to haul grain in north-west Victoria. Without additional funding, Victoria's grain rail network faced serious maintenance shortfalls and threatened viability.

The funding for the project is redirected East-West Link funds already paid to the Victorian Government.

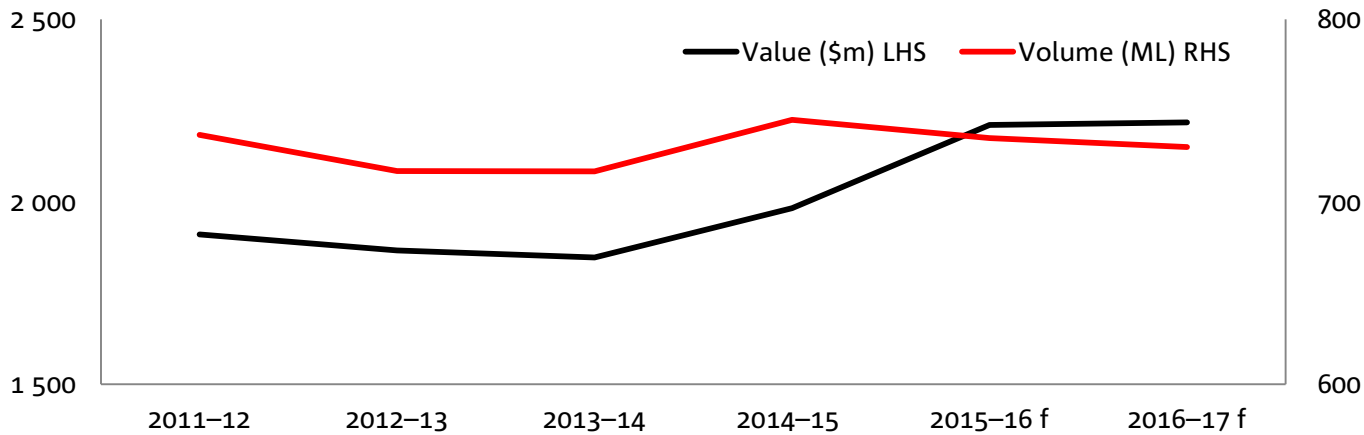
Source: ARTC, Public Transport Victoria, Department of Treasury and Finance (Victoria), Commonwealth Treasury and NAB Group Economics



Innovation and trade

Value and volume of Australian wine exports

ABARES forecast



Weighted wine grape prices

AUD/tonne



Wine Australia funding

The Australian Grape and Wine Authority will receive \$50 million over four years to promote wine tourism and Australian wine overseas. Funding will come from changes to the Wine Equalisation Tax (see page 8).

Innovation

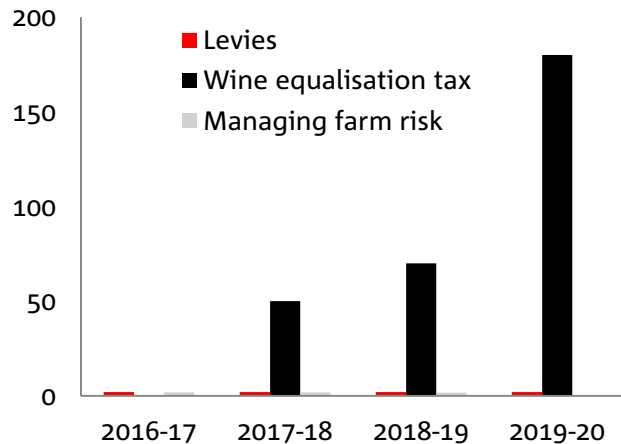
A two year pilot program will be established. It will improve access for farmers to training and information about co-operatives collective bargaining and innovative business models, with the costs being met from existing departmental resources.

Source: Commonwealth Treasury, Australian Bureau of Statistics, Wine Australia, ABARES and NAB Group Economics

Revenue and savings measures

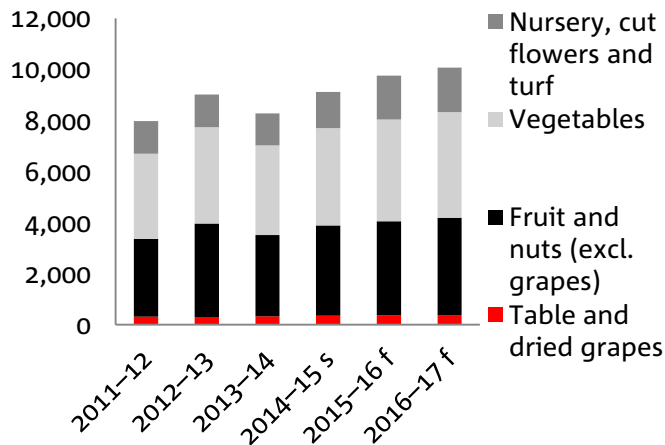
Revenue measures

AUD millions, Treasury forecast



Value of horticultural production

AUD million, ABARES forecast



Wine equalisation tax

The Wine Equalisation Tax rebate cap will be reduced from \$500,000 to \$350,000 on 1 July 2017, and to \$290,000 on 1 July 2018. Tighter eligibility criteria will apply from 1 July 2019.

Managing Farm Risk

There will be savings of \$9.2 million to the Managing Farm Risk Programme, with a means test limiting eligibility to farm businesses with annual revenue of less than \$2.0 million.

Changes to agricultural levies

There are small changes to agricultural levies, netting an extra \$2 million over three years to 2019-20. Changes include a mandatory levy of \$0.50 per tonne on all hay and straw prepared for export, replacing a voluntary levy; cessation of various deer levies and custom charges from 1 July 2016 an increase in the Emergency Plant Test Response Levy for growth of private plantation logs and an increase in the citrus levy by \$1.50 per tonne.

Backpacker tax to remain unchanged from 2015-16

The 2015-16 Budget introduced a measure to remove the tax free threshold for tourists on working holidays (i.e. backpackers) from 1 July 2016 in favour of a flat tax rate of 32.5%. The National Farmers Federation reports that backpackers make up around 25% of Australia's agricultural workforce.

The move caused concern in the labour intensive horticultural industry that it would be increasingly difficult to source labour, increasing costs for the industry. ABARES forecasts the value of Australian horticultural production to exceed \$10 billion in 2016-17.

The 2016-17 Budget has not amended these measures and the flat tax rate will go ahead on 1 July 2016.

Source: Commonwealth Treasury, Australian Bureau of Statistics, National Farmers Federation, ABARES and NAB Group Economics

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