

2022-23 FEDERAL BUDGET

Regional and Agriculture



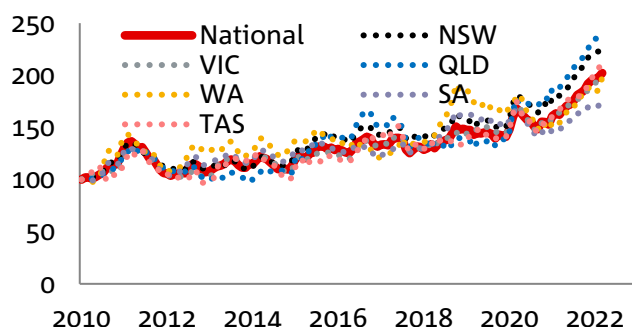
Industry background

The last two years have delivered some of the best conditions ever

The 2022-23 budget takes place against a backdrop of a generally very strong two years for Australian agriculture, but with emerging challenges around input costs and trade disruptions. Seasonal conditions since autumn 2020 have generally been excellent, resulting in record crop production combined with generally excellent commodity prices for many sectors.

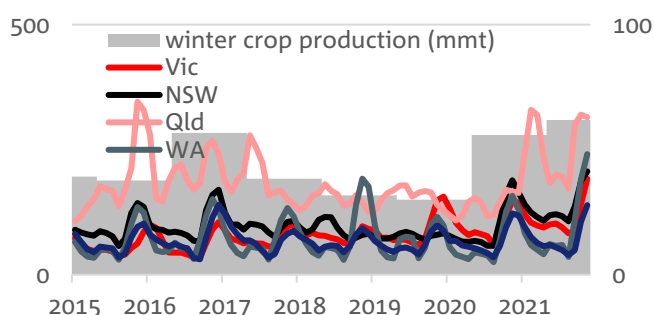
The **NAB Rural Commodities Index** ticked up another 0.9% on a monthly basis in February - its eleventh consecutive gain to another record high. Our latest partial data for March points for a roughly 2% gain in the month. The index is now over 20% higher than the same time in 2021.

NAB Rural Commodities Index



This is also reflected in our customer data, which shows grain customer inflows across Vic, NSW, SA and WA now at the highest level since our series began in 2015. WA has seen particularly strong conditions, with January income around 25% higher than the same period in 2019, when WA growers experienced a strong season combined with strong drought-induced eastern states demand.

NAB agribusiness grain customer inflows



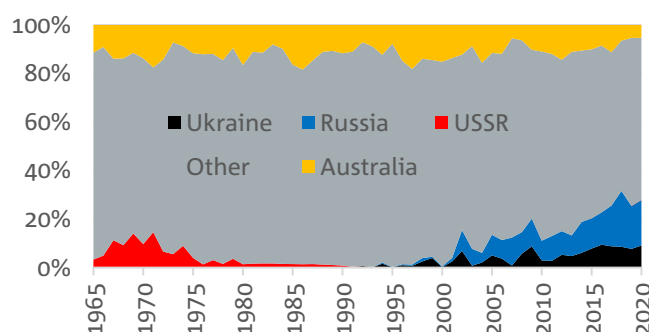
Rising input costs are presenting a rising challenge

Russia's invasion of Ukraine has sent shockwaves through agricultural commodity markets across the globe. Grains, fertiliser and oil prices have all seen substantial increases as well as volatility as a result, with considerable uncertainty over production at risk in Ukraine. While western sanctions do not extend to Russian agricultural products, the old commodity trading routes of the Cold War are being re-established.

Overall, our fertiliser index was up 40.5% on a year-on-year basis in February, and 119% compared to the same time in 2020.

The Russian invasion of Ukraine has particularly caused havoc with global grain markets. Russia and Ukraine combined constitute around 25-30% of global wheat exports, a share that has been trending up from well under 5% through the 1990s. This compounds already mixed overseas growing conditions and low global stocks outside China, creating the conditions for high volatility.

Share of global wheat exports – selected countries

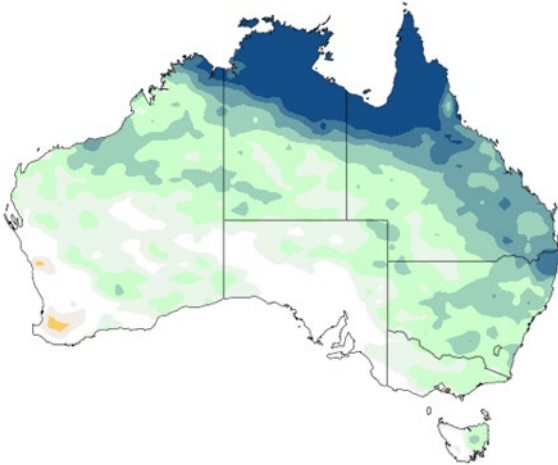


Seasonal conditions have been more mixed recently – coming months will be key

The La Nina event, underway since last November, weakened somewhat in February but this has stalled in March as trade winds remain stronger than average over the western Pacific. This brings an increased risk of tropical cyclones, although we are reaching the tail end of the season. The event has seen destructive storms across parts of Queensland and New South Wales, as well as high rainfall in some agricultural districts. Meanwhile, other regions remain drier than average. Much of northern Queensland and the Northern Territory is abnormally dry.

Given the traditional start to the winter cropping seasons is just a month away, producers in some southern regions are looking for more rain. The three-month outlook for April to June points to a potentially very wet period in the tropical north and wetter than average to average conditions elsewhere, with the notable exception of the WA wheatbelt, where average to drier than average conditions are forecast. It is important to note that autumn long range outlooks typically have relatively low confidence.

BoM three-month rainfall outlook April-June 2022



Many regional areas have experienced strong growth during the pandemic

The onset of the pandemic shifted migration patterns, with many people relocating to rural areas. While beneficial to many regional economies, there have been increased housing cost pressures as well as regional labour shortages, particularly in hospitality and agriculture.

Budget measures

The Budget allocates an additional \$135.6m over 5 years to **support the NFF's ambition for a \$100b industry by 2030**. Key measures include:

- \$61.6m for biosecurity infrastructure
- \$20.1m for on-farm biosecurity
- \$20m for pest and weed reduction
- \$15.4m for agricultural shows and field days
- \$12m for trade events
- \$6.6m for the AgMove program

The **National Water Grid** will receive \$6.9b, of which around \$1b is in the budget and forward estimates period, for a range of water projects. This includes Hells Gate Dam, Paradise Dam improvement,

Dungowan Dam and pipeline, Darwin water infrastructure and Emu Swamp Dam and pipeline.

The Government will provide \$114.6m over 5 years for **forestry and fishing sustainability**, including \$86.2m for new plantations.

Murray-Darling basin will receive an additional \$139.9m to improve environmental outcomes and economic development, to be met from existing departmental resources.

The **tax treatment of Australian Carbon Credit Units will change**, classing them as primary production income, allowing concessional tax treatment under the FMD scheme or tax averaging. This will cost \$100m over the forward estimates.

There is an additional 85.4m for **drought readiness**, to be met from the Drought Future Fund.

While the Budget has **halved fuel excise** for the next six months (a cut of 22c/l), its impact for agriculture is likely to be limited by the fact that agricultural machinery was already eligible for the fuel tax credit. There will be however be a benefit for vehicles used on road, such as trucks and utes.

Four regional areas are set to receive \$7.1b over 11 years in a major investment into the **Energy Security and Regional Development Plan**, which will focus on improving infrastructure and developing supply chains. The regions are the Northern Territory, North and Central Queensland, the Pilbara and the Hunter. Some of the funding is existing and some beyond the forward estimates. The Budget provides around \$1.4b over the course of the Budget and forward estimates period.

Key focus areas for each region are as follows:

- Northern Territory: manufacturing, onshore processing of critical minerals and renewable energy infrastructure.
- North and Central Queensland: water infrastructure and supply chain improvements to support agriculture.
- Pilbara: mining, mineral processing, manufacturing, hydrogen and renewable energy.
- Hunter: transport infrastructure to improve supply chains and diversify the economy, facilitate the development of new industries.

A new **Regional Accelerator Program** (RAP) will be established, providing \$2b over 5 years for economic growth and productivity in regional areas. It will provide “dedicated funding for regional businesses and communities to access programs targeted to local priorities in infrastructure, manufacturing and industry development, skills and training, research and development, and education”.

The Budget provides \$1.3b over 6 years for improved **regional mobile services and internet**. \$1.12b is allocated over the Budget and forward estimates period.

What did business want this year?

The **National Farmers Federation** (NFF) has set a target for Australian agriculture to be a \$100 billion industry by 2030 - a vision shared by industry and Government. The NFF Pre-Budget Submission recommendations can be summarised under the five pillars of the NFF's 2030 Roadmap:

1. **Customers and Value Chains** - specific measures include: establishment of an Infrastructure Fund focused on productivity improvements within the supply chain; 20 Regional Development Precincts across Australia, including funding for investment in priority precinct infrastructure; the waiver of export certification fees, and the continuation of the International Freight Assistance Mechanism until international borders are fully reopened; establishing the Office for the Perishable Agricultural Goods Advocate.
2. **Growing Sustainably** - specific measures include: continuation of pilot and expansion of programs such as the carbon and biodiversity and enhanced remnant vegetation programs, including contribution to the development of natural capital markets; and support complementary measures in the Murray Darling Basin Plan.
3. **Unlocking Innovation** - specific measures include: establishing a Regional, Rural and Remote Telecommunications Fund to resource ongoing mobile network expansion; the Mobile Blackspots Program; the establishment of the Australian Local Power Agency and the associated Local Power Fund.
4. **Capable People and Vibrant Communities** - specific measures include: a centrally managed Seasonal Worker Fund; initiatives which promote education and training for the agriculture sector; mental health awareness and early intervention programs in rural, regional and remote areas.
5. **Capital and Risk Management** - specific measures include: retention in perpetuity of the fuel tax excise rebate for off-road use; further round of the Emergency Water Infrastructure Scheme; review and reform of the tax system and drought measures, with respect to definitions of a primary producer to incentivise sound on-farm risk management.

GrainGrowers noted the Australian grains sector was in a prime position to drive continued economic

growth in the COVID-19 recovery. GrainGrowers sought initiatives in four key areas in their pre-budget submission:

1. **Trade and Market Access & Quality** - activities that accelerate market development; increase focus on the elimination of commercially meaningful non-tariff barriers; and an Australia-India Agreement that improves market access.
2. **Freight, Infrastructure and Telecommunications** - improvements to Australia's logistics system; removing bottlenecks along grain freight routes and key ports; more funding for local road upgrades and maintenance; improving telecommunications infrastructure and access to both broadband and voice services.
3. **Farm Business and Economics** - Government review of the Farm Management Deposit.
4. **Innovation, Farm Inputs & Biosecurity** - more opportunities for domestic manufacturing of fertiliser, chemical, fuel, spare parts, etc; improving price transparency in fertiliser markets; AgVisa to be accessible for all of commodities; Government support for initiatives like GrainGrowers Grains Employer of Choice Program; and a National Biosecurity Strategy.
5. **Sustainability, Climate Change & Natural Resource Management** - more education, awareness programs & tools to measure and integrate carbon, biodiversity, soil and environment health data; a new Regional Investment Corporation (RIC) loan to assist farmers undertake emissions reduction activities; research and technologies to reduce grains related emissions and support pathways to carbon neutrality (net zero) or better which are economically and socially feasible for the grains sector.

How did business react?

The NFF reacted positively to new telecommunications funding, commenting:

While work remains to be done, this investment is hugely positive. The next step for the Government must be to deliver on the NFF's call for a multi-billion regional connectivity commitment to resource ongoing network improvement and expansion into the future.

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