May 2023 Federal Budget – analysis for the Australian dairy industry

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Economic and fiscal overview

The global economic outlook has deteriorated and is highly uncertain. High inflation and interest rates will see the weakest 2 years for the global economy in over 2 decades, outside of the Global Financial Crisis and the pandemic. Tighter financial conditions associated with recent banking strains in the United States and Europe are a further drag on growth and add more uncertainty to the global outlook.

The Australian economy is impacted by these challenges, but it is well-placed to navigate them. The unemployment rate is near 50-year lows, wages growth has picked up, and national income is being supported by elevated commodity prices. However, the global slowdown, persistent inflation and higher interest rates are expected to slow real GDP growth to 1½ per cent in 2023–24, before rising to 2¼ per cent in 2024–25.

Inflation has peaked and is moderating as global price shocks and supply constraints ease. While still elevated, inflation is expected to fall to 3¼ per cent in 2023–24 and return to the target band in 2024–25. The Government's cost-of-living measures will directly reduce the CPI in 2023–24 and are not expected to add to broader inflationary pressures in the economy.

A budget surplus of $4.2 billion (0.2 per cent of GDP) is now forecast in 2022–23, ahead of most major advanced economies. An underlying cash deficit of $13.9 billion is forecast in 2023–24; an improvement of $30.1 billion since the October Budget. Over 5 years to 2026–27, there is a cumulative improvement in the underlying cash balance of $125.9 billion. Debt and deficits are lower in each year of the forward estimates and medium term. Gross debt is estimated to reach a peak of 36.5 per cent of GDP in 2025–26, 10.4 percentage points lower and 5 years earlier than at the October Budget.

Prioritises for the Budget focus on helping those most adversely impacted by the economic conditions, addressing geopolitical tensions and transitioning the Australian economy to a low emissions and value adding future. There is cost-of-living relief and targeted support for low-income earners, social security recipients, Aboriginal and Torres Strait peoples and women. A historic $5.7 billion investment has been made to strengthen Medicare and a further $4.0 billion has been provided to become a renewable energy superpower. There are measures that secure the future of vocational education and training, harnessing opportunities of the digital economy, and bolstering industrial capacity primarily via the AUKUS agreement. Australia's security and prosperity continue to be safeguarded through new investments in national security capabilities and strengthening ties in the region.

Overall, the priorities of ADF have been serviced in this Budget. Calls for returning the Budget back to surplus to curb inflation has been delivered. For the first time the Government has committed to ongoing funding with a significant cash injection for biosecurity. This delivers of ADF's submissions to the Senate inquiry into biosecurity and the Government's consideration of a sustainable funding model. Access to foreign workers and pensioners to fill workforce shortages have been heard and criticism of the Department of Home Affairs visa processing has been addressed. The Government has announced a review of the Australian Carbon Credit Unit scheme and development of a climate adaptation plan. These initiatives have been long overdue. ABARES have received funding to improve agriculture statistics. As ABARES produce many dairy statistics it is reasonable to expect more robust data and analysis for dairy e.g., productivity. Initiatives supporting small businesses should be available to most dairy farmers. Flood impacted dairy regions will be supported by infrastructure, advanced warning systems and road repairs. Environmental stewardship and soil health initiatives will help dairy farmers enhance their sustainability and to a lesser extent productivity. All of these initiatives deliver on the actions and/or objectives in the ADF Federal Election Policy Statement (released in December 2021).

There are a number of areas of concern in the Budget for dairy. As part of the biosecurity package a new biosecurity protection levy will be placed on dairy farmers. It is not clear what the business case is for this and how the intended revenue will be collected and distributed. The Government's banning of the live sheep export trade is progressing irrespective or ADF's and other agriculture advocacy groups opposition. There is uncertainty around how renewed funding for the Government's new animal welfare strategy will be used. It could become a regulatory or administrative burden for industry. The Government continues (from the October 2022 Budget) to withdraw investment from water supply projects. This will reduce water availability and increase prices for irrigators. An increase in the Heavy Vehicle Road User Charge adds cost to the dairy supply chain. Significant funds have been allocated to more reviews of the Murray Darling Basin Plan. While some of this is statutory such funds could have been better spent supporting dairy farmers in the basin. Reduction in funding for the export development grant program reduces capacity of dairy exporters. ADF will need to engage with Government and the relevant department to minimise impact on and where possible provide more opportunistic pathways to opportunity for the dairy industry.

Further detail on the initiatives directly impacting the dairy industry is provided below.

Animal welfare

<u>Live sheep export phase out</u>

The Government will provide $5.6 million over two years from 2022–23 to establish a panel to undertake an independent assessment and consultation process to inform the phase out of live sheep exports by sea.

<u>Renewed animal welfare strategy</u>

The Government will provide $5.0 million over 4 years from 2023–24 to develop a renewed Australian Animal Welfare Strategy (the Strategy) to establish national standards to support improved animal welfare outcomes.

Biosecurity

<u>Strengthened and sustainably funded biosecurity system</u>

The Government will provide an additional $1.0 billion over 4 years from 2023–24 (and $268.1 million per year ongoing) to meet its election commitment to strengthen Australia's biosecurity system. Funding includes:

- $845.0 million over 4 years from 2023–24 (and $255.3 million per year ongoing) to maintain biosecurity policy, operational and technical functions on a sustainable basis, including

regulation, surveillance, domestic preparedness and response, and international engagement and capability development
- $145.2 million over 3 years from 2023–24 to deliver modern digital systems in cargo pathways that are integrated with business systems, cut red tape and streamline regulation and service delivery for importers
- $40.6 million over 4 years from 2023–24 (and $12.0 million per year ongoing) to continue the Indigenous Ranger Biosecurity Program to reduce biosecurity risks in Northern Australia and provide social and economic benefits to First Nations, rural and remote communities.

The cost of the measure will be partially offset through introducing:
- cost recovery arrangements for the clearance of low value imported cargo, which is expected to raise $81.3 million over 3 years from 2024–25
- a biosecurity protection levy on Australian producers of agricultural, forestry and fishery products from 1 July 2024, set at a rate equivalent to 10 per cent of the 2020–21 industry-led agricultural levies, which is estimated to increase receipts by $153.0 million over 3 years from 2024–25. The levy recognises the benefits that primary producers derive from Australia's biosecurity system, including detection, identification and response associated with invasive pests and diseases, maximising trade opportunities, and enhancing access to premium overseas markets.

This measure builds on the $134.1 million over 4 years from 2022–23 (and $3.3 million per year ongoing) to bolster biosecurity capability announced in the 2022–23 October Budget.

<u>Funding supplementation for the Department of Agriculture, Fisheries and Forestry</u>

The Government will provide $127.0 million in 2022–23 for the Department of Agriculture, Fisheries and Forestry (DAFF) to meet a funding shortfall predominantly related to cost recovered activities, and increased biosecurity operations including frontline border operations and import clearances. The supplementation funding will ensure that DAFF is able to meet its financial commitments as they fall due, while continuing to deliver its core functions.

Climate change

<u>Reform of the Australian Carbon Credit Unit scheme</u>

The Government will provide $18.1 million over two years from 2023–24 to implement priority reforms to the operation of the Australian Carbon Credit Unit (ACCU) scheme as part of the Government's initial response to the Independent Review of Australian Carbon Credit Units. Funding includes:
- $5.9 million over two years from 2023–24 to conduct audits of human induced regeneration projects
- $4.5 million over two years from 2023–24 to upgrade the Clean Energy Regulator's systems to publish carbon estimation area data
- $4.2 million over two years from 2023–24 to consult on the design of proposed reforms
- $3.5 million over two years from 2023–24 to establish the Carbon Abatement Integrity Committee to ensure method integrity for ACCUs.

<u>Development of a National Climate Adaptation and Risk Plan</u>

The Government will provide $28.0 million over two years from 2023–24 to develop Australia's first National Climate Risk Assessment and a National Adaptation Plan to understand the risks to

Australia from climate change, invest in a plan to adapt to those risks, and commission an independent review of the Australian Climate Service.

Transitioning to renewable energy in the regions

Funding of $89.0 million has also been provided through the Powering the Regions Fund to support energy transition investments important to regional Australia.

Emergency management

Flood warning infrastructure network remediation

The Government will provide $236.0 million over 10 years from 2023–24 (and $13.9 million per year ongoing from 2032–33) to remediate high priority flood warning infrastructure and address critical reliability risks. The Bureau of Meteorology will acquire, upgrade and integrate local and state government-owned rain and river gauges into its existing flood warning network.

Environment

Implementing the National Soil Action Plan

The Government will provide $20.0 million in 2023–24 to fund states and territories to deliver initiatives that contribute to priority actions of the National Soil Action Plan, tailored to regional soil needs and conditions. Funding for this measure is subject to financial contributions from the states and territories.

Delivering conservation and stewardship activities

The Government will allocate $741.3 million over 5 years from 2023–24 from the Natural Heritage Trust special account to support local and long-term environmental and agricultural outcomes. Funding includes:

- $341.2 million over 5 years from 2023–24 to protect nature, threatened species and habitats and to maintain delivery capability through activities like the BushBlitz, Natural Resource Management (NRM) partnerships and on-ground conservation and recovery activities
- $302.1 million over 5 years from 2023–24 to support a climate-smart, sustainable agricultural sector including funding for NRM organisations, on-ground projects, support for farmers to improve soil health and natural resources and funding to maintain delivery capability
- $50.0 million over 5 years from 2023–24 to conserve and restore Ramsar listed wetlands and catchments
- $48.0 million over 5 years from 2023–24 to continue management of Australia's state-managed world heritage listed properties.

Stronger enforcement of environmental laws and standards

The Government will provide $214.1 million over 4 years from 2023–24 (and $4.5 million per year ongoing) to deliver the Nature Positive Plan: better for the environment, better for business (Nature Positive Plan), including:

- $121.0 million over 4 years from 2023–24 to establish Environment Protection Australia to enforce environmental laws and restore confidence in Australia's environmental protection system

- $51.5 million over 4 years from 2023–24 (and $4.5 million per year ongoing) to establish Environment Information Australia to provide an authoritative source of high-quality environmental information
- $34.0 million over two years from 2023–24 to implement the Nature Positive Plan, including legislative reforms and national environment standards
- $7.7 million in 2023–24 to continue developing the foundations of a Nature Repair Market, including detailed rules (methods) for different types of projects

Infrastructure and transport

Road and rail maintenance and feasibility studies

The Government will provide $1.8 billion over 10 years from 2023–24 for infrastructure priorities to support productivity and jobs. Funding includes:

- $1.1 billion in 2032–33 to continue existing road maintenance and safety programs, with $500.0 million for the Roads to Recovery Program, $350.0 million for national road network maintenance, $110.0 million for the Black Spot Program, $85.0 million for the Bridges Renewal Program, $65.0 million for the Heavy Vehicle Safety and Productivity Program and $18.9 million for transport research organisations and innovation projects
- $361.9 million over 8 years from 2023–24 for infrastructure projects in New South Wales, including safety upgrades on the Bells Line of Road and Nowra Bypass planning
- $200.0 million over two years from 2023–24 for the Major Projects Business Case Fund to support the planning of land transport infrastructure projects
- $60.0 million over 3 years from 2023–24 to continue supplementary local road funding in South Australia
- $3.0 million in 2023–24 to undertake a feasibility study for an intermodal terminal in Parkes, New South Wales to support the Inland Rail program, with funding to be redirected from existing National Intermodal Corporation equity.

Increase in the Heavy Vehicle Road User Charge

The Government will increase the Heavy Vehicle Road User Charge rate from 27.2 cents per litre of diesel by 6 per cent per year over 3 years from 2023–24 to 32.4 cents per litre in 2025–26. This will decrease expenditure on the fuel tax credit by $1.1 billion over 4 years from 2023–24.

Research, development and extension

Improving agriculture statistics

The Government will provide $38.3 million over 4 years from 2023–24 (and $7.6 million per year ongoing) to support agricultural statistics, climate analysis and upgrades to data and information systems for the Australian Bureau of Agricultural and Resource Economics and Sciences.

Small Business Support

Helping small business manage their tax instalments and improving cashflow

The Government will amend the tax law to set the GDP adjustment factor for pay as you go (PAYG) and GST instalments at 6 per cent for the 2023–24 income year, a reduction from 12 per cent under the statutory formula. The reduced factor will provide cash flow support to small businesses and other PAYG instalment taxpayers. The 6 per cent GDP adjustment rate will apply to small businesses and individuals who are eligible to use the relevant instalment methods (up to $10 million aggregated annual turnover for GST instalments and $50 million annual aggregate turnover for PAYG instalments), in respect of instalments that relate to the 2023–24 income year and fall due after the enabling legislation receives Royal Assent.

Increasing the instant asset write-off

The Government will improve cash flow and reduce compliance costs for small businesses by temporarily increasing the instant asset write-off threshold to $20,000, from 1 July 2023 until 30 June 2024.

Small businesses, with aggregated annual turnover of less than $10 million, will be able to immediately deduct the full cost of eligible assets costing less than $20,000 that are first used or installed ready for use between 1 July 2023 and 30 June 2024. The $20,000 threshold will apply on a per asset basis, so small businesses can instantly write off multiple assets.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter.

Small Business Energy Incentive

Small and medium businesses, with aggregated annual turnover of less than $50 million, will be able to deduct an additional 20 per cent of the cost of eligible depreciating assets that support electrification and more efficient use of energy. Up to $100,000 of total expenditure will be eligible for the Small Business Energy Incentive, with the maximum bonus deduction being $20,000.

A range of depreciating assets, as well as upgrades to existing assets, will be eligible for the Small Business Energy Incentive. These will include assets that upgrade to more efficient electrical goods such as energy-efficient fridges, assets that support electrification such as heat pumps and electric heating or cooling systems, and demand management assets such as batteries or thermal energy storage. Full details of eligibility criteria will be finalised in consultation with stakeholders.

Eligible assets will need to be first used or installed ready for use between 1 July 2023 and 30 June 2024. Eligible upgrades will also need to be made in this period.

Energy bill relief

The Government will provide $1.5 billion over two years from 2023–24 to establish the Energy Bill Relief Fund to support targeted energy bill relief to eligible households and small business customers, which includes pensioners, Commonwealth Seniors Health Card holders, Family Tax Benefit A and B recipients and small business customers of electricity retailers.

Trade

Reduced funding for export market grants

The Government will achieve savings of $61.0 million over 4 years from 2023–24 by reducing funding for the Export Market Development Grants program.

Additional funding for the simplified trade program

The Government will provide an additional $23.8 million in 2023–24 to continue initiatives to modernise and improve Australia’s international trade system, including delivering the simplified trade system reforms and continuation of the Trade Information Service.

Water

More reviews of the Murray Darling Basin Plan

The Government will provide $148.6 million over 4 years from 2023–24 towards the sustainability of the Murray-Darling Basin (Basin). Funding includes:

- $103.7 million for the Murray-Darling Basin Authority to prepare for and undertake the first statutory review of the Murray-Darling Basin Plan 2012, with updated science to enable the Basin to adapt to the impacts of climate change
- $44.9 million for the Department of Climate Change, Energy, the Environment and Water to provide advice and work with Basin states and affected communities on the Basin Plan.

Reprioritisation and removal of dams and irrigation schemes

The Government will achieve savings of $872.5 million over 11 years by not progressing with building the Dungowan Dam, Emu Swamp Dam and Pipeline, Southern Forests Irrigation Scheme, Fingal Irrigation Scheme, Wyangala Dam Wall Raising and the Hughenden Irrigation Scheme.

The Government will also reallocate $197.1 million over 6 years from 2023–24 from within the National Water Grid Fund to fund construction of 3 water infrastructure projects:

- $109.0 million for the Northern Midlands Irrigation Scheme
- $62.1 million for the Sassafras-Wesley Vale Irrigation Scheme
- $26.1 million for the Quality Water for Wannon project.

More reform of the water market

The Government will provide $32.7 million over 4 years from 2023–24 (and $3.4 million per year ongoing) to restore transparency, integrity and confidence to water markets including:

- a single digital platform for national water data management
- a new water market website to publish minute-by-minute updates on water market information
- water market data standards that prescribe the data that must be provided to the Bureau of Meteorology to support transparency and enforceability of the new water market regulatory regime.

Workforce

Raising the Temporary Skilled Migration Income Threshold (TSMIT)

The Government will increase the Temporary Skilled Migration Income Threshold from the current rate of $53,900 to $70,000 from 1 July 2023. This reflects the level it would have reached if it was indexed to wages when it was last adjusted 10 years ago.

Uplift of Visa Application Charges

The Government will increase Visa Application Charges (VACs) from 1 July 2023. In addition to the regular CPI indexation, VACs will increase by 6 percentage points for visa applications, as well as an additional 15 percentage points for select visitor and temporary visa subclasses and an additional 40 percentage points for business innovation and investment visas. This measure is estimated to increase receipts by $665.0 million over the 5 years from 2022–23.

Increasing the migration intake and changing its composition

For the 2023–24 permanent Migration Program, the Government will return the planning level to the longer-term level of 190,000 places and will allocate 137,100 places (around 70 per cent) to the Skill stream.

The Government will improve pathways to permanency for Temporary Skill Shortage (TSS) (subclass 482) visa holders. Restrictions will be removed to enable TSS visa holders on the short-term stream access to permanent residence pathways through the Employer Nomination Scheme (subclass 186) visa. The limit of one onshore renewal for the short-term stream TSS visa will also be removed.

Improving Visa processing

The Government will provide $75.8 million over two years from 2023–24 to extend the current surge in visa processing resources to ensure timeliness of visa processing and improve existing visa processing systems.

In addition, the Government will return funding of $163.2 million over two years from 2022–23 to the Department of Home Affairs to continue its visa processing capabilities, recognising the cancellation of the Global Digital Platform, associated with the 2016–17 Budget savings measure titled Reforming the Visa and Migration Framework, by the former Government.

Incentivising pensioners to return to work

The Government will provide $3.7 million in 2023–24 to extend the measure to provide age and veterans pensioners a once-off credit of $4,000 to their Work Bonus income bank and temporarily increase the maximum income bank until 31 December 2023. Under this measure, pensioners can earn up to $11,800 before their pension is reduced, supporting pensioners who want to work, or work more hours, to do so without losing their pension.