



## **SELECT INQUIRY INTO FUEL & ENERGY**

### **SUBMISSION**

**To**

**Senate Select Committee on Fuel & Energy**

**Prepared by:-**

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## **Background**

The Western Australian Farmers Federation (Inc) (WAFarmers) is WA's largest and most influential rural lobby and service organisation.

WAFarmers represents approximately 3,500 Western Australian farmers from a range of primary industries including grain growers, meat and wool producers, horticulturalists, dairy farmers, commercial egg producers and beekeepers.

It is estimated that collectively our members are major contributors to the \$5.9 billion gross value of production (2005/06 – ABS, WA Agri-Food Industry Outlook – December 2007) that agriculture in its various forms contributes to Western Australia's economy.

Additionally, through differing forms of land tenure, our members own, control and capably manage many millions of hectares of the State's land mass and as such are responsible for maintaining the productive capacity and environmental well being of that land.

## **Introduction**

WAFarmers welcomes the opportunity to provide comment to the Senate Select Committee on Fuel & Energy's *inquiry into the impact of higher petroleum, diesel & gas prices on rural & regional Australia*.

***WAFarmers notes that it appears that this committee is not proposing to hold public hearings. WA Farmers urges this committee to seriously consider this proposal, and in due course WA Farmers would appreciate the opportunity of appearing before this committee to expand on this submission.***

### **1(i)**

#### **'The impact of higher petroleum, diesel & gas prices on families'**

In recent times, with economic prosperity a little weaker, the impact on families that fuel & energy prices are having are quite dramatic.

According to the Australian Bureau of Statistics 2005, transport costs comprise around 15 per cent of average household expenditure in Australia. ABS also claims that fuel alone contributes 3% of the weekly household budget.

It also mentions that fuel and mortgage costs are linked by the way the Reserve Bank manages inflationary pressures by consistently increasing interest rates to counter fuel-driven general price inflation.



This means that for many suburban households, a small increase in immediate household fuel costs as a result of rising oil prices is amplified by the Reserve Bank interest rate policy into a much bigger additional financial impost through rising mortgage costs. (Australian Review of Public Affairs).

This is backed up by other research from senior economists (CBA) that for every five cents rise in fuel, the CPI (inflation) rises 0.1%, a rather substantial amount when considering the ten-year price rise. Increases in fuel impacts on every essential goods & services, including clothes, household goods.& food items, right through to building materials for those building houses.

Tourism, particularly in regional areas, have also been affected. In a recent Victorian Tourism survey, 84% of tourism operators felt that business was going to be affected by fuel increases.

## **1 (ii)**

### **‘The impact of higher petroleum, diesel & gas prices on small business’**

Clearly as basic economics prevail, those smaller business operators have an increased exposure to the changes in fuel due to the following reasons:

- (a) Due to ordering raw materials, products & services in smaller quantities than larger operators, they can't always benefit from 'bulk purchase'.
- (b) By using wholesalers and upstream services that often larger businesses have better access (or self-access) to mean that fuel increases are often passed on to smaller businesses, compared with larger businesses.
- (c) The accumulative affect, from all sectors of the supply chain, are often integrated within a large business, yet increasingly passed on to small business. A prime example would be in groceries. Often larger supermarket chains purchase direct from grower, whereas smaller 'general store' operators are often receiving product from grower to wholesaler to distributor.
- (d) Due to usually less volume of sales, the impact of fuel increases have to be either absorbed over less sale units, or passed on to consumers, which in turn may affect price sensitivity and ultimately sales volume in itself.



## **'The impact of higher petroleum, diesel & gas prices on rural & regional Australia'**

- Inquiry after inquiry has found that consumers outside metropolitan areas throughout Australia consistently pay more for fuel & energy, with the main reason behind this fact is the added cost of transport & handling to these areas from the refinery.
- The 2006 Senate enquiry into Petrol Prices in Australia clearly outlined that wholesale prices of fuel are 5-7 cpl dearer on average, with further added cost due to lower sales volumes & lack of competition.
- Rural communities are hit with not only higher prices at the fuel bowser, but every essential service & product purchased in their local community are usually higher than those in metropolitan areas, again due to freight costs.
- Senate Inquiries that investigated the cost of living in rural and regional areas have deduced significantly higher weekly amounts, up to double in some cases.

That 'snowball effect' all stems from a lack of fuel sales volume, in regards to energy costs, gas, electricity, and other inputs, such as 'competitive' wages to staff who have to travel even a short distance, say 30 km, to pump diesel for the day

As populations of rural areas shrink, as evidence is clearly showing, then those costs have to be spread over smaller numbers, the price thus further increases. That's a elementary case of economics. Supply, demand and scale of economy.

Without a huge turnover of grocery & convenience lines to subsidise cheap fuel prices, as inquiries into fuel prices have shown occurs in metropolitan fuel outlets, regional fuel outlets therefore rely on fuel sales to maintain viability.

In the city where fuel price cycles, discounting and a high ancillary convenience product turnover helps maintain cheaper fuel price options for consumers, regional fuel outlets are unable to take advantage of that, and thus charge higher prices to maintain profitability, as shown in the Senate enquiry into Fuel Prices in Australia.



### ***The importance of rural and regional Australia to the economy***

The Australian agricultural industry is an important export-earner to the nations economy (a ten-year average 3% of GDP), and most significantly, a near-total contributor to Australia's food supply.

Australian agriculture is also a significant employer (331,000 direct employees with an estimated 300,000 people indirectly employed), and one of the world's largest and reputable exporters of a multitude of food products. The World Bank rank Australia in the top five of agricultural producers, which includes the U.S, Europe, South America & Asia.

On a per-head population basis, we would likely be number one. Interestingly, we receive a fraction of the subsidies that those other countries receive for agriculture.

It would be hard to dispute that agriculture plays a major role in the economy, social infrastructure and stability of rural & regional Australia.

It would also be fair to say that the smaller the community (excluding mining and indigenous communities), the more important that local agricultural production is to that community.

The three key factors in Australia's ability to maintain it's leadership & levels of innovation in food production are

- (a) a strong R & D support industry,
- (b) farmer's resourcefulness and
- (c) agriculture's reliance in it's community to provide the spirit and support to overcome everyday challenges.

The heart, soul and spirit of Australia's agricultural production, comes from it's farming communities. This resilience, determination, innovation and ability to make relatively huge productivity increases, comes from the very character of the rural and regional community. **It's called social capital.**



**The fact is: Rural & Regional communities are declining. Social capital is being lost.**

Some of the recent findings throughout industry & statistic-gathering are;

- Rural populations are aging
- Rural suicides (particularly male youth) are increasing, and proportionate to population, much higher levels than city habitants.
- Essential services, such as education, health and support, are visibly less than ten years ago
- Centralisation of essential services, such as schools, medical clinics, shopping malls, banks and even post offices, are occurring at an expanding rate.
- Farm profitability is believed to be at it's lowest long-term period
- Shrinking farm economics, and a need for larger, more efficient & mechanised farm operations, have reduced the rural workplace and their families, resulting in a reduction of services in schools, health clinics and social/community services, such as sporting groups.
- Rural towns (<1,000) have experiencing a 3% annual population loss since 1990, with major towns (<3,000) experiencing a 1.3% annual population loss.

***The correlation between high fuel prices and lost 'social capital'***

The net result of these trends is that the communities' ability to prosper as a region, whether it be provide for a service club, replace school funding with volunteer labour, provide social outlets in otherwise isolated environments, or 'activate' that famous 'Australian bush helping hand', is becoming very much limited.

Historically, the lack of funding and services to a community has been replaced with that 'human spirit'. Things get done. Communities manage in times of need. Needy people are supported. Industries are born. Social lives are complete.

Of late, inquiries have found that farm inputs are at their highest, particularly fuel and fertiliser (especially fuel-derivitive fertilisers), farmer's terms of trade are amongst the lowest ever, and the costs of living are increasing, more so in regional and rural areas than in metropolitan regions.

The larger farmers, to maintain their expansion, put economic feasibility ahead of local loyalty, and order in bulk, their inputs from metropolitan, interstate and overseas suppliers.



Besides the fact that rural and regional communities by their very nature require much higher fuel supplies for essential services, the first casualty of a tight budget is often non-essential travel, clearly a finding of regular consumer surveys.

In regional areas, that often equates to a reduction in committee meetings, additional school sports, scout trips, recreational trips that metropolitan residents take for granted, and an overall level of social interaction.

Broadly speaking, the alternatives for the bulk of the regional population include moving to the city to take advantage of social, educational or employment opportunities, or get work on the mines to fund that cost of living, which then creates disharmonic families, as research has shown, resulting in increased divorce, dysfunctionality within a family, and in some cases, suicide.

There are clear links between lost economic activity and emerging social problems. These problems have many indirect ramifications that are emerging in rural and regional communities, through comprehensive studies, including:

- Severe lack of supply of GP's, nurses, schoolteachers and public servants to rural areas due to perceived 'isolation'.
- Increases in rural crime, youth unemployment & social problems
- Through migration to the cities, largely un-retained, a net loss of talent, skilled workforce for present and future regional expansion, socio-economic balance, and self-perpetuating future custodians of rural Australia.

***'WAFarmers re-interates to the inquiry committee that increased fuel and energy prices are not just an economic burden to a rural community, it is both an direct and very much indirect threat to the very social fibre of regional and rural Australia'***

The government has introduced, in the past, incentives to help reduce the burden of fuel costs.

- Subsidies on installation of LPG fuel systems. Unfortunately, there is a great lack of LPG outlets in the regional areas. Some areas within 400 km of Perth have to travel an extra 150 km to fill up with LPG.
- Senior, student and youth discounts on public transport. Unfortunately, many areas don't have a regular or socially-feasible system.
- Fuelwatch only assists those in the metropolitan areas
- Remote Location Allowance criteria often go to areas with high consumer income areas such as mining. Regional farming areas miss out.



## ***The accumulative cost of fuel to farming communities***

Higher fuel prices are already having a significant and negative effect on Australian farmers. According to ABARA 2006, the direct costs of fuel comprise 9% of total farm costs. Fuel is also a key determinant to price of other farm inputs such as transport and fertiliser, which together with fuel, make up 25% of total broadacre costs (*ABARE Australian commodities 2008*)

***WAFarmers re-iterates to the inquiry that all essential goods and services in rural & regional areas contain accumulative levels of fuel increases that are passed on throughout the supply chain.***

WAFarmers believe that a productive way forward is to not just throw incentives, such as fuel tax subsidies to rural and remote areas, or to provide support for medical, educational and community-based travel.

WAFarmers believe that in true 'bush spirit' style, rural and regional Australia already have the passion to keep it's community alive, the ingenuity to help re-build communities and the teamwork to see it through.

## **1(g) The impact of higher petroleum, diesel & gas prices on the role of alternative fuels to petroleum & diesel'**

WAFarmers believe that what is needed however is an integrated R & D program to help rural and regional Australia become somewhat self-sustaining in it's fuel and energy needs.

Biomass, solar, wind and gas supply chains need strong and innovative research & development programs, and tax incentives to help achieve the communities goals in becoming self-sufficient in it's energy needs.

This in turn will retain more locally-earned dollars in the community, along with offering educational & employment opportunities, provide income streams for local communities and most importantly, and assist the community to become vibrant.

Philosophical history has shown that one is often a product of one's environment.

When the environment is pro-active, positive and vibrant, the legacies are positively compounded. When the community is lacking self-esteem, a sense of hope, and positive, pro-active leadership, coupled with shrinking populations and economies, it often sinks into 'survival mode' and loses the drivers to re-claim the community spirit.

There are many examples backed by research, particularly of sparsely-populated WA-wheatbelt areas, where this lack of spirit has occurred. Conversely, there are examples of communities that have fought the challenge, and are vibrant, positive self-sustaining breeding grounds for regional innovators. Unfortunately, the price of energy inputs have 'dealt a blow' to their quest by restricting the flow of a suitable workforce, tourists to inject the local economy, and the building of new business.





**Conclusion**

In addition to the outcomes of the Inquiry, a simple question needs to be put to the government;

“Does Australia want viable, healthy, socially-capitalised and most importantly, self-sufficient farming, rural and regional communities?”

WAFarmers trusts that the government response will be in the affirmative and if so looks forward to improved long term policies that drive rural industry forward rather than short term policies that are tinkered with after every election.

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