

# TRANSCRIPTS

## ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

### Inquiry into fuel prices in regional Victoria

Melbourne — 13 November 2017

#### Members

Mr Nazih Elasmr — Chair

Ms Dee Ryall — Deputy Chair

Mr Jeff Bourman

Mr Peter Crisp

Mrs Christine Fyffe

Ms Jane Garrett

Mr Cesar Melhem

#### Witnesses

Mr David Jochinke, President, and

Ms Annabel Mactier, Project and Policy Officer, Victorian Farmers Federation.

**The CHAIR** — Good morning. Allow me to read the formalities first, and then we will proceed. Welcome to the public hearing of the Economic, Education, Jobs and Skills Committee's Inquiry into fuel prices in regional Victoria. All evidence taken at this hearing is protected by parliamentary privilege. Any comments you make outside the hearing are not afforded such privilege. Hansard is recording today's proceedings. We will provide a proof version of the transcript so you can correct any typographical errors.

I would like to invite you to make your opening statement, and then the Committee will have a number of questions. It is your call. Before you start, please state your name for the record.

**Mr JOCHINKE** — First of all, my name is David Jochinke. I am President of the Victorian Farmers Federation. I have Annabel with me. She is our Project and Policy Officer, but she also works in grains and has a good knowledge of not only this topic but also a lot of the issues that affect farming in general.

In our submission we covered six main areas, the first being regional fuel prices and how come we are seeing a difference between metropolitan and regional areas. A lot of it comes down to not only the distance that fuel has got to travel but also the amount of fuel that is consumed on a regular basis. We are seeing, especially in regional areas, that we have fewer outlets. Those outlets in turn turn over less fuel than we see in our metropolitan counterparts, but then also the convenience part of their business, such as the food and drinks, is lower. Therefore their margins—or the volume that they put through the shops—is significantly less than what we see in metropolitan areas.

I must state that we are here to talk about farmers and the effect that fuel prices have on farmers but also to acknowledge that we represent the wider community. We live in the communities and we need the communities to function because they are a part of the environment that we live in. We are concerned that the price of fuel does affect the ability of people to travel and get around and also that agriculture itself operates on reasonably slim margins and any fluctuation or any increase in fuel prices actually makes the profitability of different segments of agriculture questionable. You can look at that in forestry and fisheries as well. There are also the social impacts of fuel prices and the inability of people to travel further distances to not only enjoy sport but also attend social events.

In agriculture we find that unfortunately we are in the position of being mainly commodities. Those commodities do not allow us to shift that price onto the consumer or to be able to give any price indication of the costs that we do incur—fuel being one of the set costs just because of the distance that we have got to move our product. We have got to absorb any increase or fluctuation in the fuel prices; therefore we are very keen to make sure that that price is transparent and is accurate compared to what international prices are as well or whatever the index is that we are pegged against—Singapore being the main driver in the Australian fuel price.

That impact on profitability is one of the key drivers in a lot of regional areas. Agriculture is the major employer. Agriculture is the major economy, and that leads to employment. That leads to the other aspects of what makes society as we know it in regional areas operate. If agriculture is productive—if agriculture flourishes—we see that knock on right through the community.

One of our major concerns was what happened in 2012–13—and we would probably like to spend a bit of time on this later when we get into some questions—when we saw the fuel supply in Australia get to a critical level where we saw rationing. We have had rationing in the past, but it is acutely important, especially in cropping agriculture, because of the timing of it. Now also we are seeing with energy being affected across the board—that being mainly electricity—the actual use of diesel not only for supplying generators but also for machinery that we use, which are pieces of critical infrastructure for us.

We understand that agriculture is not considered an essential service in the way that fuel is allocated and the way that energy is looked at throughout Australia. We believe that needs to be looked at, because not only is our product perishable but also with the impacts of having less reliable energy sources—less reliable alternatives for the fuel supplies that we need—it jeopardises not only crops but we see a lot more shortages where we are relying on generators for backup for electricity in poultry sheds, in horticulture and even in piggeries.

That diesel that is consumed, or that fuel load, is absolutely critical. Diesel is the predominant fuel that we use. Obviously we still use unleaded as well, but diesel is one of the main drivers. It is recognised that agriculture needs to have its correct allotment when there are shortages, but then we also need to ensure that those shortages do not occur in the first place. We need to ensure that we have transparency in where we are at with the supply

chain to give good market signals if there are going to be some supply shortages but then also that we do not get into the situation of having supply shortages.

Through some of the research that we have done we understand that we only have 22 days of supply sometimes. When you are running such a just-in-time supply chain, that not only leaves very little room for interruption to supply but then also what does that mean in peak demand periods? Our concern is that not only production is affected but that it then also knocks on to livelihoods and then the whole economy. It is something else I would like to unpack a bit later.

We also see in regional areas the lack of competition. The number of retailers actually distributing fuel but then also the suppliers to the retail chain have considerably concentrated. The actual amount of competition that we see in the wholesale market has shrunk dramatically; therefore the ability to use competition as a mechanism to drive down prices is greatly limited compared to metropolitan areas. So having some good transparency in how we can have price discovery but then also to understand where prices are set definitely would help us in agriculture and also the wider regional area to make better informed choices about where we sit in the fuel cycle and also how to make purchasing choices.

I should also note that in agriculture, in broadacre especially, we do buy in bulk. That price is not advertised. Essentially you have got to ring up and, depending on the volume, you may get a discount because of the delivery service. If you are buying 8000 litres versus 20 000 litres, the amount of times a truck has to do a milk run or a delivery run means you can get a discounted price. Understanding that mechanism and understanding making the right choices at the right times still means that a farmer needs to keep a very close eye on the bowser price, because they are linked.

Nonetheless, because of the amount of fuel that is consumed, that is very much a lagged price compared to what we see in the metropolitan area. In the metropolitan area it is a lot more instantaneous, whereas in regional areas it is a lot more slow to drop when there is a price decrease. But then when we see a price increase, that signal is not necessarily quite to the spot price because of the amount of fuel that is consumed but then also how long that takes to flow through the supply chain in regional areas.

I have mentioned transparency a few times, and for us that is one of the key things that we would like this inquiry to look at. We think it is one of the tools that the state government actually has within its power, and we see that with what RACV is doing at the moment with its reporting in different areas. Horsham especially, where I come, is renowned as one of the more expensive areas to get fuel. It is a tool that people can use to make informed decisions. Ultimately at the end of the day what can be done instantaneously and what we can actually achieve is to have that transparency and to get that better market signalling, still understanding that the market itself is not that large. If I ...

**Mr MELHEM** — Can I jump in?

**Mr JOCHINKE** — Yes.

**Mr MELHEM** — Can you explain a bit more about the transparency bit, apart from what you are referring to, which is monitoring and naming and shaming and ...

**Mr JOCHINKE** — A bit of that is naming and shaming

**Mr MELHEM** — Is there any more you want to talk about?

**Mr JOCHINKE** — There are two parts to transparency. The first part is understanding your terminal price in Melbourne and then transport costs to get it to the regional area. Obviously there has got to be a margin on people to make it worthwhile. There is having that transparency pegged against the actual bowser price, but then also, as I alluded to, in Horsham, where I come from—and this is like a few other regional towns as well—there are some really expensive places to get fuel from.

The price difference between, say, Warracknabeal, Horsham and Ararat is quite stark. For a consumer to make an informed decision—and this is just in the community sense—can save them significant amounts of money, let alone then if I am buying bulk diesel. I can then choose who my supplier is so that I can actually make a better choice. When you start talking large volumes, which we do consume in agriculture—and that margin can

be a profitable or a break-even decision—we are talking thousands of dollars per decision that you make around that as a farmer, let alone then the consumer and what that means for the whole community.

Having a clear understanding of where prices are, not only within town, then hopefully gives the community better options. But then for me as well in agriculture, who we represent, for us to make better choices about timing, amounts and where we actually purchase these bulk quantities from can mean a huge difference to our bottom line. Even though we do see that there might be only four or five wholesalers that service the area, the price difference can be quite large depending on when they purchase the diesel. Sorry, I keep referring to diesel being the main fuel load. When they do purchase the diesel for agriculture, it can actually mean a huge saving for the actual end consumer.

**Ms GARRETT** — Just to follow on this line of thought, people will travel if there is a good price difference because it is thousands of dollars. How far would people travel do you think?

**Mr JOCHINKE** — Generally people have a preferred wholesaler that they buy fuel from.

**Ms GARRETT** — Yes, because you build the relationship.

**Mr JOCHINKE** — But nonetheless when you put it on wheels and you are leaving the depot, the location then is really just up to the price. From my own personal experience I have four wholesalers that I will go to to sift through the prices, but to get to who I should ring in the first place, how you understand the market and how you understand what drives the price is imperative to be able to make that first contact or that first decision. Once again location is only determined by the access to the transportation, and once it is on wheels it comes purely down to the decisions that the wholesaler has made and the prices that they post to who you can actually get in. Hopefully that gives you a little bit of an understanding of that side of it.

The other two parts I would like to quickly raise also are because of the volumes that we do handle in regional areas we do have some quality concerns because sometimes if the fuel is not consumed or stored in the proper facilities, you can get either debris or water in the fuel. There are some retailers that have indicated that their fuel quality affects vehicles in different ways and therefore is not appropriate for some of the high-performance machinery that we use in ag. I would say that as a general rule most fuel that we use is up to standard, but there are questionable times of the year. There are questionable supplies that people do avoid because of that.

The other one that is a constant bane in agriculture—and I know this is more of a federal issue—is that when we do see fuel taxes being put on fuel, they should be used for the purpose for which they were put into place. We are a very strong advocate that the roads system in regional areas is absolutely appalling and that whatever we can do to direct funding to it—and once again fuel is a very good way of doing that because it means the more fuel you are consuming, the more you are actually using the roads because you have to use that on roads—it should go to that purpose. But then in the same vein we are very supportive of the agricultural rebate, or concession we should say, on agricultural fuel when we are not using it on-road. It should remain for off-road purposes. We do not use roads; therefore it should not be applicable. I understand that is a federal issue, but I would just like to have it on the record that they are our concerns as well. That is everything addressed.

**The CHAIR** — Thank you, David. Would you like to add anything, or are you happy to move to questions?

**Ms MACTIER** — I think David has really summarised it fairly clearly.

**The CHAIR** — My question to you is: what proportion of an average farmer's operating costs does fuel make up, and how do farmers compensate when fuel prices rise substantially?

**Mr JOCHINKE** — That is a piece-of-string question. It depends on which type of agriculture you are talking, and it can also relate to what type of season you are having as well. For example, in cropping fuel may be 5 to 7 per cent of costs for some. But if your season is quite large because you are producing a lot more product—or even this year where we have seen a terrible frost go through the district—your actual amount of income has completely dropped; therefore your cost base for the amount of return has completely changed the percentage of your cost versus income because you just do not have the product coming in the back of the header in that sense. The price difference between a 1 per cent increase in diesel prices or a 2 per cent increase in a season like we are seeing now will be the difference between people making a profit or not, so it is that critical, especially when we are talking a moderate-sized broadacre farm consuming about 60 000 litres a year.

The larger ones would be two to three times that, so the volumes that we are talking here are not insignificant. It is the timeliness of that operation as well. When we do see fluctuations in prices, especially during those peak periods, it can greatly affect the profitability of agriculture.

**The CHAIR** — How can the Victorian Government increase competition and encourage new entrants to the retail fuel market?

**Mr JOCHINKE** — The retail fuel market is once again a key component of rural life, rural communities, but it is not necessarily the key area that agriculture consumes its fuel from. There is a wholesale market that we access. The wholesale market supplies a lot of our needs. However, it is pegged to the retail market, so it is an indicator, and for us transparency in price is one of the key drivers as far as making sure competition is occurring between the current retailers but also understanding that the amount of fuel that is consumed is capped. Unless we have more population, the amount of fuel that we consume will not increase therefore making it viable for other players to come into the market. It needs to be a trade-off or a balance between what is viable for a retail outlet versus the amount of competition that we can actually extract.

Saying that, it would be extremely rare, unless somebody lives in a very major regional town, for them not to travel to towns for sporting events, travel to towns for education or even social functions, so their choice between purchasing it from one location or another is quite a viable option for them to choose between, ‘Do I buy it down the road or do I buy it where I am at the moment?’. There is competition not only within the location but then also because we do travel vast, different distances—and I must also emphasise that per capita, per head, we do consume a lot of fuel because of the distances that we travel. Those choices that we make on those travels can greatly affect our bottom line as well as a community, versus agriculture, which is only a handful of purchases a year but very large purchases.

**Mr CRISP** — On mandatory fuel price reporting—whether you have thought about the scheme in Western Australia. Do you think farmers would travel to purchase that fuel above their wholesale requirements?

**Mr JOCHINKE** — We are seeing very much on the fertiliser side of agriculture people buying bigger facilities to hold product when the prices are cheaper. We are now seeing that similarly in fuel—people buying larger tanks so that when the price is right they can purchase larger amounts. Having to travel to access that price—be it that we have explained that with wholesalers, once it is on wheels it really comes down to understanding who is available to deliver and/or the price of the day, and sometimes it is even the terms of trade if they do get a trading account—can greatly affect the price that is determined.

To go as far as mandating a price, I think that transparency for us is as critical as having a set level because we believe that the market is quite fluid as far as we would like to see, if the price of oil is dropping, that that comes through the supply chain. Putting the heat on the supply chain or interrogating that supply chain on why the current prices are where they are is as important to us as determining if there should be a price. There are numerous players out there, and it is actually keeping them transparent and honest about why and how they have had that price discovery. For us, transparency is more important.

**Mr CRISP** — In exploring this further, we know that Western Australia has a mandatory scheme and New South Wales has a mandatory scheme as well. Do you have any comments to make about how those could or would work with farmers? Because they do report in real time.

**Mr JOCHINKE** — Are you talking mandatory fuel price reporting?

**Mr CRISP** — Yes.

**Mr JOCHINKE** — We were having this discussion, and in many ways we feel that that would be extremely handy to have that price discovery, that transparency in price. The concern that we would have—and I raise this only as the amount of cost or regulation that is put on the retailers—is that we do like the concept of holding them to a price, having that price transparency and being able to make it readily accessible so that people can make their decisions when they are travelling. That they can compare their towns, they can name and shame, in some regards, the outlets that might be a bit more pricey, and hopefully that creates competition in itself.

Overall, as a general rule, Peter, we would be interested in such a scheme as long as there is a clear balance between the actual costs of running such a program versus the benefits. We do believe having that transparency would help with price discovery and also ensuring that consumers—be it, once again, agriculture—have an indicator of bowser price, but it is not completely a bowser price that is purchasable. That would give us key indicator of who is more competitive in the market.

**Ms GARRETT** — I know we use the pejorative term of ‘naming and shaming’, but I imagine in the more regional and rural communities, very tight knit communities, that that would play quite a role if it was real-time monitoring. People would perhaps take that much more seriously, whereas a lot of people in the city would not know who the customers are. Is that a fair assessment?

**Mr JOCHINKE** — That is quite fair, but the other part is that sometimes in those rural outlets you might only have one outlet per town. To be able to make the choice between the two, to decide, ‘Do I fill up before I leave, or do I fill up when I get there’ ...

**Ms GARRETT** — Or do I go to ...

**Mr JOCHINKE** — As a consumer that is a handy bit of information. Also you would hopefully see, if the system works right, a trend of a certain outlet chain actually being more competitive as a whole instead of just the individual outlet. At the end of the day we cannot engineer the competition, but we can ensure that in comparative terms across the towns, across the region, the pressure is put on them. Once again, because of the amount of fuel we consume we cannot have every town with seven outlets, but we can make sure that those outlets are spot-on in pricing.

**Mr MELHEM** — You talked about security of supply, and I think that is quite a national issue. You talked about 22 days’ supply, which is our current capacity. What can a typical state government do to change that? We know the refining capacity has gone down to about 50 per cent of what it was 10 to 15 years ago, so are you basically looking at building more tank farms, for example, to hold greater capacity with 22 days, 30 days or 50 days? What precisely are you looking at?

**Mr JOCHINKE** — There are two parts to that. I alluded earlier to agriculture, that it needs to have the status of an important consumer. It needs to be put not quite as an essential service but as close as can be. That is because we believe, as the saying goes, ‘When the sun is shining make hay’, and a lot of times we have only got very short windows.

**Mr MELHEM** — You will make lots of hay today.

**Mr JOCHINKE** — Yes, and we love it when the weather is nice, depending which nice weather you want. We need to ensure that the supply status for agriculture is held at a standard; 22 days might be fine during quiet periods, but during peak periods 22 days, as once again we saw in 2012–13, is not substantial enough. So any incentive that we can see to push agriculture up that importance chain to the status that we believe it should be—once again for animal welfare reasons but also for purely productive reasons because we have perishable goods that we do need to move—that will be one step.

The second step would be during those peak periods, when you understand the cyclical nature of agricultural production, ensuring that supplies are there for those peak periods. That would be of huge benefit to agriculture. Having a storage supply system that ebbs and flows with our needs would be one method, like we have seen in South Australia, where they ensure that they have got supplies for some of the key economic drivers of their state. Once again we believe that agriculture should be held in such esteem in Victoria and that anything we can do to ensure the continuity of supply should be looked at. I cannot give you a definitive answer about whether tanks would solve the problem or not, but I think that that is something we need to investigate.

**Mr MELHEM** — You would be looking at something, for example, like the government being able to legislate or mandate that X amount of diesel—let us use diesel, because that is the primary fuel—is reserved for agricultural use. I am sure we would have something in relation to defence like that, for example. So you are looking at something similar to that whereby we do something like that to make sure we have got more than 22 days. What would be the ideal? 50 days?

**Mr JOCHINKE** — It comes down to the season, which is the tricky part with agriculture. That is because if the season is good I am sure that what you call a ‘daily consumption’ would be quite large, compared to when we have a smaller or drought season when consumption would be quite small. So your daily standard unit in agriculture can change and fluctuate as well.

I think this is an area where we should be looking to say we need to ensure agriculture is covered, once again because of animal welfare but also because the nature of our perishable production. This means that there should be a suitable amount of reserves so we can get the work done, but we need to balance that with the cost of doing so as well. It is an area where we feel there is no confidence in the system. The understanding between what the market drivers are but then the government ensuring that the markets are playing or doing the right thing by all of their consumers—that balance needs to be investigated.

**Ms MACTIER** — I think it is important to note that Australia is actually obliged to have 90 days’ backup as per the International Energy Agency. We have failed that since, I think, at least 2012, so that is something that needs to be addressed at both the state and federal levels.

I think crude oil storage could potentially, at a state level, be something that Victoria could look into—maybe not necessarily mandating that, but I think that is something that at a state level is really important that Victoria protects. Also in some way incentivising refineries to stay in Victoria: I think Victoria is better placed out of a lot of the states, but that is not something we should take for granted. We really need to make sure that we have the capacity to retain that here so that in the event that we are potentially relying increasingly on imports ...

**Mr MELHEM** — Security threat.

**Ms MACTIER** — Exactly, a security threat, or if anything happened in Singapore. In the event that something happened we would be prepared, and we would be able to last a bit longer than 22 days, because that is only three days at the fuel pump. Farmers, even when there was an issue with the Geelong refinery, were lining up struggling to get the harvest done in 2012. That just shows the vulnerability of our fuel supply network. I think that is something we really need to think about. It really is quite frightening how easily it can be damaged. We have not seen something happen in Singapore, but what impact could that have not just on agriculture but on all of the Victorian economy?

**Mr MELHEM** — Thank you for focusing on that, because I think that is a real issue. If you look at the price, my understanding is that you basically cannot do much about 95 per cent of the total cost price to actually produce fuel and you are just playing with the 5 per cent when it gets to the retail sector. You know you have got government taxes and refining, and then you have got administration, transportation et cetera. So it is that 5 per cent. It is also my understanding that in regional areas the price is sort of static; it does not move as much as in the city, or metropolitan Melbourne, so security is a very important issue. On that, you talked about increased competition in relation to retail and wholesale, so what are we looking at? Trying to encourage more individuals or a chain of retailers to open in country Victoria? On the other hand, are we going to give more licences for people to import more? Because we are not going to open new refineries. Have you got any practical examples you can give us on that? You can take that on notice if you want.

**Mr JOCHINKE** — It is interesting. Once again, the amount of fuel that we consume can ebb and flow. In better seasons or in more energy intensive areas, yes, you might be able to get a little bit more consumption, but that has got to be maintained over time to make the supply chain development of a wholesaler there. But you will find that a lot of the wholesalers are the same people who supply to retailers. They are the backbone of the fuel market within regional areas, and so the bowser price is an indicator of what they are doing, because as you said quite rightly there is only 5 per cent, really, that it fluctuates. It is the transport cost in the wholesale that you are actually being able to be more competitive on—so the larger volumes.

If we have got a wholesaler supplying a chain of retailers in a certain area, by virtue of the amount that they are bringing up, they are going to be more competitive and generally more leading in their price setting. So the balance between ‘Can we get more competition?’ and that transparency is a tough one, and I would say, as your earlier comments alluded to, that at the end of the day, if I really need it, I will pay what I need to to get my diesel. But there is no use having really cheap fuel and not having any of it. We need the supply, so that supply issue for us is front and centre—and that was once again highlighted by the Shell refinery—but then secondary is ensuring there is transparency of price.

**Mr CRISP** — Community-owned service stations—what is the VFF's view on the idea? Would you think there would be any benefit to farmers, and if so, what should the Victorian Government do to promote community-owned service stations?

**Mr JOCHINKE** — I am thinking, Peter, about five or six years ago there was a push for a community-owned service station to be established at Rupanyup, but looking at biodiesels and using different technologies to re-use cooking oil especially. The problem that they had was the testing that they had to do to ensure that the quality of the fuel was up to a certain standard even though the engines were converted and were able to burn a lower quality of fuel.

There have been attempts in the past. I was just demonstrating there have been attempts in the past, and I think that, just like community banking, it can work if there is an incentive to take it on. So we have seen that in Kaniva; a community-owned fuel station was going to close down, and people got behind it. The issue there is ensuring that those wholesalers once again are getting access to competitive terminal prices, that they can then also get a good competitive transport price as well to supply those service stations. So because you are an independent, presumably that can lock you out of either a deal through certain suppliers and/or your ability to get good trading terms as well.

We do encourage such initiatives. We think that communities generally understand what communities need. Therefore anything that we can do to empower them is a good step.

**The CHAIR** — On behalf of the Committee, I would like to thank you both for your time and contribution.

**Mr JOCHINKE** — Thank you.

**Ms MACTIER** — Thank you.

**Witnesses withdrew.**