

March 11, 2008

ACCC Grocery Prices Inquiry

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Dear ACCC,

I am pleased that you are accepting submissions to your inquiry on grocery food prices. I note that your issues paper focuses primarily on the 'grocery' segment of the production, processing and marketing chain. However, your paper explicitly requests input regarding issues from as far back as the 'farm gate'. It is that matter that I wish to address.

May I suggest that to ignore the feedback loop between prices paid at the 'farm gate' and care of the natural resources that produce the food is most unwise. I encourage your inquiry to 'dig deeper' and recognise that a focus on the grocery end of the chain will only provide partial answers.

Most of the points I will make below have been condensed from the printed version of a public lecture I gave in November 2005 titled "Can there be a Magic Pudding? Towards an understanding of viable farms" (see: <http://www.une.edu.au/ers/documents/magic-pudding.pdf>).

My research and teaching over several decades has allowed me to contemplate in some depth the disparity between farm gate and retail grocery prices. As explained below, I believe that the issue is related not only to the prices charged for groceries but, more importantly, it is linked to land degradation, land stewardship and the very sustainability of Australia's and the globe's food supply.

Eating sufficient quality food every day fulfils the most fundamental of our needs. It is understandable that consumers want food to be cheap – but not if it 'costs the earth'.

You will remember in Norman Lindsay's book, *The Magic Pudding*, that Bill Barnacle, Sam Sawnoff and Bunyip Bluegum try to keep their Magic Puddin' from thieves, all the while stuffing themselves full at every opportunity. Sadly, too many humans act as if our food supply is infinite - just like a Magic Puddin'.

While the ACCC is investigating grocery food prices, it would be very useful for your team to consider why the price paid by consumers is so vastly different to that paid to the producer of the food?

According to the Australian Bureau of Statistics, in 1963-64, the average Australian household spent 17 percent of income on food whereas by 2003-04, this had decreased to just 10 percent. Whilst there have been some recent price increases, consider how much of this increase has gone to the farmer.

Typically, the cost of food at the retail end of the supply chain is several times the price paid to farmers. This is in spite of the fact that it is the farmers who pay the costs of production, including owning/renting land, all production costs over many months or years as well as the risks of crop failure.

In contrast, those who handle the transport, storage, processing, wholesaling and retailing of agricultural products over a period of weeks are typically paid more than 75% of the final retail value for their efforts. The end result is that farmers are commonly paid inadequately to sustain the land that produced the food in the first place.

Why is this so? I suggest it is because many consumers do not realise that they share responsibility for our low cost forms of food production which do not sufficiently recognise the need for land stewardship.

In 'The Evolution of Urban Society' Robert Adams described how, throughout history, as food production becomes more organised and most people no longer need to be involved in food production tasks, they develop into class-stratified and politically organised societies. The crucial distinguishing feature of such societies is the creation of a surplus which allows wealth to be accumulated by those *organising* the production of food, not those *growing* the food.

Why is it legitimate for a bank or grocery store to pass on their costs to borrowers or consumers whilst a farmer remains fundamentally a price taker? Have you ever pondered the link between the production of food at minimal cost and the degradation of the fundamental natural resources of this finite planet?

In his book 'Why poor people stay poor' Michael Lipton listed the principle reasons for poverty in rural areas across the world as urban bias, scarce investment, cheap food and governments focused principally on city needs. Unfortunately, cheap food means that markets do not convey the full costs of production to the purchaser.

We know that taking more from the soil than we put back leads to land degradation. If our most productive soils are diminished, we will need to use marginal soils leading to accelerated damage. Throughout history, we have seen that the misuse of marginal lands has led to a great expansion in the areas of desert. We must remember the lessons from the former food bowls of the world, such as Mesopotamia, to realise the devastation that over-exploitation of land can bring.

Developed countries are not immune. In the 1890s, the combined effects of over-stocking during drought, rabbits and an economic depression caused massive damage across inland New South Wales. Early last century, America witnessed the creation of its 'dust bowl'. In recent times, we have seen many types of land degradation brought about in part by systems focused primarily on producing food as cheaply as possible.

It is to be hoped that we will learn from history and realise that the farmer needs to be paid by the consumer at a rate sufficient to enable him/her to maintain the natural resources from which the food or fibre was derived. We need to develop transparent pricing along the entire production, processing and marketing chain. Consumers need to be informed of the full costs of production, including the maintenance of fertile soils, and the efficient use of energy and water.

Rewarding farmers for more sustainable practices will allow a little 'magic' to be put back into our puddings, so that future generations can enjoy their desserts without expanding the planet's deserts.

If you find any of these brief arguments of interest, I encourage you to refer to the full document referred to at the beginning of this submission. There, you will also find some discussion of the impacts of market deregulation and the subsequent 'disconnect' between price and the environment.

Kind regards,

Yours sincerely,



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