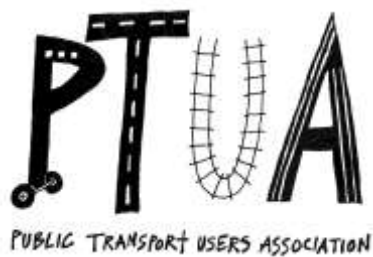


**Public Submission to ACCC Grocery Inquiry
by the Public Transport Users Association on 11 March 2008**



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1. Factors influencing the pricing of inputs

1.1. Impact of climatic conditions

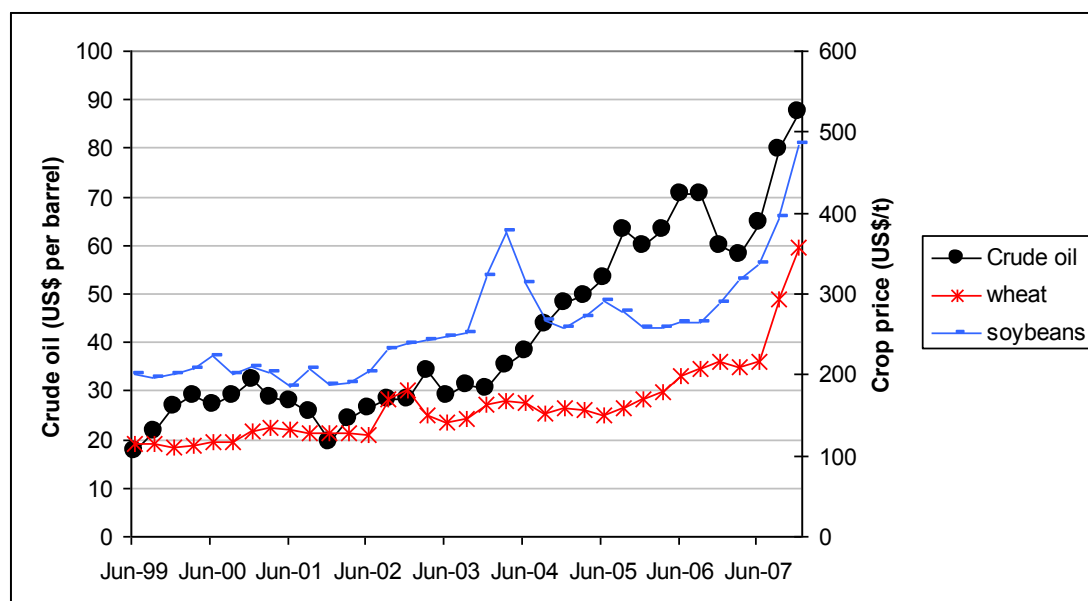
The impact of drought and climate change on food prices has been analysed by Quiggin (2007). The horticultural industry in the Murray-Darling basin has been particularly hard hit by the decline in irrigation allocations, and weather-related events such as Cyclone Larry have caused price spikes for products such as bananas. Cereal production has also suffered due to drought, with Australia even finding itself in the unusual position of having to source grain internationally (Cameron 2006).

In light of the serious impacts on Australian rural communities and on consumers, we urge the inquiry to recognise the impact of factors identified by Quiggin on the pricing of inputs along the supply chain for standard grocery items. In particular, we note that food prices will be dramatically higher and more volatile unless deep cuts in carbon emissions are made.

Spratt and Sutton (2008) have outlined the most recent science on climate change and the scale and speed of emissions cuts required. This science should inform government action to reduce the impact of climate change on food prices.

1.2. Cars versus people

Quiggin (2007) also notes that rising biofuel production is consuming a growing share of global agricultural output. The worldwide push to expand biofuel production has effectively tied global agricultural commodity prices to global oil prices which themselves are climbing relentlessly due to growing demand and limited supply.



Such is the seriousness of the diversion of agricultural production to feeding cars instead of people, the United Nations special rapporteur on the right to food called for a moratorium on the production of biofuels, while the head of the World Food Program has warned of social unrest and “a new face of hunger ... due to a combination of soaring oil and energy prices, the effects of climate change, growing demand from countries such as India and China and use of crops to produce biofuels” (Ennis 2008).

Given these serious impacts on food security and concerns over the life-cycle carbon intensity of biofuels, Australia should adopt world’s best practice regulation of biofuel production. California’s Low Carbon Fuel Standard and proposed amendments to the European Union’s fuel quality directive (European Parliament 2007, pp.20-23, 30-34) appear to demonstrate current best-practice on mitigating the negative effects of biofuel production such as the displacement of food production. In addition to adopting (at a minimum) such measures domestically, the Australian government should also push for a stronger international framework to ensure the social and environmental sustainability of biofuel production.

1.3. International comparisons

With a relatively open economy and low levels of agricultural protection, Australian food prices could be relatively sensitive to movements in the global prices of agricultural commodities. That is, the input prices paid by food processors in Australia are likely to track movements and volatility in global commodity markets, whereas the prices paid by processors in more protected markets may be less volatile due to the incorporation of subsidies, tariffs or other distortions into domestic commodity prices.

Under such circumstances, sustained growth in global commodity prices could be expected to flow more strongly into domestic commodity prices and food prices in Australia than they would into food prices in countries where trade measures are a more significant factor in domestic commodity prices.

On the other hand, sanitary and phytosanitary (SPS) measures in place to safeguard Australia’s relative pest and disease-free status may make food prices more sensitive to domestic supply shortfalls resulting from weather events such as drought and cyclones. Hence the price of some foodstuffs in Australia may be more volatile than the price in the global marketplace which has greater diversity of supply.

2. Petrol discount schemes

Petrol discount docket impact the margins of grocery retailers and flow through into increased retail prices for grocery items (Gans 2007). In extreme cases, such as a \$30 grocery purchase allowing a 4c/L discount when filling a Toyota Landcruiser, the value of the petrol docket can exceed 15% of the GST-inclusive price of the groceries. Notwithstanding the findings of the recent ACCC inquiry into the price of unleaded petrol, it seems highly improbable that retailers would not be making an allowance for such discounts when setting retail prices.

The pervasive nature of these discount schemes gives many consumers little practical alternative to avoid such cross-subsidisation. Petrol discount schemes are offered by the major grocery retailers Woolworths, Coles and IGA as well as numerous independent stores. The relatively visible benefit to consumers of a tangible discount on a petrol purchase is also likely to appear more valuable than the diffuse and non-transparent impact of such schemes on grocery prices, even where consumers end up paying more in total.

3. Recommendations

In light of the impacts outlined above, we recommend that the Commonwealth Government pursue the following measures to reduce upwards pressure on grocery prices:

1. Assertively push for the adoption of global greenhouse gas emission reduction targets and timelines to eliminate all significant risk of dangerous climate change based on the latest science.
2. Place strict social and environmental sustainability criteria on biofuel production and seek to ensure such criteria are put in place globally through forums such as the United Nations Food and Agriculture Organisation and the Conference of Parties to the UNFCCC.
3. Discourage the cross-subsidisation of petrol consumption resulting from petrol discount dockets offered by grocery outlets and other retailers.
4. Invest in public transport and rail freight infrastructure to support reductions in transport emissions, petroleum demand and vulnerability to high petrol prices.

4. References

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