



Submission by The



In response to

Select Committee of Fuel and Energy

August 2008

ABN: 75 266 051 838

Telephone: (08) 8410 7233
Facsimile: (08) 8211 7303

Level 1 / 67 South Terrace,
Adelaide, SA 5000
Postal Address: PO Box 6014
Halifax Street, SA 5000
Email: info@saff.com.au
Website: www.saff.com.au



Submission to the Select Committee of Fuel and Energy

Summary

The rise in Peak Oil prices has had a significant affect on the farmers and rural communities in this state. The affects have been felt through:

- Higher costs of farming and machinery usage
- Higher costs of farm inputs as a result of petroleum products used in production, for instance fertilizers
- Higher freight costs
- Supermarket Duopoly forcing farm gate prices down
- Higher transport costs affecting rural families for basic social activities for sport and relaxation
- Drop in volunteer labour due to travel costs

There is a danger of farmers leaving the land and food production dropping. Recently the UN stated that lower production in developed countries and rising demand for food could cause serious global problems due to food shortages.

It seems incongruous to the SAFF that given the world wide situation that our farmers are finding it so hard to make even a reasonable living, when market forces should be driving the price they receive for produce up, not holding it down at a level below the increase in costs.

The South Australian and Australian markets need to be reviewed as a matter of urgency to ensure that fair market forces are allowed to operate in the state so that producers can earn a fair return for their effort and ensure their future viability. This review needs to include a structure for the development of new alternatives to fuel use. The suggestions we make are based on biofuel alternatives currently seen as a possibility. The SAFF believes that more radical solutions will need to be found in the medium to long term to ensure that the Australian fuel sources are sustainable and secure.

Recommendations

The SAFF recommends that the Government:

- review the fuel excise system with a view to reducing the excise levied on fuel
- support a serious review of the supermarket duopoly and the effect this has on the local market
- invest in research into viable alternative fuel sources.
- Create a system that ensures the supply of fuel to the country in general and to farmers in particular at crucial harvest / sale times
- Review the current system of moving freight, looking for an innovative new approach that can benefit all industries in the country
- Undertake a program to improve the ability of rural people to travel to basic family activities such as sport and recreation as well as other necessary travel
- Ensure the elderly in rural areas are supported to reduce the cost of travel to essential appointments
- Volunteers are supported by assistance with travel costs to undertake their volunteer activities
- Undertake research into crops suitable for production of biofuels, especially suited to dry conditions
- Provide tax incentives for the production of biofuel products
- Provide incentives/regulation encouraging car manufacturers to produce fuel flexible vehicles
- Ensure the distribution network of service stations carry a minimum level of biofuels
- Ensure excise relief at the bowser to ensure biofuels can be sold cheaper than regular fuels

Introduction

The South Australian Farmers Federation is the State's principal farmer organisation with a proud history of representation and support for farmers dating back more than 100 years. The SAFF represents industries which have helped to build South Australia, and will continue to play a key role in its future.

Agriculture and Horticulture contribute more than \$5 billion annually to Gross State Production and account for around 55% of the State's export revenue. The Centre for International Economics has forecast that over the next decade these industries have the potential to contribute an additional \$1.0 billion to the State economy.

In this submission the SAFF view is constructed from its own experiences, the experiences of its members, and experiences related to SAFF by rural community members.

The members of SAFF are primarily based in regional areas and face challenges of distance, isolation and industries that are reliant on variables such as weather and world markets which are beyond their means to control.

The price of Peak Oil and the flow on effect that has on the principle fuel types used by farmers, Unleaded Petrol (ULP), Diesel and Liquefied Petroleum Gas (LPG) has a great impact on farmers directly through higher fuel prices and indirectly through the knock on effect in the costs of production, particularly in the costs of fertilizers, and freight costs. Of course freight cost increases also flow through all areas of the economy and so affect farm households as well, in the same way as all Australian households are affected.

For rural people however these affects are magnified through isolation, distance and the lack of resources. Following 5 years of drought the increase in fuel prices adversely affect an already struggling economy. Given the significant contribution to the State economy it is worrying that skyrocketing prices are affecting an already ailing sector.

Rural communities are also feeling the effects of these price rises and the well being of these communities may be affected adversely over the coming years as families are forced to curtail activities for their children and themselves due to the costs involved and the necessity to budget even tighter just to feed and clothe their families.

The SAFF believe that the future sustainability of rural areas has been affected adversely due to the long drought and is concerned that this will be exacerbated in the coming periods as rural communities struggle with increased costs of travel and household necessities.

Fuel Prices and Inflation

Fuel Prices

It is clear that fuel prices are rising in cost exponentially in the current market. The inflation inherent in the economy at this time is in part driven by the rapidly climbing fuel prices and the knock on effect they have on most other sectors in the economy through increased production costs for some products and freight charges.

In analysing the data from March 2004 to March 2008 across several regions it is apparent that fuel prices have risen far in excess of prevailing inflation rates. With the CPI moving by 12.05% during this period, the lowest increase in fuel prices came in at 46.11%, the highest at 88.00%.

Clearly for an industry such as farming that is heavily reliant of petroleum and other fuel products these types of price rises impact significantly on the costs of production and the ability of farmers to allocate already scarce funds to areas of improvement and efficiency.

Add to this the seemingly arbitrary way in which prices seem to vary and the competitiveness of producers in particular regions can be affected to a greater level than their compatriots in other regions. When analysing the regional prices for Unleaded Petrol, Diesel and LPG it became obvious that price rises were not consistent across the board. The table below shows the lowest and highest movements for the various fuel types and the regions in which they occurred.

Region	ULP	Diesel	LPG
Renmark	46.11%	58.75%	
Mt Gambier	55.57%		
Port Lincoln		66.02%	52.42%
Port Pirie			88.00%

In the unleaded fuel area Renmark in March 2003 had the highest prices out of the regions selected; by March 2004 it had one of the lowest, creating a situation where the relative change in price in percentage terms was the lowest of the regions. Conversely Mount Gambier which started with the lowest price for the selected regions ended up with the second highest, thus contributing to the highest percentage increase of the regions.

One of the issues that becomes apparent from this analysis is the disparate and seemingly arbitrary way in which fuel prices are created. One would think that if a region had a distance advantage that reduced freight costs this would carry through from one period to another. What is clear is that over the 4 years in question this is not the case. Prices seem to vary according to some mystical formula that is not clear to anyone!

Similar patterns emerge for diesel and LPG fuels. In fact within the LPG market Port Pire in March 2003 sold LPG for 42.5c and in March 2004 the price was 79.9c. Conversely Mount Gambier started at 51.7c and ended up at 78.8c. SAFF cannot believe that the variances such as this come from the regularly touted freight costs. If they did the price variations would be consistent, after all the towns haven't moved.

Inflation

With consistent and rapidly rising fuel prices fuelling the inflation cycle the SAFF is concerned that inflation will continue to rise forcing the interest rates to rise. In the 1970's interest rates soared to around 19% as a result of an economy in the grips of a rapid growth inflationary cycle. Fuel prices during this period also rose rapidly. If interest rates were to reach these heights again many farmers with large overdrafts (as a result of prolonged drought) would be forced off of their properties, possibly reducing the number of farmers in the state and lowering production levels of the income produced.

The SAFF believes that the challenge facing both Federal and State governments is to keep inflation under control so that interest rates do not soar to these lofty heights again.

Unleaded Petrol

Period	Adelaide	Mt Gambier	Renmark	Port Pirie	Port Lincoln
Price per litre					
Mar-04	93.8	92.5	96.5	94.1	94.9
Sep-04	102.6	107.4	108.5	104.1	105.6
Mar-05	106.2	107.2	109.1	108.2	106.6
Sep-05	131.7	136.1	134.3	129.8	131.5
Mar-06	122.7	127.2	123.6	123.2	125.7
Sep-06	123.2	136.1	130.4	125.5	130.7
Mar-07	123.6	127.3	121.9	123.8	124.5
Sep-07	121.0	131.4	125.0	127.4	128.7
Mar-08	140.5	143.9	141.0	140.6	145.0

Percentage increase from March 2004

Mar-04	0.00%	0.00%	0.00%	0.00%	0.00%
Sep-04	9.38%	16.11%	12.44%	10.63%	11.28%
Mar-05	13.22%	15.89%	13.06%	14.98%	12.33%
Sep-05	40.41%	47.14%	39.17%	37.94%	38.57%
Mar-06	30.81%	37.51%	28.08%	30.92%	32.46%
Sep-06	31.34%	47.14%	35.13%	33.37%	37.72%
Mar-07	31.77%	37.62%	26.32%	31.56%	31.19%
Sep-07	29.00%	42.05%	29.53%	35.39%	35.62%
Mar-08	49.79%	55.57%	46.11%	49.42%	52.79%

Source : FUELtrac Pty Ltd

Diesel

Period	Adelaide	Mt Gambier	Renmark	Port Pirie	Port Lincoln
Price per litre					
Mar-04	94.9	97.4	96.0	93.2	93.0
Sep-04	110.0	111.8	110.8	109.9	108.8
Mar-05	113.8	115.8	114.4	114.3	112.5
Sep-05	131.8	134.6	133.1	131.1	130.3
Mar-06	134.8	137.6	135.9	136.1	135.4
Sep-06	137.2	144.1	141.2	136.8	138.4
Mar-07	123.9	128.9	126.7	124.6	124.6
Sep-07	135.2	138.2	133.2	133.6	134.5
Mar-08	153.0	155.4	152.4	151.1	154.4

Percentage increase from March 2004

Mar-04	0.00%	0.00%	0.00%	0.00%	0.00%
Sep-04	15.91%	14.78%	15.42%	17.92%	16.99%
Mar-05	19.92%	18.89%	19.17%	22.64%	20.97%
Sep-05	38.88%	38.19%	38.65%	40.67%	40.11%
Mar-06	42.04%	41.27%	41.56%	46.03%	45.59%
Sep-06	44.57%	47.95%	47.08%	46.78%	48.82%
Mar-07	30.56%	32.34%	31.98%	33.69%	33.98%
Sep-07	42.47%	41.89%	38.75%	43.35%	44.62%
Mar-08	61.22%	59.55%	58.75%	62.12%	66.02%

Source : FUELtrac Pty Ltd

LPG

Period	Adelaide	Mt Gambier	Renmark	Port Pirie	Port Lincoln
Price per litre					
Mar-04	38.9	44.5	48.7	42.5	51.7
Sep-04	43.8	46.9	55.8	54.4	57.1
Mar-05	44.0	47.7	56.2	51.5	59.3
Sep-05	48.8	52.7	58.3	55.1	59.6
Mar-06	57.6	64.2	65.9	64.4	67.0
Sep-06	56.4	64.4	61.9	64.9	64.5
Mar-07	52.2	64.6	59.6	63.1	64.8
Sep-07	54.6	63.8	59.8	64.9	64.9
Mar-08	69.0	78.2	77.2	79.9	78.8

Percentage increase from March 2004

Mar-04	0.00%	0.00%	0.00%	0.00%	0.00%
Sep-04	12.60%	5.39%	14.58%	28.00%	10.44%
Mar-05	13.11%	7.19%	15.40%	21.18%	14.70%
Sep-05	25.45%	18.43%	19.71%	29.65%	15.28%
Mar-06	48.07%	44.27%	35.32%	51.53%	29.59%
Sep-06	44.99%	44.72%	27.10%	52.71%	24.76%
Mar-07	34.19%	45.17%	22.38%	48.47%	25.34%
Sep-07	40.36%	43.37%	22.79%	52.71%	25.53%
Mar-08	77.38%	75.73%	58.52%	88.00%	52.42%

Source : FUELtrac Pty Ltd

Inflation

Period	CPI Index	Monthly movement	Movement from March 2004
Mar-04	147.7	0.00%	0.00%
Sep-04	149.0	0.88%	0.88%
Mar-05	150.9	1.28%	2.17%
Sep-05	153.4	1.66%	3.86%
Mar-06	155.6	1.43%	5.35%
Sep-06	159.3	2.38%	7.85%
Mar-07	158.4	-0.56%	7.24%
Sep-07	161.5	1.96%	9.34%
Mar-08	165.5	2.48%	12.05%

Source: Australian Bureau of Statistics

Competition

South Australia is a large state with a concentrated population around the capital city and more sparsely populated rural areas. Farming is a \$5 billion economy for the state which has to cope with distance, isolation, the weather, international competition and more recently a long drought. All of these factors have put enormous strain on the ability of farmers to earn a reasonable living. A large sparsely populated state means travel and a lot of it. Rising fuel prices clearly impact on life in the rural communities and farmers in particular.

During the last season a number of grain farmers had an average year despite very average - low yields only due to high prices for grain for fodder and export. World wide conditions and the drought produced a situation where suppliers could command a premium price for their produce.

Current indications are that the next harvest in Australia may not be that successful if weather conditions continue as expected. This means that farmers may be caught in a vicious cycle of increasing loans, higher interest rates, increased international competition and poor yields.

Rising fuel prices by some economists are being seen as one of the major factors in the continuously rising inflation in Australia at this time. Grain farmers are finding that rising fuel prices drive up the cost of those products relying on the use of petroleum in the production process. Fertilizer, particularly nitrogenous fertilizer, is one of the largest costs for a grain farmer these costs are rising exponentially as fuel prices rise. These fertilizers are largely being imported due to the high costs of production in Australia. If this trend continues the farmers of this state may face higher still prices for their fertilizer as freight charges rise. In the event of a production shortage there could be worldwide competition for available supplies which would then force prices up further. Our farmers could well be exposed to higher risks as more production moves offshore.

If prices continue to rise our farming industry may be put at risk of becoming less competitive in relation to other countries where efficiencies of closer population centres may result in lower fuel costs relative to total farm costs.

The effective duopoly existing within the Australian Supermarket industry has seen farm gate prices being held well below the cost of production increases. This has put a great deal of pressure on farmers who are incurring higher costs they are unable to recoup due to the duopoly that exists. This is seriously affecting their ongoing profitability and the likelihood that they will be able to continue in the future. In some cases livestock producers are receiving prices conversant with 1983 for their beef at the farm gate while incurring 2008 prices for production inputs. Clearly free market competition isn't working in this industry.

Fruit and vegetable growers are finding that interstate growers with economies of scale due to the size of operation and the shorter distances to markets are making inroads into the supermarkets. Excess produce is being shipped into South Australia further driving local prices down and putting pressure on growers selling into the local market.

Operators in the industry find it incongruous and inefficient that in a number of cases produce from interstate is passing local produce going the other way as it is

taken to interstate markets. There is clearly a cost of fuel that seems inefficient and non-productive. Like other producers this industry has experienced significant rises in the price of moving freight from one area to another. These costs have risen by as much as 100% in several years.

A lack of fuel suppliers in many rural areas through entrants leaving the industry has resulted in a lack of competition, higher charges and higher costs. Like supermarkets and in part because of the entry of supermarkets into the fuel market there is a lack of competition in the provision of fuel to farmers.

South Australian producers in the egg and pork industries face serious competition from interstate and overseas competitors and a certain level of product dumping into this state which drive down the market price for these products. While this could be said to be market forces at work there are other factors to consider. Many of the interstate egg producers have contracts with supermarkets and a protected source of income and are dumping excess product into the SA market forcing prices down. This situation will continue as long as competition is stifled by the supermarket duopoly.

In the case of pork producers overseas product is being imported into Australia from countries currently with lower production costs and surplus product. Australian farmers are concerned over the level of quality of product being imported and whether the overseas producers are required to follow the same rigid production codes Australian farmers are required to follow.

In both cases if South Australian farmers are forced out of the market due to product dumping and the supermarket duopoly South Australian consumers may well be faced with higher price products in the future. In a state with a large area and sparse population it is not unreasonable to expect higher fuel costs and subsequent freight charges to increase the cost of basic foodstuffs to the states consumers.

All of these factors could have serious implications for the economy of the country. If farming in Australia becomes unviable, the country will lose a significant ongoing income source and will be at the mercy of overseas markets. It is imperative that the Australian farm sector is supported otherwise future costs could rise to hyper inflationary levels if the predictions for lower world food production come true, especially when viewed with lower levels of production in a number of developed countries.

It is up to forward looking governments of today to protect the country's food sources. In a country that has a large efficient food source it seems incomprehensible to the SAFF that supermarket duopolies could seriously impact on the future of an industry; an effect that will flow onto all of Australia.

Given that the supermarket duopoly now controls a large portion of the retail petrol market, the affects of stifled competition can be seen at the petrol pump as well as at the farm gate.

When you consider that four petrol companies "compete" at the wholesale level in Australia, there is a perception, rightly or wrongly that there is very little real competition in the petrol industry. Any collusion or practices that set a price higher than real competition sees an impost on those accessing fuel in the retail market

and those who purchase for farm use. Either way the costs affect inflation and flow through the production and transport chains.

Due to its geographic size and small population base Australia is in a position where the possible number of entrants into a market can be restricted and the market is therefore prone to anti competitive actions. We cannot change the size of our customer base so it is unlikely that the market will operate freely. Since this is the case, we need other measures to promote fair market trading, the Petrol Commissioner or like authority.

Production Costs

Grain farmers are always looking for more efficient ways of producing their crops. One farmer has related to us that fuel costs per acre have risen from \$2 per acre to \$8 per acre, after the farmer has reduced the actual fuel usage per acre by 50%. So 50% less fuel used and 4 times the actual dollar expenditure on fuel. Farmers need to use fuel in their production processes, but they will reduce it as much as possible to reduce their overall expenditure on farm production. Increasing fuel costs however are eating away at any efficiency gains they are making. In fact without the efficiency gains in fuel use many farms by now may well be unable to operate at all.

Poultry famers use a large amount of LPG in their production; these costs have risen by up to 88% in the regions we reviewed. The industry has cut back on the use of this gas through efficiency gains and a revision of how their operations are run. Some have found however that their dollar costs for this fuel have risen by around 20%.

Crude oil prices have been the excuse given to some farm producers for the rising cost of packaging in the form of plastic bags and cartons. These costs though indirect have increased because of the increase in peak oil prices.

Indications are that these costs have risen from \$1.20/kg two years ago to \$1.80/kg this year. Manufacturers have indicated these costs could rise to \$2.50/kg next season. An increase of 108% in three years. The price farmers receive from their farm gate have not increased by anywhere near the same proportion.

The rising fuel prices have resulted in fuel companies ceasing long standing practices. Shell for instance have started to charge Eyre Peninsula farmers a delivery charge for all deliveries less than 5,000l. Depending on the size of the farm and the time of year this may be more fuel than they need or in some instances can physically store. So farmers incur a new delivery charge. Another cost to their production cycle that didn't exist before. These charges seem to be charged to all customers no matter how loyal, one family buying fuel since the 1930's with the same company never having been charged a fee before now incur this fee.

Freight cost increases as a result of fuel price rises have had an impact on the hay exporters of this state. In one case an exporter whose cost was \$16 per tonne to move his hay from the mid north of the state to Port Adelaide has been told that his costs for the next financial year will rise to around \$60 per tonne. This not only increases his costs but also makes the producer significantly less competitive in the world market.

Infrastructure

Infrastructure is a major issue for Australia due to the relative distances between population centres. It is this distance that adds to the cost of farming and living in the country.

The SAFF see the centralisation of government, local government and non government services as removing services from the country communities. This means that farmers need to travel further to use these services at an increased cost; a cost that is in fact exacerbated by rising fuel costs. Decentralising these services would enable farmers and the general rural community to access government services at a lower cost. In fact the current centralising model of the government not only makes these services more expensive but also puts more pressure on rural communities as jobs are lost, off farm income reduced and family budgets put under pressure.

Roads and their condition affect farmers as they move their produce from their farms to sale centres. Given that current pump prices include an excise duty of around 38c per litre on petroleum products (not LPG) plus a GST windfall on that excise, the SAFF feels that these funds are not being distributed properly to the repair, upkeep and improvement of road systems in general and in the rural areas in particular. As petrol prices increase the windfall to the government increases as well. It is the view of the SAFF that all of the rhetoric during elections about lowering taxation rates is offset by the hidden taxes in fuel excise and in particular the GST charged on the excise that offset any gains tax cuts may provide.

Freight movements in the states impact on all industries in the rural areas, including farmers. A review needs to be undertaken of the total system for moving freight in all states on all levels, private, commercial and government with a review of creating an innovative system that can move produce and goods around Australia with the lowest cost for all industries.

If smaller states are to remain competitive with those states with significantly higher population centres our infrastructure needs to be first class, otherwise our competitiveness will diminish over time until an old reliable industry will begin to inject less and less money into the state coffers.

Other infrastructure improvements in the form of mobile communications and better coordinated services between government and non government services, improved IT delivery systems to rural areas would lead to efficiencies from the use of communication technology that can lead to less travel and therefore less fuel costs associated with doing business. The infrastructure for these services is currently less than adequate in most rural areas and impacts adversely on the ability of farmers to undertake their business efficiently and cost effectively, especially when compared to industries in close proximity to the city centre.

Sustainability

The long term sustainability of farms and farmers is at a cross roads. Poor seasons, increasing costs, in particular fuel, are leading to farmers looking for innovative ways of making their businesses sustainable.

In the past a great deal of work has been undertaken by farmers to improve their farming methods to reduce soil degradation, improve soil quality and to crop without as little effect on the environment as possible. Unfortunately, a number of these measures rely of petroleum driven machines, products that require petroleum in the production process and this means that the cost of these measures has increased exponentially over the last four years.

There are savings that could be made through increasing the efficiency of tractor engines and the use of more environmentally friendly bio fuels and ethanol. The SAFF feels that there are two barriers to achieving these efficiencies; the cost of development of engine efficiency and the cost of producing bio fuels that make them so expensive to use that there are no real cost savings in moving to these fuels. With world wide predictions of food shortages in the near future due to Asian countries moving towards western grains in their diet, predicted production shortages and possible famine in Third World countries due to escalating food prices it seems there could be an opportunity for the Government to assist farmers and in fact all industries with an aggressive program to increase engine efficiencies, use alternative fuel sources and reduce, or eliminate the excise costs of using these fuels.

This may well help not only sustain the farming industry but also allow it to increase production where possible to supply a world market hungry for our produce. Recent announcements by the World Bank and the UN indicate the concern of both bodies about the level of food production in the world today.

A savvy Government may look at the opportunities this could provide the farming sector and other industry sectors with a little assistance.

Fuel Supply

Now that all major storage depots for fuel in South Australia have been closed, there is a risk to the state supply of fuel. As it currently stands we estimate that the state has enough fuel reserves to supply the state for around three days. Without any backup reserves that previously existed at Port Stanvac. We do not know if this situation is repeated in some or all of the states in Australia

This means that in the event of a transport strike or natural disaster stopping delivery of fuel into the state our state may run out of fuel within three days. This has very clear implications to our emergency services and other vital services.

For a farmer such a restriction in supply could be disastrous if it occurred at the wrong time. Harvesting, delivery of fruit and vegetable, livestock and other farm produce is dependent on timing, weather and the nature of the crop. If fuel supplies were stopped and on farm supplies weren't sufficient to cover the slow delivery of supplies, farmers could lose their crop whether it be grains, fruit or vegetable. Livestock producers are also affected, prices for their stock vary from market to market and any delay may cost them dearly in lower prices for their stock.

It is essential that the Government put in place a plan that protects the supply of fuel to farm communities at the critical times for harvest and stock sale.

Community

Both farmers and other members of the rural communities use more fuel on a daily basis when compared to their urban counterparts. Most people in rural areas really on their motor vehicles for basic daily needs, taking children to school, sport, doing the weekly shopping, medical visits and all the other activities we all undertake as a part of our busy lives. The difference is the distance they have to travel to do so.

Anecdotal evidence from some of our members indicate that in dollar terms the cost of petrol used for off farm use is as high as the dollars spent on farming itself. This is where distance becomes costly to a rural community.

Day to Day Living

In rural areas the distances between places community members have to go are much greater than in urban areas. With escalating fuel prices all sectors of the rural communities have found the money allocated out of the family budget to fuel costs has increased in comparison to other areas of the household budget.

Most country areas have minimal or no public transport systems at all. This means that rural communities rely more on their private vehicles for accessing basic services and shopping, increasing the cost to individual households to undertake all basic activities. Where possible the SAFF feels that some form of public transport system would go some way to reducing the travel costs of rural households.

Schooling

In some rural areas parents are finding they can no longer afford to drive their children to school as they used to do. They now have to rely on the school bus system to get their children to school. While this seems logical and entirely reasonable, there are underlying issues. The use of the system in some cases reduces the choices parents have about which school their children attend. This lack of choice is perceived by some to reduce the level of schooling that otherwise may have been open to their children.

Sport

Most families with children have a variety of sporting activities to attend as their children grow, develop and take an active interest in the sporting activity of their choice. This is a normal family activity that has been made more difficult due to the increased costs of ferrying children from one town to another to compete with other teams in the district. Unlike their city counterparts rural children compete in a much larger geographical area. In some areas we have been told that these sporting activities can result in a 160km round trip for the teams to compete.

While families still encourage their children to play sport and partake in physical activity the rising costs of doing so impact on other parts of the household budget through cuts to other areas of the household expenditure. This has meant that adults in the family may be curtailing some of their leisure pursuits to support their children.

The concern SAFF has in this area is that if fuel prices, as predicted, continue to rise; families will eventually be forced to curtail these sporting activities leading to increasing disillusionment with rural life by younger generations which could lead to an even greater breakdown in rural life. If these sporting activities are reduced, other health problems can be compounded through the inactivity of youth. Obesity is already a problem in the Australian society and as a society we need to ensure all children have an equal opportunity to partake of healthy pursuits.

Volunteers

The use of volunteers in any community greatly enhances community life and provides essential services in times of need. Unfortunately for many volunteer organisations in the country areas the rising cost of fuel is making it unfeasible for people to continue their volunteer activities. The cost to their household is too high. In the upper North area it has been calculated that one instance for the emergency services organisation in the area could cost a crew \$170 in fuel. The actual cost will vary between members and will depend on their proximity to the base. These fuel costs are borne by the individual members. Only travel from the base to the site of an emergency is covered by the government. The SAFF feels that rising fuel costs are contributing to a fall off in volunteer activities which in the long run could well place the various communities in jeopardy. If the costs become too high volunteers will fall off and the emergency volunteer labour we all rely on will disappear. In the long run in an emergency this could lead to a loss of property and possibly even life.

Farm fire units and the costs off running these are also affected by rising fuel costs. Again if the cost of these units become prohibitive and are cut in a cost cutting exercise by farmers the ability of a community to combat a serious fire could be undermined.

Volunteers contribute their time and sometimes equipment freely in the event of an emergency but cannot afford the continuously increasing costs. In some cases if contractors and their equipment were used instead of volunteers the cost could climb to \$350 per hour per unit.

Many of our volunteers in some areas are retired or semi retired people who wish to contribute to the local community. As fuel prices rise these people on limited incomes may well be forced to discontinue their activities; a big loss to the rural communities in more ways than one.

The SAFF believes that the government needs to recognize the effectiveness of its volunteer workforce and ensure that the costs of being a volunteer are reduced so that essential services in rural communities can be maintained.

Employment

Rising fuel costs impact on the ability of rural businesses to attract employees on the one hand and on the other the ability of employees to travel to businesses further away from their home base. The cost of getting there may well offset any benefit from the wages they earn. This situation may well hinder farmers in their production at critical times as labour becomes harder and harder to attract.

The other obvious conclusion is that farmers will have to pay more for their labour to offset the cost of travel. Another expense they cannot afford with prices relating to fuel use rising far in excess of inflation.

For youth in rural areas it will also make it harder for them to remain in their local areas. Forced to shift to the city for employment through circumstance rather than choice this may have long term social impacts on rural youth, for their health, mental wellbeing and future prospects.

Petrol Commissioner

The role of National Petrol Commissioner may well be necessary for Australia. With limited providers in the wholesale market and a retail market now dominated by the supermarket duopoly, the competition in the fuel market on all levels would have to be suspect.

The resignation of the Petrol Commissioner and, to our, knowledge the lack of a replacement to date, has put the possible benefits of such a position into doubt. The ACCC are still managing the Petrol Watch scheme introduced by the Commissioner while there but in reality the SAFF questions the ability of the ACCC to act decisively in controlling anti-competitive behaviour due to the lack of powers held by the ACCC. For a role such as the Petrol Commissioner to be viable it must have the power to Act. In analysing how much control the Commissioner should have over the market place the government needs to not only consider the economic principles of the free market system but also the unique factors that affect the ability of the Australian market to be truly competitive. Size and low population base restricts the possible number of entrants into a market thus limiting competition.

We need some sort of regulatory body to ensure that competition is fair while not restricting free market forces unnecessarily. It will be a delicate balance.

Is it really necessary? Economic theory would suggest not. The reality of spiralling petrol prices, the lack on competition in the industry and the inflationary affects fuel is having on all businesses and farming in particular would suggest that regulatory review into petrol pricing is essential. SAFF have made comment on a number of occasions on the anti competitive behaviour of the two major supermarkets and the duopoly power they seem to wield. Given the control these two companies have over the retail petrol industry, the concern has, in SAFF's eyes, increased.

The unfortunate resignation of Pat Walker and the inability of the government to replace him quickly has cast doubt on how effective this role can be. Whether that is perception or fact remains to be seen but it is clear that the momentum gained by Mr Walker has stalled to some degree, no matter how brave a face the ACCC puts on the matter.

The SAFF would suggest that the role of National Petrol Commissioner or the ACCC itself, or some other body set up to monitor fuel prices will only work if they are given real and legal powers to investigate and prosecute parties involved in price fixing, anticompetitive and unfair trade practices. To date the Australian community appears to feel that this may not be the case.

At the end of the day, a National Petrol Watch and a Petrol Commissioner are a start to resolving the issue and the government should be commended on making this start. Given the recent resignation of the Commissioner, the lack of a replacement, the refusal of several industry heavyweights to take on the job it would seem that the process may well stall.

The SAFF believes there is a need for scrutiny and if necessary prosecution in the wholesale and retail petrol industries, but feels the current situation has seen the process stall and there is a real risk that it may stop altogether in any effective way.

The SAFF would recommend:

- The government supply ACCC with real powers to investigate and prosecute price fixing in the petrol industry
- Establish a review to petrol pricing in Australia
- Review how the Australian system impacts on our economic development
- Ensure that any price increases as a result of carbon trading schemes are real and not inflated for companies to increase profit margins.
- Ensure that drops in the price of fuel are passed onto the wholesale and retail consumers as quickly as the price increases.

Emissions Trading Scheme

The recently proposed emissions trading scheme announced by the Labour government suggests a drop in the fuel excise to offset the affect on a carbon trading scheme. In theory this seems contradictory and counter productive to what the scheme is trying to do i.e. make all consumers, domestic and business, review their use of fuel so as to make a positive impact on our environment. The theory behind this is understandable in some ways laudable but in reality there are other issues at play that make this argument less than feasible.

The fact of the matter is that businesses still need to use fuel to operate. As mentioned earlier in the paper some of our farmers have cut their use of fuel in their operations, thus benefiting the environment, only to find that the actual dollar cost of fuel has risen by four times. Clearly such a large increase in costs in an industry heavily reliant on fuel severely affects their bottom line and their ability to be profitable.

If the government is really serious about effective carbon trading schemes it needs to look at all of the factors relating to fuel its cost and use.

Unless an overall strategy is introduced to look at emission trading and pricing there could well be a spiralling inflationary effect that will increase the cost of production, increase retail prices and see an inflationary influence that could lead to a recession. By introducing a carbon trading scheme, and even if the fuel excise is partially or fully offset, the SAFF believes that the economy as a whole will see cost increases through the whole production cycle. This will mean price rises throughout the whole economy.

Farmers right now are experiencing major problems in containing costs due to

- Rising fuel costs
- Rising input costs, especially those in fuel reliant industries
- World pricing for their products beyond their control
- Severe ongoing drought
- Major cash flow squeeze that will take years to recover from
- Higher debt levels used to fund crops during drought

On the one hand it can be said that these factors are a part of the farming business. On the other hand fuel prices have risen so far beyond the CPI that the SAFF considers them to be hyperinflationary prices, leading to rapidly rising costs of other inputs. At the same time the prices received at farm gate have not risen to the same degree. Why? In a free market the rising costs of production would normally lead to price increases to maintain profitability. In fact in most industries this would follow. In the farming sector however the low level of competition in both the wholesale and retail fuel markets and the effective duopoly in the supermarket chain have a severe anti competitive impact on the farm industry at both ends of the business. It affects both the price of inputs and the potential sales price.

Farmers are asked to be competitive to the world market while operating in a market where their inputs and sales prices are affected by non-competitive behaviour and some of their competitors on the world stage are subsidised.

The Emissions Trading Scheme is designed specifically to reduce the carbon emissions of our nation. If however the whole industry cycle is not considered it may well be doomed to failure. At this stage for instance so many farmers coming out of drought and poor economic conditions will not have the reserves financially, emotionally or in natural resources to be able to effectively introduce carbon savings into their operations, no matter how much they may want to.

Add to this the predictions that carbon trading scheme could add between 30 and 50 percent to the input costs to farmers and it is easy to see that the farming sector could well become unviable.

For emissions trading to be viable the government must consider the whole competitive market system carbon trading, rising fuel prices, fuel excises and taxes and develop a system that works. Like many systems Australia employs it seems that we look to other countries for inspiration. While this is feasible it must also be tempered with the fact that Australia is unique with its size and low population base. This requires unique solutions.

Taxation Arrangements

Currently fuel excise and GST is charged on the retail price of fuel. This is a part of the ongoing taxation arrangements of the government. These taxes are no longer specifically spent on transport infrastructure but now form a part of the general revenue of the government.

The issues SAFF has in relation to these measures are:

- The excise is CPI indexed to maintain the real dollar value of the tax.
- The price of fuel on which the excise is based is rising well above CPI
- The GST is levied not on the price of fuel but on the excise included value – thus resulting in double taxation
- The new carbon trading scheme introduced by the government will see another tax added to the base cost of fuel.

The SAFF contests that even with announced excise reductions to offset the new carbon trading scheme, the taxes added to the price of fuel and then the inclusion of GST on the whole amount is causing the taxation side of the fuel price to effectively rise by more than the CPI. Given that the base fuel price itself has risen well in excess of the CPI, through world pricing pressures, this extra increase above the CPI through the overall taxation system has pushed the price of fuel well above the average. When you consider the affects the price of fuel has on many production processes and the cost of transport it is clear that the current taxation measures only add to the inflationary aspects of fuel price increases. For farming where fuel is the third largest cost of production, there is a double whammy; the cost of fertilizer and chemicals are affected due to their reliance on fuel based products as well. For farmers in general and grain farmers in particular the rising cost of fuel is only exacerbated by the double dipping taxation measures currently in place. The SAFF fears that the potential carbon trading scheme will only exacerbate this situation.

Alternative Fuels

Biofuels have been touted as a means to move away from petrol based industry and transport to an alternative fuel source. To date however the use of biofuels has not been that effective in Australia.

There are some issues associated with moving to biofuels, including:

- Development of sustainable supply of raw product
- Motor vehicle industry moving to production of vehicles that will take normal fuel and biofuels
- Cost of biofuels doesn't make it attractive at the moment
- Few local producers of fuel
- Delivery of biofuel to consumers – which service stations will carry the fuel

It would seem that moving to biofuels is not impossible. Brazil for example of the last few decades has moved steadily to significantly use of flexible fuel vehicles and developing an ethanol industry to supply the fuel. Using predominantly sugar cane the fuel producers produce ethanol. Service stations in Brazil sell both fuels and vehicle manufacturers sell cars capable of using both fuels. The cost of pure ethanol is around 50% that of petrol or an ethanol/petrol blend. A biofuel industry can work where a government is right behind the initiatives, crops are suitable and sustainable and the people rise to the challenge.

The SAFF isn't saying the same approach will work in Australia but there are some factors from the Brazilian story that should be considered for Australia:

- The need to be able to produce a sustainable crop for production of biofuel
- The need for biofuels to be cheaper than normal fuels
- All new cars need to be manufactured with the ability to use both fuel sources
- Taxation systems need to offer incentives to produce and use biofuels

There is a lot of work, research and government commitment necessary before a biofuel industry can be developed that is sustainable, profitable and environmentally friendly. There are also a lot of gains that can be made.

Overseas experience can provide a signpost to what can be done, but Australia is unique and must create an industry that not only meets its needs but also uses crops that are sustainable in the Australian environment. It has been suggested that Canola or Mustard Seed plants which can be grown in areas of very low rainfall could be one way of producing crops suitable for producing fuel. With the change in climate, the shift of production areas for grain there is concern that many farming areas may not be viable in the future. The Goyder's line in South Australia is moving southwards according to some experts meaning that northern farming areas are becoming less and less viable with traditional crops. The ability to grow crops suitable for biofuel production could assist these regions and could make farming viable again in these areas. At the same time grain for food production would not be lost for the food chain. With growing world consumption and limited land for expansion this is important. We will still need our food crops to feed the world and must produce extra or new crops for fuel production. This will be even more important if crop sizes reduce through adverse weather patterns as has been the case in the recent drought.

The crop possibilities, the number of varieties and the effectiveness of those crops could be greatly increased if the current moratorium on genetically modified crops was lifted and research programs created to design crops suitable for fuel production that could grow in dry arid and marginal regions.

We cannot reach a situation where low yields cause competition for the available crops for use for food or fuel. The price rises and supply constraints could be catastrophic in the short term.

For biofuel to succeed Australia needs immediate and well funded government research to find solutions to the use of biofuels. The type of crops that can be used efficiently, the amount and types of fuel that can be produced, and how it can be distributed efficiently at a lower cost.

The government will also need to offer tax incentives to the production of fuel, excise incentives for consumers to use it and incentives for service stations throughout Australia to supply it.

The SAFF believes biofuels are necessary for the future, but also believes that the development needs careful planning and consideration of all of the factors.

Conclusion

The SAFF believes that there are some serious challenges to be faced by the Australian Government in relation to its policies on Fuel and Energy. It also believes that if a long term view is taken and the government rises to the challenge offering not only a plan but research, funding, innovation and incentives to institute a viable fuel resource for the future, then Australia could become a world leader in sustainable fuel sources. In a global market this can only be a positive step forward.