Coca-Cola Amatil (Aust) Pty Ltd

Submission
November 2011

To: Senate Select Committee on Australia's Food Processing Sector

For: Inquiry into Australia's Food Processing Sector

1. Executive Summary

Coca-Cola Amatil (Aust) Pty Ltd ("CCA") welcomes the opportunity to provide views on matters included in the Terms of Reference to the Senate Select Committee on Australia's Food Processing Sector.

CCA is a leading Australian premium branded beverage and food company that operates non-alcoholic and alcoholic beverage businesses. CCA also owns Australia's largest premium packaged fruit and vegetable company, SPC Ardmona, as well as Grinders Coffee.

CCA is committed to food and beverage manufacturing in Australia – including regional Australia – using local produce and employing local people whenever possible. However like our peers, we face a number of operating challenges including, but not limited to, rising input costs, exchange rates, consumer support for local innovation, an increasing regulatory burden and an increase in business costs driven by the environmental and social agenda.

It is CCA's view that the Australian food processing sector's competitiveness and viability in global markets relies on strong government and consumer support of local food growers and food and beverage manufacturers.

Specifically, we believe there are a number of measures the Government should consider when evaluating the future viability of Australia's food processing sector– both domestically and internationally. These include, but are not limited to:

- Support for the abolition of state payroll taxation for the manufacturing sector, particularly the food and beverage sector.
- Accelerated depreciation for re-equipment in the non-mining manufacturing sector.
- Accelerated depreciation for water and carbon emission reducing equipment and technology.
- Restoration of a reasonable level of R&D for the manufacturing sector, particularly food and beverage manufacturing.
- Further support and encouragement of higher education in food technology.
- A streamlined national system for labelling and product composition to ensure that a product manufactured anywhere in Australia can be sold legally, nationally.
- Proper examination of the input costs which will result from proposed further regulation of food and beverage labels, and an approach on necessary inclusions that is evidence-based and acknowledges the role health and nutrition policy and education should play.
- Stricter controls through customs to ensure compliance of imported product with Australia's food labelling laws.

2. Introduction

CCA is an ASX Top 30 company and one of the world's top five Coca-Cola bottlers. A leading Australian premium branded beverage and food company, CCA employs more than 6000 Australians (5,755 FTE).

CCA operates non-alcoholic and alcoholic beverage businesses and owns Australia's largest premium packaged fruit and vegetable company, SPC Ardmona, as well as Grinders Coffee.

The major brands we manufacture, sell and distribute include:

- Coca-Cola, Coca-Cola Zero and Diet Coke
- Sprite and Sprite Zero
- Fanta
- Mount Franklin Spring Water
- Pump and Pumped
- Neverfail Springwater
- Powerade Isotonic
- Kirks
- GLACEAU vitaminwater Low Calorie
- Mother energy drink
- Goulburn Valley fruit juices and flavoured milks
- Deep Spring
- Grinders coffee
- SPC, Ardmona, Goulburn Valley and IXL packaged fruit and vegetable products

CCA's alcoholic beverages business is conducted through Pacific Beverages, our 50:50 joint venture with global brewer SABMiller. CCA also manufactures, sells and distributes Jim Beam products in the Australian market.

CCA has 15 production facilities and 24 warehouses across the country, and services approximately 116,000 customers.

CCA is committed to food and beverage manufacturing in Australia – including regional Australia – using local produce and employing local people whenever possible. However like our peers, we face a number of operating challenges including, but not limited to, rising input costs, exchange rates, consumer support for local innovation, an increasing regulatory burden and an increase in business costs driven by the environmental and social agenda.

3. Views on matters of interest to the Select Committee

3.1 Competition and viability of Australia's food processing sector in global markets

CCA has a competitive portfolio designed to grow our customers' businesses and we offer the highest quality products, and the support needed to generate maximum consumer support. We strive for the highest standards of product quality, provide branded refrigeration equipment and deliver customer sales support including point of sale, promotional activity and localised trade and consumer marketing initiatives.

We support Australian communities through monetary and product donations including during times of disaster, and play an active role in protecting our environment through an ongoing program of capital investment in local manufacturing, plant upgrades and improvements. Current examples include our $450 million group-wide investment in "blowfill" bottle self manufacture technology which is reducing the carbon footprint of our PET beverage bottles by an average 22%, our $57 million investment in a preform and closure facility which is also reducing the amount of PET resin used in the manufacture of bottles and caps, and our $90 million investment in a new distribution centre (DC) at Eastern Creek that includes a 670 panel solar system which is providing more than 5% clean energy to the DC's operations.

It is our view that the Australian food processing sector's competitiveness and viability in global markets relies on strong government and consumer support of local food growers and food and beverage manufacturers.

The current economic environment with the strengthening of the Australian dollar has made life challenging for Australian manufacturers as it provides an attractive avenue for international producers. It has impacted CCA directly through our SPC Ardmona brands, all but wiping out our export markets and enabling the influx of cheaper, imported private label products into the domestic market to compete against our premium, branded products.

Competition from cheap, imported private label products is growing – from 24% of packaged fruit and vegetable product volume in 2005 to 37% today. While SPCA had traditionally provided some private label products, imported products have now become so much cheaper that SPCA is, in many cases, unprofitable in private label and has exited, or is exiting, these categories.

While the Government has very little direct influence on these factors, there are some factors that are putting pressure on margins which are well within the Government's control.

Regulatory compliance costs associated with the increasing regulatory burden are high – at a State and Territory level, as well as at a Federal level. These include food standards and regulations, environmental and social regulations, planning regulations, occupational health and safety and workplace relations requirements. The lack of uniformity across the Commonwealth, State and Territory jurisdictions is also problematic.

CCA remains concerned that the Government's Clean Energy legislative package (carbon pricing) creates an additional burden on local manufacturing, driving up costs relative to our international competitors where such burdens do not exist or are subsidised.

Additionally, and despite antidumping measures already in place, food dumping remains an issue.

3.2 Regulation of Australia's food processing sector

It is CCA's view that better government policy must be developed and applied to guarantee a fair and level playing field for Australian manufacturing, particularly in the crucial food and beverages sector which employs 288,000 people and makes up 28% of the total manufacturing sector by turnover.

3.2.1 Taxation

In line with the matters raised in 3.1 and 3.2 above, it is CCA's view that more support from Government is necessary to reduce the burden on local manufacturers. State payroll tax is a significant cost to the domestic sector and a significant barrier to maintaining a competitive and viable local food and beverage manufacturing industry.

In addition, CCA believes it would be pertinent for Government to consider modifying the taxation regime to recognise the impact of the two speed economy on the sector and to encourage capital investment in sustainable manufacturing innovations.

In the area of taxation, CCA urges Government to consider:

- Support for the abolition of state payroll taxation for the manufacturing sector, particularly the food and beverage sector.
- Accelerated depreciation for re-equipment in the non-mining manufacturing sector.
- Accelerated depreciation for water and carbon emission reducing equipment and technology.

3.2.2 Research and development (R&D) and education

CCA recognises the need to reinvigorate interest in agricultural production with investment in education and research, and through promoting the benefits of working within and creating a sustainable industry.

Australia needs to focus on becoming leaders in food science and manufacturing innovation by investing in food and beverage research and innovation – including food and beverage design, engineering and packaging development – and by creating a dynamic and interesting environment in order to attract future industry leaders.

We also recognise the opportunity we and others in Australia's food processing sector have to improve the nutritional status of the population and urge Government to consider boosting research funding to gain a broader understanding of consumer nutrition knowledge, dietary diseases and the effectiveness of food technology solutions in improving the health and nutritional status of Australians.

In the area of research and development, CCA urges Government to consider:

- Restoration of a reasonable level of R&D for the manufacturing sector, particularly food and beverage manufacturing
- Further support and encouragement of higher education in food technology.

3.2.3 Food labelling

CCA is highly supportive of the ACCC in ensuring companies do not engage in misleading conduct. However the overlap of Australian consumer protection regulation and the Food Standards Australia New Zealand (FSANZ) Food Standards Code in relation to labelling, creates complexity and uncertainty for food and beverage manufacturers, as well as significant compliance costs and burdens to industry.

Claims and pictorials that are appropriate under one labelling regulatory scheme can seemingly be challenged and prosecuted under the other and many hours are now spent checking the size of fruit pieces are in scale with the amount and type used in the product, or determining if an ingredient is contributing to the flavour and character of the product and therefore can be shown.

Compounding this issue is the lack of recognised legal definitions pertaining to consumer value chains for food. It is CCA's view that definitions should sit within a food and beverage context, with consideration given to consumer understanding. These definitions should be co-regulated with industry developing the definitions, and the ACCC backing and applying them when considering Australia's consumer protection regulation.

Greater co-regulation and alignment between oversight and enforcement agencies is also required and Government needs to review policy and regulations and assess the burden to industry versus consumer understanding. At the very least, Australia needs a national streamlined approach for labelling and product composition to ensure that a product manufactured anywhere in Australia can be sold legally, nationally.

Given the strength of the Australian dollar, the advantage gained by those who import ingredients or finished product in the current climate is clear. Therefore it is important to ensure that imported product is scrutinised for compliance with Australian labelling laws – including ACCC misleading and deceptive conduct, as well as mandatory labelling requirements under the FSANZ Food Standards Code – as closely as the domestic industry.

CCA believes the role of the food label should be primarily concerned with protecting the health and safety of consumers by conveying clear and accurate fact-based information about what is in a product including information relating to identification of allergens for those consumers who are intolerant or allergic to food ingredients or additives, how to correctly store and prepare the product so no food safety issues arise as a result, and the nutritional facts relating to the product to assist consumers in making informed dietary choices.

CCA does not believe it is the role of the food label to interpret the health merits or otherwise of a product within a consumers total diet. This advice should be part of health and nutritional policy and education.

In line with this, we do not support calls for a multiple traffic light labelling front of pack system which, at its core, is an attempt to make food choices easier for consumers by labelling them as 'healthy ' or 'unhealthy' based on its nutrient content. Categorising foods as being either good or bad does nothing to help consumers understand how to construct a healthy, balanced diet. Nor does it provide them with the tools they need to make smart decisions not just about product choices but also to understand appropriate portion sizes. Additionally, we do not support the inclusion of "added" sugars in basic nutrition labelling, nor do we support the setting and application of nutrient criteria for food labelling – nutrient profiling.

CCA supports Daily Intake Guide Labelling to help consumers to make easy, smart choices about the food they need to include in their diet as we believe %DI labelling is fact-based and ultimately helps consumers see the relationship between a serve of food and their daily requirements.

In the area of labelling, CCA urges Government to consider:

- Proper examination of the input costs which will result from proposed further regulation of food and beverage labels, and an approach on necessary inclusions that is evidence-based and acknowledges the role health and nutrition policy and education should play.
- A national streamlined approach for labelling and product composition to ensure that a product manufactured anywhere in Australia can be sold legally, nationally.
- Stricter controls through customs to ensure compliance of imported product with Australia's strict food labelling laws.

3.2.4 Cross-jurisdiction regulations

It is in industry's interest to have national regulation of a national economy.

The Mutual Recognition Act and its stated purpose: "to promote economic integration and increased trade between participants… [as] one of a number of regulatory techniques available to governments to reduce regulatory impediments to the movement of goods and provision of services across jurisdictions", is sound.

Erosion of this commitment – currently evident for our business through proposed territory and state-based container deposit schemes and state-based food and beverage regulations (e.g. the NSW Government's recent regulation for standard menu food outlets that requires kilojoule-counts on menu boards) – is adding to the burden of compliance costs.

Emissions reduction programs and policies, water and waste policy is also fragmented and results in increased costs on businesses operating nationally. There are a range of energy, waste and water programs and policies at a Commonwealth and State and Territory level that are

uncoordinated and inconsistent, and potentially duplicate requirements which impose unnecessary burden on the food and beverage manufacturing sector.

CCA acknowledges COAG's commitment to improving mechanisms for consultation with business and supporting appropriate consultation with all relevant stakeholders and was recently invited to provide feedback to COAG's future national regulatory reform agenda. This invitation was gratefully received, however to ensure efficiency of effort, CCA urges Government to finalise one round of consultation and activity prior to entering into any new round.

Another significant area of overlap is evident between the Food Standards Code and Australia consumer protection regulation. An example can be cited in the area of product claims and representations and the application of 'false, misleading and deceptive' claims (refer to 3.2.3). Consumer and Competition law also overlaps with the State and Territory Food Acts over the provision of mandatory recalls, and introduces additional burdens on industry through notification of incidents where produce is associated with death, serious injury or illness.

Finally, a broader question concerning food law, consumer protection and national public health objectives has been raised through the introduction of regulations aimed at preventative health.

CCA supports all moves towards creating a healthier community. However the regulatory burden and cost to industry is not simply the result of differences in legislation, but is also due to differences in enforcement strategies and priorities. It is CCA's belief that more effort could be made by governments to work in partnership with industry to develop and support industry codes and industry self-regulation.

In line with the above, CCA urge Government to consider:

- Rejecting the Northern Territory's request for exemption of its *Environment Protection (Beverage Containers and Plastic Bags) Act 2011* From the Mutual Recognition Act.
- Finalising outcomes to any round of consultation prior to entering a new round.
- A national streamlined approach for labelling and product composition to ensure that a product manufactured anywhere in Australia can be sold legally, nationally.

3.2.5 Bio-security

Australia is in an enviable position where it has a plentiful supply of food production and manufacturing to feed the population and to support an export market.

Australia's continued reputation as a provider of safe and affordable food and beverages is imperative to our competitiveness and viability in the global arena. It is vital that we protect our agriculture industry, food production and the health of all Australians.

CCA supports a commitment to continuous improvement, and greater emphasis on, reform of Australia's biosecurity system. We acknowledge the need for fact-based science to underpin decisions for risk mitigation in our food production industry, and in protection of the population.

3.2.6 Export arrangements

When considering the Australian export market, it is CCA's view that maintaining engagement with Codex is essential to ensuring that our regulations are not out of step with our export markets.

3.3 Impact of Australia's competition regime and the food retail sector, on the food processing sector, including the effectiveness of the Competition and Consumer Act 2010

Competition from cheap, imported private label processed foods – particularly for our SPCA business where we've seen volume of these cheap imports grow from 24% in 2005 to 37% today – is having an impact on the domestic sector. While SPCA had traditionally provided some private label products, imported products have now become so much cheaper that SPCA is in many cases unprofitable in private label and has exited, or is exiting, these categories.

3.4 The effectiveness of anti-dumping rules

Despite antidumping measures already in place, food dumping remains an issue confronting our business and others in the industry.

CCA is aligned with the position of the Australian Food and Grocery Council – of which we are a member – in advocating for:

- Ready and easy access to measures that have the clear objective of preventing products from being dumped in Australia to the detriment of the domestic sector.
- The ability to compete equitably on the global market with anti dumping measures providing for transparent and equitable remedies but not allowing or encouraging vexatious or frivolous claims.
- Measures that are administered and processed in a timely way that minimises costs and uncertainty for our business and provide a swift remedy to any activity that is injuring, or will injure, the domestic sector.
- Legislation that provides clear, unambiguous and transparent definitions of what constitutes dumping and is able to report on the magnitude of imports and the proposed impact of the imported products on the domestic industry including final cost to consumer.
- A transparent and equitable process for appeal from parties associated with any action.

3.5 Cost of production inputs including raw materials, labour, energy and water

CCA remains concerned that carbon pricing will increase input costs for Australian food and beverage manufacturers, which in turn will affect farmers and growers. Any increases in input costs will be passed on, impacting the competitiveness of locally grown and manufactured goods when compared with imported products.

Water costs – a major ingredient in our beverage business products and a significant input to both our food and beverages businesses – are also increasing at beyond CPI rates, putting further pressure on prices.

CCA acknowledges the Government's Clean Technology Food and Foundries Investment Program which allows for $150 million over six years for food processors, but questions the scale of the available funds given the scale of the potential investment.

To support industry, CCA urges Government to consider:

- Accelerated depreciation for water and carbon reducing technology and equipment.
- That the application of the Government's Clean Technology Food and Foundries Investment Program enables and rewards innovative approaches to reducing the impact of carbon pricing cost increases for both small and large businesses.

3.6 Effect of international anti-free trade measures

It is CCA's belief that while Australia has benefited generally from the openness of the economy, the food processing sector has been impacted by pressure from global competition both at home and in overseas markets. This pressure is evident in the steady increase of imports of cheap processed fruit and vegetables, and steady decrease in exports – longer-term trends that have been accentuated by the current market conditions due to the high Australian dollar.

CCA believes the primary consumer value proposition will always be based on brands – such as SPC or Ardmona – however we support the Brand Australia initiative being further developed and promoted to underpin this with an Australian provenance story promoted in overseas markets.

3.7 Access to efficient and quality infrastructure, investment capital and skilled labour and skills training

Infrastructure that supports the efficient movement of products across the country with minimal inconsistencies across jurisdictions is becoming increasingly important.

Bottlenecks and inconsistencies represent a significant cost to the food processing sector and with growth, comes the requirement for increasing freight movements across the country. CCA supports the position of the Australian Food and Grocery Council – of which we are a member – that it's imperative that there be ongoing improvements in infrastructure to handle the increasing task in an efficient and effective manner. We view COAG's recent support for national regulators for heavy vehicles, rail safety and maritime safety, as a positive step critical to boosting productivity, increasing efficiency and improving safety in the freight transport and logistics industry and, in light of this, urge Government to work with industry to consider ways to further improve efficiency – for example, through considering regulation that supports and optimises the use of high productivity vehicles.

CCA has an ongoing program of investment in capital works, infrastructure and equipment and recognises the importance this investment plays in remaining viable and competitive through innovation, particularly where sustainable outcomes associated with energy, water and waste efficiency are achieved. However, it is CCA's view that Government must encourage and support businesses in the sector to invest through taxation reform (refer to 3.2.1).

Australia also needs to invest in food and beverage research and innovation – including food and beverage design, engineering and packaging development – and create a dynamic and interesting environment in order to attract future industry leaders (refer to 3.2.2).

Aligned with this, CCA believes more can be done to promote the benefits of working within and creating a sustainable industry, through collaboration between the food and beverage industry, tertiary institutions, growers and governments to market the benefits of a career in the food processing industry to high school students, and to ensure course outlines are addressing the needs of industry.

Looking at our food business specifically – which is located in regional Australia – we see a role for government through continued support to regional communities including but not limited to investment in education, transport and medical services; and by supporting training and skills development programs.

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