



## **Coca-Cola Europacific Partners Australia Pty Limited (CCEP)**

### **Submission to the Australian Senate Select Committee on Supermarket Prices (Committee)**

**1 May 2024**

CCEP appreciates the opportunity to provide a written submission to the Committee's inquiry into the price setting practices and market power of Australia's major supermarkets. CCEP acknowledges the importance of the Committee's work at a time when many Australians are facing significant cost of living pressures.

#### **Overview of the Coca-Cola system and CCEP's contribution in Australia**

For context, we have described below how the Coca-Cola system operates locally as well as CCEP's contribution to the Australian economy and community more broadly.

The Coca-Cola Company (**TCCC**), either directly or through designated suppliers, manufactures proprietary beverage concentrates and syrups which are sold to authorised bottlers for preparation, packaging, distribution and sale of beverages under the trademarks owned by TCCC, including Coca-Cola Classic, Coca-Cola Zero Sugar, Kirks, Mount Franklin and Sprite (**Coca-Cola Beverages**).

In Australia, the authorised bottler is CCEP<sup>1</sup>. CCEP is responsible for the preparation, packaging, distribution and sale of Coca-Cola Beverages to its customers (including all major supermarket retailers and wholesalers) for on-sale to consumers as well as their direct sale to consumers through vending machines.

For around 85 years, CCEP (and its predecessor entity, Coca-Cola Amatil) has been proudly serving Coca-Cola Beverages and other beverages to Australians in metropolitan and regional areas. In doing so, we employ around 3,500 local people, the majority of whom work in manufacturing and supply chain roles. We operate 13 manufacturing facilities nationally and invest heavily in ensuring that the teams who staff these facilities are highly skilled leaders in their field. We see ourselves as part of the Australian community and our investment decisions are driven by a long-term, sustainability mindset.

In recent years, our role has broadened from that of a local beverage bottler to becoming an innovator and catalyst in Australia's circular economy. By way of example, we continue to work towards closing the loop on our packaging by directly investing in container deposit schemes in all mainland states and territories, as well as two large-scale recycling plants in Albury, New South Wales and Altona North, Victoria via Circular Plastics Australia (PET) – a joint venture between Pact Group, Cleanaway, CCEP and Asahi Beverages.

---

<sup>1</sup> In addition to Coca-Cola Beverages, CCEP also prepares, packages, distributes and sells beverages in Australia under trademarks owned by other brand partners including Monster Beverage Corporation and Beam Suntory.

This investment is in addition to our ongoing expenditure on CCEP's core beverage manufacturing infrastructure – a key driver of our innovation and productivity. For example, CCEP is in the process of investing over \$100 million in infrastructure upgrades in our Queensland manufacturing facility, which will complement a \$43.7 million state-of-the-art upgrade in Moorabbin, Victoria undertaken in 2022. Further major critical infrastructure upgrades are also on the horizon. CCEP remains committed to providing high quality jobs to Australian workers and strengthening the local manufacturing sector.

### **CCEP's negotiations with the major supermarkets**

CCEP values the loyalty of the Australian consumers who enjoy our beverages every day and our strong, long-term relationships with the major supermarkets help make this possible.

Each day, as shoppers navigate a crowded beverage aisle, we work hard to earn a place in their grocery baskets by offering affordability and quality. If we fail to do so, we simply won't remain viable as a business in the long term.

To achieve this in Australia's grocery market, there are several factors that play a part in our negotiations with the major supermarkets.

It is important to recognise that in these negotiations, we are dealing with a small number of customers who determine the viability of nearly half of our business. On the other hand, we comprise a small proportion of theirs (in some cases, around 2-3%).

We depend on the major supermarkets as a key channel to bring our products to Australian consumers. From the perspective of the major supermarkets, their consumers love our discretionary products, but they need to be able to afford them.

Our price negotiations reflect these realities. We need each other and recognise that our mutual interests rest on delivering affordable products to consumers.

To illustrate this, we have outlined below some of the key factors which affect our pricing negotiations:

1. **Like many suppliers and retailers, we face real, substantial cost pressures:** A business like CCEP's is heavily reliant on suppliers who provide, among other components, raw ingredients, machinery, packaging, logistics services and energy. By way of illustration, the Australian Food and Grocery Council's submission notes that their members reported a 78% year-on-year increase in the cost of road freight and a 44% increase for rail freight from 2021-22. The Council further noted that the cost of natural gas has increased by more than 50% since 2019. We are not immune to these cost increases. Wherever possible, we absorb them to keep our products affordable but are forced to pass on some of the increases in order to recover our costs and earn a reasonable rate of return.
2. **We need to support affordable prices to consumers to remain in business:** Our aim is to set our wholesale pricing at the lowest level we can, balancing recovering costs and earning a reasonable rate of return. Our customers are then free to set whatever retail pricing they choose. We recognise that if our wholesale prices are too high, and this is passed on by our customers through retail pricing, consumers will move to a competitor's products (which may include one of the major supermarket's own label brands of beverages). To secure the long-term sustainability of our

business, we cannot operate with a short-term approach to pricing — for example, by maximising short-term profit above all else. If we do, we know that we will end up selling less volume, losing market share and risking our place in Australian fridges and pantries. That is why we always seek to support affordable options for consumers, whether through multi-buys (e.g. a promotional price on purchases of multiple packs), bulk buys (e.g. 24, 30 and 36-pack options) or low prices on select affordability segment products in respect of which CCEP incurs lower per-litre manufacturing costs, such as our two litre PET products.

3. **Our products are discretionary:** We are negotiating the supply of ready-to-drink beverages, a popular but discretionary item. We are not discussing the supply of staples like vegetables, meat, plain milk or bread which are essential to families. We offer products which consumers can go without, especially in challenging financial times.
4. **We operate in a concentrated grocery market:** Our negotiations occur in a concentrated grocery market in which the major supermarkets comprise a much larger proportion of our business than we do of theirs. In the immediate post-COVID period, and prior to the current cost of living challenges, we saw consumers purchase more CCEP products from supermarkets, creating a greater mix of our business channelled through our supermarket customers.
5. **The beverage sector is highly competitive:** Our negotiations occur in a highly competitive setting. Rival beverage businesses work tirelessly for a place in shoppers' grocery baskets. To illustrate this, we currently have around 30% volume share (of the Non-Alcoholic Ready to Drink, "NARTD", category), while retailer brands hold around 28%.
6. **Maintaining a reasonable rate of return is critical to ensuring that CCEP can manufacture locally, employ Australian workers and operate sustainably:** Maintaining a reasonable rate of return is critical to CCEP funding modern, sustainable infrastructure and retaining a globally competitive operation. Given the factors outlined above, securing this rate of return is challenging due to factors including negotiations with our customers, inflation, a fragile supplier base and the imperative to invest to ensure we can continue to make our products locally and sustainably.

## Conclusion

CCEP remains optimistic about the competitiveness of our products, our ability to negotiate effectively with our large supermarket customers, and ultimately our capacity to deliver value to Australian consumers. To enable us to continue to achieve these objectives we would respectfully encourage the Committee to:

- Adopt a holistic view of the Australian food and grocery market. For the reasons we have outlined in this submission, we believe the market dynamics in this segment of the retail environment are complex. To characterise it as a market of "price setters" and "price takers", as has been stated during this Inquiry, does not, in CCEP's view, reflect the range of other factors at play.
- Consider the continued confidence of CCEP and other stakeholders in the Food and Grocery Code of Conduct (**Code**). We believe that the Code continues to

play an important part in promoting constructive behaviour between retailers and suppliers. The Code sends a positive signal to the sector which complements our team's negotiating skills and passion for building sustainable, mutually beneficial relationships with our valued customers. We support the Code being made mandatory for major retailers and wholesalers.

- Factor in the important role that government manufacturing policy settings play in supporting food and beverage manufacturers such as CCEP to continue to deliver value to consumers in Australia. In particular, we would highlight the pressing need to support measures to strengthen the supply of key raw materials (such as carbon dioxide for carbonation of beverages), encourage food and beverage manufacturers to invest in innovative technology (such as circular economy innovation and packaging design), drive productivity enhancing measures for our labour force (such as training and skills enhancement) and reduce regulatory complexity (such as supporting national harmonisation of circular economy policies).

Please do not hesitate to contact CCEP if we can provide further information to support this submission.

Yours faithfully

Orlando Rodriguez  
Managing Director Australia