Submission by the

Australasian Soft Drink Association Ltd

to the

Productivity Commission

Citrus Growing and Processing Inquiry

7 December 2001

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1. Summary

Valued at $4.4billion the water based beverages industry is a significant employer and economic participant in the Australian food and beverages market. The Australasian Soft Drink Association is the major representative of this market and is recognised by Government as the primary voice of the industry.

The soft drink industry as a user of citrus products particularly concentrated orange juice is concerned at the reported attempts by some citrus growers for tariff protection, import quotas and protection through secondary boycotts and third party issues such as standards and labelling.

The primary purpose of this submission is to provide the Commission with a consumer’s perspective and to ensure the maintenance of current Government policies aimed at continuing restructuring of the citrus industry and maximising the benefits to consumers of freedom of trade.

In Australia market growth for carbonated soft drinks has been tapering off. There has been a decline in the annual growth rate and a shift to still water and other “new age” beverages. This has resulted in a corresponding levelling off of demand for fruit juice based carbonated soft drinks. Little growth is expected in citrus-based carbonated beverages and cordials.

The non-alcoholic beverage market is extremely price sensitive and subject to competition from a broad range of other non-alcoholic beverages including cola, other fruit juices, flavoured milk and still water.

An increase in fruit juice prices through protection will be self-defeating by leading to a reduction in demand for fruit juice based carbonated beverages and therefore a reduction in demand for concentrated citrus juice.

Criterion used by the soft drink industry for the purchase of fruit juice concentrate (especially orange juice) is quality, price and guaranteed supply.

The vast majority of citrus concentrate is imported into Australia from Brazil. Australia is an insignificant player in the world market and without significant capital investment and plantings of citrus trees, to a level never seen in Australia, could not hope to compete on price and reliability of supply.

A full range of rules, regulations and statutory organizations already control the water beverages and fruit juice industry. Currently Australian bottlers are restricted by onerous regulations, as compared to our New Zealand trading partners. ANZFA is currently reviewing the regulations with a view of harmonization between Australia and New Zealand. Such a liberalisation will see the development of a greater range of value added citrus juice products.

Further regulation must be treated with caution as it could lead to cost increases and standards that would lead to a reduction in demand for citrus juices in favour of other beverages. The Australasian Soft Drink Association would view additional regulatory imposts as an attempt by growers to use regulations to obtain an unfair advantage over imports.

It is ASDA's view that the current free trade policy is in the best interest of citrus growers, processors and consumers. The citrus industry has been restructuring over the past 10 years and should continue that process. Any action that halts this process or causes a sudden change of direction would be damaging to the industry and consumers.

ASDA would have no objection to the government providing adjustment assistance to citrus growers and processors, who are no longer competitive, with the aim of aiding the smooth restructuring of the industry.

ASDA would however, strongly object to the imposition of tariffs, import quotas or other artificial means to protect the industry that would ultimately lead to a reduction in the competitiveness of citrus base non-alcoholic beverages and ultimately a reduction in demand for citrus juices.

2. Australasian Soft Drink Association

The water based beverages market is a vital part of the food and beverages market in Australia. It is valued at $4.4 billion, employing 7,000 directly and 15,000-20,000 through the supplier chain (excluding retailers).

The Australasian Soft Drink Association Ltd (ASDA) is the peak industry voice representing the interests of the manufacturers, distributors and importers of non-alcoholic beverages. The range of beverages, produced by ASDA members, includes carbonated diet and regular soft drinks, sports and isotonic drinks, bottled and packaged waters, fruit drinks and cordials.

ASDA represents 54 manufacturers, distributors, importers and franchisers through its national membership and that of member associations. A further 45 suppliers to the Soft Drink Industry are also actively involved at both national and state levels. (A list of member organizations is attached at Addendum B)

It is the role of the Australasian Soft Drink Association Ltd (ASDA) to provide strong, effective representation on regulatory, public policy, trade and commercial issues to government at all levels, as well as community groups and the media.

The issues that ASDA deals with are those that demand a strong industry voice and that transcend the relationships of individual companies.

ASDA provides a forum in which member companies and member associations can raise and debate issues affecting their industry and establish a position for the non-alcoholic beverage industry on these issues.

The Association has gained recognition by Governments at all levels as the representative voice of the non-alcoholic beverages industry and one of the leading trade and Industry associations in the food and beverages manufacturing sector in Australasia.

3. Interest in the Inquiry

The soft drink industry as a user of citrus products is concerned at the reported attempts by some citrus growers for tariff protection, import quotas and protection through secondary boycotts and third party issues such as standards and labelling.

The Australasian Soft Drink Association (ASDA) is therefore making a submission to the inquiry under the category of “consumers and consumer groups” as classified under Section1.2 Participation in the Inquiry in the Citrus Growing and Processing, Issues Paper.

The primary purpose for our participation is to provide the Commission with a consumer’s perspective and to ensure the continuation of current Government policies aimed at maximising the benefits to consumers of freedom of trade.

4. Scope of this submission

The vast majority of citrus product used by members of the ASDA is concentrated citrus juice (particularly orange juice). This submission will therefore focus in the main on the current use and forecasts of concentrated citrus juice and the likely impact on usage of the various forms of assistance that could be considered for local growers and producers.

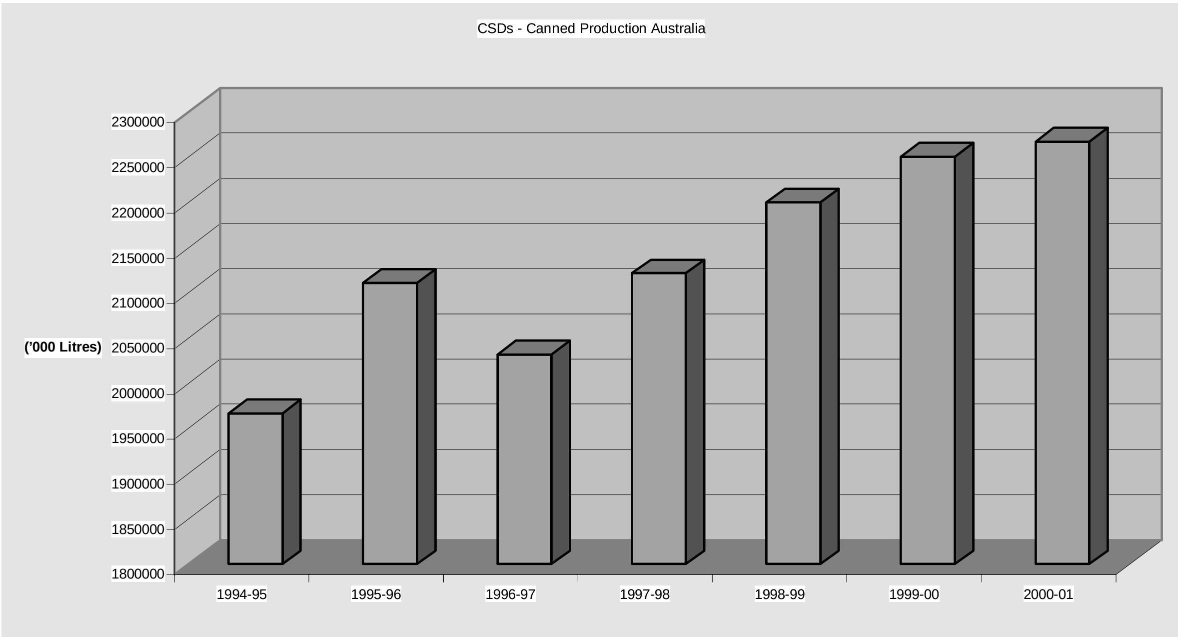
From the Terms of Reference issued by The Hon Peter Costello MP on 26th September 2001, under the Productivity Commission Act 1998 our submission will relate to sections 1.b. and 1.d. (Refer Addendum A)

5. Size of the soft drink industry

The Australasian Soft Drink Industry is one of the most dynamic and progressive sectors of the food and beverage market. At the beginning of this new century, soft drinks are the number one item in consumers' supermarket shopping trolleys and the number one preferred beverage of choice.

The continual development of new products to meet the ever-changing consumer needs, has allowed the Soft Drink Industry to gain this position of leadership amongst all consumer products. The non-alcoholic beverages industry in Australia continues the growth pattern established in the past decade mainly due to the popularity of bottled spring water.

In Australia production growth of carbonated soft drinks has been tapering off. There has been a decline in the annual growth rate from 4.4% for the 1998 financial year, to 3.7% for 1999, to 2.3% for 2000 and 1.0% for 2001 (includes the Sydney Olympic Games). This has resulted in a corresponding levelling off of demand for fruit juice based carbonated soft drinks.



Carbonated Soft Drink Production 1994-2001

6. Size of Citrus Based Non-Alcoholic Beverages Market

Type of Beverage	$'000	Finished Litres 000's	Estimated Juice content Litres 000's
Citrus containing Carbonated Beverages	198,761.9	99,054.5	4,952.7
Citrus containing Cordials	130,899.6	83,570.7	4,178.5
Citrus containing Juices	183,974.8	112,212.7	112,212.7
Total	513,636.3	294,837.9	121,343.9

Estimated total citrus juice used: 121,343,900 litres per annum.
(The bulk of this juice is reconstituted FOJC.)

The above table provides our industry's estimate of the size of the citrus containing juice market. This differs from the estimate of the Citrus Industry Council (CIC), as reported in its 2001 Annual Report by 60 million litres. A greater range of products covered by the CIC may very well account for this discrepancy. The CIC reported data is nevertheless important in placing the Australian Citrus growing industry into perspective when looking at the beverage market. The CIC data is shown in the table below.

Australia – 2000-1	
	Litres
Total citrus imports	182,000,000
Total Australian citrus juice production	327,000
Total Market	182,327,000

It also worthwhile noting that of the 327,000 litres produced from Australian citrus 200,000 were used in fresh orange juice production.

7. Source of Citrus Concentrate

The vast majority of citrus concentrate is imported into Australia from Brazil.
The following chart on world FCOJ production from the Australian Citrus Industry Council demonstrates that Australia is an insignificant player in this world market and why it is so hard for Australia to compete on price and reliability of supply.

World FCOJ Production ('000 Tonnes 65 degrees Brix)

Country	1996/97	19997/98	1998/99	1999/00	2000/01	Forecast 2001/02
Brazil	1152	1390	1184	1360	1180	1085
USA	1022	1106	879	1064	988	1060
Mexico	46	70	45	41	37	NA
South Africa	17	18	16	19	21	NA
Australia	13	12	3	5	7	2

ASDA members' purchasing criteria for fruit juice concentrate (especially orange juice) is quality, price and guaranteed supply. Origin of the juice concentrate is only relevant if the bottler should wish to use such origins as a basis for its marketing campaign. E.g. "Made from fruit grown in Australia". This has generally not been seen as a major marketing factor.

8. Market Trends

The total carbonated beverages market appears to be levelling out with volume fluctuations restricted to population growth and weather. The vast majority of this market is cola, orange and lemonade

At the margin, the product mix of the market is fashion sensitive with new products heavily promoted by advertising.

Current trends see a growth in still water and energy drinks, e.g. the volume of the still water market for the 12 months to 30th June 2001 was 520 million litres showing a growth rate of around 10% per annum. The rapid growth of the Energy Drinks market is still of minor overall impact, given its very low staring base.

Little growth is expected in citrus-based carbonated beverages and cordials.

9. Competition and Price Sensitivity of the beverages market

The beverages market is extremely price sensitive.
Competition to citrus base non-alcoholic beverages include

- Other fruit juice based carbonated beverages e.g. apple
- Other fruit juice cordials and juices e.g. berries, apple, pear.
- Other non-juice based carbonated beverages e.g. cola
- Flavoured milk
- Still water.

An increase in fruit juice prices through protection will be self-defeating by leading to a reduction in volume usage.

10. Regulations, Standards and Labelling

A full range of rules, regulations and statutory organizations control the water beverages and fruit juice industry including:

- Australia New Zealand Food Authority
- ACCC
- Departments of Fair Trading or their equivalent in each State.
- Code of Practice and Administration Rules for the Fruit Juice Industry prepared by Australian Citrus Industry Council Inc & Australian Fruit Juice Association.

Food regulations as developed by the Australia New Zealand Food Authority have a major impact on the ability of the beverage industry to develop new products and thus expand the total market for beverages reaching new or additional consumers.

Currently Australian bottlers are restricted by onerous regulations, as compared to our New Zealand trading partners, in the development of a range of beverages best described as “functional beverages”. These are beverages that have vitamins, minerals and/or herbs added. Many of these products are juice based.

ANZFA is currently reviewing the regulations with a view of harmonization between Australia and New Zealand. Australian beverage manufacturers are hopeful that this may also mean a liberalization of the regulations more closely reflecting the current permissions in New Zealand.

Such a liberalisation will see he development of a greater range of value added citrus juice products in this developing category.

Further regulation must be treated with caution as it could lead to cost increases and standards that would lead to a reduction in demand for citrus juices in favour of other beverages. ASDA would view additional regulatory imposts as an attempt by growers to use regulations to obtain an unfair advantage over imports.

11. Philosophical position of the ASDA

It is the view of the ASDA that the current free trade policy is in the best interest of citrus growers, processors and consumers. The citrus industry has been restructuring over the past 10 years and should continue that process. Any action that halts this process or causes a sudden change of direction would be damaging to the industry and consumers.

ASDA would have no objection to the government providing adjustment assistance to citrus growers and processors, who are no longer competitive, with the aim of aiding the smooth restructuring of the industry.

ASDA would however, strongly object to the imposition of tariffs, import quotas or other artificial means to protect the industry that would ultimately lead to a reduction in the competitiveness of citrus base non-alcoholic beverages and ultimately a reduction in demand for citrus juices.

End.

Addendum A

Citus Growing and Processing Industry
Terms of Reference

PRODUCTIVITY COMMISSION ACT 1998

I, Peter Costello, under Parts 2 and 3 of the Productivity Commission Act 1998, hereby:

1. refer for inquiry and report the competitive situation and outlook for the citrus growing and processing industry, taking into account:

    a. the financial conditions, including profitability, of the industry;

    b. trends in relation to demand and supply factors, including imports such as frozen concentrate orange juice;

    c. the competitiveness of the industry, including efforts taken by the industry to enhance competitiveness; and

    d. the impact and effectiveness of existing and recent Commonwealth/State policies and programs.

2. specify that:

    a. the Commission report on whether the circumstances are such that measures are necessary to enhance the competitiveness of the industry; and

    b. if so, what measures would be necessary and appropriate, including whether a formal safeguards investigation is warranted.

3. The Commission is to report within 6 months of receipt of this reference and is to hold hearings for the purposes of the inquiry.

4. The Government will consider the Commission's recommendations and the Government's response will be announced after the receipt of the Commission's report.

PETER COSTELLO

26 September 2001

Addendum B

Members of the Australasian Soft Drink Association Include:

Bottlers – Franchisors & Distributors

Aroona Valley Springs Pty Ltd
Alpine Soft Drinks (Aust) Pty Ltd
Australian Spring Water Corporation
Aygee Gippsland Pty Ltd
Australian Beverage Enterprises Co-operative Society
BCB Beverages Australia Pty Ltd
Beaudesert Soft Drinks Pty Ltd
Berri Ltd
Bertshell Pty Ltd
Bev Pak Australia Pty Ltd
Bickfords Australia Pty Ltd
British Soft Drinks
Bundaberg Brewed Drinks Pty Ltd
Byron Drinks
Cadbury Schweppes Australia Pty Ltd
Cantarella Brothers Pty Ltd
Capri Wholesalers
Carlton & United Breweries
Cascade Beverage Co.
Consolidated Beverage Company Pty Ltd
Crows Nest Cordials Pty Ltd
Coca-Cola South Pacific Pty Ltd
Cooks Soft Drinks
Franks Vendors Pty Ltd
Frucor Beverages Ltd
Golden Circle Ltd
Great Southland Beverages
Hopes Goulburn Cordials Pty Ltd
Irymple Citrus Products
Jolt Corporation Australia Pty Ltd
Juicy Isle
Latino Imports
Lillyman Brothers
Mitchell's Walgett
MON Beverages
O.N.E Star Pty Ltd
Pacific Beverages Australia Pty Ltd
Pauls Limited

Pepsi-Cola Company International
PET Technologies
Rainbow Smash
Rio Beverages
Saxbys Soft Drinks Pty Ltd
Shamies Bottling Co Pty Ltd
Southern Softdrinks Pty Ltd
Stanwells Cordials & Confection
Taffy's Quality Drinks Pty Ltd
Taisho Pharmaceutical Co.
Tasmanian Rainforest Waters Pty Ltd
The Gatorade Company of Australia Pty Ltd
Trend Drinks Pty Ltd
Unilever Australia
Unique Beverages Australia Pty Ltd
Wimmer Marketing Pty Ltd
Yarra Valley Food Distributers

<u>National Associate Members</u>

ABN Amro Australia
ACI Closures
ACI Glass Packaging
ACI Petalite
AET Inc.
Air Liquide Australia Ltd
Aluminium Can Group
AMCOR
BOC Gases Australia Pty Ltd
Bundaberg Sugars Pty Ltd
CHR Hansen
DiverseyLever Australia Pty Ltd
DiverseyLever Consulting
Dragocco Australia Pty Ltd
Ecolab Ltd
Firmenich Ltd
Givaudan Australia Pty Ltd
International Flavours & Fragrances (Aust) Pty Ltd
Johnson & Johnson Pacific
Jars Plus Pty Ltd
Kerry Ingredients
K.H.S. Pacific Pty Ltd
Le Mac Enterprises Pty Ltd
Macquarie Bank
Manildra Harwood Sugars
Mead Packaging Pty Ltd

Monsanto Australia Ltd
New Zealand Sugar Company
Nutrinova Australasia
Orfords Refrigeration Pty Ltd
Pakval Pty Ltd
Quest International
Quirk's Refrigeration
Salomon Smith Barney
SASIB Beverages Aust Pty Ltd
Scholle Industries Pty Ltd
Sensient Technologies Australia Pty Ltd
Skope Refrigeration
Sopura Australia Pty Ltd
Splatt Engineering Group
Sugar Australia
Tetra Pak Engineering Pty Ltd
The Product Makers (Aust) Pty Ltd
Visy Board Pty Ltd
VisyPak
Westcan