



Securing Future Innovation and Global Competitiveness in NSW Submission

Australian Beverages Council

6 June, 2022

The Australian Beverages Council Ltd (ABCL) is grateful for the opportunity to comment on the **Securing future innovation and global competitiveness in NSW Green Paper**. We believe it fosters robust, much needed discussion surrounding future proofing industry, promoting innovation and prioritising a transition to net-zero and a circular economy.

By way of introduction, the ABCL is the peak body representing the non-alcoholic drinks industry nationally. Our membership comprises small, medium-sized, and large companies that produce over 95% of the industry's volume. Our members make a substantial \$7+ billion contribution to the Australian economy each year and employ over 49,000 people nationally. Every one job in the industry supports 4.9 jobs in the supply chain.

In New South Wales, our members operate 55 sites which employ over 17,000 FTE workers and create a gross value add of approximately 2.7 billion dollars annually. These members create products such as juice, soft drinks, bottled water, energy drinks, sports drinks, flavoured milk and other innovative beverages. The drinks industry are proud stewards of materials processed through Container Deposit Schemes (CDS) and sit on multiple state and territory advisory committees to ensure that collection outcomes are maximised, and that drinks-related litter is abated.

It is from this knowledge base that we contribute to this consultation and hope to provide learnings from our own experience that will help the state. We have outlined our recommendations below and are available to consult further on these or any other points outside of this submission.

Transformative forces creating challenges and opportunities

Describe the top two or three transformative forces that will shape transition challenges and opportunities in your industry over the next 10 years.

What action is your industry or business taking, or intending to take, to address the effects of these transformative forces?

As with many manufacturing sectors, the non-alcoholic beverages industry has increasingly been challenged to understand, communicate and reduce its impacts from a carbon emission, resource use and product end-of-life perspective. Members take seriously the goal of **transitioning to net zero emissions by 2050** and have already made great strides by integrating renewable energy and other carbon mitigation factors into their operations. As with any major reforming of industry expectations, executing this transition is very skills and capital intensive, and often involves industry being the first to adopt new, innovative technologies. Companies with large staff and resources generally have more opportunities in this space than small and medium businesses, which often prioritise operations than futureproofing and innovation.

Through collaborating with organisations such as the Australian Packaging Covenant Organisation and funding and participating in container deposit schemes (CDS), the industry has targeted the end-of-life impacts of its products. The industry enthusiastically supports **building a circular economy** through designing for recyclability, reducing material use and educating consumers to participate in CDS and kerbside recycling. Our members have also worked to close the loop by investing in and operating recycling facilities, such as Circular Plastics Australia's joint venture in Albury, NSW. This facility has the capacity to recycle 1 billion PET bottles annually for reintegration into the circular economy.

Both aforementioned challenges are equally opportunities, but only if underpinned by a supportive regulatory framework prioritising transition to green technologies and **funding of research, development and innovation**. Government investment in renewable energy infrastructure, incentives for adopting green technologies, and a robust R&D and innovation program for businesses are pivotal ways in which the government can help accelerate the transition to a futureproofed, sustainable future.

What effects do you expect these transformative forces will have on your industry (or on your own business) over the next 10 years?

Transitioning to net zero emissions by 2050:

High and volatile energy costs have been a long-standing issue in Australia, particularly affecting the manufacturing sector. High energy costs make Australian industries increasingly uncompetitive, resulting in job losses and low

investment ability. We learned that industries were especially vulnerable when external shocks like COVID-19 hit the economy.

It is now recognised that businesses of all sizes will benefit significantly from state and federal governments achieving a nationally consistent energy and decarbonisation policy. A clear path for transitioning the energy sector to low-emission technologies will provide certainty for investors and enable a secure and competitive energy source. This is critical to strengthening domestic manufacturing capabilities, improving export competitiveness, creating new jobs and investing in innovation.

Industry recognises and appreciates the government's efforts to transition towards renewable energy, but sees a need to further incentivise sustainable energy and co-generation schemes. In the current climate, outright purchasing of renewable technologies such as solar panels is out of reach for many businesses due to the high capex required. In addition, many companies rent facilities as opposed to owning them outright, creating an additional roadblock to installing large, semi-permanent equipment. Incentives for sustainable energy transition and co-generation schemes would greatly increase the ability of businesses to make the transition to net-zero.

Building a circular economy:

As proud product stewards of our beverages containers, industry encourages resource recovery and recycling innovation by establishing reprocessing facilities, expanding producer responsibility schemes, and educating consumers on recycling the packaging of their favourite items. The non-alcoholic beverages industry is acutely aware of the complex multi-stakeholder partnerships needed to recover every container for reprocessing and reuse. These recycling facilities require tens and sometimes hundreds of millions of dollars to be built to scale, necessitating investment from multiple public and private stakeholders. We are extremely grateful for the support provided by the state and federal governments to date and believe these partnerships must continue if we are to reach the 70% recycling rate set out in the National Plastics Plan.

The beverage industry contributes further to the circular economy through innovative product design and manufacturing practices to reduce material use and integrate recycled content. Driven by consumers, government, and ESG mandates, the increased use of recycled content in packaging has become a core focus of the industry. While industry is committed to the cause, the enormous demand from overseas for recycled material means that domestic businesses are increasingly priced out of the resale market. Recycled content's cost premium and domestic availability remain ongoing challenges that stifle progress towards a vibrant domestic circular economy.

Further Opportunities:

- Continue to partner and co-invest with industry in recycling and reprocessing sites
- Expand eligible CDS containers to other rigid food and drink packaging to increase volume and quality of clean recyclate
- Fund research into reprocessing of hard to recycle materials (such as liquid paperboard)
- Make integrating recycled content more economically viable through subsidies and tax breaks
- Explore mechanisms to require reprocessed material (such as PET flakes) to be sold for use locally before allowing export

Further Challenges:

- Cost of packaging innovation, including testing and verifying the integrity of packaging with recycled content
- Preventing packaging regulations which have unintended consequences for vulnerable communities (such as straws in aged care) or the greater recycling landscape
- Industrially compostable materials (such as polylactic acid) contaminating the polymer recycling stream, resulting in large batches of recyclables being landfilled due to contamination

Research, development, and innovation:

The industry recognises the importance and need for continual innovation to remain competitive in the market. However, the costs of navigating the current system to access R&D incentives appear to only benefit high-value projects typically carried out by large corporations. SMEs often lack the available time or specialised expertise to write a grant proposal without significantly impacting regular duties. This means that without external assistance (which is usually costly), SMEs risk missing out on the opportunities offered by the government to help adapt and transition to the new sustainable economy.

Are there critical constraints across the business operating environment (for instance, related to markets, skills, production capacity, technology, finance capital or infrastructure) that affect the capacity of your industry or business to take up opportunities?

Skills Shortages –

It continues to be a challenge for the industry to hire skilled workers that are experts in product development and innovation. Certain technical skillsets are hard to source domestically such as packaging technologists, technical and regulatory specialists, mechanical engineers, and food scientists. Beverage businesses often train internally to later lose the employee to the mining industry, which offers considerably higher salaries.

As consumers and now government focus on transitioning the economy to a greener future, this skills shortage makes it hard for businesses to “keep up” with the rapidly changing landscape and remain competitive. This is an area which **SMEs and regional businesses** have a particularly high risk of being left behind in the transition.

Energy Costs -

The beverage industry is characterised by energy-intensive processes at every stage, from manufacture, warehousing, product cooling, and logistics, so unsurprisingly, energy is the highest cost to business. With energy costs being one of the largest threats to the industry's ongoing viability in Australia, the ABCL asks the government to support incentives for sustainable energy and co-generation schemes that focus on energy supply reliability and efficiency.

Tax –

The business landscape in Australia is often viewed as prohibitive and complex. Adding to the unavoidable business costs are taxes, some of which are considered overly burdensome. Corporate tax is high; at 30%, it is above the OECD average of 23%, making Australia a less competitive place to do business globally. Payroll tax, seen as a tax on employment, is considered by many businesses to be onerous and unjustified. We would support taxation reform to reduce the financial burden on businesses, along with providing tax incentives to support beneficial economic decision making.

Why would your industry be a suitable target for demand or supply side industry policy interventions over the next 10 years? Where in your supply chain would this intervention be most effective, and why?

The non-alcoholic beverages industry is a high-volume, low margin industry that is extremely sensitive to pricing pressures such as energy costs and raw material inputs. Approximately 90% of the ABCL's beverage manufacturing membership falls into the ATO's definition of small and medium enterprise, making these pressures something we see the effect of every day. Our membership overwhelmingly understands that transitioning to a decarbonised, circular economy is not only the right thing to do, but essential to futureproofing and de-risking their business. Without support from industry policy interventions, our SMEs risk being left behind in the new economy.

For the reasons outlined above, interventions would be most effective in transitioning capital intensive manufacturing operations, training and retaining skilled workers, securing economically priced energy and raw materials, and facilitating access to research, development and innovation services. Without government action in these areas, job growth, product innovation and carbon footprint reduction would be out of reach for many domestic beverage

businesses. Even the smallest of ABCL member companies export to places such as New Zealand, China and Southeast Asia. Hence, an investment in these businesses is not just strengthening domestic commerce but Australian exports as well.

We look forward to seeing the result of the consultation and thank the NSW government for allowing us to highlight our vibrant, innovative industry.