

## Coca-Cola's profile

Coca-Cola started its business in 1886 as a local soda producer in Atlanta, Georgia (US) selling about nine beverages per day. By the 1920s, the company had begun expanding internationally, selling its products first in the Caribbean and Canadian markets and then moving in consecutive decades to Asia, Europe, South America and the Soviet Union. By the end of the 20th century, the company was selling its products in almost every country in the world. In 2005 it became the largest manufacturer, distributor and marketer of non-alcoholic beverages and syrups in the world. Coca-Cola is a publicly-held company listed on the New York Stock Exchange (NYSE).

## Coca-Cola's conflicts

Several campaigns and demonstrations followed the publication of a report issued by the Indian NGO Centre for Science and Environment (CSE) in 2003. The report provided evidence of the presence of pesticides, to a level exceeding European standard, in a sample of a dozen Coca-Cola and PepsiCo beverages sold in India. With that evidence at hand, the CSE called on the Indian government to implement legally enforceable water standards. The report gained ample public and media attention, resulting in almost immediate effects on Coca-Cola revenues.

The main allegations made by the NGO against Coca-Cola were that it sold products containing unacceptable levels of pesticides, it extracted large amounts of groundwater and it had polluted water sources.

### The presence of pesticides

Regarding the allegation about Coca-Cola beverages containing high levels of pesticide residues, the Indian government undertook various investigations. The government set up a Joint Committee to carry out its own tests on the beverages. The tests also found the presence of pesticides that failed to meet European standards, but they were still considered safe under local standards. Therefore, it was concluded that Coca-Cola had not violated any national laws. However, the Indian government acknowledged the need to adopt appropriate and enforceable standards for carbonated beverages.

In 2006, after almost three years of ongoing allegations, the CSE published its second test on Coca-Cola drinks, also resulting in a high content of pesticide residues (24 times higher than European Union standards, which were proposed by the Bureau of Indian Standards to be implemented in India as well). CSE published this test to prove that nothing had changed, alleging that the stricter

standards for carbonated drinks and other beverages had either been lost in committees or blocked by powerful interests in the government. Finally, in 2008 an independent study undertaken by The Energy and Resources Institute (TERI) ended the long-standing allegations by concluding that the water used in Coca-Cola in India is free of pesticides. However, because the institute did not test the final product, other ingredients could have contained pesticides.

#### [Water pollution and the over-extraction of groundwater.](#)

Coca-Cola was also accused of causing water shortages in – among other areas – the community of Plachimada in Kerala, southern India. In addition, Coca-Cola was accused of water pollution by discharging wastewater into fields and rivers surrounding Coca-Cola's plants in the same community. Groundwater and soil were polluted to an extent that Indian public health authorities saw the need to post signs around wells and hand pumps advising the community that the water was unfit for human consumption.

In 2000, the company established its production operations in Plachimada. Local people claimed that they started experiencing water scarcity soon after the operations began. The state government-initiated proceedings against Coca-Cola in 2003, and soon after that the High Court of Kerala prohibited Coca-Cola from over-extracting groundwater. By 2004 the company had suspended its production operations, while it attempted to renew its licence to operate. Coca-Cola argued that patterns of decreasing rainfall were the main cause of the draught conditions experienced in the area. After a long judicial procedure and ongoing demonstrations, the company succeeded in obtaining the licence renewal to resume its operations. In 2006 Coca-Cola's successful re-establishment of operations was reversed when the government of Kerala banned the manufacture and sale of Coca-Cola products in Kerala on the ground that it was unsafe due to its high content of pesticides. However, the ban did not last for long and later that same year the High Court of India overturned Kerala's Court decision. More recently, in March 2010, a state government panel recommended fining Coca-Cola's Indian subsidiary a total of \$47 million because of the damage caused to the water and soil in Kerala. Also, a special committee in charge of looking into claims by community members affected by the water pollution was set up.

The long legal procedures against the Indian government that Coca-Cola had to face were not the only consequence of the conflict. The brand suffered a great loss of consumer trust and reputational damage in India and abroad. In India there was an overall sales drop of 40% within two weeks after the release of the 2003 CSE report. The impact in annual sales was a decline of 15% in overall sales

in 2003 in comparison to prior annual growth rates of 25-30%. This highly publicised conflict in India also caught the attention of consumers in the US. After a series of demonstrations by students who joined two activist groups in the US, ten American universities<sup>43</sup> temporarily stopped selling Coca-Cola products at their campus facilities.

### Coca-Cola's CSR policies post-conflicts

Two years before the water conflict in India in 2003, Coca-Cola adopted the GRI Guidelines and started reporting on sustainability. By 2003, the company had already experienced a few CSR-related conflicts in other parts of the world. However, none of them had the grave consequence of a loss of trust in the company and its products by consumers and the public in general.

According to Pirson and Malhotra, the main reason why this controversy ended so badly for Coca-Cola lies in its response to the problem. Coca-Cola denied having produced beverages containing elevated levels of pesticides, as well as having over-exploited and polluted water resources. By denying all claims and trying to prove its integrity, instead of demonstrating concern towards the situation, Coca-Cola failed to regain consumers' trust. The Indian population viewed Coca-Cola as a corporate villain who cared more about profits than public health. In comparison, previous conflicts experienced by the company in the US and Belgium were better handled because it included stakeholder engagement in its strategy.

It appears that the company became aware of its mistake after the controversy had been ongoing for a couple of years. In 2008 Jeff Seabright, Coca-Cola's vice president of environment and water resources, recognized that the company had not adequately handled the controversy. He acknowledged that local communities' perception of their operation matters, and that for the company '(...) having goodwill in the community is an important thing'.

Although Coca-Cola still denies most of the allegations, the reputational damage experienced after the controversy in India pushed Coca-Cola to take damage-control measures. Those measures at first consisted of statements to confirm Coca-Cola's integrity. For example, Coca-Cola dedicated a page in the Corporate Responsibility Review of 2006 to address the controversy. The statement consisted mainly of providing information supporting its good practices and water management of its operations in India. But this statement did little to combat the declining sales and increasing losses exceeding investments.