

Consumer Market for Mineral Water and Development Policy in Georgia

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Abstract—The paper discusses mineral water consumer market and development policy in Georgia, the tools and measures, which will contribute to production of mineral waters and increase its export.

The paper studies and analyses current situation in mineral water production sector as well as the factors affecting increase and reduction of its export. It's noted that in order to gain and maintain competitive advantage, it's necessary to provide continuous supply of high quality goods with modern design, open new distribution channels to enter new markets, carry out broad promotional activities, organize e-commerce. Economic policy plays an important role in protecting markets from counterfeit goods. The state also plays an important role in attracting foreign direct investments. Stable business environment and export oriented strategy is the basis for the country's economic growth.

Based on the research, the paper suggests the strategy for improving competitiveness of Georgian mineral waters; relevant conclusions and recommendations are provided.

Keywords—Mineral waters, consumer market for mineral waters, export of mineral waters, mineral water development policy in Georgia.

I. INTRODUCTION

DUE to some advantages, production of mineral water takes the leading position in Georgia's economy. Such advantages are: abundance, cheapness, stability, renewability, not seasonal character, high quality and competitiveness of raw materials and most importantly, quick return on investments. In this regard, it's noteworthy as well that Georgia is situated between the countries facing the shortage of drinking water.

It should be noted, that demand for fresh water in continuously increasing, while Georgia is one of the richest in drinking water resources. In this regard, the country exceeds average indicator per person in the world by 2.5 times, 2.4 times in Europe and 1.7 in Asia. In addition, 30% of water resources in Georgia are ground waters of highest quality.

There are over 2000 healing waters in Georgia, which have been used by local people for medical purposes for many centuries [1].

There are over 730 kinds of mineral water in Georgia with 130 million liter outcome per day. Over 300 out of this mineral water have great industrial and balneological importance [2].

The number of mineral water resources in Georgia is two times more than the number of world-famous mineral water

resources in France and Germany together. As for some mineral water resources, such as Borjomi, Nabeghlavi, Sairme, Lugela, Utsera and others, with their chemical composition and healing properties, they are unique.

The objective of the paper is to present competitive advantages of Georgia in mineral water production, analyze the current situation in this field, reveal gaps and set development perspectives; to study consumer market for mineral water and determine the prospects of development. Based on the analysis, relevant conclusions and recommendations are provided.

II. METHODOLOGY

Both general and specific research methods, such as analysis, synthesis, induction, deduction, scientific abstraction, comparison, statistical methods (selection, grouping, observation, dynamics, etc.), static methods and expert assessment are used in the research. In order to define the regularities between analytical and statistical evaluations, reports of the National Statistics Office of Georgia are used.

III. DISCUSSION

Demand for Georgian mineral water has always been high in Georgia as well as abroad.

Before 1990, eighteen kinds of mineral water were produced in Georgia in the quantity of 520-540 million half-liter bottles. Afterwards, production dramatically reduced and amounted to 9.4 million bottles in 1995. Assortment of the production also reduced. Actually, in 1995 only one kind of mineral water, namely, Borjomi was produced [3].

Reduction of production was caused by a number of factors, such as lack of electricity, collapse of economic links and transport infrastructure, increased crime, inappropriate privatization process.

Recovery of mineral water production began in 1996. 134.5 million bottles, 16.7 times more than in 1995, were produced in 2002. The share of mineral water in the export of food products of Georgia in 2002 was 15.2%. However, after 2006 the situation has changed and the volume of export began to decrease. On the one hand, Russia's embargo caused a number of problems for Georgian mineral water production companies. However, on the other hand, this encouraged the companies to seek new export markets.

State regulation of production and sale of mineral waters is regulated based on two laws (the Law of Georgia on Mineral Resources 1996 [4] and Water Law 1997 [5]), which fully cover and regulate the whole technological cycle from water mining and maintenance to processing. Both laws are adjusted

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to international standards. The concept for the development of mineral water production has been developed.

Mineral water production development concept has been developed which includes development of previously bottled mineral waters as well as introduction of new kinds of mineral water.

According to the Water Law of Georgia (11.11.1997), depending on the origin, physical and chemical characteristics and processing quality, the water produced (bottled) in Georgia is classified into four categories: natural mineral water, healing mineral water, spring water and table water.

For the formation of competitive economy, the government should carry out the economic policy focusing on dynamic reorganization of production structures, especially in the direction of developing export-oriented sectors (investment and export subsidies, tax preferences, assistance in hard economic situation, etc.). Export-oriented strategy became the key factor of economic development for many countries.

In 2012-2014 export from Georgia grew by 24 percent, in particular, compared to 2012; export to the EU grew by 70 percent and export to Russia – by 534 percent. During these two years, export of vegetables grew by 53 percent, fruit – by 91 percent, mineral waters – by 159 percent, wine – by 221 percent and citrus by 1040 percent.

In 2013-2014 export of mineral waters grew by 56 percent. According to Sakstat, in January – September 2014 export of mineral water from Georgia to foreign markets amounted to nearly \$ 114 million. In the correspondent period of 2013 the value of mineral waters exported from Georgia totaled \$73 million. Mineral waters holds the fifth position on the list of export, its share in total export grew from 3.7% in 2013 to 4.8% in 2014 (see Fig. 1) [6].

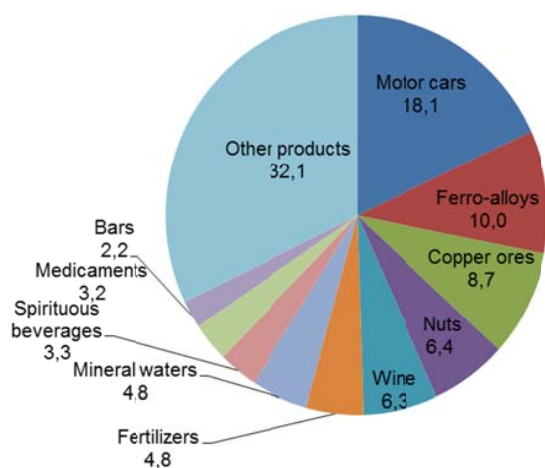


Fig. 1 Share of major commodity positions by exports in 2014 (%)

As the table shows, in 2014 export of mineral and fresh water from Georgia increased by 1.66 times compared to 2012 – export of mineral water increased by 1.66 times and export of fresh water by 1.68 times (Table I).

TABLE I
EXPORT OF MINERAL AND FRESH WATER FROM GEORGIA (THOUSAND)

Name	2012	2013	2014
Total			
Liters	59340.8	106 883.8	137123.6
USD	88589.1	127760.7	147313.2
including:			
Mineral water			
Liters	59213.1	106768.8	136777.6
USD	88200.3	127400.4	146658.1
Fresh water			
liters	127.7	114.9	346.0
USD	388.8	360.3	655.1

Borjomi is the best known from Georgian mineral waters. It is the water of volcanic origin with natural carbonic gas. The water is a good cure for people with chronicle and metabolism related problems, it has healing properties.

For 2006 the company Borjomi was forecasting sales of 235 million bottles both in Georgia and abroad. 65 percent of export was sold in Russia. Thus, Russia was the largest market for Borjomi, followed by Ukraine and Georgia. On May 6, 2006 Russian government banned import of Georgian mineral water and wine in Russia. However, unique qualities of Borjomi were unanimously recognized by experts at the international conference “ECWATECH 2006” held in Moscow in 2006. Georgian mineral water won one more gold medal and received a diploma.

After Russian embargo, Borjomi producing company did its best to diversify its markets. A number of measures have been taken; full rebranding of Borjomi is especially noteworthy. New packaging of Borjomi water was presented to the public, aggressive marketing campaigns were planned for strategically important countries. These activities resulted in increased demand for Borjomi. As a result of the correct policy, nowadays Borjomi is the best-selling mineral water in post-soviet countries. In addition, at the end of 2013, Russian market opened for Georgian mineral water and Borjomi quickly achieved success first in central cities and later in regions as well. Due to the marketing activities carried out by the company on strategic markets, such as post-soviet countries, export is increasing annually. However, export of this mineral water is steadily developing in other countries as well.

At present, Borjomi is sold in 40 countries worldwide, including CIS countries, as well as Belgium, the Netherlands, Great Britain, the US, Canada, Japan, China, Switzerland, Luxembourg, etc. However, the most of the export of Borjomi mineral water is still sold in CIS countries. Borjomi is number one foreign brand in imported mineral water segment in post-soviet countries.

According to commercial web-page top-10-list.org, Borjomi holds the third place among the best and most wholesome top ten mineral waters of the world. The rankings of this web-page are based on the data collected directly from consumers. Besides Borjomi, the following brands are included in top ten mineral waters: Evian, Perrier, San Pellegrino, Naya, Volnic Water, Agna Pasific, Montclar

Water, Kona Deep Sea Mineral Water, Ein Gedi Mineral Water [7].

Nabeghlavi is another mineral water occupying an important share in the mineral water market in Georgia. "Nabeghlavi" is enriched with natural carbon dioxide. It has unique healing and prophylactic properties. In addition, it may be consumed in unlimited quantity by people of all ages. Systematic use of Nabeghlavi helps to clean body from harmful substances and to get essential minerals.

Besides succeeding in the domestic market, Nabeghlavi has deserved recognition in other countries as well and currently it's exported to 18 countries, including the EU and CIS countries, as well as Middle East and North America (Azerbaijan, the United States, the Baltic countries (Lithuania, Latvia, Estonia), Belarus, Turkey, Turkmenistan, Israel, Cyprus, Moldova, Poland, Greece, Armenia, Tajikistan, Ukraine, Kyrgyzstan, Kazakhstan).

Besides well-known mineral water brands (Borjomi, Nabeghlavi, Sairme, Lugela), a new mineral water Phlate appeared on Georgian mineral water market. Export of Phlate will begin in 2015. Phlate is well-known in Georgia, but it isn't exported as yet. Phlate is most demanded in Russia, Kazakhstan and Belarus. Phlate was exported to Middle Asia 30-40 years ago and was most expensive and demanded water. Its mineral contents haven't changed and its quality is the best. Phlate is one of the mineral waters with unique mineral contents, which is confirmed by various scientific researches. Besides, this is water for everyday consumption. With its contents and quality, Phlate is very similar to the water, which Europeans intensively consume.

On October 1, 2013 the Law of Georgia on Taxes on Natural Resource Usage came into force. According to this law, producers of Borjomi and Nabeghlavi had to pay increased tax for mineral water. Before that, the tax for 1 cubic meter Borjomi mineral water had been 10 GEL and for Nabeghlavi mineral water - 6 GEL. According to the new law, the tax for these mineral waters tripled and amounted to 30 GEL for Borjomi mineral water and 18 GEL for Nabeghlavi mineral water [8].

As the government of Georgia explains these mineral waters are highly demanded and very competitive both in domestic and international markets. In addition, groundwater, as natural resource is non-renewable. Thus, it's important to determine the tax adequate to its price and demand. It should be noted that the amount of the fee for each bottle of water constitutes a fairly small percentage of its value and therefore, increase of the tax can't have serious influence on the companies' production costs.

Mineral water producing companies say that increased tax will have a negative impact on the competitiveness of Borjomi in Georgian as well as Russian, Ukrainian and other export markets. They suppose that the price of the product will significantly increase.

Until now, the Borjomi Company had to pay the highest tax on natural resource in mineral water sector and it amounted to 5.9 euros per 1 cubic meter of mineral water, compared to 4.1 euros per 1 cubic meter for other mineral water companies

operating in Georgia. In CIS and European countries the tax ranges from 0.1 to 5.7 euros per 1 cubic meter. France is the only country with higher tax rate on mineral water than in Georgia, though, it's notable as well that in France producers of mineral water have privileges when paying VAT. This is that for water producers VAT is 7% while generally it is 19%. Thus, Borjomi producing company is paying the highest tax in CIS as well as European countries. Such decision puts current position of Borjomi in export markets at risk and presents serious threat to its development perspectives.

Counterfeit of mineral waters is one of the most serious problems. This problem has become especially pressing since 1991-1992 when bottling and supply of mineral water to traditional markets actually stopped. Imbalance between demand and supply of Borjomi occurred; favorable conditions were created for production and sale of counterfeit products.

Such process causes the results that are hard to be corrected. In particular, the rights of consumers are violated, product safety requirements aren't met (bottling in unsanitary condition, inappropriate technological regimes, etc.); because of tax evasion the cost of counterfeit product is three or four times less compared to the product bottled by official companies.

Thus, unfair competition occurs and falsifiers get ability to occupy certain segment of the market with dumping price. As a result both consumers and the state budget suffer losses. In order to solve this problem special security features have been developed that significantly reduced the quantity of counterfeit product. However, some cases can be still observed.

Currently fresh water is successfully sold in many countries. Georgia is very rich in spring water resources. The experts suppose that in near future the situation in the market will change in favor of fresh water.

IV. CONCLUSION AND RECOMMENDATIONS

Based on the above analysis, we can make several conclusions:

The studies have shown that institutional reforms in Georgia are not enough to improve competitiveness and export of Georgian mineral waters significantly.

The following problems are considered to be the major ones:

- Political instability and conflict zones in the country;
- Lack of investment and export subsidies;
- Lack of government support in hard economic conditions;
- Inflation;
- The problem of counterfeit product, especially in foreign markets.

However, demand for Georgian mineral water is continuously increasing.

Based on the above analysis and conclusions, we have developed the following recommendations:

- ✓ The state should encourage mineral water production through the following measures: creating an attractive investment environment; access to preferential loans; developing an effective insurance system and infrastructure; etc.;

- ✓ It's important to develop an international market entry strategy; form a wide marketing network, etc.;
- ✓ In order to gain and maintain competitive advantage, it's necessary to provide continuous supply of high quality goods with modern design, open new distribution channels to enter new markets, carry out broad promotional activities, organize e-commerce;
- ✓ A precondition for mineral water business development is well-developed land, air and sea infrastructure as most of the water producing enterprises are located rather far from ports and railway stations;
- ✓ Stable legal environment is essential for the investors to assure them that their property is protected;
- ✓ To create a database on investment projects and provide relevant information about Georgia to potential investors all around the world;
- ✓ Georgia can satisfy global demand for both mineral and spring water. Water problem is becoming especially pressing nowadays. Water business is the most profitable one as there is natural resource practically for free. A businessman who invests in this business will never lose.

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