



# New Zealand's Bottled Water Industry

Bottled water is the world's most popular purchased beverage.

Not only is it an incredibly healthy choice and a good alternative to sugar-sweetened beverages, it's convenient and keeps you hydrated while on the go. It also provides an alternative to tap water, with many people not liking the taste of chemically treated town water supplies, and in many parts of the developing world local water supplies are simply unreliable and bottled water provides a safe alternative.

But while the bottled water industry has been growing worldwide over the last 20 years, it is often misunderstood. It is a highly competitive industry and one that is strongly regulated, with high costs of entry, a small number of internationally dominate companies and significant distribution barriers.

## **Bottled water is a growing industry around the world**

Worldwide, the bottled water market is growing rapidly, averaging 8.5 percent growth per annum, and today it is a \$200 billion industry.

Every year, consumers around the world drink nearly 300 billion litres of bottled water and this growth is expected to continue, with some forecasts suggesting the bottled water market will reach \$280 billion by 2020.

In fact, 19 percent of all beverages purchased is packaged water and water is now more popular than carbonated soft drinks at 14 percent and drinking milk at 10 percent.

While the water bottling industry in New Zealand has also been growing in recent years, it remains small, with around 52 companies producing approximately 163 million litres of bottled water. The domestic bottled water market is dominated by six major producers, with most other companies being small, boutique operators who aim to provide a niche and extremely high-quality product to their market.

In fact, like the wine industry, New Zealand water bottlers are producing some of the finest award winning bottled water in the world thanks to our unique environment.

## **Water bottlers are a very small user of New Zealand's freshwater**

Water is a renewable resource, and every year around 500 trillion litres of water falls on New Zealand as rain or snow and flows through our lakes, rivers and aquifers on its journey to the ocean.

New Zealanders use around 10 trillion litres of this water every year (two percent). Not only do we use this water for drinking, bathing and around the household, we use it to irrigate our farms and crops, produce a wide range of goods and support our industries.

The water bottling industry is a very small user of New Zealand's freshwater resource – using only 163 million litres of water, or less than 0.002% of the 10 trillion litres used annually by New Zealanders. This is the equivalent to half-a-day of water usage in Auckland. By comparison, around 5 trillion litres of water are used for irrigation every year.

To put it another way, if all the water used by New Zealanders was reduced to fit into a ten-litre bucket, the water bottling industry would use the equivalent of just two teaspoons.

## **Water Bottling in New Zealand is strongly regulated**

Bottled water is classified as a food and is covered by the Food Act 2014. It is regulated at a government level by Food Standards Australia New Zealand (FSANZ) and FSANZ regulations relating to bottled water are contained in the Australia New Zealand Food Standard Code 2.6.2.

This code outlines the physical, chemical and microbiological parameters for bottled water, including the definition of spring water and mineral water. All other water definitions (such as distilled water, sparkling water and purified water) are regulated by the New Zealand Commerce Commission, which requires that labelling must not be false or misleading.

While the New Zealand Drinking Water Standards can be used as a minimum baseline standard for bottled water, in most cases New Zealand water bottlers use the Australasian Bottled Water Protocols, which set the standard much higher than town water supplies, and which are based on the highly stringent International Bottled Water Standards, developed by the International Bottled Water Association.

This ensures that most water bottlers in New Zealand are producing a high quality, pure and natural product that is superior to the water that comes out of the tap, and meets the standards consumers are demanding.

## **The industry provides an economic boost to some of our struggling regions**

New Zealand's bottled water industry is an important industry in some of our most economically struggling regions including Northland, the Eastern Bay of Plenty, South Waikato and the Central North Island.

These communities have higher unemployment rates, a low manufacturing base and few large employers. The water bottling industry, while small, is making an important economic contribution in some of the small towns located in these regions.

Despite its size, the economic benefits of bottled water are substantial, with around \$60.7 million pumped into the local community. The industry employs around 916 people and pays an average salary of \$62,874.

In addition, water bottling operations generated around \$28 million in profits in 2016-17, some of which will be reinvested into operations, and some spent in our town and cities and to support our local communities.

## **Most bottled water produced in New Zealand is consumed in New Zealand**

Almost all the bottled water produced in New Zealand is consumed in New Zealand.

The size of the domestic market is estimated to be about \$140 million and the industry uses approximately 135 million litres of water to meet New Zealander's demand for bottled water. In addition, the country imports approximately 5 million litres of bottled water annually.

Most bottled water (85 million litres) is sold through supermarkets, while another 50 million litres are sold through other domestic supply channels such as service stations, dairies and cafes.

The domestic market is dominated by six large producers, who collectively hold an 80 percent market share, according to supermarket sales.

## **Of the water that is exported, most of it goes to the United States**

New Zealand exports a relatively small amount of bottled water – approximately 27.9 million litres every year, or around 10 Olympic swimming pools. Export earnings are around \$23.7 million per annum.

The United States is New Zealand's most important market for bottled water, taking 46 percent of our exports. The United States is followed closely by China and Hong Kong, which takes 44 percent of our exported bottled water, while Australia takes four percent.

Internationally, New Zealand is a very small player on the international stage, making up just 0.3% of the world's export bottled water market. There is potential, however, for the industry to grow and earn more export earnings for the country in an environmentally sustainable manner given the country's enviable environmental brand and strong regulatory settings, which create demand for a quality product.

## **While New Zealand does have some comparative advantages, the bottled water industry is extremely competitive**

While there is growing demand for New Zealand bottled water, the market is extremely competitive and is dominated by a small number of very large producers, there are distribution barriers given our distance to market, and packaged water is very price sensitive.

While the cost to set up a water bottling plant depends on many factors, including the nature of the water source, location, type and capacity of the plant, a typical large-scale operation will cost between \$10 million and \$40 million to establish.

The large amount of capital required, alongside the associated high business risk given the competitive nature of the industry, is why many New Zealand bottled water operations either require foreign investment to become established or are run by larger multi-beverage producers.

Economic analysis has also shown that bottled water is elastic and demand for water is highly responsive to changes in price. It is estimated that a one percent increase in the price of water would lead to a 1.17

percent reduction in the demand for water. This means that every ten-cent increase in a litre of bottled water, could drop demand by nearly 20 percent.

New Zealand is also not alone in having a strong environmental brand and any change to regulatory settings that make it more difficult for producers to make a return could see mobile capital relocate to other similar countries. France, Switzerland, Italy and Scandinavia all have strong bottled water industries and are strong competitors with New Zealand.

The New Zealand Beverage Council is committed to working with government and regulators to support the continued growth of New Zealand's water bottling industry in a sustainable, environmentally-friendly and responsible manner, and ensure that our members continue to operate to extremely high-standards and produce a quality product.