

# The Market of Soft Drinks in Russia and the Russian Far East

## Market Structure

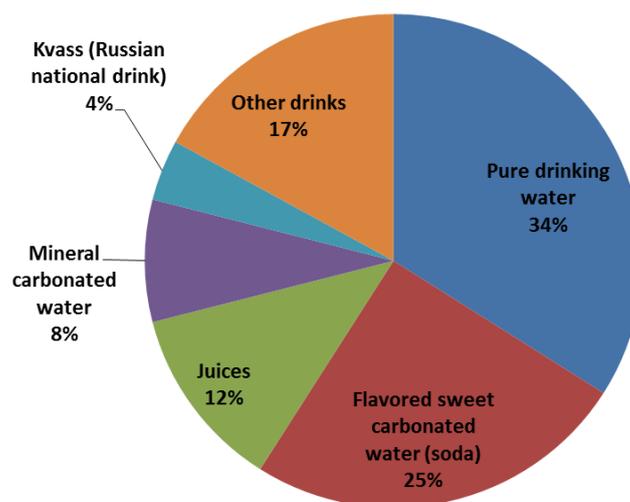
The market of non-alcoholic beverages is currently one of the most attractive for investors. It is characterized by quick payback periods and high profitability. The market of soft drinks in Russia includes the following main groups of drinks: juices, bottled water, carbonated drinks (soda).

The bottled water and carbonated drinks account for approximately 67% of all sales. The fruit and vegetable juices take about 12% of soft drinks market. The other drinks occupy 21% of the market. Recently, the popularity of such drinks like cold tea or kvass (Russian national drink <https://en.wikipedia.org/wiki/Kvass>) highly increased.



Regarding the bottled water it is necessary to clarify that a clear distinction should be made between drinking water and mineral water. In Russia the mineral water is divided into healing, table and universal.

Soft drinks shares on the Russian market in 2016



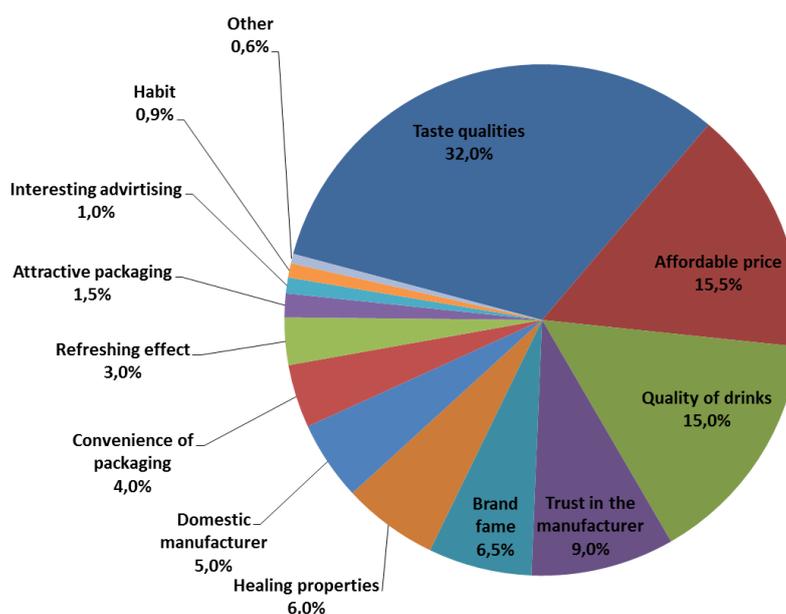
According to the Russian Union of Soft Drinks Producers (<http://www.softdrinks.ru>) the share of natural drinking water in the Russian market of bottled water amounts to about 42%. The share of healing mineral water is 8%, the table mineral water equals 34% and the share of universal sparkling mineral water is 16%. However, those categories are vague and very often one may encounter the word “mineral” on the label of bottled water that does not fit into the definition in the least. Some manufacturers believe the word to create positive associations by consumers, thus being more profitable from a marketing perspective.

## Consumption and production

According to the Federal State Statistics Service of Russia (<http://www.gks.ru>) in 2016 every Russian consumed 93.7 liters of non-alcoholic beverages. However, the industry is still far from saturation. For example, in Europe per capita consumption of soft drinks is more than 200 liters per year.

The market of soft drinks in Russia is almost completely formed by domestic producers. In 2016, they bottled more than 13.3 billion liters of products. Compared with 2015, the decline in production was 5%, although a year earlier there was an increase of 4.9%.

### Criteria for choosing soft drinks in Russia

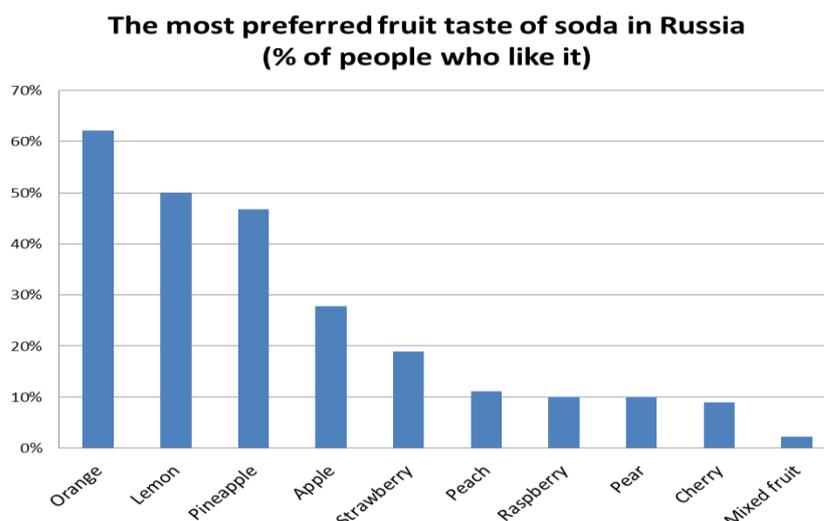


Compared to domestic production import of soft drinks is low. In 2016 Russia imported less than 400 million liters, which is about 3% of domestic production. Export is also small. In 2016 about 638 million liters of non-alcoholic beverages were exported from Russia. The weakening of the Ruble significantly impacted on the volume of exports and imports, as one year earlier 550 million liters of soft drinks were imported into the country, and less than 300 million liters were exported.

In 2016 the prices for soft drinks rose by an average of 13% compared to the level of the previous year. The juices have risen in price most of all. The average price for them has increased from 70 Rubles (1.2 USD) to 79 Rubles (1.36 USD) per liter. Prices for mineral water have changed not so much - only from 30 Rubles (0.52 USD) to 33 Rubles (0.57 USD) per liter.

Up to 2014 the volume of consumption of soft drinks in Russia grew by 2-3% per year. The segment of bottled drinking water and mineral water was developing most actively. The growth rate of it was twice as fast as market growth rates. To a large extent this contributed to the poor quality of tap water. In 2015 the consumption of bottled water fell by 3.8%. The consumption volume of non-carbonated water decreased by 1.6% and the consumption of carbonated water dropped by 13.1%. In 2016 the

consumption of still water increased by 1% compared to the previous year, and carbonated water decreased by 0.8%.



The consumption of sweet soda is almost unchanged. From the one hand, the promotion of a healthy lifestyle and patriotism should push the consumption down. The fact is that the lion's share of the segment of sweet carbonated beverages is the products of PepsiCo and Coca Cola Company. Everybody says about the harmfulness and unpatriotic use of it. Nevertheless, following the results of 2016, the production of sweet carbonated drinks in the country increased by 3.9% compared to the same period of the previous year. The prices of juices sharply increased and that was the reason for the reorientation of some consumers from juices to cheaper sweet soda.

Until 2014 there was a trend in the segment of juices of growing popularity of so-called 100-percent juices and a decrease in demand for water-diluted juices, so called nectars. However, with the beginning of the crisis and a drop in purchasing power, the population reoriented to more affordable nectars.

But even this did not save the juice industry. The prices are rising, consumption and production are falling. In 2015 consumption of nectars decreased by 8.9% compared to the level of 2014, and consumption of juices decreased by 31.1%. In 2016, the situation did not undergo any serious changes. The volume of nectar consumption decreased by 14.1% and consumption of juices lowered by 6.6%.

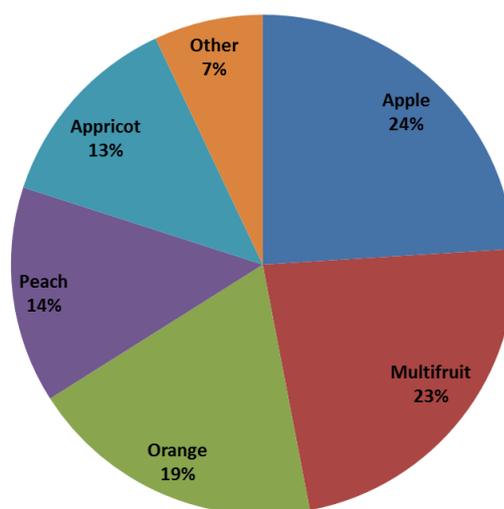
Russian juice market is quite consolidated. In 2015 ten largest Russian juice manufacturers controlled 85% of market value. Market leaders are "PepsiCo Holdings" LLC and "Coca-Cola HBC Eurasia" LLC. According to industry experts, these two companies aggregately control about 70% of the review market.

According to BusinesStat Agency (<http://businessstat.ru>), in 2016, Russia was net importer of industrial juice concentrates. Import of industrial juice concentrates exceeded exports by almost 17 times. As a result, the volume of net imports amounted to 168 thousand tons of industrial juice concentrates. High volumes of imports are conditioned by climatic conditions - in Russia it is impossible to produce such juice concentrates as orange, grapefruit, pineapple, etc. At the same time, domestic producers specialize mainly in the production of apple juice concentrates.

With the economic crisis and the high competition level, market players are naturally attempting to reform their business. Small and medium-sized manufacturers have to lower the price of their products. That is an overall trend of the Russian market of soft drinks, most consumers of which are sensitive to price, and the number of premium brand consumers is negligible in the total mass. Therefore, nowadays production of cheap drinks of new brands is growing, which can be observed on the shelves of budget supermarkets.

Another anti-crisis strategy is switching to full-cycle production, including obtaining raw materials, production and realization. For example, in the segment of bottled water the companies that cannot manage this aim are diversifying the product line by setting up production of flavored water. Some follow the traditional strategy, convincing the consumer that their brand is the healthiest. It is an effective way to increase sales, as most consumers of bottled water buy it due to being afraid of negative consequences for health following regular tap water consumption. The juices manufacturers produce less concentrated juices and more diluted ones. The producers of sweet and flavored carbonated water are trying to use national Russian raw materials like local berries concentrates instead of imported ones.

**The shares of juices on the Russian market**



### **Production geography**

According to Nielsen Analytic Agency (<http://www.nielsen.com>), in the regional context, half of the Russian production of mineral water falls on 9 regions: Karachaevo-Cherkessia (9.5%), Moscow Region (8.1%), Stavropol Territory (7.4%), Lipetsk Region (7.3%), Novosibirsk region (5.8%), Tatarstan (3.3%), Samara region (2.9%), Sverdlovsk region (2.7%) and Krasnodar region (2.3%).

As for sweet carbonated beverages, their main share is produced at the plants of Coca Cola and PepsiCo companies located in the Moscow, Leningrad, Samara, Orel, Sverdlovsk, Novosibirsk and Rostov regions, as well as in the Primorsky, Krasnoyarsk and Krasnodar regions.

The production of juices and nectars is concentrated in St. Petersburg city and the Leningrad Region, where 29.7% of the total Russian volume is produced. Such regions as Lipetsk (18.9%), Moscow (16.1%), Volgograd (10.7%), Perm (3.5%) and Krasnodar (3.3%) also accounted for a significant share of production.

The cheaper segment of the bottled water market (less than 40 rubles per 1.5 liters) is practically fully occupied by regional players. The middle segment (40-60 rubles per 1.5 liters) includes brands of the federal level, of which the main ones have already been mentioned. Expensive products (over 60 rubles per 1.5 liters) are almost exclusively imported and are mainly delivered from France, Belgium and Armenia; however, in the overall volume they account for no higher than 10% of the total sales and the figure keeps declining. By the way, sanctions and counter-sanctions have largely contributed to displacement of imports.

Regarding export of bottled water, until recently it was growing, although its volumes are not particularly high. In 2015 the volume of exports amounted to almost 61 million liters, which exceeded the previous year's figure by 35%. In 2016 exports grew even more, by over 2 times to the previous year, amounting to 75.6 thousand tons, which can be explained by the profitability of export operations against the background of national currency devaluation.

#### **Soft drinks on the Russian Far East market**

The market of soft drinks in the Russian Far East differs from the same market in the European part of Russia. It is more saturated with drinks from Asia-Pacific countries like Korea, China, Japan and Thailand.

Regarding the imported sweet soda there is a big choice of drinks of such manufacturers as Korean Lotte and OKF companies ([www.lottedrinks.ru](http://www.lottedrinks.ru) and [www.okf.kr](http://www.okf.kr)). The Japanese soda is presented by such brands like SHODA SHOYU ([www.shoda.co.jp](http://www.shoda.co.jp)) and Dydo Drinko Co. ([www.dydo.co.jp](http://www.dydo.co.jp)). The price of 1 can (200 ml) of Korean soda is approximately 50 Rubles (0.85 USD) and 1 can of Japanese soda is 80 Rubles (1.40 USD).

The juices in the main supermarkets of the Russian Far East are produced mainly by Coca Cola Russia and Pepsi Companies. But there are about 20% of imported juices. Those are very expensive 100% juices from Japan, Italy, Georgia and Belgium. The price for Russian juices is about 70-90 Rubles per liter (1.20-1.60USD). The average price for imported juices is 120-300 Rubles per liter (2.00 – 5.20 USD per liter).

Almost 95% of all bottled water on the market of the Russian Far East is made in Russia. I found some imported bottled water from Japan, Korea, Georgia, Armenia and Great Britain. If the average price for Russian water is 30 Rubles per liter (0.50 USD). The price for imported water starts from 80 Rubles per liter (1.40 USD).

Thai soda water is presented by coconut water drinks of Universal Food Public Company (UFC) imported by Goodwin Co. in Vladivostok ([www.goodwin-vl.ru](http://www.goodwin-vl.ru)) and Chabaa juices which are imported by AB Trade Co. (<https://abtrade25.ru>).



The price for Chabaa juices is 120 Rubles per liter (2.08 USD) and price for UFC coconut water is 96 Rubles per liter (1.65USD). I think, among imported juices Thai ones can be very competitive to Korean and Japan juices regarding the price.

### Import of juices, water and sweet carbonated drinks

## Russian import of drinking water and soda in 2016

Source: www.customs.ru

USD thousand

HS Code	Product	From All Countries	From Thailand
'2201	Pure drinking water and mineral water (carbonated or not)	80 606	0
'2202	Sweet and flavored water (carbonated or not)	123 934	807

## Russian import of juices in 2016

Source: www.customs.ru

USD thousand

HS Code	Product	From All Countries	From Thailand
'2009791902	Apple juice concentrated	93 862	0
'2009199801	Orange juice concentrated	72 335	0
'2009905901	Mix of Orange and Pineapple juices concentrated	26 470	0
'2009695101	Grape juice concentrated	15 007	0
'2009893802	Other juices concentrated	14 687	0
'2009499901	Pineapple juice concentrated	8 871	292
'2009905908	Mix of citrus and Pineapple juices concentrated	6 542	106
'2009899700	Tropical fruit juice without sugar added	986	120
	Other	47 651	67
<b>'2009</b>	<b>TOTAL</b>	<b>286 411</b>	<b>585</b>

## Main suppliers of water (HS code 2201) imported by Russia in 2016

Source: www.customs.ru

USD thousand

Exporters	Imported value in 2014	Imported value in 2015	Imported value in 2016
Georgia	68 636	33 627	35 544
France	39 250	24 296	20 346
Italy	15 146	9 198	10 354
Armenia	8 243	4 370	4 565
Slovenia	5 228	2 544	2 532
Belarus	783	530	876
Germany	1 690	796	767
Austria	1 302	636	601
Norway	991	646	503
Ukraine	567	129	498
Finland	945	402	445
Czech Republic	863	496	427
Slovakia	857	625	419
Serbia	431	565	405
United Kingdom	1 015	629	391
Others	4 217	2 481	1 933
<b>TOTAL</b>	<b>150 164</b>	<b>81 970</b>	<b>80 606</b>

## Main suppliers of soda (HS code 2202) imported by Russia in 2016

Source: www.customs.ru

USD thousand

Exporters	Imported value in 2014	Imported value in 2015	Imported value in 2016
Netherlands	12 553	10 462	17 374
Belarus	6 394	11 227	16 898
Kazakhstan	7 077	10 660	15 899
Korea	32 298	14 692	15 611
Switzerland	17 174	11 697	13 193
Germany	14 065	9 292	9 735
Austria	10 942	6 267	7 873
Georgia	4 102	2 942	2 954
USA	7 975	1 602	2 375
Belgium	3 150	1 124	1 925
China	4 038	2 243	1 864
Italy	3 260	1 809	1 801
Japan	1 643	1 558	1 506
Armenia	2 794	1 351	1 481
France	4 098	1 748	1 062
Spain	641	410	971
Latvia	2 317	1 201	949
Sweden	1 726	1 075	914
Finland	3 056	1 077	877
Thailand	1 825	1 129	807
United Kingdom	1 976	976	770
Others	22 813	6 568	7 095
<b>TOTAL</b>	<b>165 917</b>	<b>101 110</b>	<b>123 934</b>

### Main suppliers of juices (HS code 2009) imported by Russia in 2016

Source: www.customs.ru

USD thousand

Exporters	Imported value in 2014	Imported value in 2015	Imported value in 2016
Brazil	46 557	65 699	63 538
China	87 916	33 239	57 191
Poland	41 909	31 987	31 399
Netherlands	63 895	28 952	26 832
Israel	32 452	25 563	18 116
Austria	5 242	3 305	14 536
Germany	12 105	11 108	11 553
Spain	16 629	10 735	10 333
Belarus	2 766	3 645	7 931
Uzbekistan	5 524	6 273	7 839
Italy	7 217	3 601	5 650
Argentina	4 555	6 479	3 742
Ireland	5 771	3 931	3 444
Iran	8 893	1 602	3 417
Azerbaijan	3 930	3 337	3 024
France	2 028	827	2 340
Moldova	488	1 771	1 904
USA	4 149	3 286	1 887
South Africa	956	920	1 557
Turkey	7 048	1 996	1 389
Armenia	3 067	1 152	1 146
Chile	377	1 718	1 075
Belgium	6 933	683	823
Ukraine	25 576	4 136	737
Kazakhstan	158	646	658
Switzerland	802	595	617
<i>Thailand</i>	<i>3 664</i>	<i>2 699</i>	<i>585</i>
United Kingdom	218	363	491
Serbia	3 165	3 123	337
Other	6 784	6 289	2 320
<b>TOTAL</b>	<b>410 774</b>	<b>269 660</b>	<b>286 411</b>

### Main suppliers of soda (HS code 2202) imported by the Russian Far East

Source: www.customs.ru

USD thousand

Exporters	Imported value in 2016
Korea	10 263
China	1 294
Japan	497
Belarus	171
<i>Thailand</i>	<i>91</i>
Bangladesh	45
Vietnam	40
Switzerland	19
Egypt	11
Czech Republic	11
Armenia	10
USA	1
<b>TOTAL</b>	<b>12 453</b>

## Main suppliers of juices (HS code 2009) imported by the Russian Far East

Source: [www.customs.ru](http://www.customs.ru)

USD thousand

Exporters	Imported value in 2016
Thailand	156
Belarus	57
Korea	18
Armenia	9
Japan	8
China	7
USA	1
<b>TOTAL</b>	<b>256</b>

## Main producers of soft drinks in Russia

1. Pepsi Co Russia (<http://www.pepsico.ru>) is the leading company on the Russian market of soft drinks. The share in Russian juice market is 48%, sweet soda market - 19% and bottled water – 17%.
2. Coca Cola Russia (<http://www.coca-colarussia.ru>). The company share in juice market of Russia is 28%, sweet soda market – 41% and bottled water market – 14%.
3. Sady Prinonia Co. (<http://www.pridonie.ru>). Russian national producer. The company share in juice market of Russia is 5%.
4. SunFruit Trade Co. (<http://sun-fruit.ru>). Russian national producer. The share in juice market is 3%.
5. Ochakovo Co. (<http://ochakovo.ru>). Russian company. The share in sweet soda drinks is 3%.
6. Deka Co. (<http://deka.com.ru>). Producer of Russian national drinks like Kvass.
7. Shishkin Les Co. (<http://www.cone-forest.ru>). Pure drinking water producer. The share in Russian market of bottled water is 5%.
8. Kavminvodi Co. (<http://www.novoterskaya.ru>). Mineral water producer.

## Main producers and importers of soft drinks in the Russian Far East

1. Slavda Group (<http://slavda.ru>). The producer of drinking water and sweet soda. The chief office is located in Vladivostok city.
2. Lastochka Co. (<http://vodalastochka.ru>). The producer of mineral water. Located in Primorsky region.
3. Coca Cola Russia (<http://ru.coca-colahellenic.com>). The producer of soft drinks. The factory is located in Vladivostok city.
4. Malkinskoye Co. (<http://malki.ru>). The producer of mineral water in Kamchatsky region.
5. Severnaya Zvezda (<http://www.korsakovskaya.ru>). The producer of soft drinks in Sakhalin Island.
6. Serebryaniy Lotos (<http://www.watertime.ru>). The producer of drinking water in Vladivostok city.
7. AB Trade Co. (<https://abtrade25.ru>). Thai juices importer and trader.
8. The representative office of Lotte Chilsung Beverages in Vladivostok (<http://lottedrinks.ru>). Korean manufacturer of soft drinks.

9. Azuma Trading Co. (<http://vtc-vl.com>). The importer and wholesaler of Japanese soft drinks in Vladivostok.

### Customs issues

According to Russian Customs (<http://customs.ru>) the main HS codes for soft drinks are the following:

HS Code	Product
2201	Waters, incl. natural or artificial mineral waters and aerated waters, <b>not containing</b> added sugar, other sweetening matter or flavored; ice and snow
2202	Waters, incl. mineral waters and aerated waters, <b>containing</b> added sugar or other sweetening matter or flavored, and other non-alcoholic beverages (excluding fruit or vegetable juices and milk)
2009	Fruit juices, incl. grape must, and vegetable juices, unfermented, not containing added spirit, whether or not containing added sugar or other sweetening matter

The customs duty for import of water, soda and juices is 15% of contract amount.

### Soft drinks exhibitions and trade fairs in Russia

Name	Date and Place	Description
<b>International Exhibition of alcohol and soft drinks</b> <a href="http://www.soud.ru/vistavki.php?act=vistavka&amp;id=4034&amp;year=2017">http://www.soud.ru/vistavki.php?act=vistavka&amp;id=4034&amp;year=2017</a>	24-26 August 2017 Sochi city, Russia	Soft drinks. Equipment for soft drinks factories.
<b>WorldFood Moscow</b> International Food Exhibition <a href="http://www.world-food.ru">http://www.world-food.ru</a>	11 – 14 Sep 2017 Expocentre Moscow, Russia	Water, Fruit juices and concentrates, Soft drinks and non-alcoholic juices, Wine and champagne, Beer and cider, Spirits
<b>Exhibition of Russian food and drinks</b> <a href="https://expotrade.ru/exhibition/vy-biraem-rossiyskoe-vybiraem-luchshee-2017">https://expotrade.ru/exhibition/vy-biraem-rossiyskoe-vybiraem-luchshee-2017</a>	11 – 15 Oct 2017 Volgograd city, Russia	Tea, coffee, cocoa, herbs, balms Non-alcoholic drinks: kvass, fruit drinks, juices, nectars, mineral and fruit water Sweets, nuts, dried fruits River and seafood
<b>International expo of food and beverages PRODEXPO</b> <a href="http://www.prod-expo.ru/">http://www.prod-expo.ru/</a>	5 – 9 Feb 2018 Moscow, Russia	The largest international forum in Russia and Eastern Europe is the most authoritative annual event in the field of food and beverages (including alcohol) and for more than 20 years has been determining the vector of development of the domestic food industry.
<b>Beviale Moscow 2018</b> International expo of of beverages industry <a href="https://beviale-moscow.com">https://beviale-moscow.com</a>	27 Feb – 01 March 2018 Moscow, Russia	The complete process chain of beverage production all sectors of the industry are covered: Beer, Dairy Products, Soft drinks & Juices, Mineral Water, Wine & Sparkling Wine, Liqueurs.

## **Conclusion**

The crisis has negatively affected all the market segments. However, in comparison to other sectors, soft drinks production is much more confident. The analysts say that soft drinks market in Russia will continue to develop normally even in a difficult financial situation.

The juices and soda imported from Thailand are very popular in the Russian Far East. I think the Russian market of soft drinks here can be very attractive for Thai investors. It is characterized by a fairly low barrier to entry, relatively low production costs and a high percentage of value added, as well as stable growth in demand. At the same time the risks it involves are far lower than those in other economic sectors.

As mentioned in earlier in my report, the production of juices in Russia is concentrated in European part of Russia. In my opinion, it is a great opportunity for Thai investors to invest in juice production factory here in the Russian Far East region, for example in Vladivostok or Khabarovsk city. The juice concentrates for this factory could be brought from Thailand. Russians like the taste of tropical fruit and I suppose the juices produced by such factory will be successful on the local market. Besides, the transportation routes between Vladivostok, Khabarovsk and other Russian cities are very developed and the juices can be delivered to the other parts of Russia.

The soft drinks from Thailand can successfully compete with the drinks from Korea, China and Japan. To increase the popularity of Thai soft drinks, I suppose, Thai producers and exporters should advertise their products more intensively here on the market of the Russian Far East. In 2016 Thailand was the biggest supplier of juices to the Russian Far East. I think after an intensive promotion campaign Thai sweet soda drinks can also reach the top of sales.