

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## India

## Coffee Annual

## 2011

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**Report Highlights:**

Good returns for growers and subsequent better management practices are expected to minimize the effects of the alternate bearing pattern on India's marketing year (MY) 2011/12 coffee crop which is forecast at 4.8 million 60 kg bags, down slightly from a year ago. India's MY 2010/11 coffee exports are estimated at a record 4.8 million 60 kg bags reflecting strong demand from foreign buyers. MY 2011/12 exports are forecast to decline, but will likely remain strong at 4.0 million 60 kg bags. While the spread of cafes is helping to introduce a new generation of Indians to premium coffee products, strong exports have resulted in reduced domestic consumption levels.

**Commodities:**

Coffee, Green

**Production:**

India's MY 2011/12 coffee production is forecast to drop slightly from a year ago to 4.8 million 60 kg bags (288,600 metric tons (mt)). Weather conditions thus far have generally been good, but not ideal. Early rains were spotty, but post-blossom rains have been heavier than expected, improving soil moisture and benefiting the Robusta crop in particular. Plants are expected to be on the down side of the alternate bearing pattern after relatively high production in 2010/11, particularly for Robusta. However, high coffee prices are expected to help farmers to improve their agronomic practices, minimizing the expected reduction in yield.

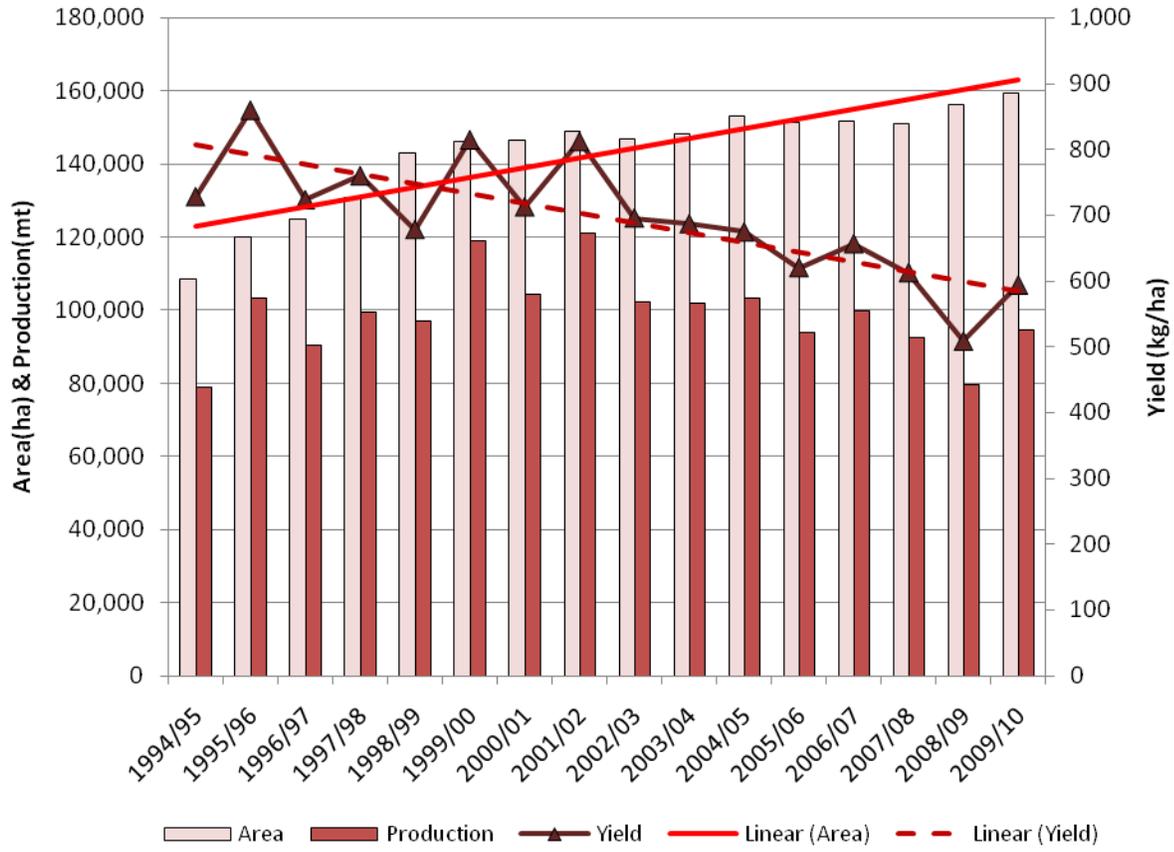
MY 2010/11 coffee production is estimated at 5.08 million 60 kg bags (305,000 mt) tons, down marginally from the previous estimate. Arabica production is estimated at 90,000 mt and Robusta production is estimated at 215,000 mt. Late rains and cool weather delayed the Arabica harvest and reportedly lowered crop quality.

MY 2009/2010 production estimates for Arabica and Robusta reflect Indian Coffee Board data.

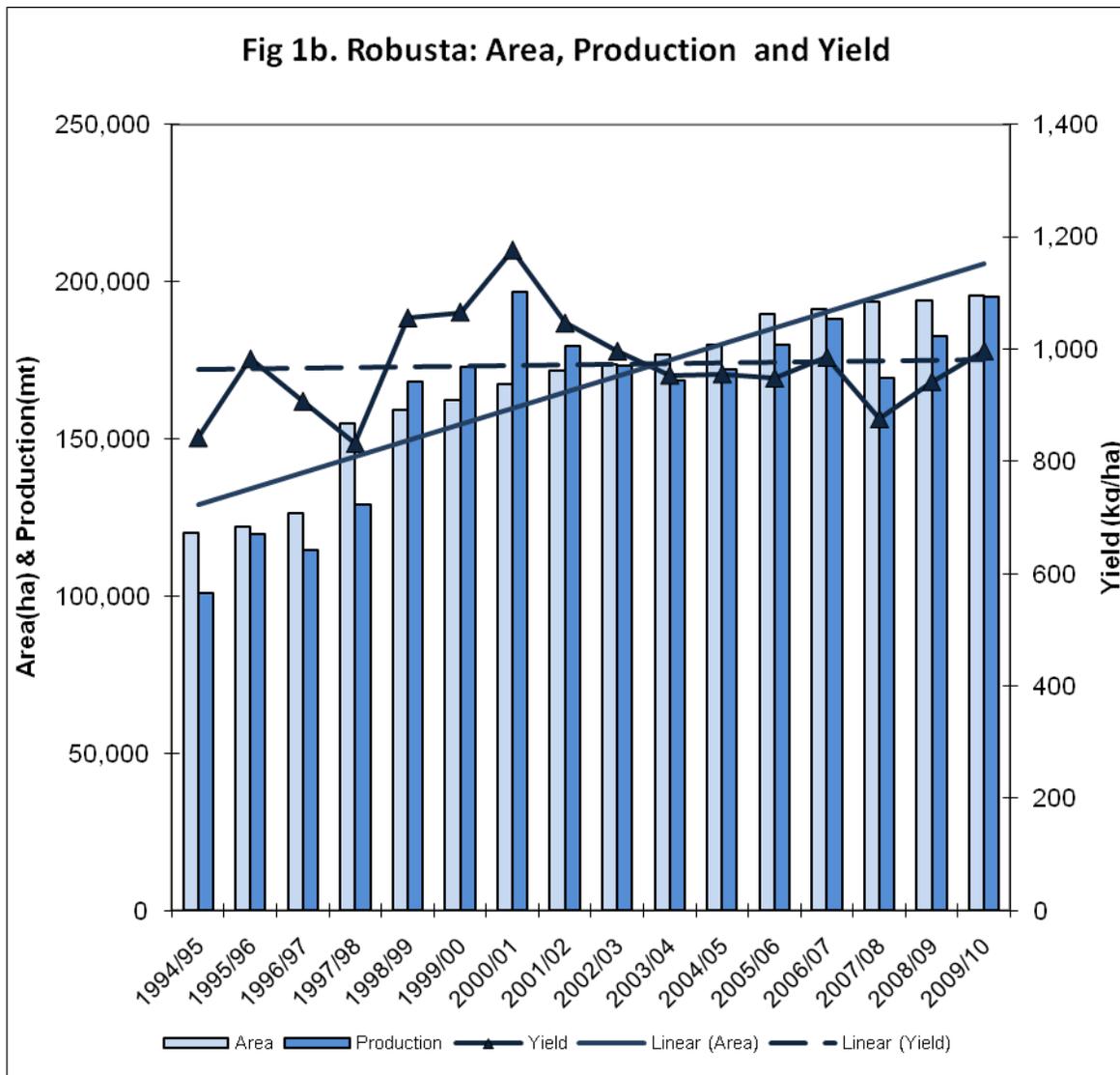
Coffee pests such as the white stem borer and berry borer continue to affect coffee yields. Farmers are expanding the use of organic or natural pest control methods in an effort to control pests and minimize the use of chemical control methods. High coffee prices are expected to enable farmers to apply even better agronomic practices during 2011/12. Labor costs, which account for more than 50 percent of the cost of cultivation, continue to escalate. With increasing off-farm employment opportunities, coffee planters have started experiencing shortages of skilled labor. Because of uneven plantings and small land size holdings, only limited mechanization is taking place in some coffee plantations.

Due to the expansion of coffee cultivation in non-traditional states such as Andhra Pradesh and Orissa, coffee area has increased slightly in recent years. However, opportunities for a larger expansion of Indian coffee area appear to be limited by geography, especially for Arabica, which depends on the cooler temperatures at higher elevations. As a result, Indian coffee production appears to be stabilizing at around 300,000 mt with the assumption of normal weather conditions. At lower elevations in established coffee producing areas in the State of Karnataka, farmers appear to be shifting from Arabica and Robusta in an effort to lower cultivation costs and improve yields.

**Fig 1a. Arabica: Area; Production & Yield**



Source: Coffee Board



Source: Coffee Board

A significant share of low quality domestic Robusta coffee and some imported low priced coffee (for re-exports) goes into the production of instant/soluble coffee. This segment is almost entirely branded and packaged, and is dominated by multinationals such as Nestle and Hindustan Unilever, and the Indian conglomerate Tata Group. In recent years, a few other Indian companies have made a foray into this segment with some success. Specialty coffees like [certified organic coffee](#) are gaining in popularity but production is limited. Organic coffee production is estimated at 400 mt. Lower yields, certification costs and the absence of a significant premium over non-organic coffee combine to limit prospects for higher organic production. (Annexure 1: Regional Coffee Logos- India)

Out of the estimated 220,800 coffee holdings (farms and plantations) in India, 218,000 holdings belong to small growers having less than 10 hectares. These small holdings account for 70 percent of coffee production. Coffee cultivation is mainly confined to the southern states of Karnataka (70%), Kerala (20%) and Tamil Nadu (7%). Small amounts of coffee are produced in the states of Andhra Pradesh and Orissa. The Coffee Board and Integrated Tribal Development Agency are working on a limited expansion plan in Northeastern India. Total targeted expansion under these programs is 25,000 hectares, mostly in Andhra Pradesh.

## Indian Coffee Marketing System

Common marketing practices include selling to exporters through an agent, storing at a curing plant before selling, selling at auctions and exporting directly. Small holders typically sell their parchment coffee (or dry cherry) to exporters through exporting agents. The agent takes the coffee beans to the curing factory, where they are checked for quality against the standards of the destination country. Storing the coffee at a curing plant allows the coffee grower to retain ownership of the coffee before selling it in order to take advantage of price movements. Larger producers typically sell at auctions organized by the Indian Coffee Traders' Association or export directly.

## Consumption:

The bulk of India's coffee production is exported and the domestic industry focuses much of its marketing effort on export promotion. While there is significant coffee consumption in India, for the purposes of this report, coffee consumption is effectively a residual of production less exports with some adjustment for estimated stock levels. Consequently, while coffee consumption appears to be growing, it can be difficult to establish a repeatable trend given the industry emphasis on exports, especially when coffee prices and export demand are high.

Indian Coffee Board surveys point to a four to five percent annual consumption growth with estimated consumption of 94,400 mt in 2008. Applying the estimated growth trend, calendar year 2011 consumption would be an estimated 110,000 mt using the Coffee Board's survey data. However, given the current MY 2010/2011 export estimate of 290,000 mt (4.8 million 60 kg bags), estimated consumption for 2010/11 is 83,000 mt, significantly lower than levels that USDA's Washington-based analysts have adopted in recent years. MY 2011/12 consumption is forecast to increase, but the volume of exports will likely determine consumable domestic supplies. The use of chicory in the production of processed coffees continues to complicate the estimation of consumption levels. By some industry estimates, chicory use is as high as 25,000 mt.

India's hot beverage of choice has traditionally been tea. Domestic coffee consumption was generally limited to southern India and was not widely consumed in the more populous north. However, there is room for optimism about the growth of domestic coffee consumption as firms introduce coffee shops, vending machines and processed coffee for home use. Younger Indians are increasingly consuming coffee at the rapidly rising number of cafes. While total consumption of premium coffees in cafes is limited when compared to overall consumption, a new generation of Indians is being introduced to coffee as a premium or lifestyle drink. If that trend eventually translates to increased consumption of coffee in the home, coffee consumption could rise significantly.

## Prices

### Retail prices of Coffee Beans in Major Coffee Consuming Centers, Rs. per kilo 1\

Year	Bangalore		Chennai		Hyderabad	
	Arabica	Robusta	Arabica	Robusta	Arabica	Robusta
Average 2007	137	87	170	91	150	89
Average 2008	150	114	157	118	164	127
Average 2009	210	105	215	109	229	119
Average 2010*	217	97	225	103	232	110

1\ Exchange rate equals Rs. 44 per Dollar

\*Average of data through November 2010.

(Rs/kg of clean coffee beans of Arabica Plantation A & Robusta Cherry AB)

## **Growing Coffee Café Culture in India**

Hundreds of western influenced coffee bars have emerged across India's major and "second tier" cities over the past decade. Coffee now competes against the once dominant tea in these cafes, especially among younger consumers. A growing willingness to consume food and drink outside the home and increasing disposable income are helping to fuel the growth. A summary of some of the major chains follows.

**Barista Lavazza:** The Barista Lavazza operates around 200 outlets across India – 11 crème lounges and the rest espresso coffee bars. It plans to open 300 new stores over the next three years and has begun aggressively marketing its products outside Indian borders into neighboring countries. Barista offers menu items like espresso, lattes, cappuccino and various pastries, in addition to basic coffee.

**Café Coffee Day:** Café Coffee Day offers nearly everything coffee-related, from take-home products and equipment to fully operational stores. Since the grand opening of the first store in Bangalore in 1996, Café Coffee Day has grown to become India's largest coffee retailer, with exports into Europe and the Middle East. Café Coffee Day currently has over 1,000 outlets in 140 cities.

**Costa Coffee:** The British retailer has been in India since 2005 and reportedly has significant expansion plans.

**Café Pascucci:** Italian coffee brand Café Pascucci has entered India with the launch of its outlet in Bangalore. Madhura Beverages India Pvt. Ltd., the exclusive master franchisee for this brand in India, plans to set up 60 outlets across the country.

**Gloria Jean's:** In collaboration with a Dubai-based retailing group has opened 15 stores in India with reported plans to open an additional 25 outlets by 2012.

**Mocha:** Started as a small family coffee shop in 2001 and Mocha now has 19 operational outlets.

## **Trade:**

MY 2010/11 exports are estimated at 4.8 million 60 kg bags, 800,000 bags higher than the previous estimate. Strong international prices have prompted foreign buyers to increase their purchases of Indian coffee as they look for new supply options. Indian Robusta has a good reputation among international buyers. Europe continues to be the major destination for Indian coffee. Exports are expected to decline to 4.0 million 60 kg bags in 2011/12, given tight carry-in stocks and lower production. However, if international demand remains strong, exports could increase at the expense of domestic consumption.

MY 2011/12 exports are forecast to decline to 4.0 million 60 kg bags. Lower production and beginning stocks, coupled with the expectation that lower international coffee prices will reduce importer demand for Indian coffee are expected to result in reduced exports from the current marketing year's record level.

India imports small quantities of low-priced coffee, mostly from Indonesia, Uganda, Vietnam, and Ivory Coast, for value addition and re-exports. This coffee enters India free of duty under special programs designed to shift value addition to India subject to re-export. Tariffs on imports of coffee and coffee derived products for domestic consumption are quite high, ranging from 30 to 100 percent. Coffee imports continue to rise.

MY 2009/10 export and import data reflect Coffee Board statistics.

Indian fiscal year (IFY-April/March) are provided in the table below and reflect the most current trade data.

## India's Coffee Exports IFY 2009/10 and IFY 2010/11

S. No.	Destination	IFY 2009/10 Quantity (mt)	IFY 2010/11 * Quantity (mt)
1	ITALY	46,894	54,275
2	RUSSIAN	27,436	22,157
3	GERMANY	13,132	18,452
4	BELGIUM	6,625	10,953
5	SPAIN	6,150	7,342
6	UNITED STATES	3,843	4,947
7	SLOVENIA	3,352	4,442
8	JORDAN	5,421	4,400
9	CROATIA	3,917	3,873
10	Others	78,298	67,248
	<b>TOTAL</b>	195,068	198,089

Source: Indian Coffee Board

\*Provisional

### Stocks:

MY 2010/ 2011 carryover stocks are forecast at just 18,000 60 kg bags given the expected strong pace of exports during 2010/11. Stock levels are expected to improve during 2011/12.

### Policy:

**Production subsidy:** The Indian government/Coffee Board provides various subsidies, mostly to small and marginal coffee producers to increase production and improve quality. The Coffee Board provides subsidy for coffee replanting, water conservation and quality up gradation.

**Rainfall Insurance Scheme- Coffee (RISC):** The Agricultural Insurance Company of India Ltd., a government parastatal is now providing a unique rainfall insurance product specially designed for the coffee growers of Karnataka, Kerala and Tamil Nadu. RISC's aim is to provide effective risk management aid to those coffee growers likely to be affected by adverse rainfall.

**Processing Subsidy:** The Coffee Board is providing a subsidy to enhance the quality of coffee products and achieve value addition through the introduction of improved technologies in coffee roasting, grinding and packaging.

**Export subsidy:** The GOI's Department of Commerce has approved the implementation of the Scheme for the Export Promotion of coffee by the Coffee Board. The objective of this subsidy program is to enhance the export of Indian branded value added coffees and high value coffees to international markets such as the United States, Canada, and Japan. The subsidy is equivalent to Rs. 1-2 per kg (2-4 cents per kg).

The Ministry of Commerce has included coffee in the list of products eligible for the duty entitlement passbook (DEPB) scheme and the *Vishesh Krishi Upaj Gramodyog Yojana* (VKUGY). The objective of these programs is to provide duty free access to foreign coffee subject to processing and re-export of the coffee.

[Coffee Debt Relief Package 2010](#): Between 2000-2004 Indian coffee growers faced financial problems due to the drop in coffee prices. A large number of affected growers did not get relief benefits, despite the presence of a number of relief packages. On April 29, 2010, the Finance Minister of India announced a new Debt Relief Package in Parliament, intended mainly for small coffee growers. Accordingly, 50 percent of the pre-2002 loans taken by coffee growers will be waived, subject to a maximum of Rs. 500,000 (\$11,111) per farmer. An additional 25 percent will be waived by banks and the remaining 25 percent will be rescheduled. The loan waiver package also allows for a 20 percent liability waiver for Crop Loans to be equally borne by the Government of India and the banks, subject to a maximum of Rs. 100,000 (\$2,222). For post-2002 Term Loans, 10 percent of the total liability will be waived subject to a maximum of Rs. 100,000. The package also provides relief to medium and large farmers who will be permitted to reschedule their loans. Total financial outgo for the government for this package is estimated at Rs. 2.4 billion (\$54 million) and the benefit to coffee growers is estimated at Rs. 3.6 billion (\$81 million).

#### **Import duty on coffee and related products**

<b>H.S. Code</b>	<b>Product description</b>	<b>Basic duty</b>
0901.11	Coffee neither roasted nor decaffeinated	100%
0901.12	Coffee not roasted decaffeinated	100%
0901.21	Coffee roasted not decaffeinated	100%
0901.22	Coffee roasted and decaffeinated	100%
2101.11.10	Instant coffee flavored	30%
2101.11.20	Instant coffee not flavored	30%
2101.11.30	Coffee Aroma	30%
2101.11.90	Others	30%
2101.12.00	Preparations with a basis of extracts, essences or concentrates with a basis of coffee	30%

## Production, Supply and Demand Data Statistics:

**Table 1: Commodity, Coffee, Green, PSD**

Coffee, Green India	2009/2010		2010/2011		2011/2012		
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	395	400	0	400		400	(1000 HA)
Area Harvested	350	355	0	355		355	(1000 HA)
Bearing Trees	557	564	0	565		566	(MILLION TREES)
Non-Bearing Trees	70	64	0	64		65	(MILLION TREES)
Total Tree Population	627	628	0	629		631	(MILLION TREES)
Beginning Stocks	50	50	50	397		18	(1000 60 KG BAGS)
Arabica Production	1,575	1,575	1,650	1,500		1,476	(1000 60 KG BAGS)
Robusta Production	3,250	3,250	3,475	3,584		3,334	(1000 60 KG BAGS)
Other Production	0	0	0	0		0	(1000 60 KG BAGS)
Total Production	4,825	4,825	5,125	5,084		4,810	(1000 60 KG BAGS)
Bean Imports	750	724	700	750		800	(1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0		0	(1000 60 KG BAGS)
Soluble Imports	0	4	0	5		10	(1000 60 KG BAGS)
Total Imports	750	728	700	755		810	(1000 60 KG BAGS)
Total Supply	5,625	5,603	5,875	6,236		5,638	(1000 60 KG BAGS)
Bean Exports	2,560	2,570	2,775	3,374		2,600	(1000 60 KG BAGS)
Rst-Grnd Exp.	0	5	0	5		5	(1000 60 KG BAGS)
Soluble Exports	1,290	1,341	1,300	1,459		1,400	(1000 60 KG BAGS)
Total Exports	3,850	3,916	4,075	4,838		4,005	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	1,475	1,100	1,500	1,150		1,250	(1000 60 KG BAGS)
Soluble Dom. Cons.	250	190	250	230		250	(1000 60 KG BAGS)
Domestic Use	1,725	1,290	1,750	1,380		1,500	(1000 60 KG BAGS)
Ending Stocks	50	397	50	18		133	(1000 60 KG BAGS)
Total Distribution	5,625	5,603	5,875	6,236		5,638	(1000 60 KG BAGS)

Exportable Production	3,100	3,535	3,375	3,704		3,310	(1000 60 KG BAGS)
TS=TD		0		0		0	

**Author Defined:**

**Annexure 1: Regional Coffee Logos- India**

