

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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India

Coffee Annual

2013

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Report Highlights:

India's 2013/14 coffee production and exports are forecast at 5.2 million 60 kg bags, unchanged the current marketing year. Indian exporters continue to find strong demand in Europe for Indian Robusta blends and exports are ably aided by government programs to facilitate exports. The Indian café sector continues to grow in terms of the number of outlets, but the demand for coffee from the sector is limited.

Commodities:

Coffee, Green

Production:

Marketing year (MY) 2013/14 (Oct/Sep) coffee production is forecast at 5.2 million 60 kg bags, similar to the MY 2012/13 level. Arabica trees will be in the on-year of the biennial production cycle, therefore contributing to an expected increase in the coffee supply for the upcoming crop. The slight increase in Arabica production is expected to be offset by a slight decline in Robusta production as rising inputs costs are expected to lead to a slight decrease in yields. Indian producers are gradually shifting to Robusta production because it requires less labor and offers higher disease resistance. Robusta production accounted for nearly 70 percent of the total coffee production in MY 2012/13.

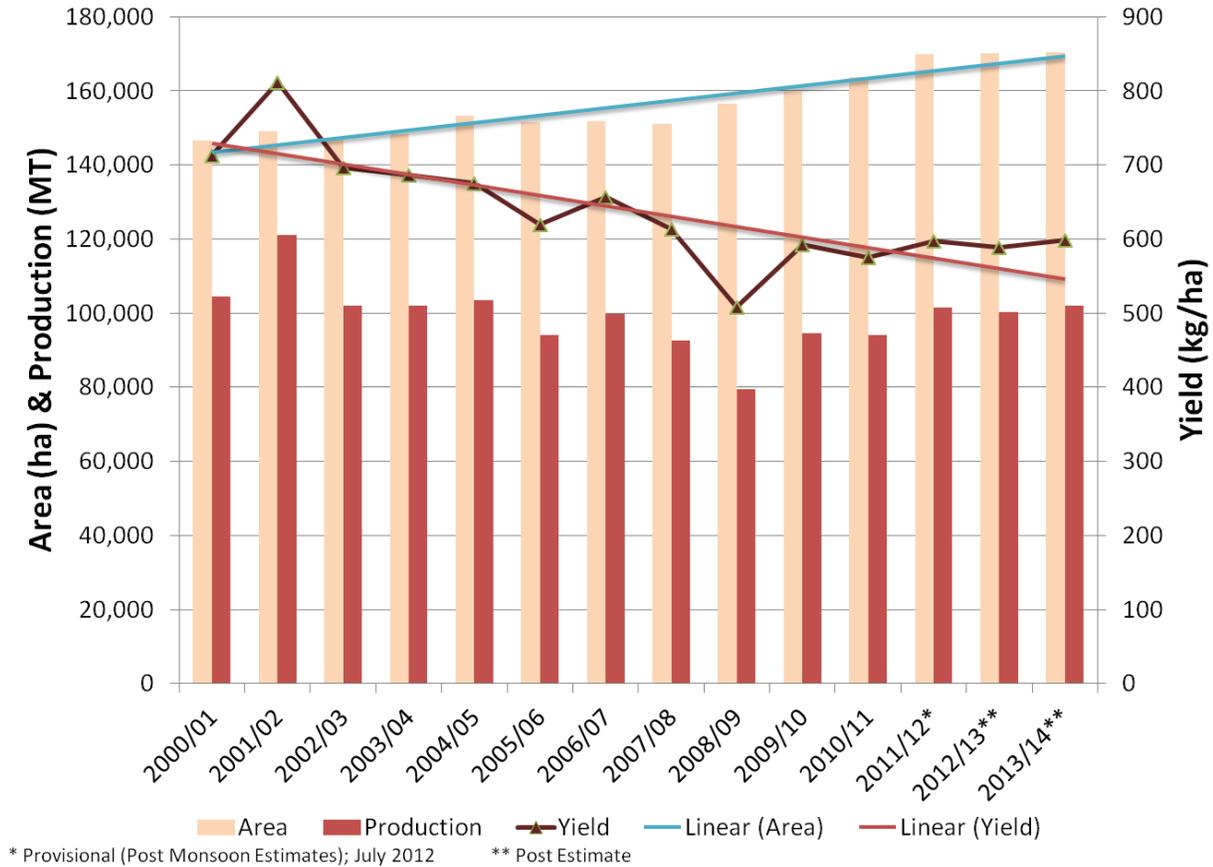
The Coffee Board of India released its post monsoon estimate for the MY 2012/13 crop estimating production at 5.25 million 60 kg bags. Unseasonal sporadic rainfall during the beginning of the harvest (January/February) followed by prolonged dry weather from mid-March somewhat affected the quality of beans in Arabica growing regions, but trade sources indicate that this is not a major issue for marketing the crop. Area harvested and tree inventory estimates remain unchanged. The final estimate for the harvested crop will be released at the end of May.

India accounts for about four percent of world coffee production and exports. Production is mostly confined to the southern states of Karnataka, Kerala, and Tamil Nadu with planted area in the traditional coffee growing regions remaining largely unchanged at 410,000 ha. The non-traditional low yielding areas of Andhra Pradesh and Orissa have seen a marginal increase in area. With coffee estates in close proximity to protected forest reserves, there is limited scope for further area expansion. Growers are gradually shifting towards replanting to replace their ageing plantations at an annual rate of 2-3 percent per year which leaves a difference of approximately 40,000 ha between harvested and planted area.

New-crop arrivals normally begin at the end of December, peaking from March to May. However, arrivals during April were slow according to trade sources. With average Robusta prices 12 percent higher compared to last year, farmers appear to be holding stocks in anticipation of higher prices.

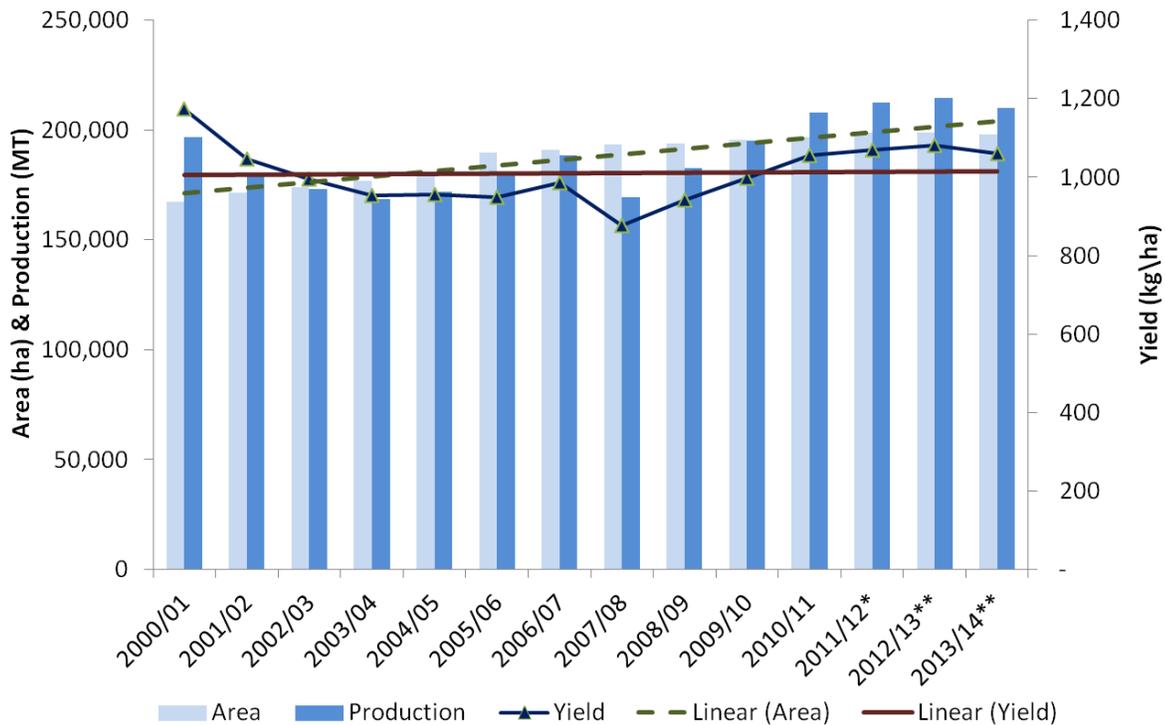
Coffee cultivation has been promoted in the tribal regions of Andhra Pradesh, Orissa, and the northeastern states with the objective of providing economic opportunity to low income residents of rural areas and afforestation. However, area remains small and it could quite some time before these efforts result in a significant increase in area given the lack of a coffee processing and marketing infrastructure in these areas.

Fig 1a. Arabica: Area; Production & Yield



Recent increases in the cost of farm inputs, along with the elimination of subsidies for fertilizer and diesel, have increased production costs for growers. 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 terrain and small and fragmented growing areas, the adoption of mechanization has been slow and limited to a few coffee plantations.

Fig 1b. Robusta: Area, Production and Yield



* Provisional (Post Monsoon Estimates); July 2012

** Post Estimate

A significant share of low quality domestic Robusta coffee and some imported low-priced coffee (imports take place under a re-export that allows duty-free imports against re-exports) goes into the production of instant/soluble coffee. Specialty coffees like certified organic coffee are gaining in popularity but production is limited. Lower yields, certification costs and the absence of a significant premium over non-organic coffee combine to limit prospects for higher organic production.

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 instant/soluble coffee segment is almost entirely branded and packaged, and is dominated by two multinationals, accounting for almost 90 percent of the total soluble coffee market. 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.

While the popularity of coffee appears to be on the rise in India, home consumption, an important driver of demand, continues to be relatively limited outside of southern India where coffee has traditionally been more widely consumed. Indian filter coffee served in ‘darshinis’ (vegetarian restaurants) concentrated in Southern India and instant coffee consumption in northern India have been the major drivers of growth of coffee consumption. Coffee shops and cafés are spreading rapidly across India, but industry sources suggest that total annual café coffee consumption is not more 600 metric tons. Coffee shops do not consume enough coffee to drive significant increases in consumption. Over the longer term, cafes may play a role in changing consumption patterns and consumer attitudes towards coffee, but the immediate effect on consumption is thought to be limited. Chicory continues to be used widely in coffee for the domestic market. Coffee products are typically 20-40 percent chicory and many Indian consumers prefer the taste of chicory in their coffee.

Table 1: 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	98	225	104	233	110
Average 2011	297	131	300	134	314	141
Average 2012	246	156	298	148	309	170
Average 2013*	191	174	-	-	-	-

1\ Exchange Rate equals Rs. 54.5 per dollar as of May 13, 2013

*Average of data through March 2013

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

Source: Coffee Board of India

Growing Coffee Café Culture in India

Hundreds of western-influenced coffee shops 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 is a chain of espresso coffee bars that operates around 200 outlets across India. Established in 2000 under the name Barista, the Indian chain was taken over by Italian coffee products manufacturer Lavazza in 2008. 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 1,200 outlets in 140 cities.

[Costa Coffee](#): The British retailer has been in India since 2005 and is master franchised in India by Devyani International RJ Corp, and reportedly has significant expansion plans. Of the current 95 locations, 12 are in Bengaluru and the remaining in the north, east and western parts of India.

[Café Pascucci](#): Italian coffee brand Café Pascucci has entered India with the launch of its outlet in Bangalore. Madhura Beverages is the exclusive master franchisee for this brand in India, plans to set up 60 outlets across the country.

[Di Bella Coffee India](#): An Australian coffee manufacturing company has opened a chain of coffee shops in Mumbai and Hyderabad. The chain is currently operating 12 outlets across the two cities.

[Gloria Jean's](#): Gloria Jean's Coffees, an Australian-owned global specialty coffee company in collaboration with a Dubai-based retail group, Landmark Group, opened its first café in India in 2008. The chain is currently operating 15 outlets across New Delhi, Mumbai, Bangalore, Hyderabad, Chennai and Pune.

[The Coffee Bean & Tea Leaf](#): Blue Foods, master franchisee, has launched 16 Coffee Bean & Tea Leaf stores in India as part of the tie-up with the US-based coffee chain.

[Javagreen](#): Javagreen is an Indian chain of in-store cafes started by the Reliance Group in 2003. With over 100 cafes, Javagreen is now operational across 10 cities with 90 locations in India.

[Mocha](#): Café Mocha opened its doors in Mumbai in December 2001. With 19 operational outlets across the country and its own central kitchen, Mocha has developed a reputation in providing a unique menu along with a Mediterranean look catering to the younger generation.

[Brewberrys Café](#): Opened in 2008 in Vadodara, Gujarat and presently has 27 stores across India.

[Coffee N U](#): With the first Coffee N U outlet in operation since 2008 in Bangalore, they now have a presence in 35 locations all over India.

[Dunkin Donuts](#): In a franchise agreement with Jubilant Food Works, the first Dunkin Donuts opened in May 2012 in New Delhi.

BRU World Café: Hindustan Unilever has extended its only coffee brand BRU to a café chain, the BRU World Café. The chain currently has six outlets across Mumbai.

Cuppa Joe: Cuppa Joe is an independent café launched by Umbrella Hospitality in April 2012 in Mumbai. The company is looking at the possibility of expanding to other areas of Mumbai and India very soon.

Starbucks: The American coffee chain entered the Indian market in October 2012 in a joint venture with Tata Global Beverages. Currently the chain has eleven outlets in New Delhi and Mumbai.

Trade:

Indian coffee is an export-oriented commodity with an estimated 60 percent of production being exported. Current marketing year (2012/13) exports are estimated at 5.2 million 60 kg bags, unchanged from a year ago. Indian Robusta has a good reputation among international buyers and European countries continue to be the major buyers of Indian coffee. Strong demand from European buyers has kept Robusta prices firm relative to the international market. However, trades sources indicate that Indian Robusta attracts a premium among European buyers relative to competing origins and the pace of exports is not expected to be affected as the marketing year progresses. Provided that prices moderate, MY 2013/14 exports are forecast at 5.2 million 60 kg bags given the industry's focus on exports, a weak Indian rupee and the government's export incentives under the duty drawback program. However, if Indian prices remain firm relative to competing origins, 2013/14 exports could be affected.

India's coffee imports are primarily from Vietnam, Uganda, and Indonesia for processing by export-oriented units 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-exports. Tariffs on imports of coffee and coffee derived products for domestic consumption are quite high, ranging from 30 to 100 percent.

Given the high tariffs, virtually no coffee is imported for consumption in the domestic market, all imports are for processing and re-export.

Indian MY (October/September) coffee exports are provided in the table below and reflect the most current trade data.

Table 2: India's Coffee Exports (Marketing Year from 2008 - 2012)

		MY 2008/09*	MY 2009/10*	MY 2010/11*	MY 2011/12*	MY 2012/13**
Sr. No.	Destination	Quantity (MT)	Quantity (MT)	Quantity (MT)	Quantity (MT)	Quantity (MT)
1	Italy	44,037	69,030	73,542	74,925	33,404
2	Russia	18,851	30,589	31,908	28,358	13,568
3	Germany	11,079	23,459	44,654	23,602	12,086

4	Belgium	8,169	11,439	22,879	16,036	7,209
5	Slovenia	3,680	4,601	7,400	12,902	4,393
6	Malaysia	4,031	3,888	4,838	7,688	3,988
7	Jordan	4,310	7,108	7,233	7,506	4,806
8	Spain	6,960	7,914	14,997	7,426	2,449
9	Greece	4,630	4,590	6,211	6,337	3,033
10	USA	2,556	6,177	5,892	6,272	4,315
11	Others	68,780	87,624	111,583	121,910	59,060
	TOTAL	177,083	256,419	331,137	312,962	148,311

*Provisional includes re-exports

** Provisional includes re-exports from Oct-Mar

Source: Coffee Board of India

Policy:

Funding for most programs designed to facilitate production and exports are tied to India's five-year planning documents. The eleventh five-year plan has concluded and the details of the twelfth five-year plan are being finalized. The programs mentioned below are currently operating and are expected to continue under the twelfth five-year plan.

Production subsidy: The Government of India and the government-run Coffee Board provide various subsidies, mostly to small and marginal coffee producers to increase production and improve quality. The Coffee Board provides subsidies for coffee replanting, water conservation and quality upgradation.

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 Incentive Scheme: The Ministry 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 and high value coffees to international markets such as the United States, Canada, Australia, New Zealand 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 drawback scheme and the *Vishesh Krishi and Gram Udyog Yojana* (VKGUY) Special Agriculture and Village Industry Scheme. The objective of these programs is to provide duty free access to foreign coffee subject to processing and re-export of the coffee.

[Support for coffee replantation in Karnataka, Tamil Nadu and Kerala:](#) The Government of India's Ministry of Commerce has approved the implementation of the scheme for providing support for coffee replantation. All individual coffee growers irrespective of the size of the holdings are eligible for assistance under this scheme. Arabica coffee plants aged over 30 years and Robusta coffee plants aged over 40 years are eligible. The subsidy is equivalent to Rs.100,000 (\$1,834) per hectare for Arabica and Rs.70,000 per hectare (\$1,284) for Robusta.

[Support for Mechanization of Farm Operations:](#) The Government of India's Ministry of Commerce has approved the implementation of the scheme for providing subsidized support to farmers in the procurement of machines to improve labor efficiency and productivity. The scale of subsidy to be provided will be determined based on the total extent of area owned by the individual growers. The scale of subsidy ranges from 25-50 percent of the purchase cost with a ceiling up to Rs. 500,000 (\$9,174) based on size of the producer's planted area.

[Coffee Development Programme in North Eastern Region \(NER\):](#) The Coffee Board has been implementing a comprehensive Coffee Development Program covering the seven northeastern states. The scheme comprises support for area expansion, consolidation of existing holdings, marketing, and nurseries.

Table 3: Import Duty on Coffee and Related Products

H. S. Code	Product description	Basic duty
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 4: Commodity, Coffee, Green, PSD

Coffee, Green India	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Oct 2011		Market Year Begin: Oct 2012		Market Year Begin: Oct 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Area Planted	402	402	411	411		410
Area Harvested	369	369	370	370		370
Bearing Trees	566	566	568	568		568
Non-Bearing Trees	65	65	64	64		64
Total Tree Population	631	631	632	632		632
Beginning Stocks	2,000	1,742	1,100	1,433		1,155
Arabica Production	1,660	1,690	1,640	1,670		1,700
Robusta Production	3,540	3,540	3,660	3,580		3,500
Other Production	0	0	0	0		0
Total Production	5,200	5,230	5,300	5,250		5,200
Bean Imports	100	879	50	817		809
Roast & Ground Imports	0	1	0	1		1
Soluble Imports	0	12	0	9		10
Total Imports	100	892	50	827		820
Total Supply	7,300	7,864	6,450	7,510		7,175
Bean Exports	4,200	3,730	4,100	3,750		3,760
Rst-Grnd Exp.	5	4	5	5		4
Soluble Exports	800	1,477	700	1,500		1,486
Total Exports	5,005	5,211	4,805	5,255		5,250
Rst,Ground Dom. Consum	985	840	855	750		770
Soluble Dom. Cons.	210	380	210	350		430
Domestic Use	1,195	1,220	1,065	1,100		1,200
Ending Stocks	1,100	1,433	580	1,155		725
Total Distribution	7,300	7,864	6,450	7,510		7,175

1000 HA, MILLION TREES, 1000 60 KG BAGS