

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **India**

## **Coffee Annual**

## **2012**

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**Report Highlights:**

India's 2012-13 coffee production is forecast slightly lower at 5.1 million 60 kg bags following exceptionally good 2011/12 weather conditions. Helped by higher world prices, a weaker rupee and programs designed to facilitate exports, India's coffee exports are expected to exceed 5.0 million 60 kg bags for the third-consecutive year in 2012/13. India's café culture continues to expand, but has not yet translated to a significant increase in consumption.

**Production:**

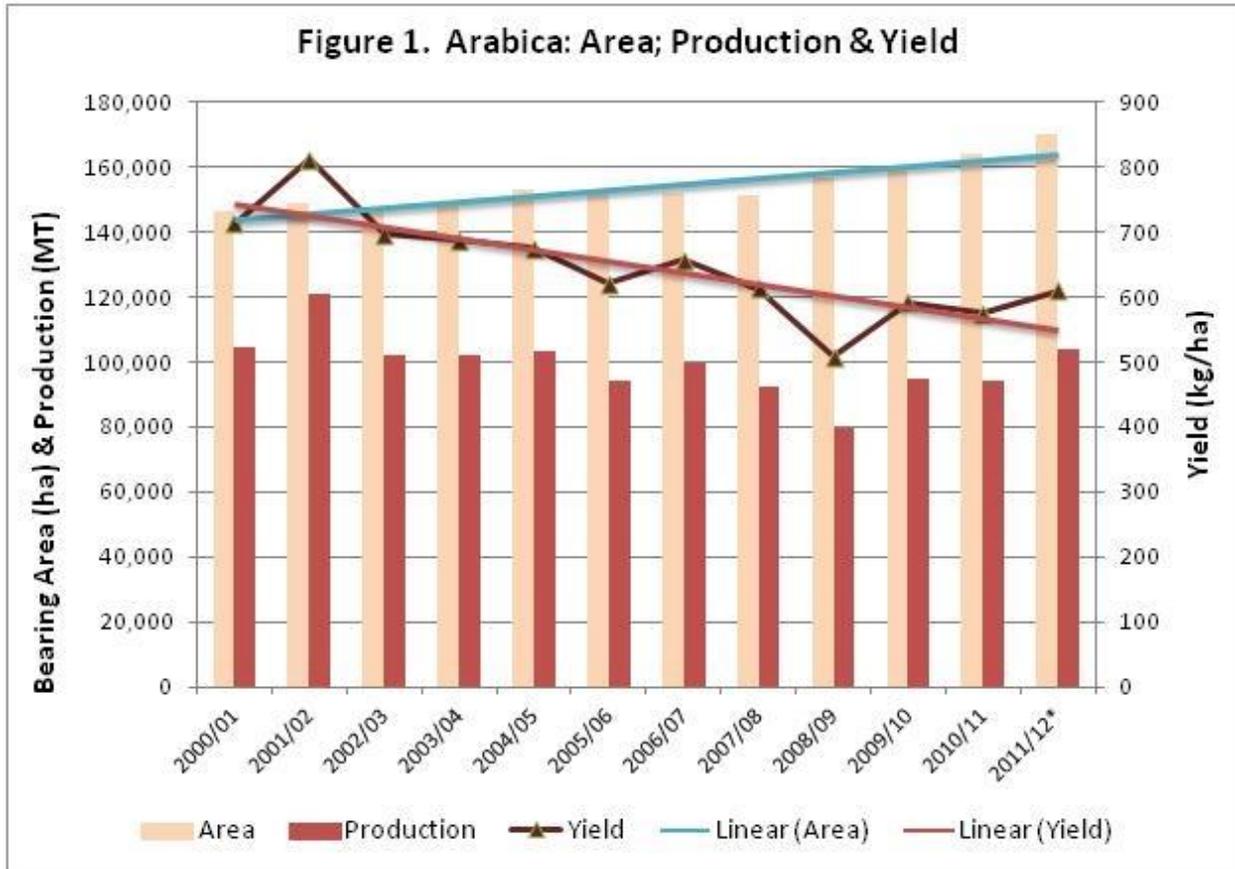
Marketing year (MY) 2012/13 (October/September) coffee production is expected to drop slightly to 5.1 million 60 kg bags following exceptionally good weather conditions during 2011/12. Both Arabica and Robusta production are forecast slightly lower under the assumption that weather conditions will be “normal” or average. With the Robusta crop being less labor intensive and offering higher disease resistance and lower upkeep, growers are gradually shifting towards Robusta production. Robusta production accounted for nearly 70 percent of the total coffee production in MY 2011/12.

For MY 2011/12, coffee production is estimated at 5.3 million 60 kg bags. The crop benefited from well-distributed rains during much of the growing season in addition to pre-season rains that helped establish early growth and support soil moisture levels. In the main producing state of Karnataka, good weather and high prices encouraged producers to improve their plant husbandry practices. Weather conditions in the states of Kerala and Tamil Nadu were similarly favorable.

Coffee pests such as the white stem borer and berry borer continue to affect coffee yields, especially Arabica production. Farmers are expanding the use of organic or natural pest control methods in an effort to control insects and minimize the use of chemical control methods. High coffee prices are expected to enable farmers to apply even better agronomic practices during MY 2012/13.

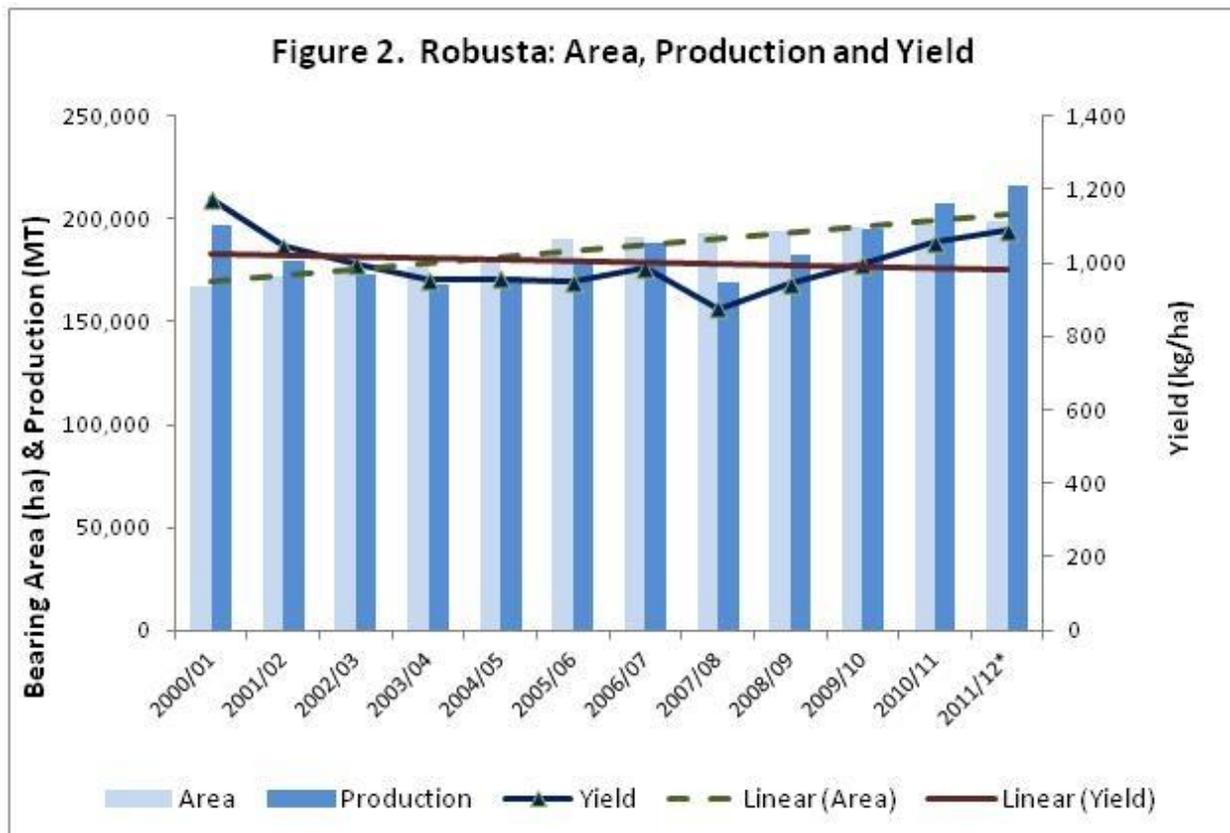
Planted area in the traditional coffee growing regions of Karnataka, Tamil Nadu and Kerala remains largely unchanged at 400,000 ha. The non-traditional low yielding areas of Andhra Pradesh and Orissa have seen a marginal increase in area. With coffee estates in close proximity to the forest reserves, 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.

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, it could quite some time before these efforts result in a significant increase in area.



Source: Coffee Board of India – Post Blossom Estimate

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.



Source: Coffee Board of India – Post Blossom 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. This segment is almost entirely branded and packaged, and is dominated by multinationals such as Nestle, Hindustan Unilever and the Indian conglomerate Tata. 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. 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 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 25,000 60 kg bags (1,500 metric tons). Coffee shops do not consume enough coffee to drive significant increases in consumption. Over the longer term, cafes will likely play a significant role in changing consumption patterns and consumer attitudes towards coffee, but the immediate effect on consumption is thought to be limited.

Until stronger domestic demand develops, India's coffee industry continues to be focused on exports and the data indicate that 2010/11 and 2011/12 were banner years for exporters, which suggest that the availability of coffee for domestic consumption was quite limited. In addition, higher coffee prices likely encouraged consumers to substitute away from coffee. Consumption levels have been reduced significantly in response to larger exports and higher prices. 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. While there are no reliable data on coffee stock levels, the volume of exports during 2011/2012 suggests that stocks were likely higher than previously estimated.

## Prices

**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	97	225	103	232	110
Average 2011	297	131	300	134	314	141
Average 2012*	288	130	310	141	324	142

1\ Exchange Rate equals Rs. 54 per dollar as of May 15, 2012

\*Average of data through March 2012

(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 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 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 India Pvt. Ltd., the exclusive master franchisee for this brand in India, plans to set up 60 outlets across the country.

**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. They operate 2 stores in Bangalore; 5 in Delhi; 8 in Mumbai and 1 in Kolkata.

**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 about 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 Ltd., the first Dunkin Donuts opened in May 2012 in New Delhi. They reportedly plan to develop 500 restaurants across India over the next 15 years.

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 Pvt. Ltd. in April 2012 in Mumbai. The company is looking at the possibility of expanding to other areas of Mumbai and India very soon.

### **Trade:**

Indian coffee is primarily an export oriented commodity with about 60 percent of production being exported. Current marketing year (2011/12) exports are estimated at 5.8 million 60 kg bags, down 1 percent from last year's record level. Indian Robusta has a good reputation among international buyers. Europe continues to be the major destination for Indian coffee.

Assuming international prices remain high, MY 2012/13 exports are forecast 5.5 million 60 kg bags, as strong international prices are expected to prompt foreign buyers to again seek Indian coffee as they pursue more varied supply options. Higher production, a weak Indian rupee and the government's export incentives (duty drawback programs) should support MY 2012/13 coffee exports

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

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 2009/2010 and 2010/11**

		<b>MY 2009/10</b>	<b>MY 2010/11*</b>
<b>Sr. No.</b>	<b>Destination</b>	<b>Quantity (MT)</b>	<b>Quantity (MT)</b>
1	Italy	68,991	74,852
2	Germany	23,459	45,166
3	Russia	30,589	38,154
4	Belgium	11,439	23,201
5	Spain	7,914	15,590
6	Jordan	7,108	7,790
7	Slovenia	4,601	7,780
8	U.S.A.	6,177	6,436
9	Finland	4,442	7,489
10	Others	91,513	125,839
	<b>TOTAL</b>	<b>256,381</b>	<b>352,297</b>

Source: Coffee Board of India

\*Provisional includes re-exports.

### **Stocks:**

MY 2011/12 carryover stocks are forecast at 835,000 60 kg bags given the expected strong pace of exports during MY 2011/12. Given tight carry-in stocks, the ending stocks are expected to further decline and remain tight for MY 2012/13 at around 135,000 60 kg bags. Lower carryover stocks are the result of very high export demand.

### **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, 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 (\$1,843) per hectare for Arabica and Rs.70,000 per hectare (\$1,290) 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 procurement of machines to offset the effect of shortage of labor and 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 (\$9,217) based on size of the producer’s planted area.

**Table 3. 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 4. Commodity, Coffee, Green, PSD**

Coffee, Green India	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	400	0	402		411
Area Harvested	0	360	0	369		370
Bearing Trees	0	565	0	566		568
Non-Bearing Trees	0	64	0	65		64
Total Tree Population	0	629	0	631		632
Beginning Stocks	785	2640	100	1,584		835
Arabica Production	1,575	1,569	1,650	1,729		1,667
Robusta Production	3,465	3,464	3,550	3,605		3,417
Other Production	0	0	0	0		0
Total Production	5,040	5,033	5,200	5,333		5,084
Bean Imports	720	783	750	775		767
Roast & Ground Imports	0	0	0	0		0
Soluble Imports	0	0	0	0		0
Total Imports	720	783	750	775		767
Total Supply	6,545	8,456	6,050	7,693		6,686
Bean Exports	3,700	4,263	2,900	4,321		4,083
Rst-Grnd Exp.	0	4	0	4		4
Soluble Exports	1,600	1,604	1,800	1,500		1,423
Total Exports	5,300	5,872	4,700	5,825		5,510
Rst,Ground Dom. Consum	895	800	900	826		834
Soluble Dom. Cons.	250	200	250	207		208
Domestic Use	1,145	1,000	1,150	1,033		1,042
Ending Stocks	100	1,584	200	835		134
Total Distribution	6,545	8,456	6,050	7,693		6,686
1000 HA, MILLION TREES, 1000 60 KG BAGS						

**Note:** The Coffee Board of India does not maintain data on total tree population but has recently started work towards developing estimates. It is not yet clear when these estimates will be finalized.