

FOLLOWING THE COFFEE BRIC ROAD

ALTHOUGH BRIC NATIONS MAY HAVE LOST SOME ECONOMIC LIMELIGHT, COFFEE CONSUMPTION REMAINS CENTRE STAGE IN AN INDUSTRY LOOKING FOR GROWTH.

It's hard to find topics that investors like better than a product or market that over performs. The coffee industry's resilience to economic strife is a popular topic that falls in this space. From the global financial crisis, to a slowdown in China's economic growth, coffee lovers continue drinking up, keeping the industry afloat when many think it should be sinking.

So, when in early 2014 analysts like Rabobank warned that the global beverage market would suffer from a slowdown in BRIC countries (Brazil, Russia, India and China), the warning may have fallen on deaf ears. As the year ends, coffee consumption is growing just fine, and even BRIC markets seem to be in great shape. Analysts were right that overall economic growth in the BRIC group has slowed down. However, coffee consumption is growing, with the four markets together consuming close to 30 million 60-kilogram bags.

"Brazil continues to see coffee consumption growing at between 3 - 3.5 per cent a year. Despite the slowdown reported in the beginning of the year, we are still looking at adding at least 700,000 bags in new

consumption a year in Brazil for the time being," says Carlos Brando, an international consultant who has advised the International Coffee Organization (ICO) and the World Bank on consumption trends for the past decade.

In BRIC countries, as well as in major producer nations, coffee is especially popular among the younger generation. It remains a status symbol for the rapidly expanding middle class, says Brando. Coffee's popularity, coupled with higher household income in the new middle class across emerging coffee markets, means that more people than ever are now buying coffee.

The BRIC term was created in 2001 by American investment and financial service company old man Sachs. The firm now projects that by 2020 the BRICS (which now include South Africa) will be home to about half of the world's economic growth. Their combined GDP currently accounts for about 18 per cent of the global GDP. The four original BRIC countries are home to around 40 per cent of the world's population.

Brando says that the Russian, Indian and Chinese markets are still dominated by soluble, while in Brazil roast and ground makes up most of consumption. He notes that: "All these countries have two key facts in common: better income and bigger populations." As in most things coffee, Brazil tends to dominate the conversation, as the world's biggest coffee producer, exporter, and grower of specialty-grade coffee. Brazil is expected to take over the US as the world's largest consumer in the next few years. Although the Brazil Coffee Industry Association (ABIC) reported that local demand last year suffered a small decline, overall consumption is expected to get back up and close in on 22 million bags in 2014.

Russia, the second largest emerging market for coffee, recorded in the 2011-12 coffee cycle a small decline as a result of the economic recession, with total demand that year estimated at 3.7 million bags. This came after a high of 4.2 million bags the previous cycle after 10 years of consecutive growth, the US Department of Agriculture (USDA) said in its 2014 market forecast. But demand was back to 4.2 million bags in Russia in the 2013-14 cycle, and is expected to expand further to a record 4.4 million bags in the new 2014-15

year, the USDA said.

These figures should keep rising even in the face of economic decline and tightening international sanctions that are sure to affect the nation's economy. Coffee has become an affordable luxury that is the last to be cut in tough times. "Coffee continues to be an ultra cool product in Russia and the average age of a coffee consumer today is substantially lower than ever before," says Ramaz Chanturiya, Head of the Russian Tea and Coffee Association, or Rusteacoffee. The association was founded in 1991 at the end of the Cold War to tackle the industry challenges brought about by the economy's transformation into a free market.

"Throughout the years of the Soviet Union, coffee was an exclusive luxury product and only very important people could go to special clubs or VIP lounges and have coffee there. So today, a lot of people are willing to pay, and pay extra for coffee, because they can," Chanturiya tells GCR Magazine.

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to Chanturiya. "For the 10 years from 1991 until just after 2000, we had a fantastic growth rate of between 20 - 25 per cent a year in coffee consumption. Since 2000 the market became a bit more balanced and stable," he says. After five years with "a bit of stagnation in the market" growth started to pick up in 2013 at 2.5 per cent and the market is expected to grow at about the same rate this year, he said.

Russia has seen a steady growth in the roast and ground segment of the market, which has been taking market share from soluble in recent years.

Per capita consumption in Russia currently sits at 0.8 kilograms per year. Roast and ground coffee makes up between 35 - 37 per cent of the overall market, compared to a market share of at least 90 per cent 20 years ago. Growth in the better quality Arabica blends has primarily been seen in the past 5 - 10 years, according to Rustea coffee.

"Today overall growth in the market comes from the roast and ground segment, which continues to rise every year. Soluble demand in the best years stays stable or even goes down in volume," Chanturiya says.

Since the 1960s, India has been a major supplier of this coffee to Russia. From virtually no local consumption, Indians have been steadily drinking more coffee for the past 10 years. From consumption of just under 1 million bags in 2000, local demand rose by 40 per cent to 1.4 million bags in 2010 and is today estimated at between 1.6 - 1.7 million bags, according to the ICO. Coffee officials in India say the real figure may be much higher, as the soluble industry continues to register growth rates of between 10 - 20 per cent a year, but independent figures were not immediately available.



Robusta (pictured) is filling Russian supplies where demand for soluble remains steady.

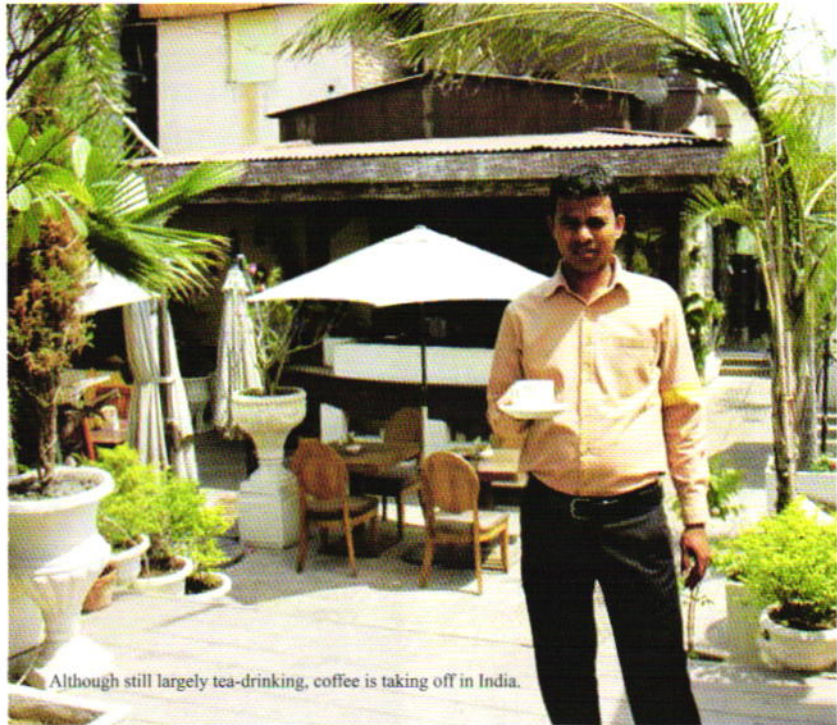
Attilio Capuano, Asia & Pacific Director for Italy's Lavazza Group, says that India's coffee drinkers share characteristics with their BRIC counterparts.

"An increasingly urbanised, young and trendy population is embracing Western tastes and flocking to cafés," says Capuano.

In a report published by *Dow Jones Newswires* earlier this year, Capuano said that domestic consumption of coffee in India should grow at an average of between 5 - 6 per cent per year. The report dismissed concerns that the entry of new players like Starbucks Coffee may limit Lavazza's growth in India.

The key focus in coffee is in China's population. There is a popular saying that if every person in China drank one cup of coffee a day, the world would run out of coffee. Although it's hard to judge the accuracy of this statement, growth in coffee consumption in the world's most populous country would undoubtedly affect supplies.

Citing local market research, the *Chinese Jing Daily* reported that coffee consumption in China is rising at an estimated 30 - 40 per cent annually, compared to a global average of 2 - 3 per cent.



Although still largely tea-drinking, coffee is taking off in India.

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With no official industry body, figures for Chinese coffee consumption are difficult to find. The ICO rarely mentions China in its monthly market reports. The USDA only includes import figures, and bases its consumption estimate for China solely on those imports. Albeit an incomplete figure, the USDA numbers provide a good indicator of the growing importance of China to coffee. Green coffee imports were estimated to rise 29 per cent to 2 million bags in the 2013-14 marketing year from 1.5 million bags in the 2012-13 cycle. This is compared to imports of just 610,000 bags in the 2009-10 coffee year.

Unlike most consuming countries, however, imports don't represent a clear picture of how much coffee is on the ground. China is also a producer, and homegrown coffee, especially from the southern Yunnan province, has also started to pick up.

Industry estimates peg current production at between 800,000 and 1.2 million bags, although local government officials in Yunnan province say production is approaching 1.4 million bags. An official from the Beijing Coffee Association tells *GCR Magazine* that China's locally grown coffee will approach 2 million bags in 2015. If all this coffee is staying in China's borders, then local consumption for 2014 could be around 3.4 million bags. The government has projected that coffee consumption will grow at an average 15 per cent a year until 2020 to hit 5.5 million bags, putting it among the top 10 consuming countries in the world alongside France and Japan. With coffee production just barely balancing out with consumption, these are figures worth taking a close look at as the industry cheers consumption along.

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