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**Summary report on the Seminar on
trends in new coffee-consuming markets**

Background

1. A Seminar on trends in new coffee-consuming markets took place on Tuesday 5 March 2013 at the ICO headquarters in London, chaired by Mr Andrea Illy of the European Union (Italy). The terms of reference for the Seminar (see document ED-2150/13) were developed by a working group comprising Brazil, Colombia, the European Union, Guatemala, India, Indonesia, Mexico, Uganda and the USA.
2. Copies of all the presentations are available on the ICO website (<http://www.ico.org/seminar-consumption.asp>).

SUMMARY REPORT ON THE SEMINAR ON TRENDS IN NEW COFFEE-CONSUMING MARKETS

1. The Executive Director welcomed all participants to the Seminar, which would identify relevant issues in this field and also attempt to formulate some appropriate recommendations.

2. The Chairman noted that the Seminar was very timely, given the current implementation of the Plan for Promotion and Market Development, which, in collaboration with a multi-stakeholder framework of partners, aimed to promote coffee consumption, particularly in coffee-producing countries. Indeed, the theme of this Seminar was focused on how to increase consumption and learn from different experiences. He hoped that the Seminar would help to explain the strong growth rates in coffee consumption of 2.5% per year recorded since 2000.

Coffee 2013: Ready for Take-Off

Mr J. Ross Colbert, Rabobank International

3. Mr Colbert noted that growing demand in emerging markets was a key driver in the global coffee market. Emerging markets were expected to account for 50% of global coffee consumption by 2020, and were particularly responsible for growth in instant coffee demand. Volatility in the coffee market was causing a movement towards dedicated supply chain management in order to secure supply and tackle problems of inefficiency. In terms of growth, both volume and value were expected to increase, with an overall trend towards innovative and premium products, which would support value growth across the industry. Also notable was the tendency for instant coffee to be more popular in traditionally tea-drinking countries.

4. In the future, demand growth would mainly be found in exporting countries and emerging markets, not traditional markets, with Brazil likely to become the world's largest coffee consumer by 2020. The key drivers of this growth were increasing incomes and the rise of the middle class; the trend towards premiumization; and an emerging café culture in key countries. In China, the booming coffee shop industry was indicative of significant consumption growth. Finally, local firms could be key in emerging markets by offering locally-tailored products, particularly in urban areas where consumers were driving growth.

Key trends in emerging consuming markets in Eastern Europe: Focus on Russia

Mr Ramaz Chanturiya, Rusteacoffee

5. Mr Chanturiya said that coffee consumption in Russia had grown significantly reaching around 3.6 million bags, or 0.8 kg per capita, in 2011. Growth in value had been even more dramatic, increasing from US\$750 million in 2001 to US\$2.5 billion in 2011. This trend could be attributed to the increase in the market value of green coffee and growth in living standards over the last ten years. In terms of consumption structure, the market was dominated by instant coffee, but this had been losing market share over time to roast and ground.

6. The market structure was a determining factor in Russia, as supermarket chains dominated the retail sector, and could therefore dictate prices to suppliers, who frequently had to operate at a loss. This had led to a lower quality of coffee available to consumers. Imports of green coffee had increased significantly, nearly doubling between 2007 and 2011 due to increasing coffee processing capacity. Finally, Russia was traditionally more of a tea-drinking country, and even though coffee consumption had increased in volume, it had not gained market share over tea. The main question that now faced the coffee sector in Russia was in which direction the market would develop. Growth in coffee consumption was unlikely to exceed 2% per year in the future, and would depend on sustainable income growth.

Key trends in producing countries: Colombia

Ms Marcella Jaramillo, Toma Café

7. Ms Jaramillo said that the Toma Café programme was launched in 2010 with the goal of increasing domestic consumption in Colombia by 30%. It consisted of a coalition along the coffee supply chain, including producers and roasters. Coffee in Colombia was a matter of national pride, but knowledge of preparation techniques was poor. The programme aimed at educating consumers, exposing them to the versatility of the drink and promoting the link between coffee and health. One of the main goals was to increase cup concentration, as the traditional way of drinking coffee, called *tinto*, was generally very weak. Since 2010, the programme had experienced some success, with consistent growth of 1% for two consecutive years, and there was evidence of positive changes in consumption habits.

8. However, this growth was mostly concentrated in urban areas and increases in soluble coffee, although premium coffee had recently experienced double digit growth rates. The perception of coffee as a dull and adult beverage continued to be a challenge, as well as tackling health myths and concerns. Going forward, the Toma Café programme aimed to improve preparation standards, both in and out of the home, and promote the versatility of coffee.

Key trends in emerging consuming markets in Asia: the Korean Coffee Market

Ms Lee Yunson, Terarosa Coffee

9. Ms Yunson said that coffee had been present in Korea since the Korean war, when American soldiers brought instant coffee with them. As of 2011, the Korean coffee market was worth US\$3.7 billion, and had been growing strongly, more than doubling since 2007. Furthermore, the composition of coffee consumption had been changing over time, from 95% instant in 2007 to 85% in 2011, as the popularity of roasted coffee increased. Coffee shops had been a strong driver of consumption growth, increasing from 1,600 in 2006 to 12,000 in 2011. Although multinational coffee shops made up a significant portion of the market, there were also several domestic brands visible in Korea. Imports of green coffee had increased as domestic processing capacity increased, with Vietnam the most important source of green coffee, followed by Brazil and Colombia.

10. In terms of prices, coffee in Korea was relatively expensive, with an Americano costing an average of US\$4, increasing to a maximum of US\$30 per cup at a hotel. Coffee was therefore predominantly a drink for young people with disposable income. The main trends in the coffee market were the movement towards quality and also the development of a café culture in Korea.

Effect of new markets on the supply-demand balance

Mr Robert Simmons, LMC International

11. Mr Simmons said that global coffee consumption had grown by at least 2% per annum over the last decade, reaching over 135 million bags per year. This growth had been dominated by emerging markets, which had more than doubled since 1990. Growth had been strong in both producing countries and non-producing countries. Mature markets had therefore decreased in importance, accounting for around half the market compared to two thirds in 1990. This growth had been driven by rising incomes, a growing middle class and urbanization in emerging markets.

12. However, per capita consumption generally remained relatively low, showing the potential for future growth. Consumption growth generally followed an 'S'-shaped curve, with rapid growth following a slow start, finally resulting in stagnation. There was also a correlation between high per capita tea consumption and high soluble coffee consumption, showing the importance of tastes. This growth in emerging markets was resulting in a large increase in demand for Robusta coffee, due to higher consumption of soluble coffee. Indeed, Robusta accounted for over half the growth in global coffee consumption.

Instant changes still take time: Outlook for soluble markets

Ms Judy Ganes-Chase, J. Ganes Consulting LLC

13. Ms Ganes-Chase said that soluble coffee gained market share in recent years, particularly in Eastern Europe. However, it needed to capture more of the out-of-home market, such as vending machines and also on-the-go refrigerated drinks. In terms of global trends, the market had been characterized by strong increases in the quality of Robusta coffee, led by developments in Vietnam. This was also helping to improve the image of soluble coffee. Furthermore, production of soluble coffee had been moving towards producing countries, with the strongest growth over the last ten years in Southeast Asia, particularly in Indonesia, Malaysia and Vietnam. These countries were also expecting the highest rates of production growth up to 2016.

14. In mature markets, on the other hand, growth was concentrated in single-serve coffee pods, which resulted in a reduction in waste of coffee. The bulk of growth in home use was found in Asia, particularly in tea-drinking countries which were among the fastest growing. Population growth was also strong in these countries, along with GDP levels, so there was significant potential demand in the future.

Trends in new coffee consuming markets: Out-of-home consumption

Carlos H.J. Brando, P&A International Marketing

15. Mr Brando said that increasing out-of-home consumption in new consuming markets depended on shaping the preferences of a booming middle class, with higher incomes, new aspirations and a thirst for novelty. Coffee shops were being marketed as a new lifestyle, as a Western habit, and were an important part of an ongoing process of discovery of local domestic markets in producing countries. Coffee shops were also a key driver of consumption in emerging markets, such as Russia and China, playing the role of trend-setters. In terms of growth, this was mostly occurring in the Asia-Pacific region, which was expanding quickly.

16. Another key area of out-of-home consumption in new markets was the office, where vending machines and kiosks were increasingly popular. The office was frequently the first coffee experience for young consumers in countries such as China and India. The search for convenience was becoming a significant force in new consuming markets, such as 'coffee on the go' in service stations or quick-service restaurants. Finally, there was an informal sector component to out-of-home consumption which was often forgotten. This was particularly true in coffee-producing countries, where consumption was already a habit, and was now starting to move out of the home. The informal sector was very strong in big cities, where consumers commuted long hours to reach their workplace. In emerging markets, on the other hand, consumption was being created out-of-home and there was a need to move it into the home.

Discussion

17. Participants noted that regarding the issue of Robusta quality, this could be attributed to improvements in food technology, not least the process of steam-cleaning Robusta which had dramatically improved its quality. As a result the use of Robusta by roasters in blends had increased significantly, with roasters also partnering with producing countries at the farm level.

18. The point was made that terms such as 'emerging markets', 'consuming countries' and 'retail outlets' were used during the various presentations yet it was not clear if their meaning was the same each time. It was therefore agreed that it would be useful if the ICO could produce some common benchmarks or definitions for consideration by Members at a future meeting.

Conclusions

19. Participants noted that increasing consumption in new markets was important for producing countries, particularly in terms of promotion and market development. Such efforts would be much more effective if concentrated on emerging markets where growth was more dynamic. There was a need for more information regarding China, which was of great interest to producing countries. Furthermore, the Seminar demonstrated the importance of developing a domestic market for coffee in producing countries, particularly for countries in Africa where consumption was in the early stages of growth. It was suggested therefore that the Seminar could continue on a rolling basis, focusing on different regions or themes each time.