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China, Peoples Republic of

Coffee

China's Coffee Situation

2002

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Report Highlights:

China's coffee production has greatly increased over the last several years. At the same time, China's coffee consumption has also risen. Local consumers presently prefer instant coffee, but this situation is starting to change. Despite China's rising production, the country imports more than it exports.

Includes PSD changes: No
Includes Trade Matrix: No
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Production

Post estimates that China in 2001 produced approximately 13,000 tons of coffee. Relatively good weather in the southwestern part of the country in combination with increased acreages contributed the most to higher production.

China's production has been steadily increasing over the last several years. China in 1997 harvested 3,573 tons of coffee and by 2000 the harvested amount had grown to 11,568 tons. Along with production, acreage has grown too. Both existing and harvested coffee acreage has continuously risen from 1997 to 2000. China's existing coffee acreage in 1997 was 7,400 hectares, but rose to 23,709 hectares by 2000. As for harvested coffee acreage, it equaled 3,700 hectares in 1997 and jumped to 9,600 hectares by 2000. These figures probably will continue to increase in the near future, because new coffee acreage has been developed during each of the last few years. Most of the development of new acreage has been occurring in Yunnan province in the southwestern part of China.

Most of the annual coffee crop appears to be raised by individual growers and private commercial farms, but state farms also contribute to production. In 2000, state farms accounted for 12 percent of the crop. However, the trend appears to be reduced involvement of state farms in coffee production, because their contribution to the crop was 25 percent in 1997. State farm involvement in production mainly occurs in Yunnan province.

China's coffee growing region is located in the southern provinces of Yunnan, Hainan, Guangxi, and Fujian. Yunnan province is the main producing province and Hainan Island is a distant second. As for varieties, no one single one seems to dominate. According to various reports, both arabica and robusta varieties are grown.

Province	1997	1998	1999	2000
Fujian	4	4	4	0
Hainan	491	485	371	419
Guangdong	0	1	0	0
Yunnan	3,078	5,747	8,363	11,149
TOTAL	3,573	6,237	8,743	11,568

Source: China Agricultural Yearbooks

China's Existing Coffee Acreage by Province, 1997 - 2000
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Province	1997	1998	1999	2000
Fujian	0	0	0	0
Hainan	1,100	1,000	761	773
Guangdong	0	0	0	0
Yunnan	6,300	15,300	20,900	22,936
TOTAL	7,400	16,300	21,700	23,709

Source: China Agricultural Yearbooks

China's New Developed Coffee Acreage by Province, 1997 - 2000				
Province	1997	1998	1999	2000
Fujian	0	0	0	0
Hainan	0	0	0	100
Guangdong	0	0	0	0
Yunnan	2,200	7,200	6,000	3,000
TOTAL	2,200	7,200	6,000	3,100

Source: China Agricultural Yearbooks

China's Harvested Coffee Acreage by Province, 1997 - 2000				
Province	1997	1998	1999	2000
Fujian	0	0	0	0
Hainan	700	700	500	600
Guangdong	0	0	0	0
Yunnan	3,000	3,700	6,500	9,000
TOTAL	3,700	4,400	7,000	9,600

Source: China Agricultural Yearbooks

China's State Farm contribution to Production, Total and by province, 1997 -2000				
Province	1997	1998	1999	2000
Fujian	0%	0%	0%	0%
Hainan	4%	5%	8%	4%
Yunnan	29%	33%	9%	12%
TOTAL	25%	31%	9%	12%

Source: China Agricultural Yearbooks

Consumption

The main drink of choice in China still is tea, but coffee consumption is growing. Amounts to

date are still small in comparison to tea consumption and instant coffee is the dominant product. The International Coffee Organization reports that Nescafe and Maxwell House instant coffees occupy at least 70 percent of the market and that these brands are well known among China's urban households.

Most of the instant coffee sold in China is produced domestically and nearly all of this production occurs in Guangdong province. Nestle who produces the Nescafe brand of instant coffee produces all of its instant coffee for the China in a plant located in Dongguan county of Guangdong province. Kraft, the producer of the Maxwell House brand, produces its instant coffee for the China market in a factory located in Guangzhou. While the Nescafe and Maxwell House brands hold the greatest shares of China's instant coffee market, Nestle is the dominant of the two brands. Another brand of instant coffee available at least in southern China is Colcoffee which is manufactured in Columbia and distributed in China by Tsit Wing International Limited of Singapore. Tsit Wing also has an instant coffee joint venture in Zhuhai, a major Chinese city located next to Macau, and markets the joint venture's product under the TW brand name. Other brands of instant coffee, including imported ones, occasionally can be found at local retailers, but amounts and variety tend to be limited and not always available.

To produce locally-made instant coffee, the two major manufacturers in China, Nestle and Kraft, have been relying on domestically-grown coffee for years. Kraft, for example, after establishing their Guangzhou joint venture initially relied on imported coffee, but switched sources by the mid to late 1990s. Nestle over the past several years has done the same and even sends technical people to Yunnan province to help growers produce coffee beans which meet the company's standards. However, for instant coffee made for the Korean and Japanese markets, Nestle currently does not use Chinese beans, because their quality still is below the company's standards for those particular markets.

According to published research report from the year 2000, annual roasted coffee consumption for all of China is only around 1,200 metric tons and majority of this coffee is consumed in the major cities of Beijing, Guangzhou, and Shanghai. Based on the report's estimates, Beijing consumes 300 tons a year, Shanghai 400 tons, and Guangzhou 200 tons.

The main buyers of roasted coffee are from the institutional sector, i.e. hotels, restaurants, and specialty coffee shops. Some roasted coffee is sold in the retail sector, but usually in processed, pre-package form. This roasted coffee is often only found in higher class supermarkets and department stores. In the Guangzhou area, available brands in select retail outlets include: UCC (Japan), Macoroma (Hong Kong), TW Coffee (Zhuhai, China), and S&W Premium (United States).

The number of specialty coffee shops has grown tremendously over the last couple of years, particularly in Beijing and Shanghai. Coffee drinking has become fashionable among white collar workers and college students, ranging in age from 15 to 40 years old. Starbucks came to China in 1999 and by early 2002 had expanded to 50 outlets in four cities: Beijing and Tianjin 26, Shanghai 21, and Hangzhou 3. The northern China agent for Starbucks is the Beijing Mei Da Coffee Company Limited. According to news reports, Starbucks will soon open outlets in the southern China cities of Guangzhou, Shenzhen, and Zhuhai. However, Hong Kong based

companies will be Starbucks' agents for southern China.

Starbucks is not the only coffee shop chain who has opened outlets in China. For example, last April, Tricon Global Restaurants Inc. opened a specialty coffee store in Shanghai. In Guangzhou, back in the autumn of 1996, Allway Incorporated, a Seattle based U.S. company, established the Seattle Espresso coffee shop chain. However, although at the opening of the first Seattle Espresso outlet a company spokesman said that over 20 outlets for all of Guangzhou were planned, only two shops have been opened to date.

One drag on greater coffee consumption in China is price. A retailed cup of freshly ground coffee still is relatively expensive for most Chinese consumers, including urban residents. In Guangzhou, for example at a coffee stand located in the city's China Hotel, one cup of plain freshly ground coffee retails at eight Yuan (\$ 0.97). While at a Starbucks in Beijing, a similar cup of coffee costs a consumer 12 Yuan (\$ 1.45). The least expensive cup of brewed coffee in China can be found at McDonalds restaurants. Diners pay four Yuan (\$ 0.48) per cup and also receive free re-fills.

Coffee drinking in China during the recent past also had to overcome some negative publicity. Stories and rumors circulated in cities about how coffee drinking harmed one's health. In much of this negative publicity, tea was extolled as a superior drink relative to coffee. However, not all of the circulated stories and rumors about coffee were bad. One story which made the rounds at least in south China several years ago was that all of the female employees who became pregnant while working at Nestle's instant coffee plant had male babies, the desired result for many tradition-minded couples in China. Data on coffee consumption growth by gender is not available, so it is not possible to ascertain the impact of this anecdote. Nor is it certain whether after the circulation of this story Nestle experienced a rise in female applicants to work at the instant coffee plant.

Even the Chinese medical community has taken notice of the trend towards greater coffee drinking and some doctors have made recommendations on how to drink coffee. The doctors usually warn about the problems associated with in taking too much caffeine and suggest to drink coffee with milk instead of drinking the coffee black.

To help promote coffee consumption in China, the International Coffee Organization last year organized coffee festivals in both Beijing and Shanghai.

Trade

China for many years tended to be more of a coffee importer than a coffee exporter. This situation changed in the year 2001 when China's exports of coffee that is neither roasted nor decaffeinated exceeded its imports by over 2,000 tons. Coffee, not roasted and not decaffeinated, for many years represented and continues to represent most of China's coffee imports and exports. Trade in coffee's other tariff categories usually has been negligible.

China's exports of not roasted and not decaffeinated coffee from 1998 to 2000 remained below

3,000 tons, while its imports of the same hovered around 4,700 tons during the same time period. In 2001, both imports and exports registered huge increases, but the increase in exports was much larger. The destinations of much of these exports were Germany and Vietnam, two countries which over the last several years have been major importers of China's not roasted and not decaffeinated coffee. On the import side, Vietnam was the major source and Indonesia a distant second.

China's trade in coffee's other tariff categories has been small in comparison with not roasted and not decaffeinated coffee. In most cases involving these categories, from 1998 to 2001, imports often were greater than exports.

Tariff rates for imported coffee are not low. The import tariff and the Value Add Tax (VAT) increase costs by at least a third. While the rates are lower for coffee which has not been roasted, the difference in rates between roasted and unroasted is not that great. The VAT rate of 17 percent applies to all forms of imported coffee and is added to the cost by on the import's value after the assessment of the tariff charges.

China's Imports Coffee, Not roasted and not decaffeinated (HS 0901.1100) Quantity (Metric Tons)				
Country	1998	1999	2000	2001
Vietnam	1,018	3,172	4,144	8,102

Indonesia	2,093	625	395	637
Brazil	113	175	48	44
Taiwan	5	9	50	12
Colombia	1,006	657	30	36
Guatemala	0	7	15	0
Laos	0	0	12	1
Ethiopia	2	1	8	3
Costa Rica	0	0	7	0
Mexico	0	0	7	0
Nicaragua	0	0	6	0
Sri Lanka	0	0	6	0
Japan	3	1	3	0
United States	23	9	4	15
Other	450	11	3	4
TOTAL	4,713	4,667	4,738	8,854

Source: China's Customs Statistics

China's Imports				
Coffee, Not roasted and not decaffeinated (HS 0901.1100)				
Value (Thousands of U.S. Dollars)				
Country	1998	1999	2000	2001
Vietnam	1,582	4,015	3,001	4,161

Indonesia	4,088	825	498	520
Brazil	205	376	110	103
Taiwan	24	104	91	14
Colombia	3,640	1,687	91	85
Guatemala	2	20	35	0
Laos	0	0	10	1
Ethiopia	11	3	21	8
Costa Rica	0	0	20	0
Mexico	0	0	16	1
Nicaragua	0	0	16	0
Sri Lanka	0	0	10	0
Japan	16	2	15	0
United States	128	43	13	51
Other	753	36	19	23
TOTAL	10,449	7,111	3,966	4,967

Source: China's Customs Statistics

China's Imports Coffee, Not roasted and decaffeinated (HS 0901.1200) Quantity (Metric Tons)				
Country	1998	1999	2000	2001
Vietnam	0	0	272	20
Taiwan	2	13	35	19
Colombia	1	3	33	54
Indonesia	0	9	29	69
United States	2	3	8	3
South Korea	0	0	2	0
Other	5	11	1	33
TOTAL	10	39	380	198

Source: China's Customs Statistics

China's Imports Coffee, Not roasted and decaffeinated (HS 0901.1200) Value (Thousands of U.S. Dollars)				
Country	1998	1999	2000	2001
Vietnam	0	0	321	7
Taiwan	2	29	68	40
Colombia	3	10	40	81

Indonesia	0	18	37	78
United States	5	8	18	4
South Korea	0	6	14	0
Other	11	35	5	60
TOTAL	21	106	503	270

Source: China's Customs Statistics

China's Imports Coffee, Roasted and not decaffeinated (HS 0901.2100) Quantity (Metric Tons)				
Country	1998	1999	2000	2001
United States	8	24	49	39
Japan	1	3	9	4
Australia	0	1	7	9
Indonesia	0	0	7	1
France	0	0	5	2
Thailand	0	0	3	0
Sweden	0	0	1	0
Italy	0	1	1	3
Taiwan	1	5	1	0
South Korea	0	0	1	2
Other	2	9	0	3
TOTAL	12	43	84	63

Source: China's Customs Statistics

China's Imports Coffee, Roasted and not decaffeinated (HS 0901.2100) Value (Thousands of U.S. Dollars)				
Country	1998	1999	2000	2001
United States	73	222	438	298
Japan	11	26	143	21
Australia	1	3	20	24
Indonesia	0	1	10	4
France	1	1	13	8
Thailand	0	1	16	0

Sweden	0	4	6	0
Italy	2	4	8	16
Taiwan	3	15	3	2
South Korea	0	0	1	2
Other	10	67	2	15
TOTAL	101	344	660	390

Source: China's Customs Statistics

China's Imports Coffee, Roasted and decaffeinated (HS 0901.2200) Quantity (Metric Tons)				
Country	1998	1999	2000	2001
Brazil	19	6	39	118
United States	12	6	34	57
Japan	14	20	21	28
Singapore	13	44	19	15
Italy	0	2	16	9
Taiwan	7	11	16	15

South Korea	13	6	14	17
Germany	2	6	14	16
Hong Kong	1	4	9	0
Australia	0	2	7	8
Austria	0	0	7	4
India	12	0	7	0
France	0	1	5	22
Canada	0	1	1	0
Malaysia	1	0	1	1
Cuba	0	0	1	3
Colombia	1	1	1	4
Vietnam	0	17	0	0
Indonesia	16	13	0	2
Other	7	0	0	7
TOTAL	118	139	211	326

Source: China's Customs Statistics

China's Imports				
Coffee, Roasted and decaffeinated (HS 0901.2200)				
Value (Thousands of U.S. Dollars)				
Country	1998	1999	2000	2001
Brazil	51	16	114	338
United States	72	6	171	337
Japan	72	163	140	154
Singapore	47	137	56	39
Italy	2	12	69	70
Taiwan	22	32	66	59

South Korea	109	114	157	140
Germany	3	27	45	36
Hong Kong	7	11	21	0
Australia	2	6	32	55
Austria	0	0	26	15
India	7	0	31	0
France	0	5	23	116
Canada	0	1	2	0
Malaysia	1	1	4	2
Cuba	0	0	3	20
Colombia	7	36	3	19
Vietnam	0	22	0	0
Indonesia	39	14	0	5
Other	25	9	12	40
TOTAL	466	612	975	1,445

Source: China's Customs Statistics

China's Imports Coffee, Husks and Skins (HS 0901.9010) Quantity (Metric Tons)				
Country	1998	1999	2000	2001
Japan	0	0	0	7
United States	0	0	0	2
Taiwan	0	0	5	0
Germany	0	0	1	0
Italy	8	0	0	0
Vietnam	100	0	0	0

Australia	1	1	0	0
Other	1	1	2	0
TOTAL	110	2	8	9

Source: China's Customs Statistics

China's Imports				
Coffee, Husks and Skins (HS 0901.9010)				
Value (Thousands of U.S. Dollars)				
Country	1998	1999	2000	2001
Japan	0	0	0	19
United States	0	0	0	4
Taiwan	1	0	6	0
Germany	3	1	2	0
Italy	35	0	0	0
Vietnam	121	0	0	0
Australia	1	6	0	0
Other	1	4	3	0
TOTAL	162	11	11	23

Source: China's Customs Statistics

China's Imports				
Coffee, Substitutes containing coffee (HS 0901.9020)				
Quantity (Metric Tons)				
Country	1998	1999	2000	2001
Brazil	0	0	14	0
United States	8	10	6	1
Italy				0
South Korea	1	0	1	1
Taiwan	0	0	1	0
Japan	0	5	1	0
Hong Kong	0	0	0	14
Other	1	1	0	2

TOTAL	10	16	23	18
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Source: China's Customs Statistics

China's Imports Coffee, Substitutes containing coffee (HS 0901.9020) Value (Thousands of U.S. Dollars)				
Country	1998	1999	2000	2001
Brazil	0	0	39	0
United States	15	53	15	5
Italy	0	2	0	3
South Korea	1	1	1	0
Taiwan	0	1	4	0
Japan	1	5	5	3
Hong Kong	0	0	0	16
Other	4	3	3	3
TOTAL	21	65	67	30

Source: China's Customs Statistics

China's Exports Coffee, Not roasted and not decaffeinated (HS 0901.1100) Quantity (Metric Tons)				
Country	1998	1999	2000	2001
Germany	667	1,308	1,674	2,569
Belgium	0	0	360	146
Vietnam	397	838	295	7,528
Singapore	116	17	155	77
Denmark	0	70	144	54
United States	126	83	126	108
Japan	315	142	108	73
Myanmar	0	67	45	43
Italy	17	36	35	36
France	0	0	18	72

Poland	0	0	0	198
Saudi Arabia	0	0	0	180
Netherlands	0	0	0	38
Hong Kong	97	62	3	9
Indonesia	183	72	0	0
Syria	17	0	0	0
Macau	0	59	0	0
Great Britain	0	18	0	0
Australia	0	18	0	0
Other	0	0	0	0
TOTAL	1,934	2,789	2,963	11,131

Source: China's Customs Statistics

China's Exports Coffee, Not roasted and not decaffeinated (HS 0901.1100) Value (Thousands of U.S. Dollars)				
Country	1998	1999	2000	2001
Germany	1,702	2,466	2,945	2,390
Belgium	0	0	458	103
Vietnam	713	1,287	414	6,312
Singapore	227	24	247	82
Denmark	0	117	215	60
United States	364	139	252	161
Japan	1,019	272	212	117
Myanmar	0	44	43	24
Italy	52	50	68	45
France	0	0	35	80

Poland	0	0	0	234
Saudi Arabia	0	0	0	217
Netherlands	0	0	0	61
Hong Kong	223	107	6	10
Indonesia	235	82	0	0
Syria	50	0	0	0
Macau	0	82	0	0
Great Britain	0	36	0	0
Australia	0	36	0	0
Other	0	0	0	0
TOTAL	4,585	4,742	4,895	9,895

Source: China's Customs Statistics

China's Exports				
Coffee, Not roasted and decaffeinated (HS 0901.1200)				
Quantity (Metric Tons)				
Country	1998	1999	2000	2001
Germany	0	1,075	155	18
Japan	52	0	0	0
South Korea	0	189	0	0
United States	0	180	0	0
France	0	0	0	18
Sweden	18	0	0	0
Netherlands	19	0	0	0
Switzerland	18	0	0	5
Other	24	1	0	0

TOTAL	131	1,445	155	41
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Source: China's Customs Statistics

China's Exports Coffee, Not roasted and decaffeinated (HS 0901.1200) Value (Thousands of U.S. Dollars)				
Country	1998	1999	2000	2001
Germany	0	2,213	305	25
Japan	161	0	0	0
South Korea	0	388	0	0
United States	0	290	0	0
France	0	0	0	25
Sweden	58	0	0	0
Netherlands	49	0	0	0
Switzerland	55	0	0	5
Other	47	1	0	0
TOTAL	370	2,892	305	55

Source: China's Customs Statistics

China's Exports Coffee, Roasted and not decaffeinated (HS 0901.2100) Quantity (Metric Tons)				
Country	1998	1999	2000	2001
Hong Kong	93	161	147	16
United States	0	0	11	0
Japan	132	0	0	0
Great Britain	96	0	0	0
Taiwan	0	0	1	0
Germany	120	0	0	0
Other	0	0	1	0
TOTAL	441	161	160	16

Source: China's Customs Statistics

China's Exports Coffee, Roasted and not decaffeinated (HS 0901.2100) Value (Thousands of U.S. Dollars)				
Country	1998	1999	2000	2001
Hong Kong	229	465	362	40
United States	0	0	72	0
Japan	381	0	2	0
Great Britain	662	0	0	0
Taiwan	0	0	2	0
Germany	529	0	0	0
Other	0	0	3	1
TOTAL	1801	465	441	41

Source: China's Customs Statistics

China's Exports Coffee, Roasted and decaffeinated (HS 0901.2200) Quantity (Metric Tons)				
Country	1998	1999	2000	2001
Germany	103	0	72	0
Hong Kong	2	1	0	0
Canada	0	0	0	6
Singapore	0	5	0	0
United States	8	0	0	0
Other	0	0	0	1
TOTAL	112	6	72	7

Source: China's Customs Statistics

China's Exports Coffee, Roasted and decaffeinated (HS 0901.2200) Value (Thousands of U.S. Dollars)				
Country	1998	1999	2000	2001

Germany	257	0	122	0
Hong Kong	7	2	0	3
Canada	0	0	0	3
Singapore	0	16	0	0
United States	147	0	0	0
Other	0	1	1	0
TOTAL	411	19	123	6

Source: China's Customs Statistics

China's Exports Coffee, Husks and Skins (HS 0901.9010) Quantity (Metric Tons)				
Country	1998	1999	2000	2001
Japan	65	0	0	0
Singapore	0	19	0	0
Vietnam	0	0	0	40
Other	0	0	0	0
TOTAL	65	19	0	40

Source: China's Customs Statistics

China's Exports Coffee, Husks and Skins (HS 0901.9010) Value (Thousands of U.S. Dollars)				
Country	1998	1999	2000	2001
Japan	220	0	0	0
Singapore	0	36	0	0
Vietnam	0	0	0	35
Other	0	0	0	0
TOTAL	220	36	0	35

Source: China's Customs Statistics

China's Exports Coffee, Substitutes containing coffee (HS 0901.9020) Quantity (Metric Tons)				
Country	1998	1999	2000	2001
Macau	0	0	4	2
Philippines	0	10	0	0
Singapore	2	8	0	0

Other	0	0	0	0
TOTAL	2	18	4	2

Source: China's Customs Statistics

China's Exports Coffee, Substitutes containing coffee (HS 0901.9020) Value (Thousands of U.S. Dollars)				
Country	1998	1999	2000	2001
Macau	0	0	3	2
Philippines	0	57	0	0
Singapore	2	9	0	0
Vietnam	0	0	0	0
Other	2	0	0	0
TOTAL	4	65	3	2

Source: China's Customs Statistics

China Tariff Rates: HS0901 Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion					
HS Code	Description	Preferential Tariff Rate	Ordinary Tariff Rate	V.A.T. Rate	Effective Tariff Rate
0901.1100	Coffee; not roasted, not decaffeinated	12.8	50	17	32
901.12	Coffee; not roasted, decaffeinated	12.8	50	17	32
0901.2100	Coffee; roasted, not decaffeinated	23	80	17	44
0901.2200	Coffee; roasted, decaffeinated	23	80	17	44
0901.9010	Coffee husks and skins	12	30	17	31
901.902	Coffee substitutes containing coffee	30	80	17	52
Source: Peoples Republic of China Import and Export Management Regulations, Tariff Tables (2002)					

Market Entry Strategies

Any attempt to penetrate the China coffee market should primarily focus on the hotel and restaurant sector. These institutions tend to be the main roasted coffee buyers in China. Within hotels, the food and beverage manager is often the key individual in charge of purchases. Some purely domestic owned coffee shop chains exist, but their numbers are limited and their buying small volume.

Although local tastes for coffee have become more sophisticated over the last few years, price is still more important than quality. Most importers are willing to sacrifice quality for a lower price. Complementing importers preference for low cost / low quality coffee is local consumers' overwhelming preference to add sugar and milk, an act which usually diminishes whatever natural taste that the pure coffee offers.

Some overseas companies in recent year have come to China to market complete coffee making systems in the hope that the buyers after buying the system also continue to purchase coffee from the system supplier. However, the success of this approach to date has been limited, because local buyers still focus on price and often use whatever coffee that helps them make the most money regardless of whether it is from the system supplier or not. As in the case of ice cream companies supplying local retailers with retail freezers for the producers' product alone, the equipment users will source whatever product that makes them the most money and not necessarily feel bound to any agreement or understanding regarding the equipment's use.