

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** Coffee Imports Show Strong Growth Potential

**Country:** China - People's Republic of

**Post:** Beijing

**Report Category:** Coffee

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**Report Highlights:**

In marketing year 2021/2022 (MY21/22 Oct - Sept) strong demand for imported coffee products is expected to increase imports to 4 million 60-kilogram (KG) bags green bean equivalent (GBE), a 5 percent increase over MY20/21 imports. Domestic coffee production in MY21/22 is forecast lower at 1.75 million 60-KG bags GBE on declining incomes for farmers. To spur production gains, the Yunnan government may be considering programs to increase farmer incomes and make coffee production more appealing.

## **China Coffee Market Overview**

In the last thirty years, coffee consumption in China has grown. International producers such as Nestlé and Starbucks are increasingly competing with local coffee brands such as Lian Coffee, Luckin, Yongpu, Seesaw, Manner, and SEngine for retail coffee purchases. Local companies have utilized a “online to offline” (O2O) model, which allows consumers to purchase products online for delivery or in-store pickup. This model expanded following the COVID-19 pandemic.

The average coffee consumer in China tends to reside in first-tier cities<sup>1</sup>, between the ages of 20 to 40 years old, with higher education and income levels, consuming between two to three cups of coffee per week. Analysts expect coffee demand in China to grow as disposable incomes rise, with China’s coffee demand growth to exceed that of more mature coffee markets (see consumption section below). Industry reports indicate that coffee consumers in China could reach over 350 million in 2021, and female consumers are expected to account for nearly 65 percent of all purchases (see also FAS China GAIN Report [CH-2019-2528](#) for additional background).

## **China Coffee Production**

In MY2021/2022 October to September (MY21/22) coffee production is forecast to decline to 1.75 million 60-kilogram (KG) bags GBE. Yunnan Provincial Statistics Yearbook data indicates that coffee production has been declining in the recent years (see Chart 1 below). Contacts have also indicated that many coffee farmers in Yunnan are finding coffee production less profitable and are switching to other crops. Initiatives to spur improvements in coffee production in Yunnan were most active between 2014 and 2019.<sup>2</sup> However, in the recent years programs to support coffee production expansion have not been publicized.

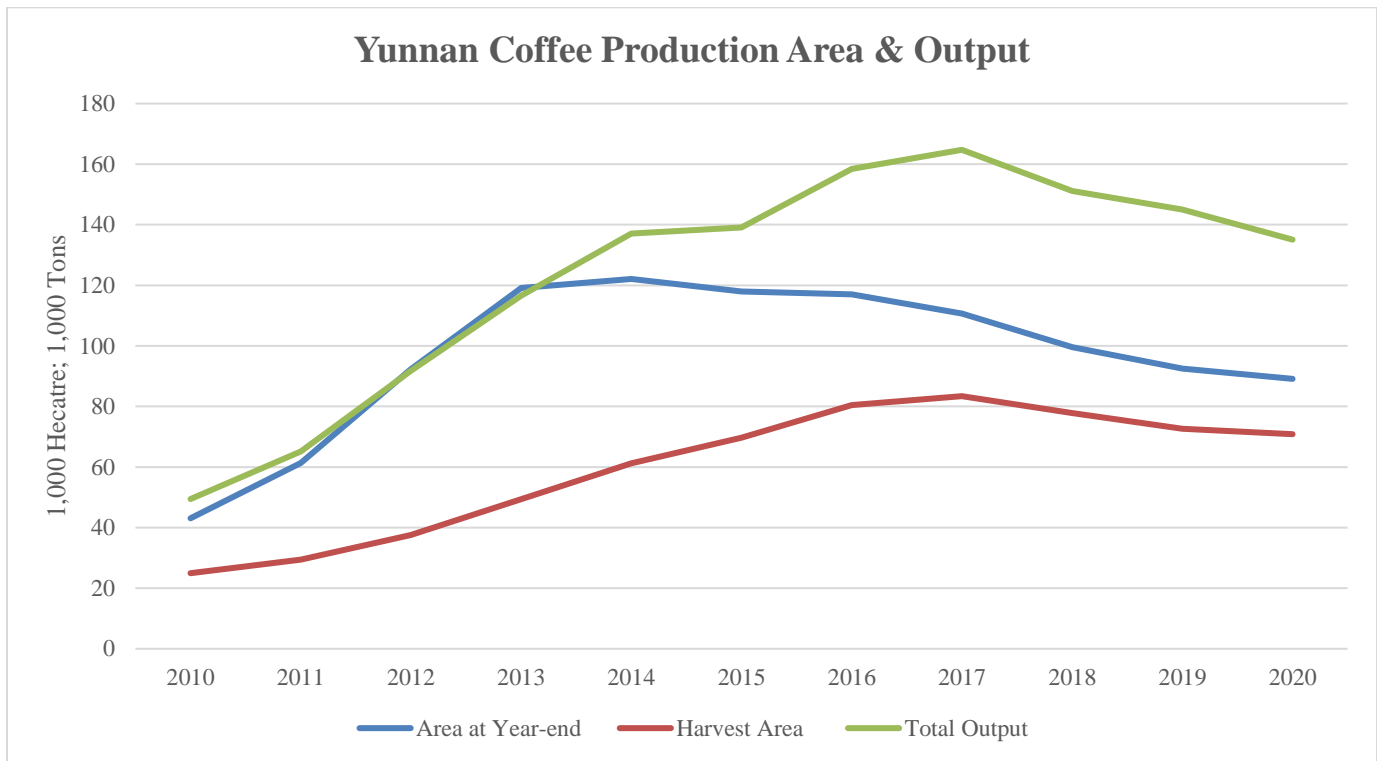
In MY 21/22, coffee production is not expected to decline dramatically in Yunnan as both Nestlé and Starbucks have established production sites and purchase large quantities of local coffee beans for domestic consumption. For example, Starbucks markets “single origin” Yunnan coffee beans in China at retail cafes.

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<sup>1</sup> China analysts rank Beijing, Shanghai, Guangzhou and Shenzhen as first-tier cities. There are nearly 100 second- and third-tier cities. These second and third-tier cities have an increasing appetite for imported products. These markets have limited foreign competition, are densely populated, with relatively high-levels of disposable income, and improving supply-chain infrastructure.

<sup>2</sup> In 2019, Pu’er city highlights success stories of coffee production and modernization of coffee industry [http://www.moa.gov.cn/xw/qg/201902/t20190221\\_6172261.htm](http://www.moa.gov.cn/xw/qg/201902/t20190221_6172261.htm); In 2014, The Chinese Academy of Tropical Agricultural Sciences establishes a coffee innovation center in Yunnan to support the development of local industries [http://www.moa.gov.cn/xw/zwdt/201403/t20140311\\_3810547.htm](http://www.moa.gov.cn/xw/zwdt/201403/t20140311_3810547.htm) and former MARA Minister Hang Changfu visits Pu’er coffee demonstration farms. [http://www.moa.gov.cn/xw/zwdt/201404/t20140416\\_3874358.htm](http://www.moa.gov.cn/xw/zwdt/201404/t20140416_3874358.htm);

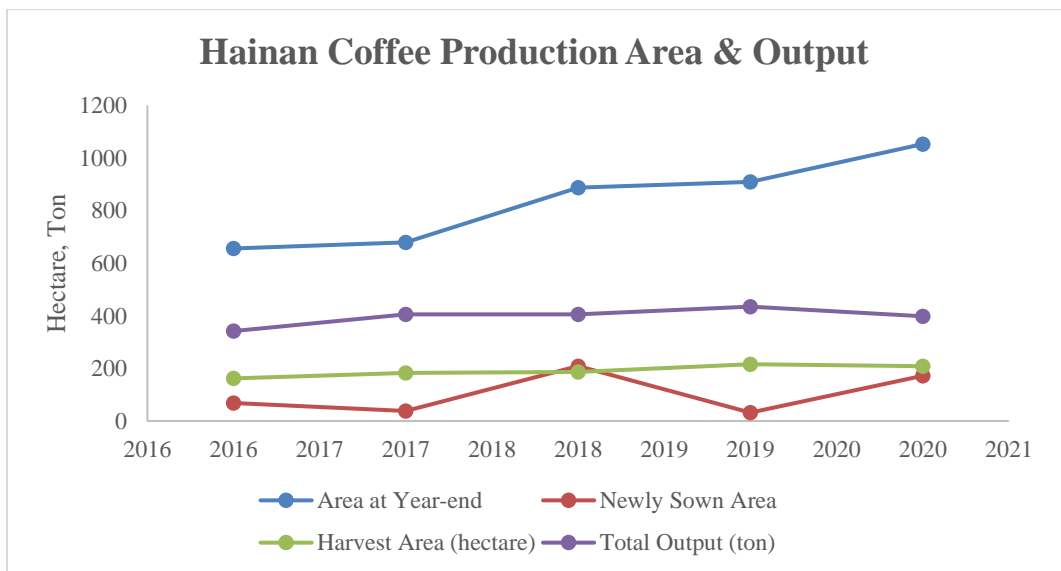
**CHART 1. China: Yunnan Coffee Production, Area and Output**



Source: Yunnan Province Statistical Yearbook (January to December)

In Hainan, investment in coffee and coffee production appears to be growing. However, production in Hainan Province accounts for less than 1 percent of all coffee production in China (see Chart 2 below).

**CHART 2. China: Hainan Coffee Production, Area and Output**

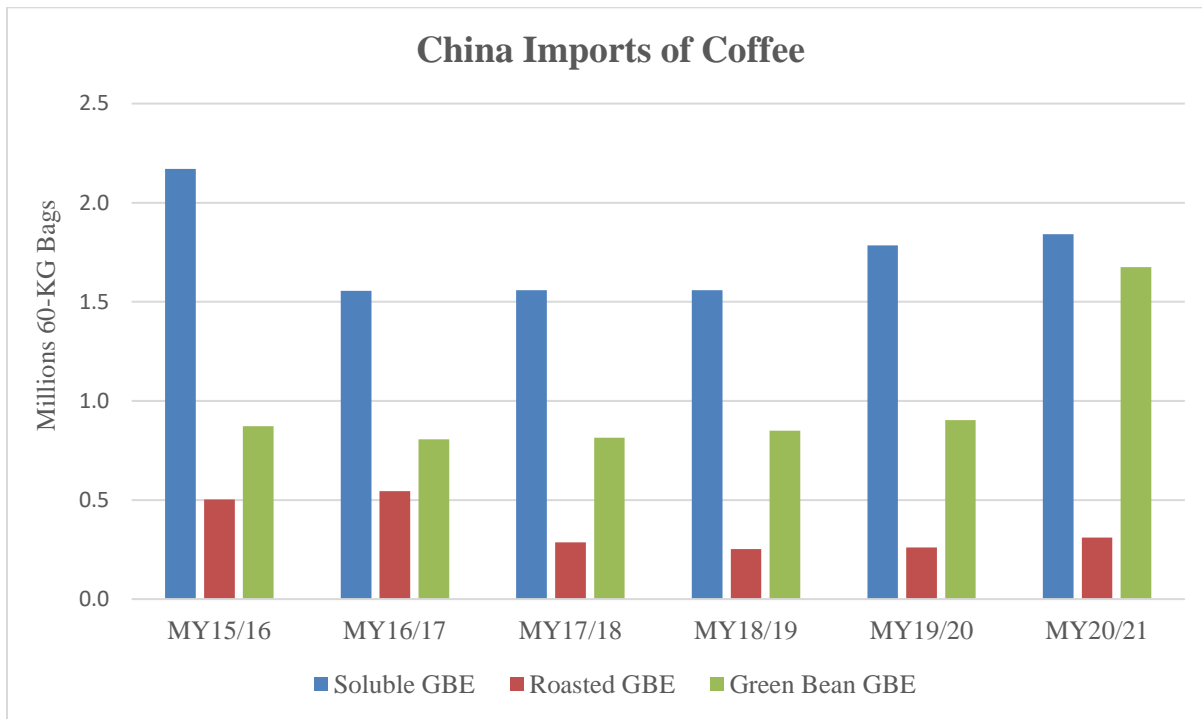


Source: Hainan Province Statistical Yearbook (January to December)

## **Imports**

In MY21/22 China's coffee imports are forecast to reach 4 million 60-kilogram bags GBE as demand in second and third-tier cities for coffee drives growth and expansion of domestic coffee consumption. In MY20/21, China's total imports of coffee (roasted, green and soluble GBE) products reached over 3.8 million 60-KG bags GBE – exceeding MY19/20 import volume by nearly 30 percent. Between MY15/16 and MY20/21 imports of green coffee beans to China grown tremendously. Additionally, soluble coffee imports have also increased to nearly MY15/16 rates (see Chart 3).

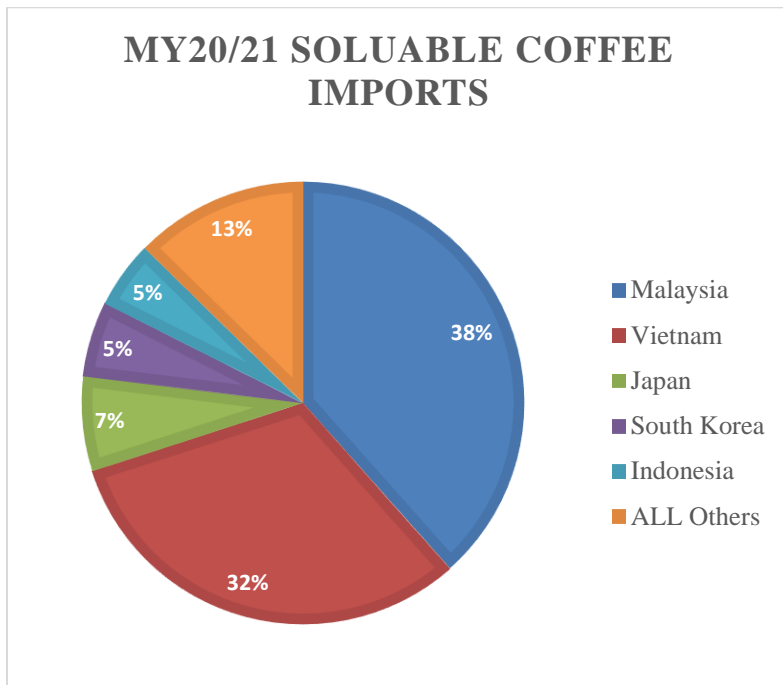
**CHART 3. China: Coffee Imports Over Time**



*Source: Trade Data Monitor (TDM)*

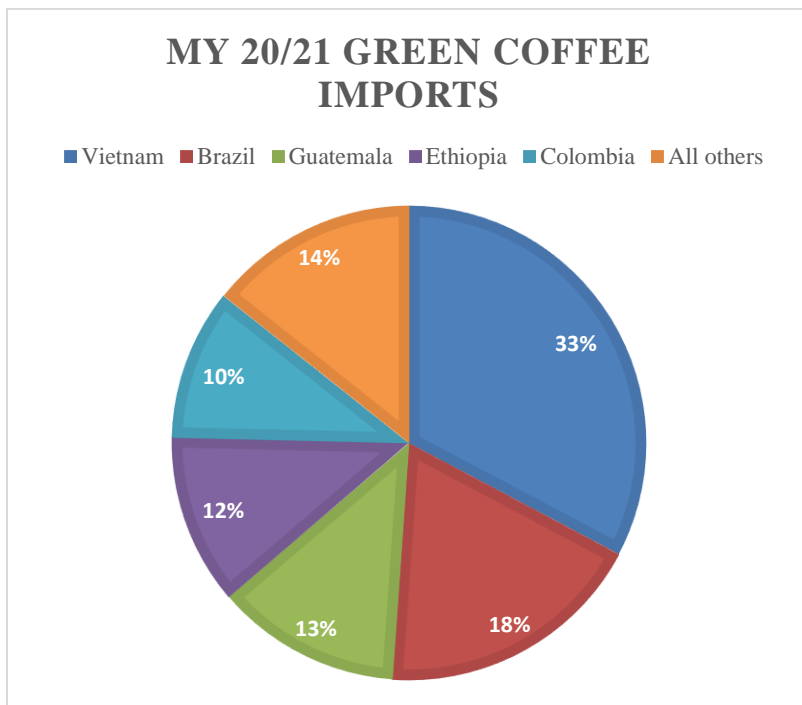
ASEAN member countries including Vietnam and Malaysia dominate China's imports by volume (see Chart 4, Chart 5).

**CHART 4. China: Imports of Soluble Coffee in Market Share by Country**



Source: TDM

**CHART 5. China: Imports of Green Coffee in Market Share by Country**



Source: TDM

## **Consumption**

In MY 21/22, China's coffee purchases are forecast to reach nearly \$16 billion (100 billion RMB) a 5 percent increase over MY20/21. Industry sources note that the typical Chinese consumer consumes instant coffee 70 percent of the time, freshly ground 20 percent and ready-to-drink coffee 10 percent of the time. Compared with other coffee consuming countries such as the United States and Japan, coffee consumption in China is a relatively new phenomenon, with younger consumers willing and interested in trying new flavors and coffee products (see Images 1, 2).

Consumers in first-tier and second-tier cities (see footnote 1, above) have shown the most sustained growth in coffee consumption. Industry sources note that more than 50 percent of white-collar workers in first and second-tier cities are expected to increase their coffee intake over the coming years. Additionally, trends set by first-tier cities may spur greater expansion of coffee consumption and coffee culture in second and third-tier cities.

## **Coffee Development, Trends and Opportunities**

China's coffee market has changed dramatically during the last five to ten years. Previously, China was a market dominated by instant coffee. Today, innovative coffee products (see Images 1, 2) represented by local brands (such as Yongpu and Saturnbrid) are expanding market share.

**Images 1, 2: left to right “capsule coffee”, “hanging ear coffee”**



In 2020, the number of retail coffee stores in China totaled 108,000 nationwide, with 75 percent of all stores located in first and second-tier cities. By March 2021, Luckin coffee (a local brand) became the largest coffee retailer in China surpassing Starbucks, with an estimated 75 million purchasers. Luckin's incentive and promotional programs played an important role in expanding consumer awareness of coffee and coffee culture in China.



Domestic convenience store purchases of coffee have also expanded with such brands as Family Mart Coffee, 7/11 coffee, Convenience Bee Coffee, KFC Coffee (K-Coffee), etc. Other concept stores, such as the “Greener Store of Starbucks Coffee Lab” have opened recently in Shanghai. These stores incorporate sustainable building, products, and practices to build consumer support.

Industry sources estimate that in the next few years coffee retail is expected to grow by 5 percent, reaching over 120,000 stores by 2023. In third-tier and lower-tier cities, independent cafes account for over 95 percent of coffee stores. Large brands should consider these smaller markets for greater expansion.

### COVID – 19 Impacts on China’s Coffee Industry

Since October 2021, China has faced the largest and most widespread COVID-19 outbreak. Local governments have placed increasing restrictions, including citywide testing and lockdowns, which have negatively impacted the HRI (hotel, restaurant and institutions) sector. These restrictions are expected to lead to increased closures of brick-and-mortar coffee stores (see [Food Service-Hotel Restaurant Institutional Shanghai ATO China - People’s Republic of 12-28-2021](#) for more information on China’s HRI sector).

**IMAGES 3, 4, (left to right):** Examples of two independent local coffee shops in Nanjing City, Jiangsu Province

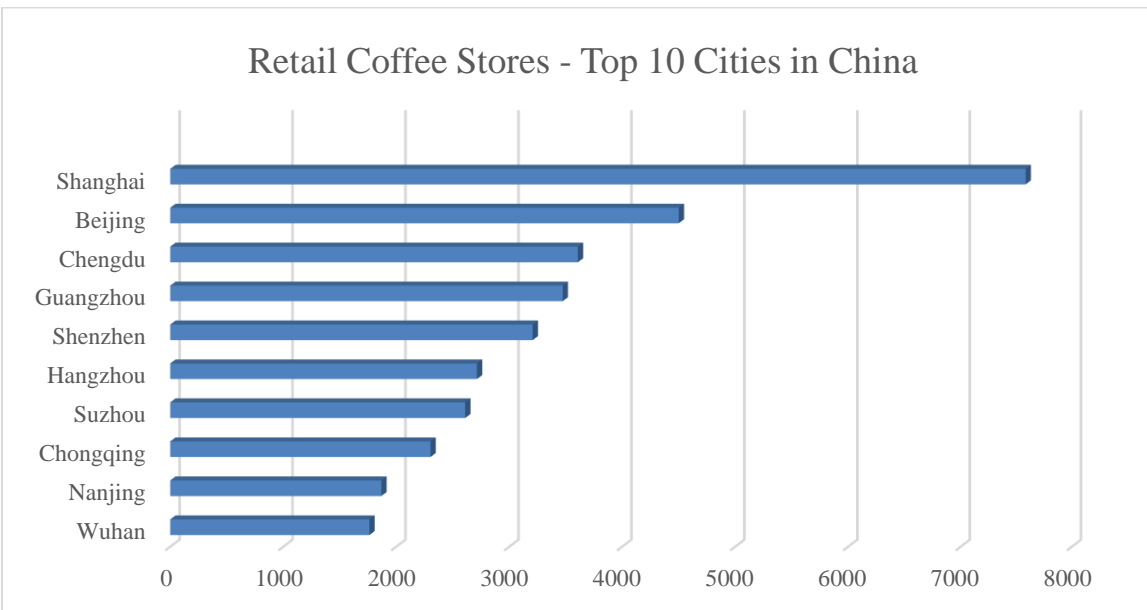


**IMAGES 4, 5: Manner coffee shop in Beijing (Peking) Airport, and a Starbucks pop-up shop in Shanghai.**



In 2021, Shanghai was nicknamed the "Coffee City" due one of the highest densities of coffee shops (nearly 8,000) in the city. Foreign brands including Hokkaido Letao Café, Japan’s %Arabica, Canada’s Tim Hortons, and Italy's Illy brands have all opened retail coffee shops – and account for nearly 65 percent of all retail coffee outlets in the city. Blue Bottle Coffee, purchased by Nestlé, is scheduled to open its first retail outlet in Shanghai later this year.

**TABLE 1. China: 2021 Top 10 Cities by Number of Coffee Shops**



Source: Meituan (e-commerce platform)

**Attachments:**

No Attachments.