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India

Coffee Annual

2010

Approved By:
Thom Wright

Prepared By:
A. Govindan

Report Highlights:
Assuming normal weather through harvest, MY 2010/11 (Oct-Sep) coffee production is forecast at 275,000 tons (4.6 million bags), marginally down from the MY 2009/10 production of around 290,000 tons (4.8 million bags). Although domestic coffee consumption is growing, partly due to the growing Coffee café culture, trade sources are skeptical of the high consumption figure reported by the Indian Coffee Board. Supported by larger production, higher global prices, and various government export incentives, India’s coffee exports in MY 2009/10 are likely to increase by 20 percent to 210,000 tons.

Commodities:

Coffee, Green

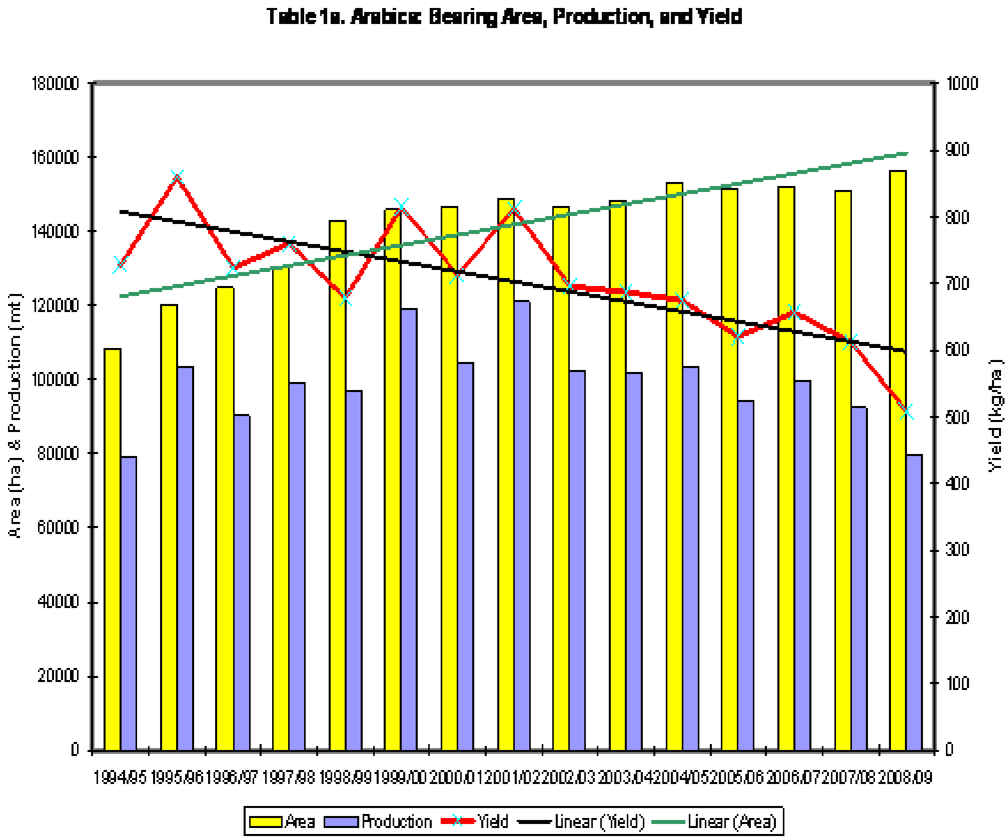
Production:

The government's Coffee Board now pegs MY 2009/10 coffee production at 289,600 tons (4.83 million bags of 60 kg) tons, which included 94,600 tons Arabica and 195,600 Robusta, lower than the Post-Blossom estimate of 306,300 tons, due to adverse weather conditions during bean maturing and harvest stage. Furthermore, rains also reportedly caused some quality problems, particularly in the Arabica variety. Although trade sources initially contested the Coffee Board figure saying that the Board estimate of the crop loss was on the lower side, now they are in agreement with the Board estimate. Some even believe that production could be marginally higher than the Coffee Board estimate, given the current strong export trend.

Outlook for the MY 2010/11 crop presents a mixed picture. Although several coffee growing regions have received good pre-blossom and back up showers, rainfall has been poor in some parts of Coorg and Tamil Nadu. High February/March temperatures could affect Robusta production to some extent, although heavy December 2009 rains left enough soil moisture, which may help compensate for the lack of pre-blossom showers. The Coffee Board is expected to release its Post Blossom forecast in late May or early June. Meanwhile, industry sources forecast MY 2010/11 coffee production marginally lower than the MY 2009/10 estimate at around 275,000 tons, which include 175,000 tons of Robusta and 100,000 tons of Arabica.

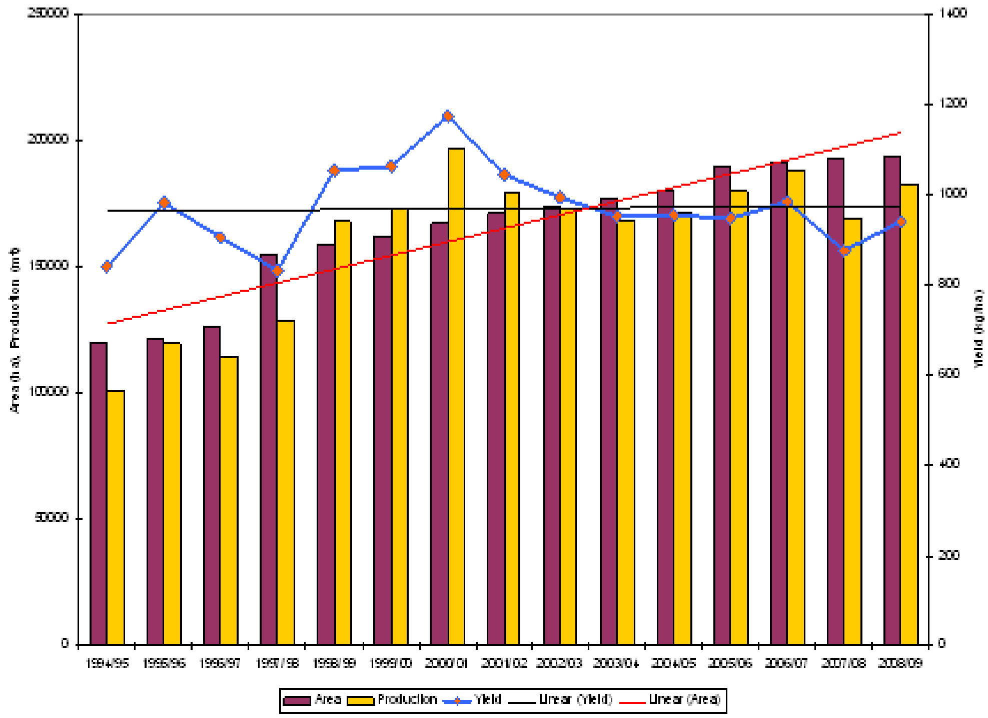
Coffee pests such as white stem borer and berry borer, although not completely eradicated, are under control due to better agronomic practices. Higher coffee price realization during the past three to four years has prompted coffee growers to apply more farm inputs and follow better agronomic practices, supporting higher production. Labor costs, which accounts for almost 65 percent of the coffee cost of cultivation, continue to escalate. With off-farm employment opportunities increasing, coffee planters have started experiencing shortages of skilled labor, which could become a major problem in coming years. Higher price realization for coffee is now helping growers to some extent mitigate the higher labor cost. The Indian government's National Rural Employment Guarantee program and a highly subsidized rice and wheat distribution program have further exacerbated the labor shortage in the plantation sector. Although limited mechanization is taking place in some coffee plantations, large-scale mechanization is difficult in India because of uneven plantings and small sized holdings.

Although the coffee planting and bearing area in India has generally shown an upward trend, mostly due to some expansion of coffee cultivation in non-traditional states such as Andhra Pradesh and Orissa, coffee production, especially Arabica, has been declining due to diminishing yields (Fig 1a & 1b). Coffee productivity in the non-traditional areas, mostly Arabica coffee, is reported to be much lower than in the traditional belt, which pulls down overall yield. To contain the white stem borer menace, there was some uprooting of infected trees and replanting with new stock in the Arabica belt supported by the Coffee Board. These replanted trees are yet to reach bearing stage. According to industry sources, India's coffee production will stabilize at around 300,000 tons once the replanted trees come into full bearing.



Source: Coffee Board

Table 1b. Robusta: Bearing area, Production and Yield



Source: Coffee Board

A significant share of low quality domestic Robusta coffee and some imported low priced coffee (for 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 and Unilever, and the Indian conglomerate Tata Group. In recent years a few other Indian companies have made a foray into this segment with some success. Although instant coffee production capacity is increasing, actual production is estimated to be around 45,000 tons (120,000 tons on green coffee basis). Organic coffee production is miniscule at around 300 tons due to lower yields and the absence of a significant premium over non-organic coffee.

Out of 220,000 coffee holdings in the country, 218,000 holdings belong to small farmers having less than 10 hectares, which account for 70 percent of coffee production. Coffee cultivation is mainly confined to southern states of Karnataka (70%), Kerala (20%) and Tamil Nadu (7%). With a view to expand coffee cultivation, the Coffee Board has been implementing developmental programs for coffee development in the North Eastern Region and Non Traditional areas. During the 11th Five Year Plan, the Coffee Board had proposed to support a coffee expansion program taken up by the Integrated Tribal Development Agency on 24,000 ha in Andhra Pradesh and on 850 ha in the North Eastern Region.

Indian Coffee Marketing System

Indian coffee producers have three ways to market their coffee: (a) sell directly to exporters through an exporting agent, (b) hold it in a curing factory before selling it; (c) sell it at voluntary auctions. Smallholders, who dominate the Indian coffee scenario, mostly 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 which must meet the exporters' standards. The second method allows the coffee grower to store the coffee with the curer before selling it in order to speculate on price movements. Under the third method adopted mostly by large producers, coffee is sold at a voluntary auction, organized by the Indian Coffee Traders' Association. In this case, the producer takes the coffee to the curing factory and stores the green beans in the auction warehouses, sending a sample for auction.

Consumption:

According to the Indian Coffee Board, domestic coffee consumption is increasing 5 to 6 percent annually, partly due to expansion of the coffee café culture and the spread of the coffee drinking habit throughout India, even into non-traditional coffee drinking regions in the north. The concerted efforts of the Coffee Board and coffee marketers in promoting the beverage as a lifestyle drink via coffee cafes and vending machines has added more visibility to coffee. According to a survey sponsored by the Indian Coffee Board, coffee consumption in 2008 is estimated at 94,400 tons, 73 percent in urban areas and 27 percent in rural areas (south India). Based on this, coffee consumption in 2009 is estimated by the Board at 97,000 tons and in 2010 at 100,000 tons.

Trade sources are, however, skeptical about the Coffee Board's high consumption figure. According to them, production, supply and distribution fundamentals do not support such high consumption figures. According to them, a significant quantity of chicory is blended with coffee, particularly in the soluble coffee segments, which tends to amplify the coffee consumption figures. According to some sources the amount of chicory going into the coffee blend is as high as 25,000 tons, which tends to over-estimate actual coffee consumption.

The indicative Bangalore wholesale price of Arabica Plantation "A" averaged Rs. 203 per kg in 2009 ($2 per pound), and Robusta Cherry "AB" averaged Rs. 96 per kg (98 cents per pound), compared with the 2008 average price of Rs. 146 per kg for Arabica and Rs. 110 per kg for Robusta. The retail price of pure grind coffee (Arabica plantation) in major southern cities averaged around Rs. 270 per kilogram ($2.75 per pound), a 17 percent increase over a year ago price. ($1= Rs. 44.50). Farm gate price for Arabica parchment registered a 30 percent increase in CY 2009 but the increase was much lower or even negative in the case of Arabica cherry and Robusta parchment and cherry.

India's Growing Coffee Cafe' Culture

Although tea is the main drink of choice in India, now hundreds of trendy western-influenced coffee bars have emerged across India in Tier I and Tier II cities. The bean has become big business, so large that it now competes against the once dominant tea on menus everywhere. For coffee fans, India offers a few notable coffee bar chains. The significant growth in the number of coffee retail chains in India is due to the changing lifestyle patterns of Indian middle class families and an increase in their disposable income. Although the coffee bars' contribution to India's total coffee consumption may not be significant, these coffee cafes have added more visibility to coffee and opened up an outlet for various value added food items.

Barista Lavazza

One of India's largest franchised chains of coffee bars, the Barista Lavazza coffee company operates around 205 outlets across India – 15 crème lounges and the rest espresso coffee bars. It plans to open 300 new stores over the next three years and has begun aggressively marketing its products outside Indian borders into neighboring countries. Considered the Starbucks of the East, Barista offers many of the same menu items like espresso, lattes, cappuccino and various pastries, in addition to basic coffee. Despite being Indian, Barista sticks closely to its Italian roots by serving Italian coffees exclusively. (www.barista.co.in),

Café Coffee Day

A later entrant than Barista, Café Coffee Day (CCD) 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. Like Barista Lavazza, CCD tends to be in every major Indian metro area. Café Coffee Day currently has 810 outlets in over 100 cities. (www.coffeeday.com),

Costa Coffee

The British influence isn't entirely missing from Indian cities, as the UK's largest coffee retailer has been setting up shops alongside other coffee competitors. The London-based Costa Coffee Company specializes in imported Italian coffees and made-to-order coffee concoctions like risteretto (a coffee stronger than espresso) and "Flat Whites" that feature custom barista designs in the froth.

Qwiky's Coffee Pub

The coffee house offers about 101 varieties of coffee, serving drinks such as espressos, lattes, cappuccinos, mochas, americanos and friazzos. It also offers grilled sandwiches, pastries and ice creams. Qwiky's clothing brand, greeting cards, magazines, books and coffee mugs are also available.

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.

Trade:

Assuming a better than normal production this year, MY 2010/11 coffee exports are forecast at 200,000 tons, marginally lower than the MY 2009/10 estimate of 210,000 tons. Although export permits issued in MY 2009/10 through March 2010 were ahead of last year, the recent steep appreciation of the India rupee against the U.S. dollar is making exports less competitive. Coffee exports in MY 2008/09 were around 175,000 tons, 20 percent down from the MY 2007/08 exports of 220,000 tons because of reduced exportable surplus and high domestic prices vis-à-vis global prices. On a calendar year basis, India's coffee exports in CY 2009 were 189,000 tons compared with 213,000 tons in CY 2008. Italy, Russia, Germany, Belgium, Spain, and Finland account for almost 55 percent of total exports. Exports to the U.S. in CY 2009 were around 3,300 tons up from 2,500 tons in CY 2008.

India imports small quantities of low-priced coffee, mostly from Indonesia, Uganda, Vietnam, and Ivory Coast, for value addition and re-exports. Such imports in IFY 2007/08 were around 27,000 tons and 29,000 tons in IFY 2008/09.

Table 1 India's Coffee Exports CY 2009 and CY 2008 (tons)

	CY 2009*	CY 2008
Italy	44,887	53,779
Russian Federation	25,246	18,930
Germany	10,197	16,822
Belgium	7,584	11,303
Spain	7,156	8,659
Jordan	4,778	4,889
Greece	4,719	4,595
Finland	4,418	7,833
USA	3,318	2,507
Other	76,390	83,842
Total	188,693	213,159

* Provisional
Source: Indian Coffee Board

Stocks:

Despite a larger production in MY 2009/10, carry over stocks of coffee in MY 2009/10 are likely to be more or less at the same level as in MY 2008/09 due to larger exports and increasing domestic consumption.

Policy:

Production subsidy:

The Indian government/Coffee Board provides various subsidies, mostly to small and marginal coffee producers to increase production and improve quality. The Coffee Board provides subsidy for coffee replanting, water conservation, quality upgradation, etc., the details of which can be accessed from:
www.indiacoffee.org/advertisement/Approved%20Modalities%20for%20CDSS%2011062008.pdf.

The Agricultural Insurance Company of India Ltd., a government parastatal, is now providing a Rainfall Insurance Scheme – Coffee (RISC), a unique rainfall insurance product specially designed for the coffee growers of Karnataka, Kerala and Tamil Nadu. This product is designed in consultation with the Coffee Board, the Central Coffee Research Institute and the Coffee Growers of these states. RISC is expected to provide effective risk management aid to those coffee growers likely to be impacted by adverse rainfall incidence. The Coffee Board is extending a premium subsidy of up to 50 percent of the premium for small and marginal growers (with plantation size up to 10 hectares). Details of this program can be accessed from: www.indiacoffee.org/advertisement/rainfall-21-2-08.html

The Coffee Board is providing a subsidy to enhance the quality of coffee products and achieve value addition through introduction of improved technologies in coffee roasting, grinding and packaging, the details of which can be accessed from www.indiacoffee.org/advertisement/subsidy-scheme.html.

Export subsidy:

The GOI's Department 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 value added coffees and high value coffees to far off markets such as the United States, Canada, and Japan. The export incentives under this program are: (a) incentive for exports of Indian branded value added coffee at the rate of Rs. 2 per kg (b) incentive to export high value coffees to far off markets such as the United States, Canada, and Japan at the rate of Rs. 1 per kg. For additional details please see: www.indiacoffee.org/exporter/export-incentive.html

The Ministry of Commerce has included coffee in the list of products eligible for the duty entitlement passbook (DEPB) scheme and the *Vishesh Krishi Upaj Gramodyog Yojana* (VKUGY). The objective of DEPB is to neutralize the incidence of the customs duty on the import content of the exported product, by granting a duty credit against the export product. The duty credit (4% of the FOB value in the case of coffee) can be used for imports of raw materials, intermediates, components, parts, packaging material etc. and is tradable. Duty Credit (5%) is also given under the VKUGY, which may be used for the import of inputs or goods including capital goods, as may be notified by the government. Total duty credit under both the programs together is subject to a maximum of 7.5 percent.

Coffee Debt Relief Package 2010

Indian coffee growers have faced long standing financial problems due to the drop in coffee price which occurred between 2000 and 2004. Despite various relief packages announced by the government earlier, a large number of affected growers did not benefit. On April 29, 2010, the Finance Minister announced a new Debt Relief Package in Parliament, intended mainly for small coffee growers. Accordingly, 50 percent of the pre-2002 term loans taken by coffee growers will be waived, subject to a maximum of Rs. 500,000 ($14,925) per farmer. An additional 25 percent will be waived by banks and the remaining 25 percent will be rescheduled. The loan waiver package also envisages a 20 percent liability waiver for Crop Loans to be equally borne by the GOI and the banks, subject to a maximum of Rs. 100,000. For post-2002 Term Loans, 10 percent of the total liability will be waived subject to a maximum of Rs. 100,000. The package also provides relief to medium and large farmers who will be permitted to reschedule their loans. Total financial outgo for the government for this package is estimated at Rs. 2.4 billion ($54 million) and the benefit to coffee growers is placed at Rs. 3.6 billion ($81 million).

Table 2 shows the import duty structure for coffee and related products:

Table 2: Import duty on coffee and related products

H.S. Code	Product description	Basic duty

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 3: Commodity, Coffee, Green, PSD

Coffee, Green India	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	394	394	394	395	395	395			396
Area Harvested	350	350	350	350	350	350			351
Bearing Trees	555	555	555	557	557	557			560
Non-Bearing Trees	70	70	70	70	70	70			70
Total Tree Population	625	625	625	627	627	627			630
Beginning Stocks	1,835	1,985	1,835	1,807	1,937	2,186			2,293
Arabica Production	1,325	1,325	1,325	1,500	1,500	1,577			1,667
Robusta Production	3,050	3,047	3,047	3,400	3,400	3,250			2,920
Other Production	0	0	0	0	0	0			0
Total Production	4,375	4,372	4,372	4,900	4,900	4,827			4,587
Bean Imports	480	200	480	450	200	400			400
Roast & Ground Imports	0	0	0	0	0	0			0
Soluble Imports	0	0	0	0	0	0			0
Total Imports	480	200	480	450	200	400			400
Total Supply	6,690	6,557	6,687	7,157	7,037	7,413			7,280
Bean Exports	2,125	2,295	2,109	2,900	2,600	2,600			2,450
Rst-Grnd Exp.	5	5	5	10	10	10			10
Soluble Exports	850	700	787	900	900	900			900
Total Exports	2,980	3,000	2,901	3,810	3,510	3,510			3,360
Rst,Ground Dom. Consum	1,603	1,320	1,300	1,580	1,330	1,300			1,300
Soluble Dom. Cons.	300	300	300	320	320	310			320
Domestic Use	1,903	1,620	1,600	1,900	1,650	1,610			1,620
Ending Stocks	1,807	1,937	2,186	1,447	1,877	2,293			2,300
Total Distribution	6,690	6,557	6,687	7,157	7,037	7,413			7,280
Exportable Production	2,472	2,752	2,772	3,000	3,250	3,217			2,967
TS=TD			0			0			0