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Coffee in the Russian Federation

Background

In accordance with Article 34 of the International Coffee Agreement 2007, the International Coffee Organization is required to provide Members with studies and reports on relevant aspects of the coffee sector. This document contains a report on coffee in the Russian Federation.

Action

The Council is requested to take note of this document.

COFFEE IN THE RUSSIAN FEDERATION

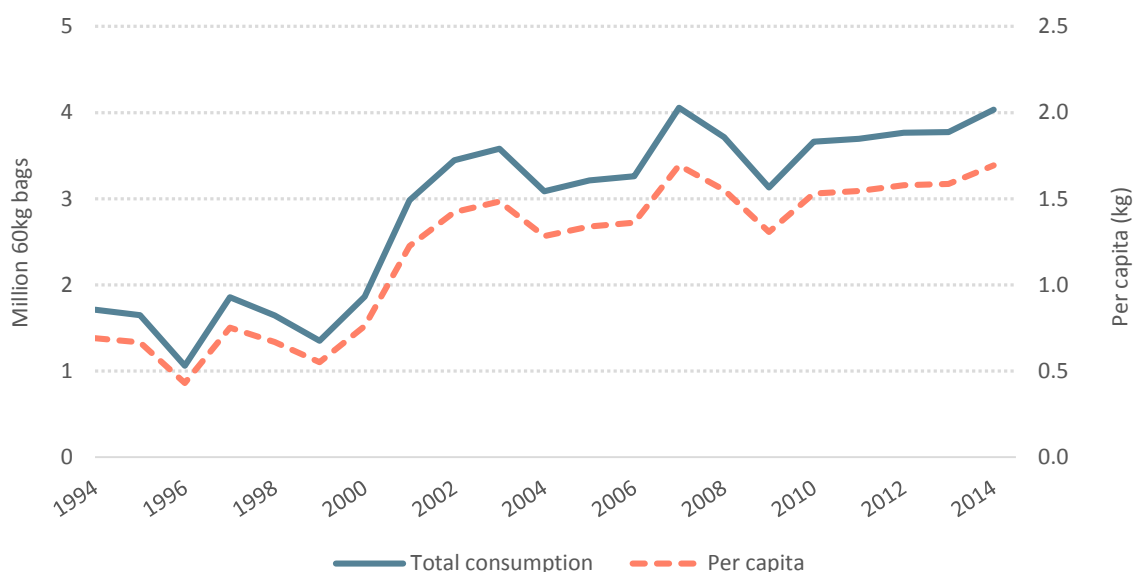
Introduction

1. The coffee market in Russia has been developing significantly over the last twenty years. Russia is now the eighth largest coffee consumer worldwide, and one of the largest markets for soluble coffee. In 2014, Russia imported 4.7 million 60kg bags of coffee, of which just over 700,000 were then re-exported to neighbouring countries. The national market is dominated by soluble coffee beverages, but the expansion of international coffee chains, along with some domestic outlets, is driving new demand for fresh coffee. Nevertheless, Russia is still a traditionally tea-consuming nation, which accounts for nearly two thirds of the hot drinks market.

Consumption

2. Coffee consumption in Russia reached just over 4 million bags in 2014, more than double its level of 2000.¹ The majority of this growth took place in the ten-year period between 1998 and 2007, when annual growth rates exceeded 10%. This coincided with a period of significant economic development. Market growth has since slowed, but remained at a steady 2.4% per annum over the last five years. The value of the market has been growing even faster, estimated by the Russian Association of Tea and Coffee Manufacturers (Rusteacoffee) at US\$2.5 billion in 2011, up from US\$750 million in 2001.²

Figure 1: Coffee consumption in Russia (1994 – 2014)

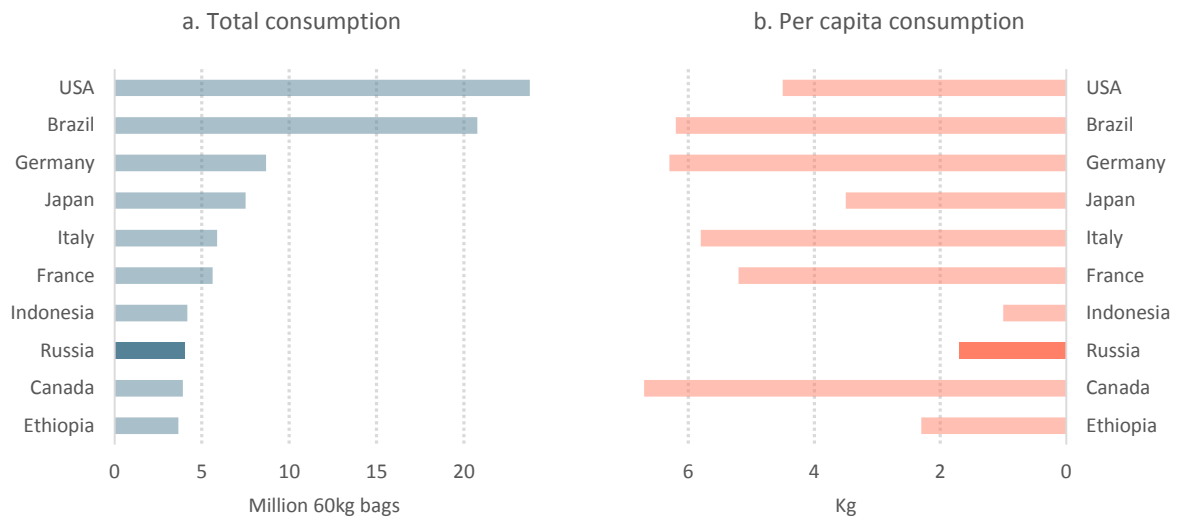


¹ Consumption in Russia is measured as net imports, i.e. gross imports – gross re-exports of coffee in 60kg Green Bag Equivalent (GBE). All figures are given in calendar years.

² http://www.ico.org/event_pdfs/seminar-consumption/rusteacoffee-e.pdf.

3. With a population of around 143 million people, this gives Russia a per capita consumption of 1.7kg, which has also more than doubled since 2000. In global terms, this is a relatively modest amount, equivalent to around 120 cups of coffee per person per year. Figure 2 shows Russia’s 2014 consumption levels in comparison to other major consuming countries.

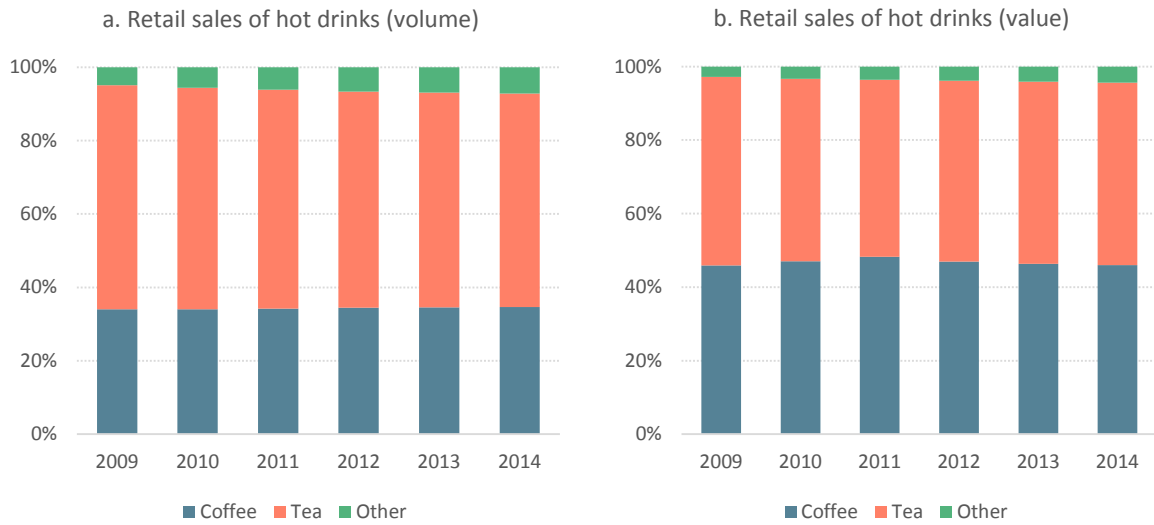
Figure 2: Coffee consumption in top ten consuming countries (2014)



Market structure

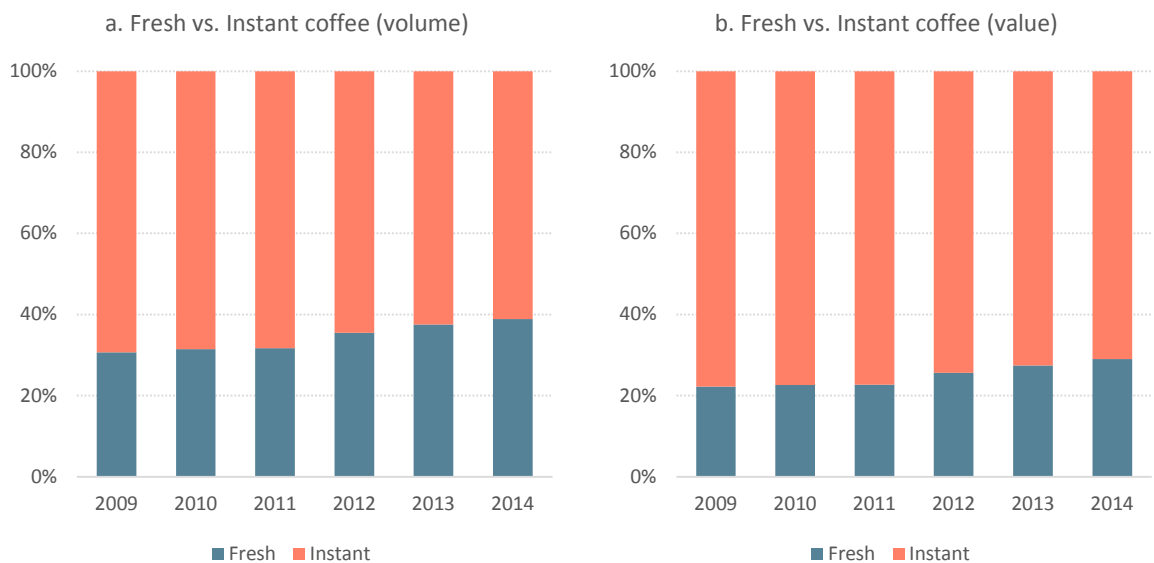
4. Although consumption of coffee has been rising in recent years, the Russian hot drinks market is still dominated by tea. According to information from market research firm Euromonitor International, coffee accounts for just over a third of retail sales by volume, increasing to 46% in terms of value (Figure 3). This market share has been increasing modestly in the last few years, but the prospects for further growth are considered limited.

Figure 3: The Russian hot drinks market



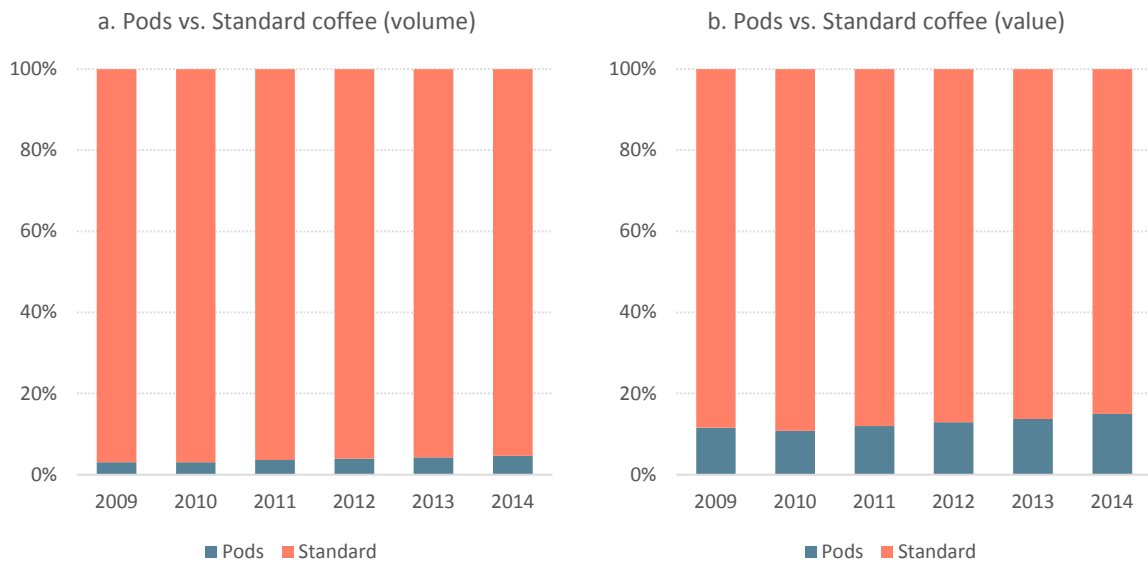
5. In terms of the coffee sector itself, the Russian market shows a strong preference for instant coffee over fresh and ground. This is often the case for traditionally tea-drinking countries; the act of making instant coffee is similar enough to that of tea (i.e. simply adding hot water) that it provides an easy gateway from tea consumption to coffee. As the market matures, consumers then tend to switch to higher quality fresh coffee, as can be seen in Figure 4. According to Euromonitor, fresh coffee accounted for 39% of coffee retail sales by volume in 2014, up from 31% in 2009. Fresh coffee is now the main driver behind further growth in coffee consumption in Russia.

Figure 4: Retail sales of coffee by category



6. Another recent development is the introduction of single-serve coffee pods. This is still a small niche segment of the market, but it is growing rapidly, particularly in value terms. Over the six year period, consumption of coffee pods in Russia more than doubled, growing at an average of over 20% per annum, by far the strongest market segment. In 2014, coffee pods accounted for 2.8% of fresh coffee retail sales by volume and 9.4% by value (Figure 5).

Figure 5: Retail sales of fresh coffee by segment



Box 1: Tea in Russia

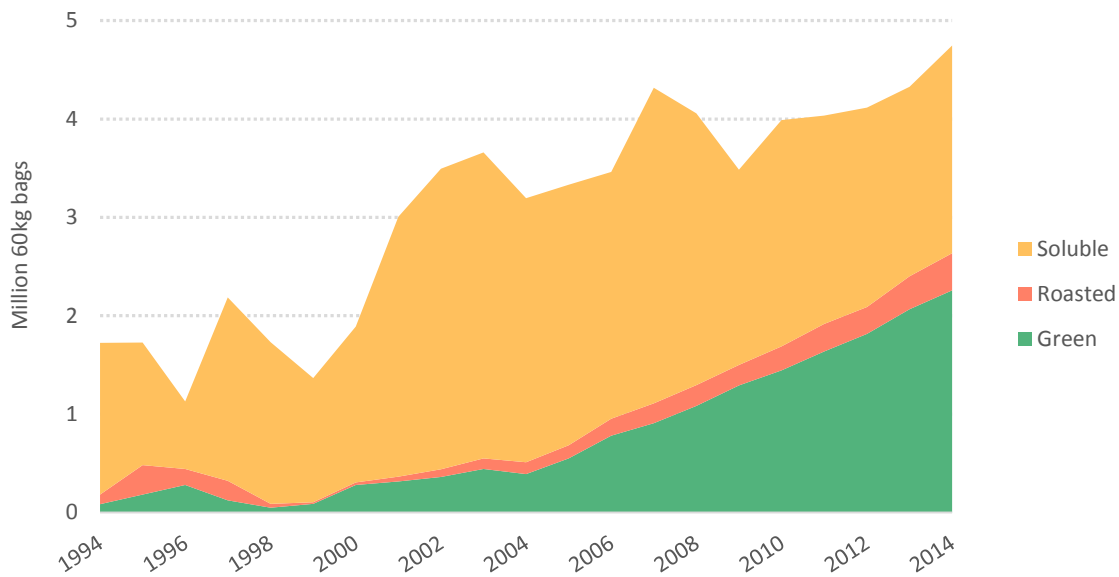
Russia has long had a strong tea-drinking culture, with records of the tea trade with China dating back several hundred years. Russia also grows small amounts of tea in the southwest region of Dagomys, although this only accounts for less than 1% of overall consumption. This historic trend of tea consumption is reflected in the traditional Russian tea ceremony, where water is poured from an ornate *samovar*, which boils water and keeps it hot throughout the ceremony. The tea is traditionally made from loose leaves, rather than bags, and is usually served alongside some food, although conventions can vary from region to region. It is reported by Euromonitor that the Russian hot drinks market is becoming relatively saturated, with consumers expressing a clear preference for tea over coffee; on average Russians consume two cups of tea per day, compared to just 0.65 cups of coffee.

International trade

7. The total volume of both imports and re-exports of coffee by Russia has been increasing rapidly over the last twenty years. Overall, imports reached 4.7 million bags in 2014, growing at an average annual rate of 5.2% since 1994. Growth has slowed slightly since then, averaging 4.4% per annum since 2010. This makes Russia the world's eighth largest importing country, behind the USA, Germany, Japan, Italy, Belgium, Spain and Canada.

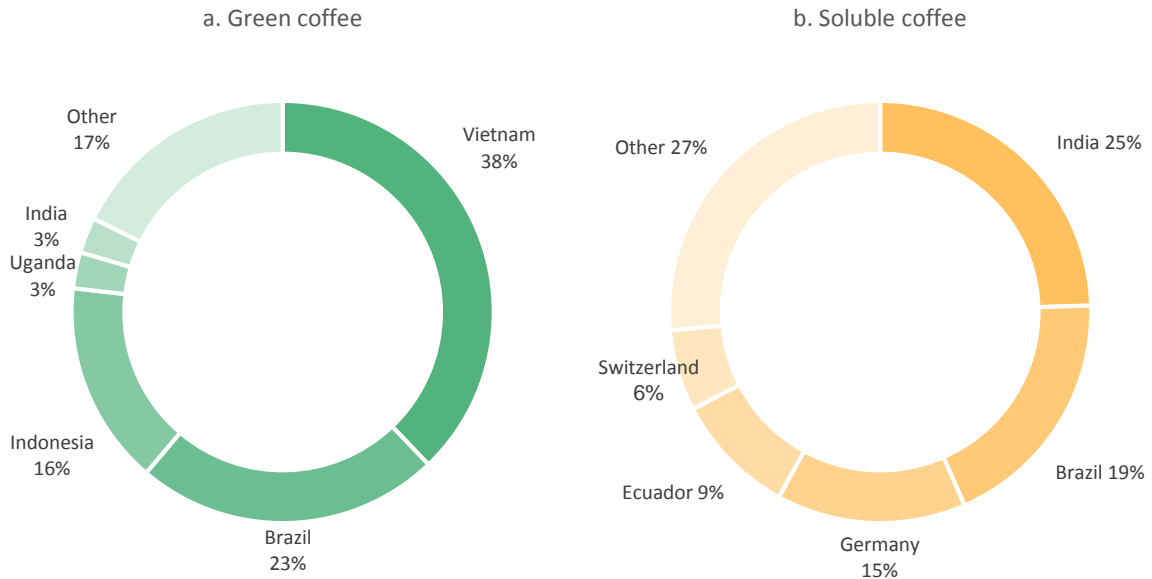
8. Looking at the import statistics for Russia since 1994, it can be seen that the market has long been dominated by the import of soluble coffee, but that green, unprocessed coffee has been increasingly significantly over the last ten years. In 1994, soluble coffee imports accounted for nearly 90% of the total, but this has fallen to 44% in 2014, less than imports of green coffee on 48%. This does not reflect changing consumer preferences so much as the development of a domestic processing industry. Russia now imports significant volumes of green coffee which are then processed (predominantly into soluble coffee, but also a growing amount of roasted) for both internal consumption and also re-export to neighbouring countries.

Figure 6: Imports of coffee by form (1994 – 2014)



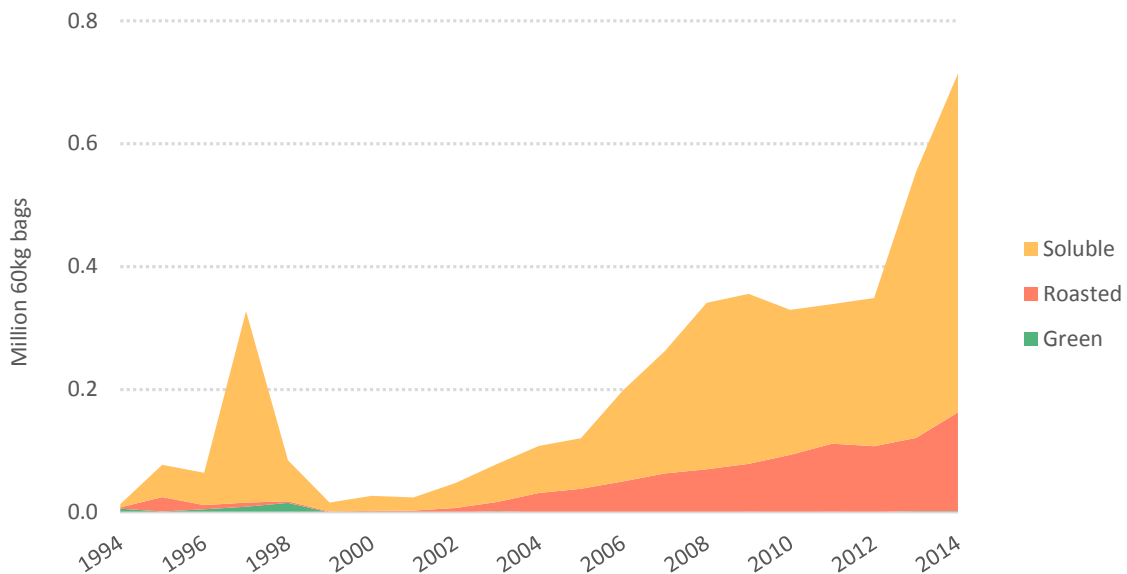
9. As can be seen in Figure 7, well over half of green coffee imports come from just two countries: Vietnam and Brazil. Furthermore, the majority of imports are from predominantly Robusta-producing countries (although coffee from Brazil could potentially be either Arabica or Robusta). This corresponds with the information that the Russian market is mostly composed of instant coffee, which is generally made using Robusta. In terms of soluble coffee imports, these are split between producing countries with well-developed processing industries, such as India, Brazil and Ecuador, and importing countries which are large-scale re-exporters of processed coffee, like Germany and Switzerland. More complete data on imports can be found in the Annex.

Figure 7: Imports of coffee by origin (Average: 2010 – 2014)



10. As previously mentioned, Russia has also been developing a relatively advanced domestic processing industry over the last ten years. Figure 8 below shows re-exports of coffee by Russia since 1994, which reached a high of 714,000 bags in 2014, up from almost negligible levels in the 1990s (despite an anomalous spike in 1997). These re-exports are almost entirely composed of processed roasted coffee (23% in 2014) and soluble coffee (77%). In terms of destinations, more than half were exported to the Ukraine (58% on average between 2010 and 2014), with the remainder split between other countries in the region such as Belarus (7%), Uzbekistan (5%), Georgia, Kazakhstan and Turkmenistan (all 4%).

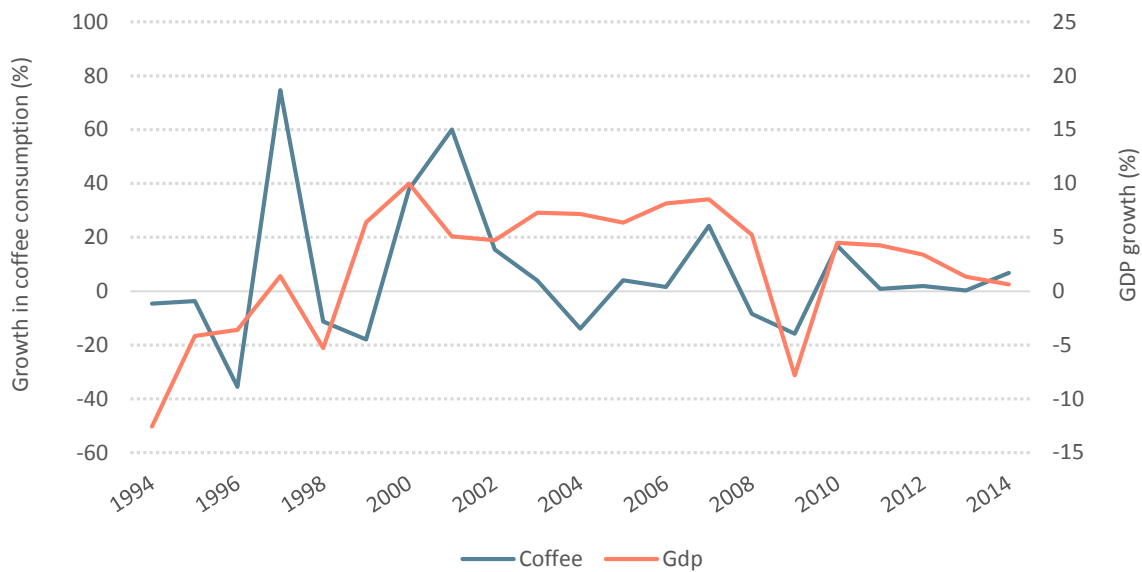
Figure 8: Re-exports of coffee by form (1994 – 2014)



Prospects

11. Although coffee has been increasing in popularity in Russia over the last two decades, the potential for further growth seems somewhat limited. The main drivers of demand are innovations such as single-serve machines and higher quality roasted coffee, which are starting to cannibalise the overwhelming market share of instant coffee. However, these trends are generally dependent on having a pool of relatively affluent consumers with disposable income, which is subject to continued economic growth. Coffee consumption, particularly in emerging markets such as Russia, is affected by economic growth, which in Russia is heavily dependent on oil prices. The World Bank has recently released projections for real GDP growth in Russia for 2015, 2016 and 2017 of -2.7%, +0.7% and +2.5% respectively.³ This could have significant consequences for the continued growth of the domestic coffee sector.

Figure 9: Growth in coffee consumption and GDP (1994 – 2014)



12. Furthermore, Rusteacoffee have reported that coffee will continue developing, but will generally only be accessible to a limited segment of the population, and as such will struggle to show any significant increases in consumption. The history of tea drinking, and its engrained status in the Russian culture, also presents a barrier to further growth in the coffee sector. While coffee is expected to continue becoming more popular, it is likely that this may be limited to niche segments such as coffee pods and out-of-home consumption.

³ <http://www.worldbank.org/en/news/press-release/2015/06/01/world-bank-revises-its-growth-projections-for-russia-for-2015-and-2016>

TOP TEN ORIGINS OF COFFEE IMPORTS BY RUSSIA

Table 1: All forms of coffee:

	Average (2010 - 2014)	% of total	Cumulative %
Brazil	828	20%	20%
Vietnam	767	18%	38%
India	564	13%	51%
Germany	342	8%	59%
Indonesia	290	7%	66%
Ecuador	198	5%	70%
Switzerland	143	3%	74%
Italy	132	3%	77%
Colombia	110	3%	80%
Spain	93	2%	82%
Others	776	18%	100%
Total	4 243	100%	

Table 2: Green coffee

	Average (2010 - 2014)	% of total	Cumulative %
Vietnam	698	38%	38%
Brazil	430	23%	61%
Indonesia	288	16%	77%
Uganda	51	3%	80%
India	50	3%	82%
Ethiopia	43	2%	85%
Peru	41	2%	87%
Colombia	40	2%	89%
Honduras	40	2%	91%
Tanzania	24	1%	93%
Others	138	7%	100%
Total	1 844	100%	

Table 3: Soluble coffee

	Average (2010 - 2014)	% of total	Cumulative %
India	514	25%	
Brazil	397	19%	43%
Germany	304	15%	58%
Ecuador	198	9%	67%
Switzerland	131	6%	74%
Spain	91	4%	78%
Colombia	70	3%	81%
Vietnam	68	3%	85%
Poland	62	3%	87%
South Korea	50	2%	90%
Others	213	10%	100%
Total	2 097	100%	

In thousand 60kg bags

NB Imports of roasted coffee are excluded due to the low recorded volumes