



International Coffee Council
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**Emerging coffee markets: South
and East Asia**

Background

1. In accordance with Article 34 of the International Coffee Agreement 2007 and the Programme of Activities for coffee year 2017/18, the International Coffee Organization is required to provide Members with studies and reports on relevant aspects of the coffee sector. This document contains a study on seven emerging coffee markets in South and East Asia. The markets analysed are India, Indonesia, the Philippines and Vietnam, that represent 95% of the coffee produced in the region by exporting Members, and China, the Republic of Korea and Taiwan as coffee importers, non-members of the ICO.

2. The main findings of the study show that coffee consumption in these markets has grown at an accelerated average annual rate of 6% in the last 25 years. In comparison, coffee consumption in the rest of the world has grown at an average annual rate of 2% in the same period, rate that slowed to 1% in the aftermath of the global financial crisis of 2007-2008. As a result of the faster growth, the region increased its share in global coffee consumption from 5% to 12%. Consumer preferences in South and East Asian emerging markets have also registered significant changes, favouring the consumption of fresh coffee in some markets where soluble had been traditionally consumed. This is the case of the Republic of Korea and Taiwan where the peak of soluble consumption seems to have been reached, with fresh coffee consumption recording significant increases in the last five years.

Action

3. The Council is requested to take note of this document.

EMERGING COFFEE MARKETS: SOUTH AND EAST ASIA

I. INTRODUCTION

1. The global coffee market has grown in size by more than 60% over the past two decades, with total coffee consumption increasing from around 98 million bags in the early 1990s to 161 million bags in crop year 2016/17.

2. Over this period, the global base for coffee demand has significantly broadened beyond mature markets such as the European Union (EU), the United States of America and Japan. Domestic consumption in coffee-exporting countries¹ is rising while emerging markets that often were traditionally tea-consuming countries have developed a stronger taste for coffee, providing new market opportunities for coffee producers.

3. The aim of this study is to present a comprehensive picture of the development of coffee consumption in the South and East Asia region. The seven markets examined in this report are China, India, Indonesia, Philippines, the Republic of Korea, Taiwan and Vietnam. India, Indonesia, the Philippines and Vietnam represent 95% of the coffee produced by ICO Members in South and East Asia and are also becoming increasingly important coffee consumers. China, the Republic of Korea and Taiwan are non-members and net importers of coffee. The terms 'South and East Asia' or 'region' will be used hereafter to refer to this group of seven coffee markets.

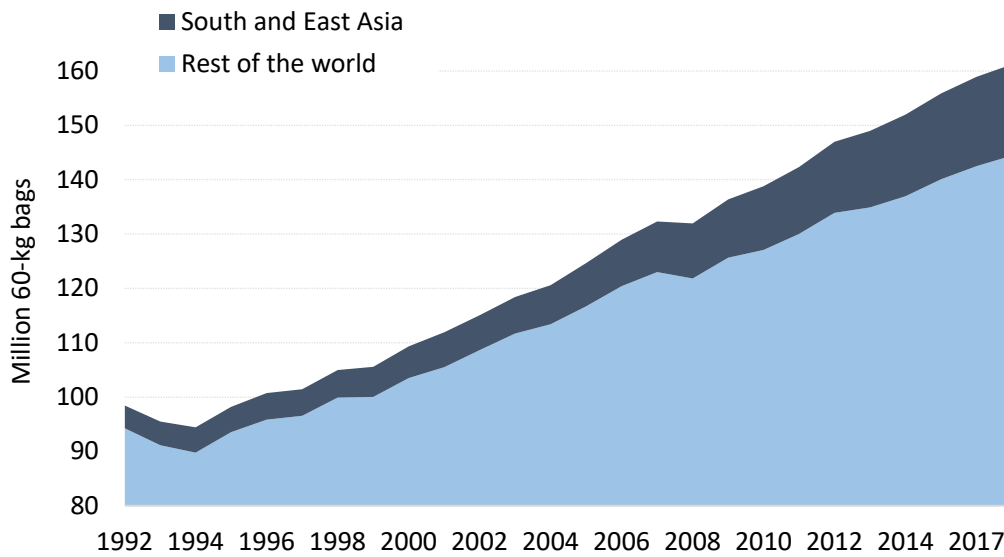
4. The study focuses on tracking the development of coffee consumption in the region, with a detailed analysis of import patterns by type (Arabica, Robusta) and form (green, roasted, soluble), as well as consumption trends by segments (fresh coffee and soluble coffee)².

5. Figure 1 shows the evolution of global coffee consumption with a breakdown into two groups, South and East Asia and the rest of the world. Coffee consumption in the region has grown at a faster annual rate of 6%, on average, compared to the rest of the world, where consumption grew at only 2% annually between crop years 1992/93 and 2016/17. Growth was positive over the entire period. In the aftermath of the global financial crises of 2007-2008, the annual growth rate of coffee consumption slowed down to 1% on average in the rest of the world, while it remained at an annual average rate of 6% in South and East Asia, similar to real GDP annual growth in the same period.

¹ The term 'country' is used in a broad sense for what are officially classed as 'customs territories', but which may not be countries in the usual sense of the word. The denomination and classification used herein do not imply, on the part of the ICO, any judgement as to the legal or other status of any territory, or any endorsement or acceptance of any boundary.

² This study uses consumption estimates and export data collected by the ICO from Member countries, with import data derived from the reported exports. Export data records all trade transactions at market level, from origin to destination countries. In addition, shares of consumption segments (fresh coffee and soluble coffee) were calculated using a database acquired from Euromonitor International (Euromonitor International - Hot Drinks, 2018 edition).

Figure 1: World coffee consumption 1992/93 - 2016/17

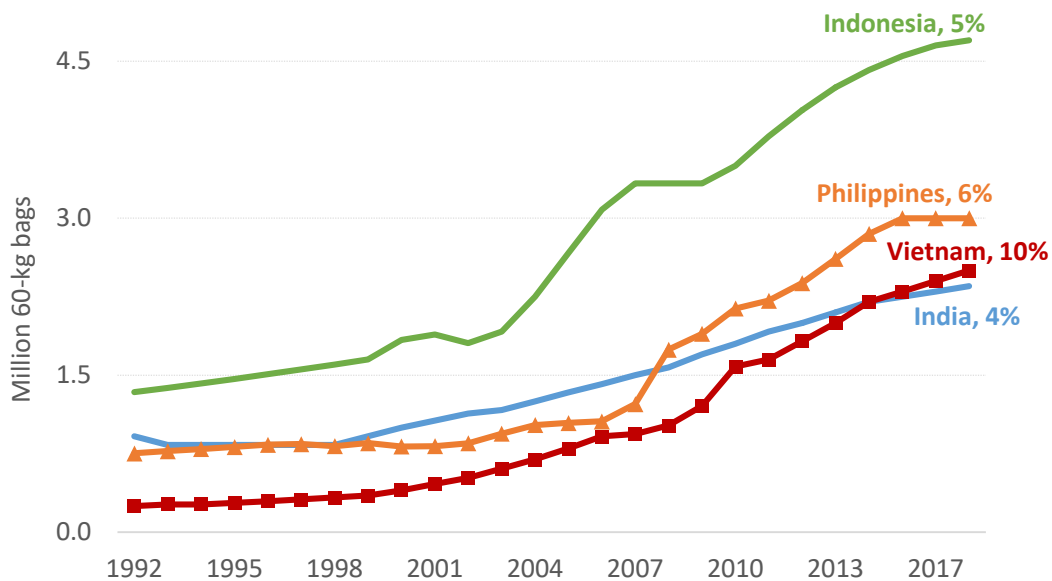


Source: ICO

6. The accelerated consumption growth experienced by coffee markets in South and East Asia led to an overall fourfold increase, compared to 56% in the rest of the world. As a result of the faster growth in South and East Asia, the region increased its share in global coffee consumption from 5% in the early nineties to a current 12%.

7. Taking a closer look at individual markets in South and East Asia, Figure 2 shows the evolution of domestic consumption for each ICO Member country in the region. In all four markets, coffee consumption has sharply increased, almost fourfold from 3.3 million bags to 11.4 million bags.

Figure 2: Domestic consumption of coffee 1992/93 - 2016/17



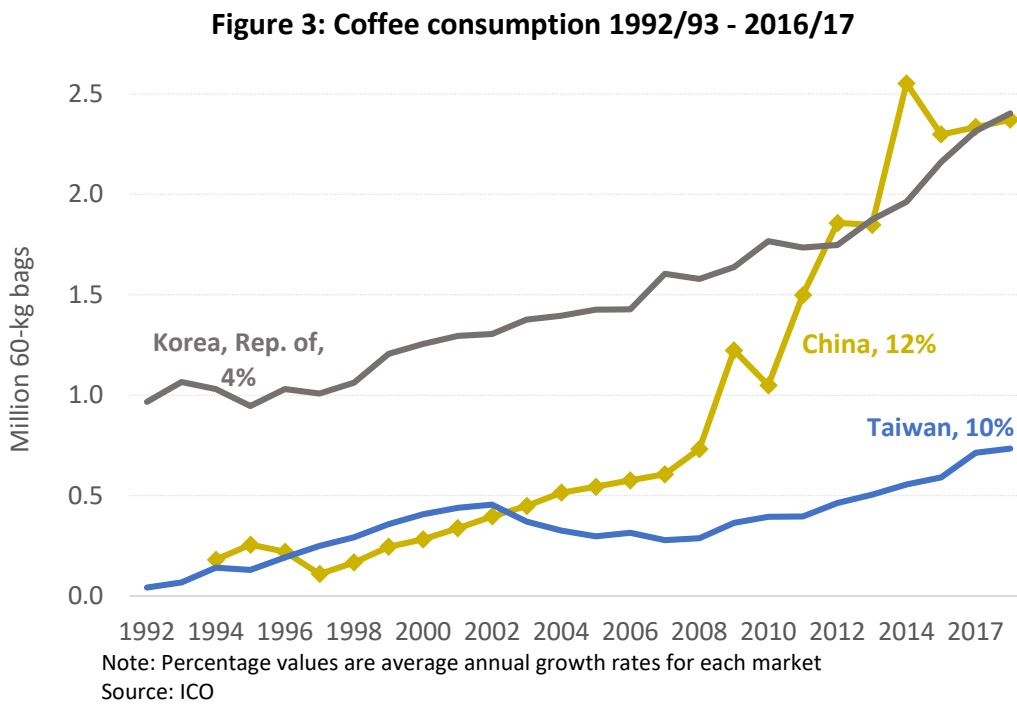
Note: Percentage values are average annual growth rates for each market

Source: ICO

8. Among these four Member countries, the highest growth was recorded in Vietnam where coffee consumption is now seven times greater than in the early nineties. This remarkable growth of coffee consumption in Vietnam of 10% annually on average, recently led this market to surpass coffee consumption in India (Figure 2), with a population, over the age of 15, that is just 8% of the Indian population of the same age. In the region, Indonesia is the market with the highest coffee consumption, estimated at 4.7 million bags in crop year 2016/17.

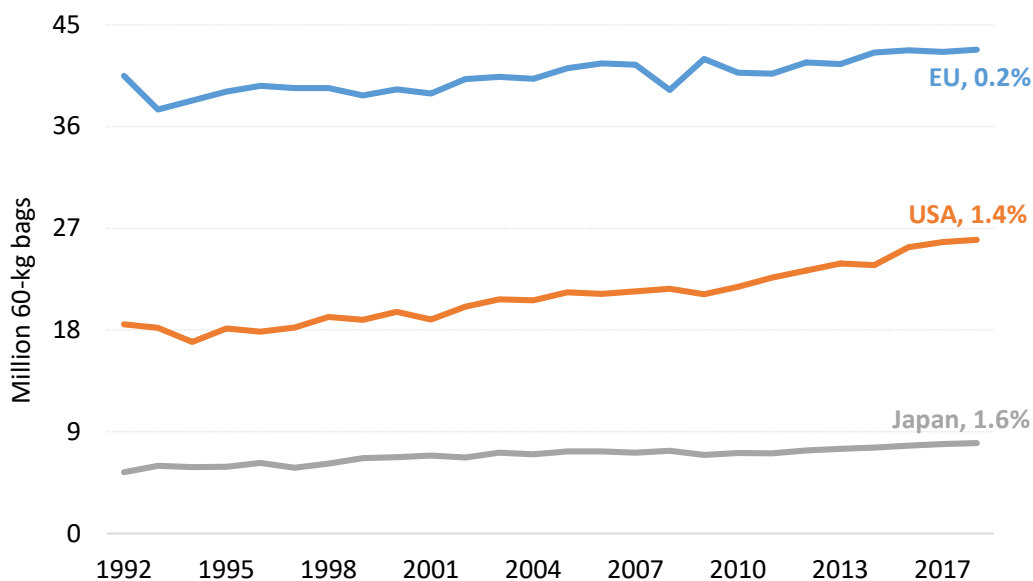
9. Figure 3 shows the evolution of coffee consumption in China, the Republic of Korea and Taiwan. In the 25 years between 1992 and 2017, coffee consumption rose more than fourfold in these markets, with an average annual growth of 6%.

10. The highest growth in coffee consumption from the early nineties was in China followed by Taiwan, with average annual growth rates of 12% and 10%, respectively (Figure 3), while total consumption doubled in the Republic of Korea during the same period.



11. For comparison, coffee consumption in traditional markets in the region (Japan) and in the rest of the world (European Union and USA) increased 19% on average between 1992 and 2017, with an annual average growth rate of 1% (Figure 4).

Figure 4: Coffee consumption in traditional markets 1992/93 - 2016/17



Note: Percentage values are average annual growth rates for each market
Source: ICO

II. IMPORTS

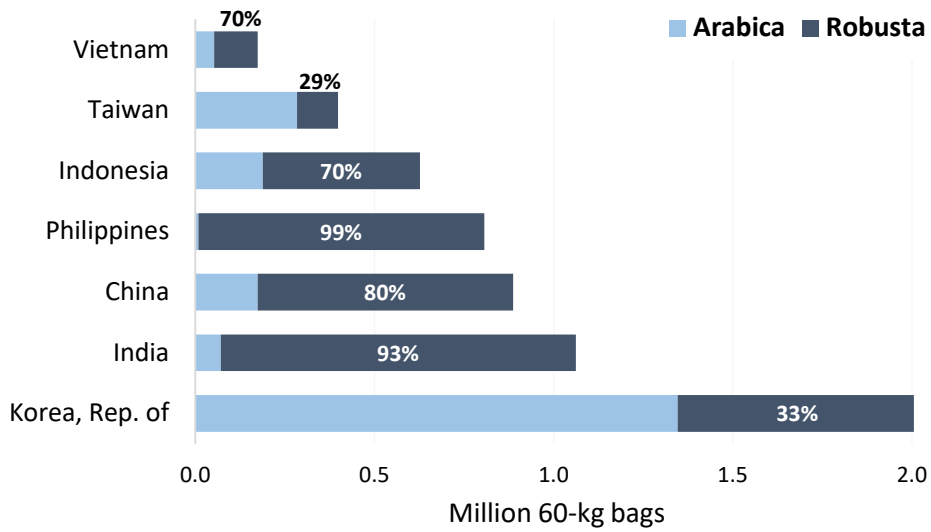
12. This section examines coffee importing trends in the region. Vietnam, India and Indonesia are important coffee-producing and exporting countries, however, these markets also do import coffee to meet consumer demand for Arabica coffee (in case of Robusta-producing countries), for specific origins and for the needs of their industrial sector for roasted and soluble coffee processing.

13. The Republic of Korea, Taiwan, China, and the Philippines are mainly importers, or net-importers of coffee. Therefore, the examination of import trends by type and form of coffee is relevant to understand domestic consumption.

A. Imports by type of coffee

14. Figure 5 shows the average volume of coffee imports between 2012 and 2016 for each market in the region. On average, 64% of the coffee imported to South and East Asia was Robusta. Most markets import a high proportion of Robusta coffee, above 70%, except the Republic of Korea and Taiwan where more than two thirds of the coffee imported is Arabica. This is consistent with the preference of these markets for fresh coffee consumption as described in the market segment analysis below. Robusta is the main type of coffee used in soluble form, while Arabica is preferred for fresh coffee consumption. Therefore, Robusta coffee is also imported to be processed locally and re-exported in soluble form.

Figure 5: Coffee imports by type, average volume 2012-2016

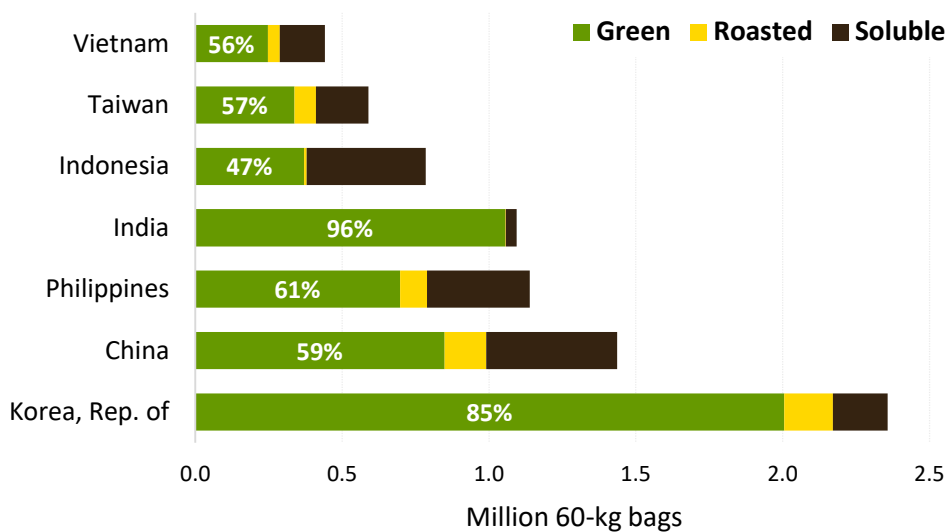


Source: ICO

B. Imports by form of coffee

15. Turning to coffee imports by form, i.e. green, roasted and soluble, on average, 70% of the coffee imported in the region is in green form (Figure 6), indicating that coffee is mainly processed internally. The only market where green coffee represents less than half of imports is Indonesia. Imports of processed coffee, mainly soluble, make up 53% of total coffee imports.

Figure 6: Coffee imports by form of coffee, average volume 2012-2016



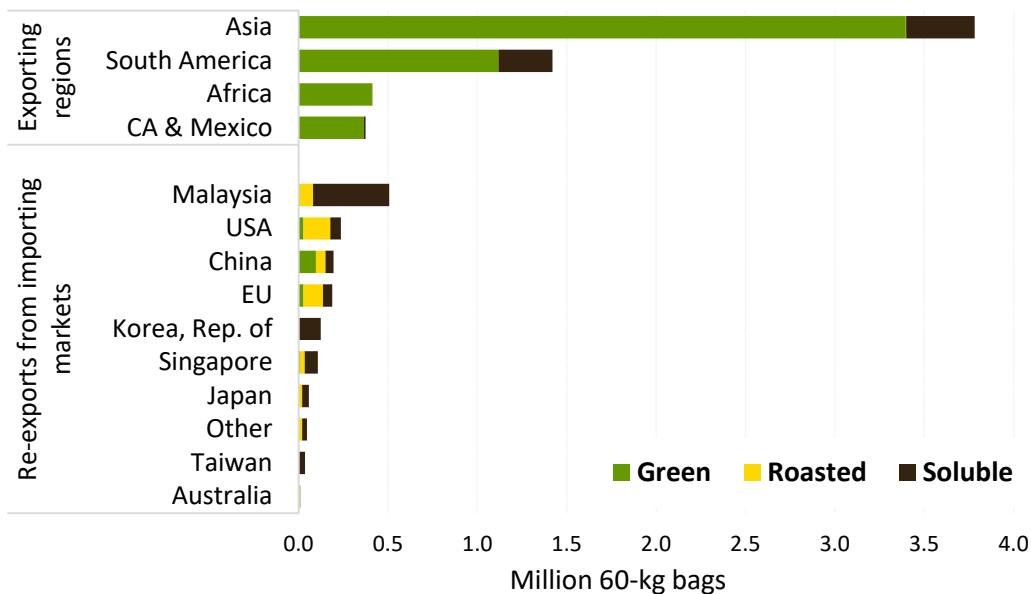
Source: ICO

16. Generally, a higher share of green coffee imports may be the result of tariff escalation, i.e. higher tariffs on processed coffee (Figure A1 in the Annex). This is the case for all markets except India, where tariffs for green coffee exceed those of processed coffee. This can be explained by an industrial model that concentrates on importing Robusta coffee for processing and re-export. Hence, tariffs are an important determinant of trade flows that affect the scope of value addition in exporting countries.

17. Turning to the origin of coffee imports (Figure 7), most of the green coffee comes from Asia itself and South America, regions that also supply a third of the processed (roasted and soluble) coffee imported by South and East Asia markets. The total inter-trade in the region amounts to 4 million 60-kg bags (Figure A2). Figure A3 shows the inter-trade by form of coffee.

18. The remaining 66% of processed coffee imports originate in markets where green coffee is initially imported from coffee-growing regions and then processed domestically (re-exports). In this case, soluble coffee is mainly imported from the Republic of Korea and Malaysia, probably through transshipment operations, while roasted coffee is mainly imported from the EU and USA.

Figure 7. Coffee imports by form of coffee and origin, average volume 2012-2016



CA: Central America
Source: ICO

III. COFFEE CONSUMPTION BY MARKET SEGMENT

19. This section analyses coffee consumption by market segment, fresh coffee and soluble coffee using share estimates from Euromonitor International³ and the ICO.

A. Fresh Coffee

20. The market with the highest consumption of fresh coffee in the region in 2017 is Indonesia, followed by Vietnam and the Republic of Korea (Figure 8).

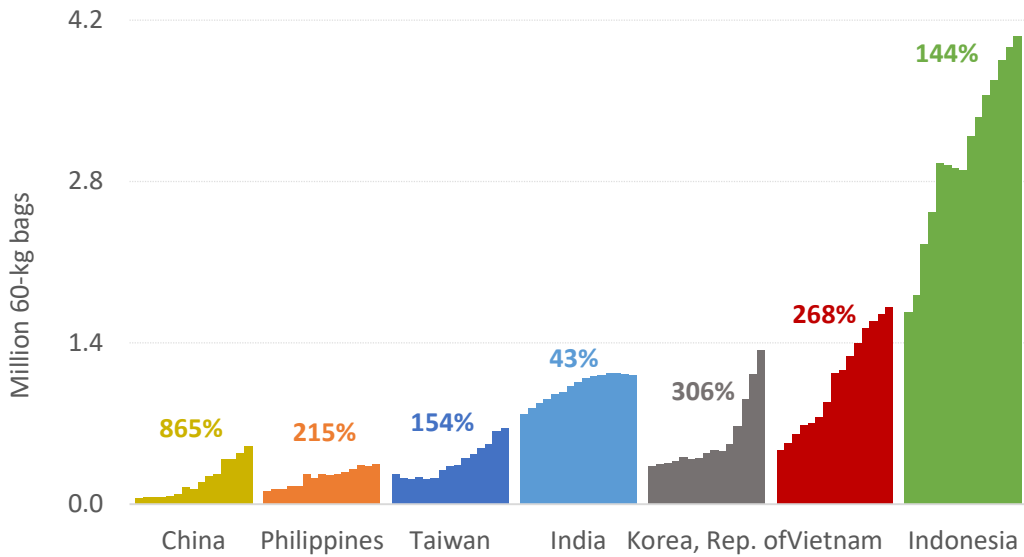
21. Figure 8 shows the evolution of fresh coffee consumption in each market from 2003 to 2017. Each step in the bar represents annual consumption in a given year. During this 15-year period, the consumption of fresh coffee has increased in all markets at an average annual rate of 7%, ranging from 3% in India to 18% in China. Indonesia, Vietnam and India maintained a consistent growth in fresh coffee consumption, while it has been growing exponentially in the Republic of Korea since 2013. The highest total increase in 15 years has been recorded in China (865%) and the Republic of Korea (306%), followed by Vietnam (268%) and the Philippines (215%).

22. In per capita terms⁴, Taiwan is the leader in fresh coffee consumption followed by the Republic of Korea, Vietnam and Indonesia (Figure 9). Consumption per capita has been increasing in all markets, with recent large jumps in Taiwan and the Republic of Korea. Overall, per capita consumption of fresh coffee has increased at an average annual rate of 7% in the region, with China showing a strong average annual growth of 17%, followed by the Republic of Korea (9%) and Vietnam (8%).

³ Data from Euromonitor International is estimated in tons of coffee consumed from 2003 to 2017. The data was converted into 60-kg bags of green bean equivalent (GBE) using ICO conversion factors, as defined in the Annex of the International Coffee Agreement 2007 and revised in document [ED-2123/11](#), and segment shares calculated.

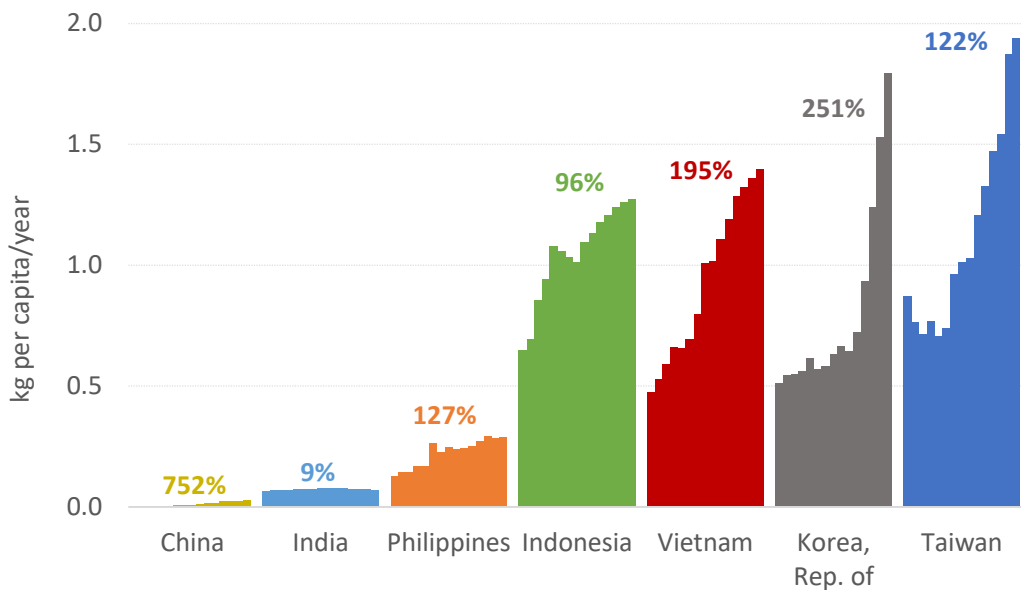
⁴ Per capita consumption is calculated using total population above 15 years old. Population data was obtained from the World Development Indicators of the World Bank, available at: <https://data.worldbank.org/indicator/SP.POP.1564.TO>

Figure 8: Fresh coffee consumption 2003-2017



Source: ICO and Euromonitor International - Hot Drinks, 2018 edition. ICO calculations

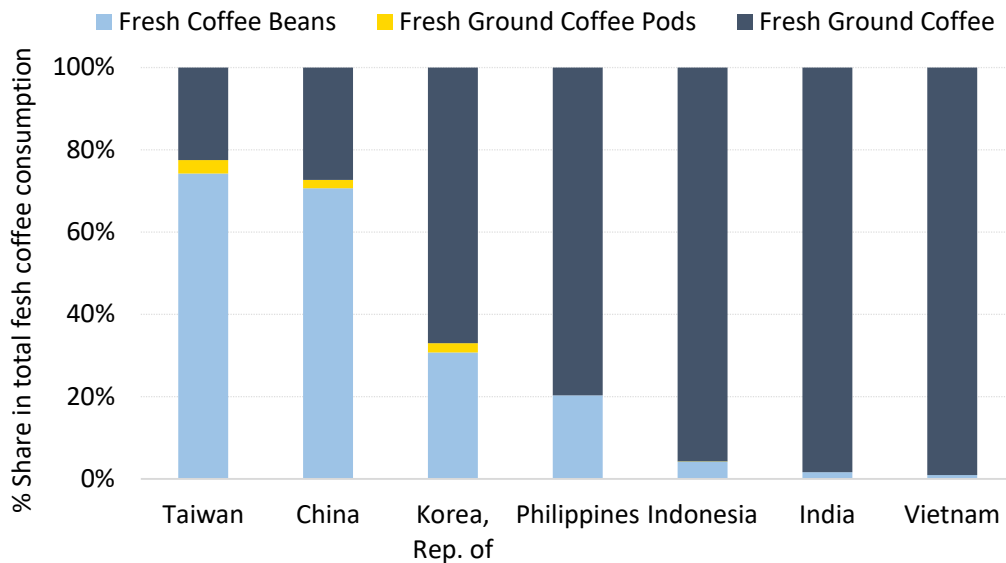
Figure 9: Fresh coffee consumption per capita (population aged 15 and above)



Source: ICO and Euromonitor International - Hot Drinks, 2018 edition. ICO calculations

23. Fresh coffee can be consumed as fresh coffee beans, fresh ground coffee or fresh ground coffee pods. In Taiwan and China, fresh coffee is mainly consumed as fresh coffee beans, while in the other five markets fresh ground coffee is preferred (Figure 10). Fresh ground coffee pods are showing a growing trend in China, the Republic of Korea and Taiwan, but this form of consumption is still low, representing only 2.5% of total fresh coffee consumption, on average, in those three markets.

Figure 10: Fresh coffee consumption by sub-segments 2017, % share



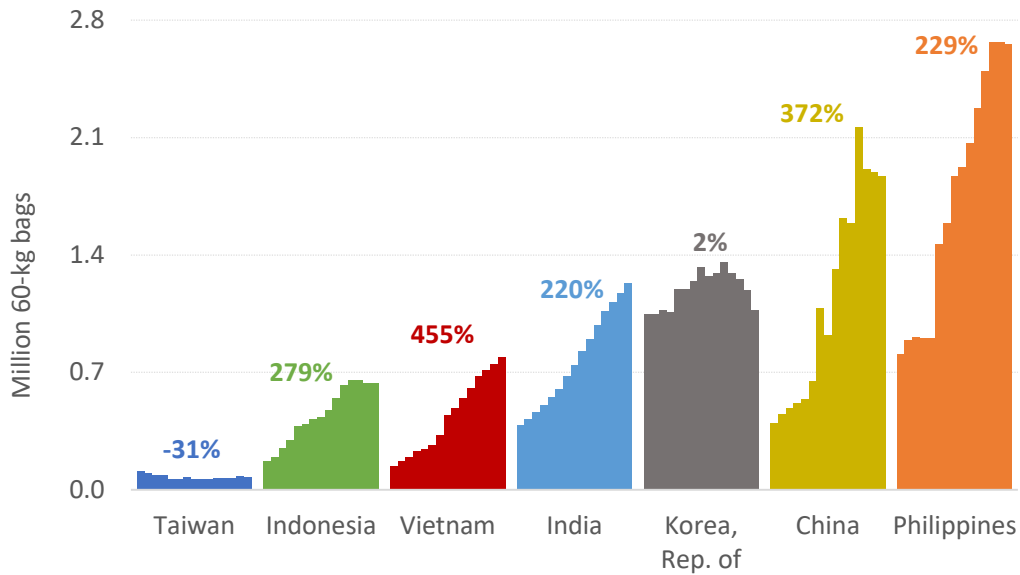
Source: ICO and Euromonitor International - Hot Drinks, 2018 edition. ICO calculations

B. Soluble Coffee

24. Current consumption of soluble or instant coffee is highest in the Philippines, followed by China, the Republic of Korea and India (Figure 11). Consumption of soluble coffee in the region has increased at high annual rates in Vietnam (13%), China (12%), Indonesia (10%), the Philippines (9%) and India (9%) in the last 15 years. However, this trend has reversed in the Republic of Korea, China, and Taiwan, markets that are showing a recent preference for higher value fresh coffee consumption compared to soluble coffee.

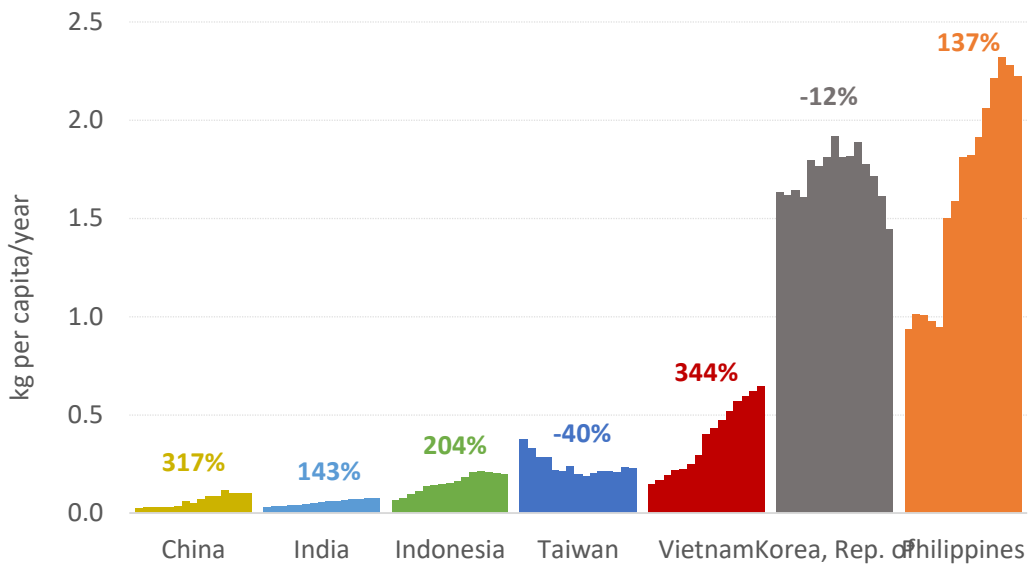
25. In per capita terms, Philippines and the Republic of Korea are also leaders in soluble coffee consumption, followed by Vietnam (Figure 12). Per capita consumption trends also show a decline in the demand for soluble coffee in Taiwan and the Republic of Korea. A steady increase can be observed in Vietnam, Indonesia, India, the Philippines and China, but growth rates seem to have slowed down in recent years. This could be an indication that, as a consequence of rising income levels, long-term consumer preferences are shifting towards fresh coffee. The peak of soluble consumption seems to have been reached in the Republic of Korea and Taiwan, with Indonesia and the Philippines following.

Figure 11: Soluble coffee consumption 2003-2017



Source: ICO and Euromonitor International - Hot Drinks, 2018 edition. ICO calculations

Figure 12: Soluble coffee consumption per capita (population aged 15 and above)



Source: ICO and Euromonitor International - Hot Drinks, 2018 edition. ICO calculations

C. Market segment comparison

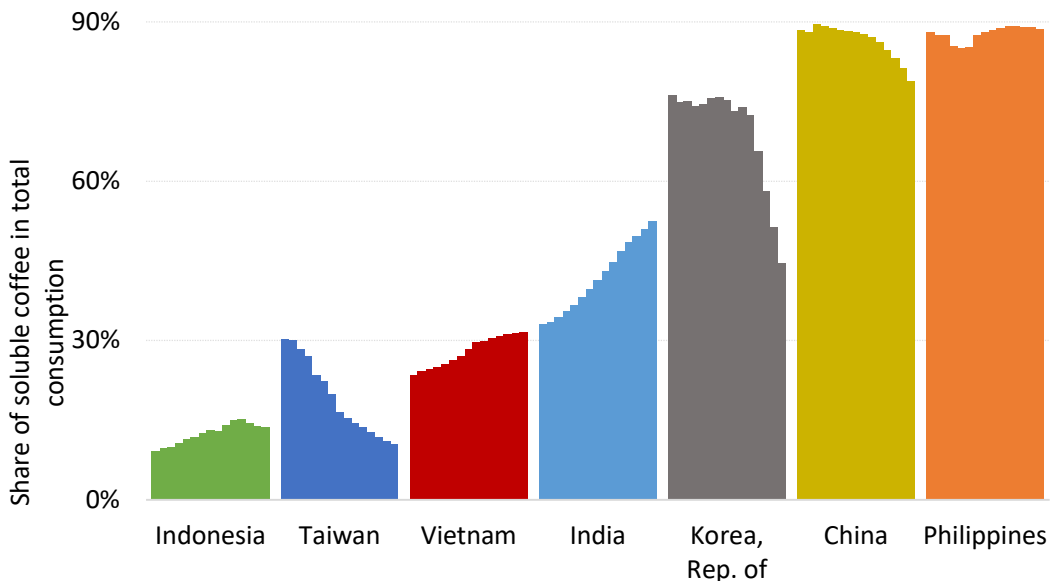
26. Figure 13 shows the share of soluble coffee in total coffee consumption for each market in South and East Asia. In 2017, 44% of the coffee consumed in the region, on average, was in soluble form.

27. The above market analysis by segment shows that two of the main coffee consumers in the region, Indonesia and the Philippines, have very different consumption patterns. In Indonesia, fresh coffee is consumed in larger proportions (86%) than soluble, while in the Philippines soluble coffee represents 89% of total coffee consumption.

28. Consumer preferences have been changing, favouring the consumption of fresh coffee over soluble coffee in some markets. This is the case in China, Taiwan and the Republic of Korea, markets where the share of soluble coffee has declined rapidly by 10, 20 and 32 percentage points, respectively, in the last 15 years. In particular, China is a fast growing market where consumption of fresh coffee is growing at a higher rate than soluble coffee and above all other markets.

29. In contrast, soluble coffee is still gaining market share in Vietnam and India, and maintaining a stable share in the Philippines and Indonesia. Vietnam is leading the growth of soluble coffee in the region, although it is also showing a strong dynamic in fresh coffee. In India, coffee consumption is growing at a steady pace, driven mainly by soluble coffee.

Figure 13: Share of soluble coffee in total consumption 2003-2017



Source: ICO and Euromonitor International - Hot Drinks, 2018 edition. ICO calculations

30. In per capita terms, Taiwan has the highest consumption of fresh coffee, while the Philippines ranks first in consumer demand for soluble coffee. Across the two segments, the Republic of Korea shows the strongest demand for coffee in the region with 3.2kg per person in 2017.

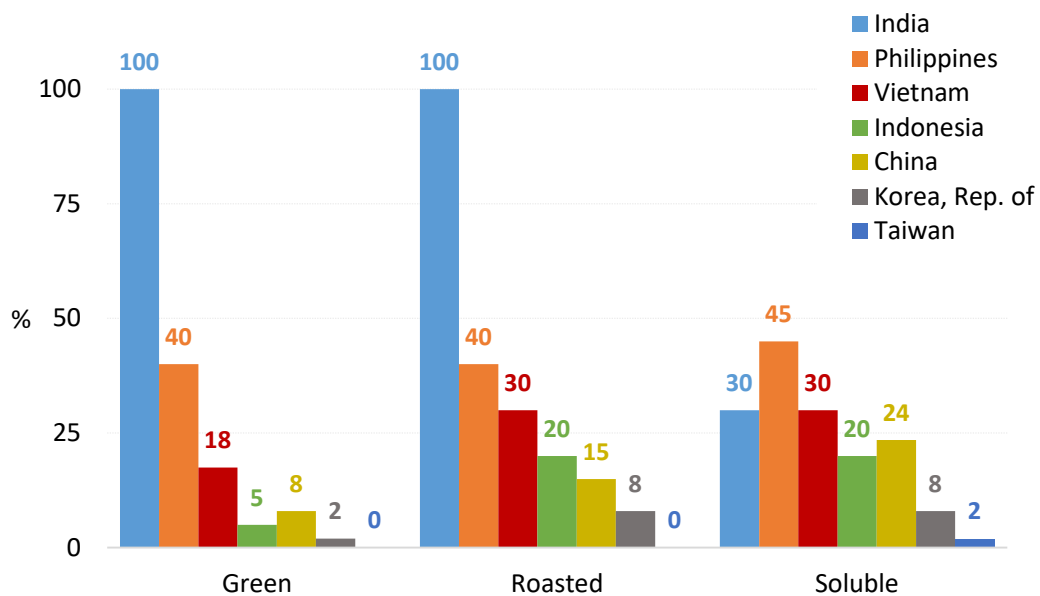
IV. CONCLUSIONS AND OUTLOOK

31. This study analyses consumption trends in seven emerging coffee markets of South and East Asia: China, India, Indonesia, Philippines, Republic of Korea, Taiwan and Vietnam. In total 16.8 million bags of coffee were consumed in these seven markets in crop year 2016/17.

32. The main findings are:

- (a) Coffee consumption in emerging markets in South and East Asia has been growing at a faster average annual rate of 6% compared to the rest of the world, where growth in coffee consumption slowed to 1% in the aftermath of the global financial crisis of 2007-2008. As a result of the faster growth, the region increased its share in global coffee consumption to 12%.
- (b) Indonesia is the biggest coffee consumer in the region with 4.7 million bags, while the Republic of Korea is the main coffee consumer per capita with 3.2kg per person in crop year 2016/17.
- (c) The majority of the coffee imported in the region is Robusta, although imports of Arabica coffee are larger in markets with a preference for fresh coffee consumption.
- (d) Two million bags of processed coffee are imported in the region, with a third of those imports originating in coffee-producing regions mainly located in Asia and South America. The inter-regional trade showed that imports from Asia mainly originate in Vietnam, Indonesia and India. Roasted coffee is mainly imported from traditional markets such as the USA and the EU.
- (e) Consumer preferences have been changing, favouring the consumption of fresh coffee in some markets where soluble has been traditionally consumed. Soluble consumption seems to have peaked in the Republic of Korea and Taiwan, with Indonesia and the Philippines following, and can be expected to decline further as fresh coffee increasingly gains ground.
- (f) Vietnam is leading the growth of soluble coffee in the region, although it is also showing a strong dynamic in fresh coffee consumption. In India, coffee consumption is growing at a steady pace driven mainly by soluble coffee.

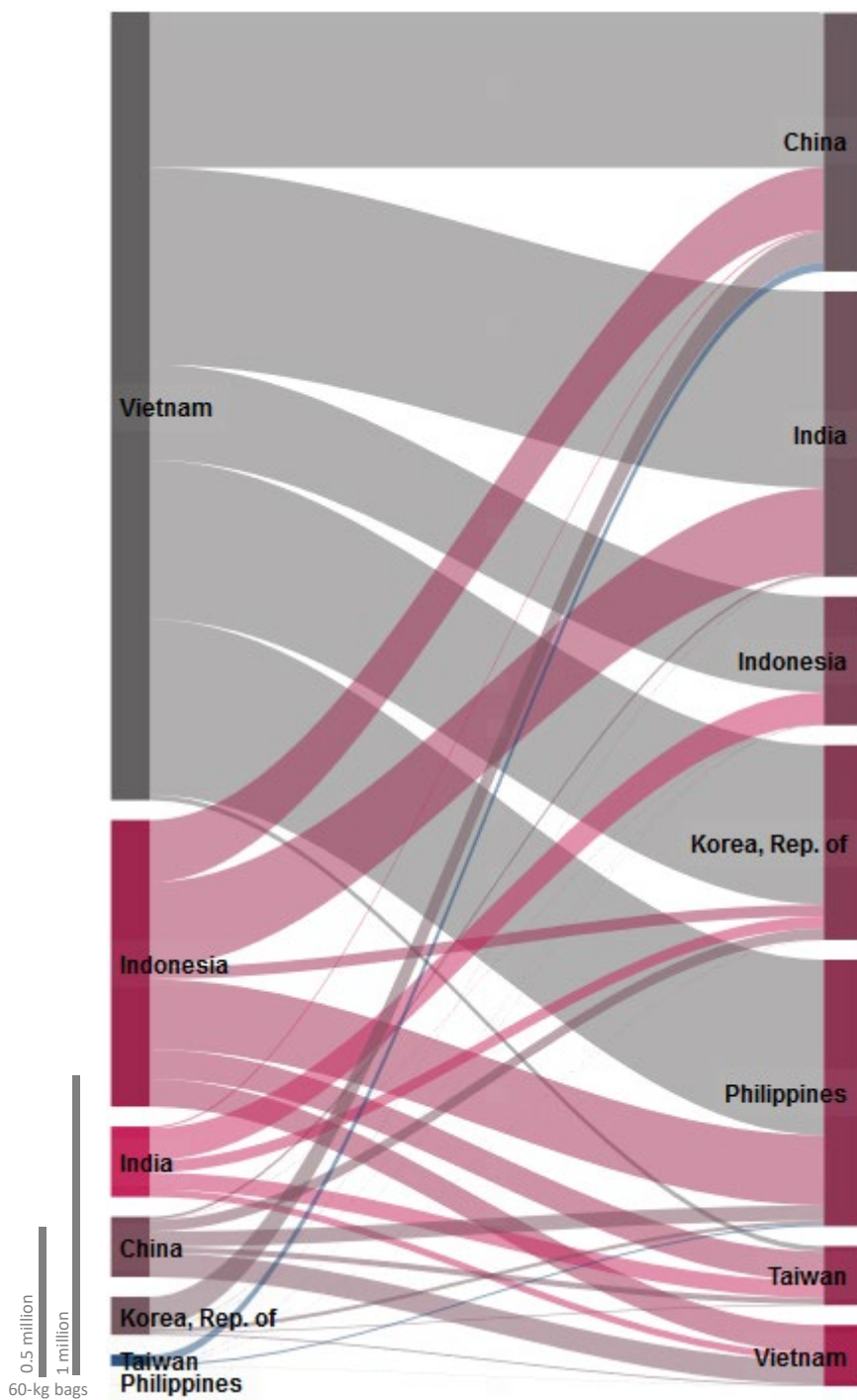
Figure A1. MFN tariff level for coffee, 2017



Note: Indonesian data is for 2016

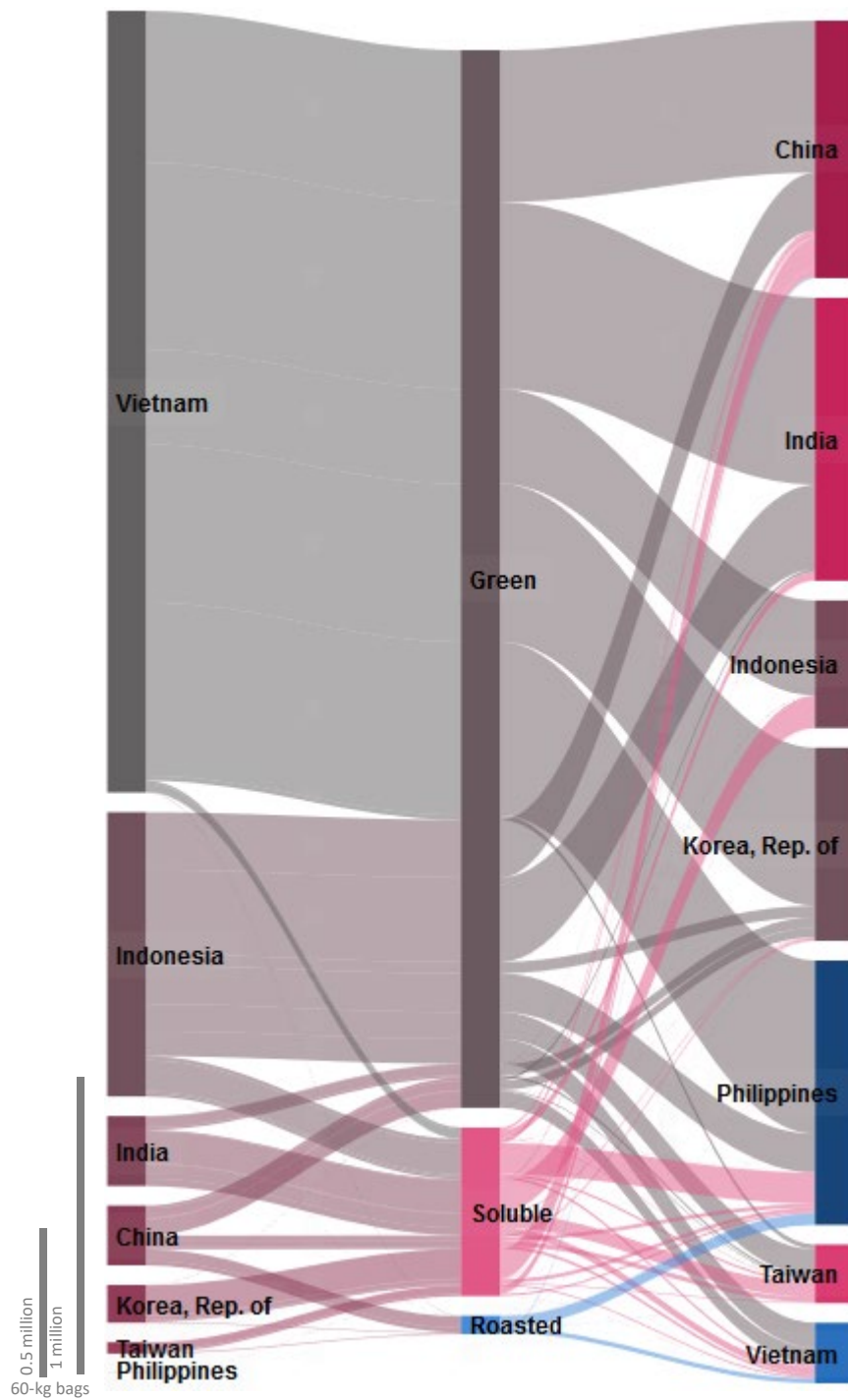
Source: WTO - Tariff Download Facility, <http://tariffdata.wto.org>

Figure A2. Inter-trade South and East Asia 2012-2016



Source: ICO

Figure A3. Inter-trade South and East Asia by form of coffee 2012-2016



Source: ICO