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India

Coffee Annual

Marketing year 2019/20 coffee crop estimated at 5.5 million 60-kilogram bags

Approved By:
Jeanne Bailey

Prepared By:
Dhruv Sood

Report Highlights:
FAS Mumbai estimates the marketing year (MY) 2019/20 coffee crop (Oct/Sep) at 5.5 million 60-kilogram bags. Moderate pre-blossom showers and adequate soil moisture levels coupled with prospects of a near normal monsoon will likely improve plant yields in the major coffee growing state of Karnataka. Exports are estimated higher at 5.6 million 60-kilogram bags due to higher expected production.

Commodities:
Coffee, Green

Production:
FAS Mumbai estimates the marketing year (MY) 2019/20 coffee crop (Oct/Sep) at 5.5 million 60-kilogram bags (328,800 metric tons or MT). Post estimates Arabica production at 1.5 million 60-kilogram bags (89,000 MT) and Robusta production at 4.0 million 60- kilogram bags (239,800 MT). While the expected increase in Robusta production is based on improvement in yields due to the availability of adequate moisture and good backing showers, the reduction in Arabica production is due to persisting concerns regarding the emergence of white stem borer, which affects yields. Almost 70 percent of Arabica production is in the state of Karnataka. Post estimates MY 2019/20 yields for Arabica at 448 kilograms, per hectare, and, for Robusta at 1,064 kilograms per hectare.

Robusta is the more popular variety and accounts for over 70 percent of India's coffee crop. The Arabica crop is entering the 'on-year' of the biennial production cycle and is expected to bear higher fruit than last year. The Robusta crop is expected to produce more fruit (seven percent higher) than last year owing to good rainfall and irrigation water availability. While the Arabica harvest takes place from November to January, the Robusta harvest is December to February.

February and March rains are crucial for determining the crop yield. According to the Indian Meteorological Department (IMD), the coffee growing regions in south interior Karnataka received moderate to excessive rains between January and February, which provided adequate moisture, despite deficit pre-monsoon rains (blossom showers) in March and April. Once the blossom showers are over, the flowering is complete. However, for the fruit set, backing showers are necessary which planters typically give after twenty-one days from the first shower. If this shower is delayed, then the fruit setting drops significantly. After the first post blossom shower, the bush requires a continuous flow of moisture until the onset of monsoon. IMD estimates light to moderate rainfall (between 2.5 mm to 15.5 mm) during the next five days (May 11-15, 2019) which should support the fruit set. The well-distributed rains will provide irrigation and moisture for the Robusta plants.

Uncertainty looms around MY 2018/19 production estimate
Post estimates MY 2018/19 production at 5.2 million 60-kilogram bags (310, 200 MT). The Board has estimated the production at 5.3 million 60-kilogram bags (319,500 MT) in its post monsoon estimate published in December 2018. Industry estimates the crop to be around 6-10 percent lower than the Board estimates. The Board will publish the MY 2018/19 final estimates late May/ early June.

Peak market arrivals of the new crop are in January and February, and extend to March during some seasons. The flow of arrivals has been slow, leading to estimates of a much lower crop. The impact of heavy rains and flooding negatively affected the production as there were higher droppings and the bean quality was also affected. However, trade sources cite the supply side shortage of higher grades is driving green bean prices higher, leading to stocks being held by the planters and traders in anticipation of higher prices. Planters have to sell their crop before June as the high moisture during storage leads to color fading and may also alter the taste profile of the beans leading to higher number of off-grade beans.

Planters have diversified their coffee holdings by growing multiple crops under shade. Black pepper is a popular intercrop in Arabica plantations which supports additional revenue of the estate when coffee prices fall. Planters indicate that prices of black pepper and areca nut that contribute towards the gross income of commercial coffee estates have also remained low, making any additional investments in maintaining the estates difficult.

Table 1. India: Coffee Planted Area in Major States (in hectares)

State	2015/16			2016/17			2017/18*		
	Arabica	Robusta	**Total**	Arabica	Robusta	**Total**	Arabica	Robusta	**Total**
Karnataka	111,225	124,213	**235,438**	108,845	135.94	**108,981**	108,795	135,990	**244,785**
Kerala	4,217	81,284	**85,501**	4,228	81,642	**85,870**	4,231	81,649	**85,880**
Tamil Nadu	29,062	5,870	**34,932**	29,513	6.094	**29,519**	29,513	6,094	**35,607**
Andhra Pradesh	67089	267	**67,356**	71088	267	**71,355**	75,892	264	**76,156**
Odisha	4191	0	**4,191**	4239	0	**4,239**	4,282	-	**4,282**
North Eastern Region	5,595	1,423	**7,018**	5,903	1.598	**5,905**	6,198	1,815	**8,013**
Total	221,379	213,057	**434,436**	223,816	225,541	**449,357**	228,911	225,812	**454,723**

***Provisional**
Source: Ministry of Commerce and Industry, January 2019

Table 2. India: Estimated Number of Persons (permanent and casual labor) Engaged in Coffee Cultivation

Karnataka	514,695
Kerala	44,194
Tamil Nadu	31,274
Non-Traditional Area (Odisha and Andhra Pradesh)	69,703
Total	**659,866**

Source: Ministry of Commerce and Industry, January 2019

Crop Area

FAS Mumbai estimates marketing year (MY) 2019/20 planted area to remain the same at 450,000 hectares with the bearing area to increase to around 424,000 hectares. The Coffee Board of India (The Board) has not published the planted area for MY 2018/19, but the planted area in MY 2017/18 was 454,723 hectares, and the bearing area was 413,020 hectares. The area harvested, and plant inventory estimates are higher compared to last year as older trees were replaced with newer trees that have since started bearing fruit. The southern states of Karnataka, Kerala, and Tamil Nadu account for 81 percent of planted area (refer table 1). The non-traditional lower-yielding areas of Andhra Pradesh, Orissa, and Northeastern India have seen a marginal increase in area, but planted area in these states remains limited. With coffee estates in close proximity to protected forest reserves, there is limited opportunity for further area expansion. Growers are gradually shifting towards replanting to replace their aging

plantations at an annual rate of 1-2 percent per year, which leaves a difference of approximately 40,000 ha between harvested and planted area. Generally, the first fruit is expected after the third year.

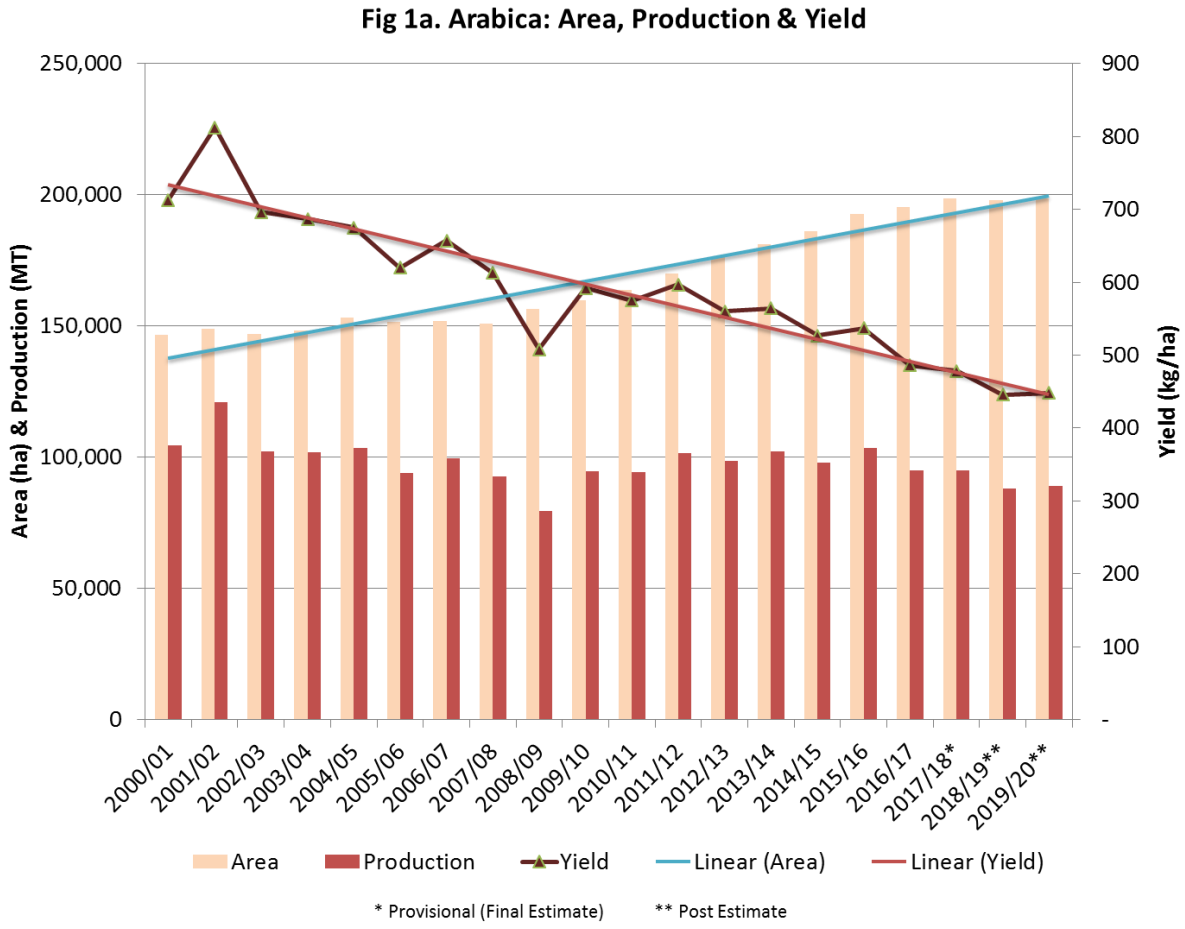
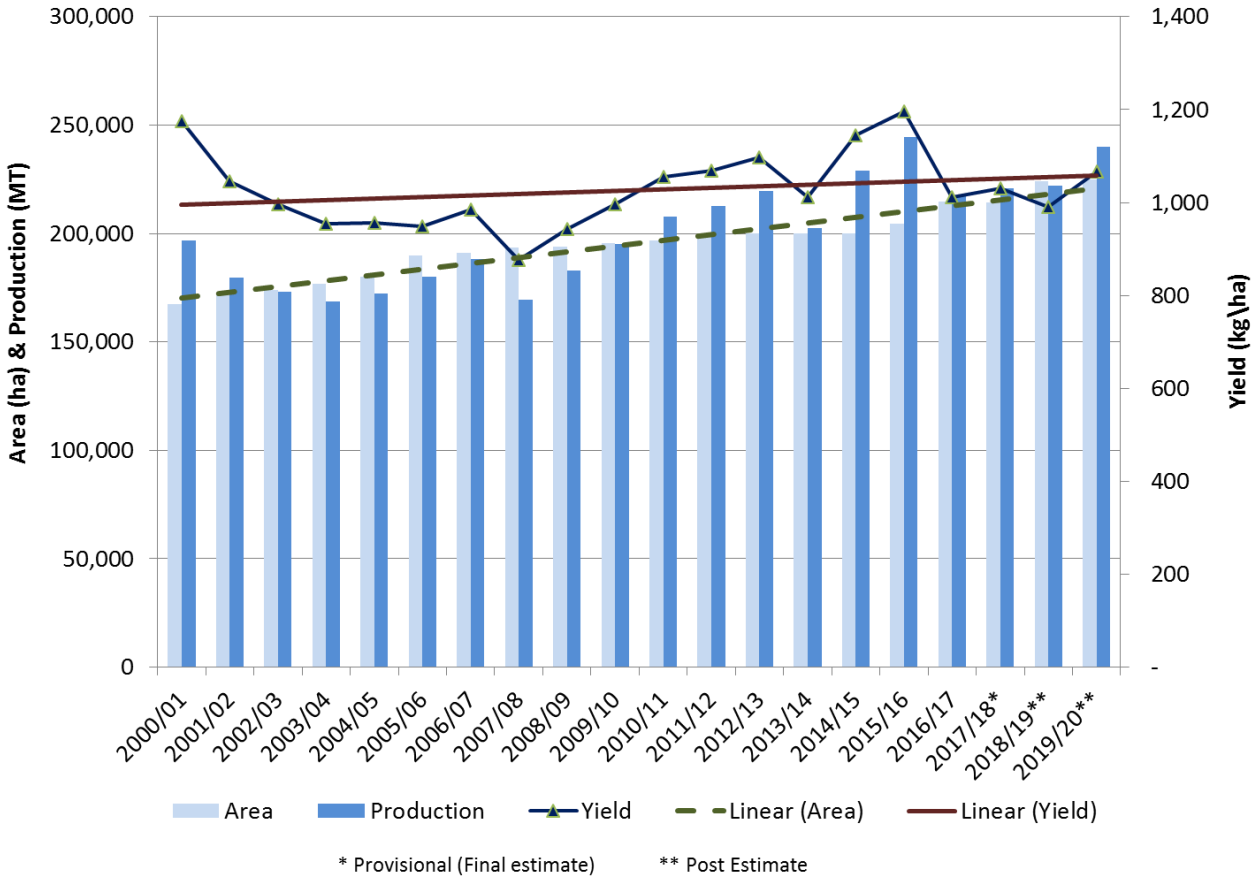


Fig 1b. Robusta: Area, Production and Yield



Inputs

Recent increases in farm input costs, along with the elimination of fertilizer and diesel subsidies have increased production costs for growers. The coffee sector provides direct employment in plantations to 660,000 workers and indirect employment to 1.3 million workers in the coffee processing, value chain, and other allied activities. With increasing off-farm employment opportunities, coffee planters have started experiencing shortages of skilled labor. Labor costs, which account for more than 50 percent of the cost of cultivation, continue to escalate. According to the Board's statistics, the general daily wage rate in the state of Karnataka increased by 13 percent from Rs. 277 (US$3.95) to Rs. 314 (US$ 4.48), per day, during 2018.

India Coffee Types Dominated by Robusta

The Arabica plants are self-pollinating and are typically grown at higher elevation under rain-fed conditions. The plants are grown under shade to prevent variation in soil temperature and moisture levels, as well as for protecting the plants in case of heavy rainfall. In India, there is a two-tier shade for Arabica crop. The higher canopy shade (30-40 feet) is mostly evergreen trees such as Indian rosewood/jackfruit, while Dadap/Silver oak are used for the lower canopy shade (15-20 feet). The leaf litter from these trees acts as soil cover and prevents the direct impact of rain water and soil erosion. The planting space in Arabica crop is 6 feet by 6 feet with an average of 3,000 plants, per hectare. The

Robusta crop planting space is 10 feet by 10 feet, with about 460 plants per hectare. As Arabica is a deep-rooted plant, it is able to sustain itself during drought conditions, while Robusta, with its shallow roots, requires irrigation during the season. There has been a shift from Arabica to Robusta plantations due to the susceptibility of the Arabica crop to the white stem borer pest and leaf rust. With the changes in the distribution pattern of the rains in the last decade, the elevation at which Arabica is grown is pushing the cultivation to much higher altitudes. More than 60 percent of the labor working at the estates is contracted during the harvesting season.

Table 3. India: Coffee Types

Processing Method	Coffee Varieties Cultivated in India	
	Arabica	**Robusta**
Washed (wet processed)	Parchment/Plantation Coffee	Parchment
Unwashed (natural/dry processed)	Cherry	Cherry

Consumption:
The MY 2018/19 consumption estimate is 1.27 million 60-kilogram bags (76,200 MT). Industry estimates that coffee consumption remained between 1.16 million 60- kilogram bags and 1.25 million 60-kilogram bags (70,000–75,000 MT). The Board has not published any consumption data since 2011. FAS Mumbai's consumption estimates are based on industry analysis and discussions with industry stakeholders. One reason for the large variation in industry consumption estimates is the widespread use of chicory in the domestic market. Many popular instant coffees contain anywhere from 20 to 49 percent chicory.

The Food Safety and Standards Authority of India's draft notification published last year to regulate the chicory content in coffee-chicory mixtures and consequently increase the coffee content in soluble/instant coffee sector, is not yet finalized. Once the notification is finalized, the domestic soluble industry (organized and unorganized) will need to ensure that coffee-chicory mixtures contain at least 70 percent coffee. Trade sources indicate the notification is a positive step to increasing domestic coffee consumption, but remain skeptical whether the available methodology to test the percentage of chicory content in the mixtures exists or will be used.

Trade sources cite that instant/soluble manufactures are altering the percentage of coffee in blends to match consumer tastes and preferences around the country, and to maintain commercial and financial competitiveness. Trade sources further indicate that while the ratio of roast and ground coffee consumption has traditionally been higher, the share of instant/soluble coffee has increased in recent years, especially in northern India, and will continue to remain high in MY 2019/20. The growth in domestic coffee consumption is not discernable as the sources and channels are highly fragmented, where brands compete across various formats such as e-commerce, traditional and organized retail, and foodservice sectors.

The bulk of India's coffee production is exported, and the domestic industry focuses much of its marketing effort on export promotion. There are signs that the popularity of coffee is increasing with the spread of both foreign and home-grown coffee shops and restaurant chains. However, exports continue to siphon large amounts of coffee away from the domestic market and consumption estimates are largely unchanged. The instant/soluble coffee segment is almost entirely branded and packaged, and is dominated by a few multinationals, accounting for almost 90 percent of the total soluble coffee market.

Premium Coffee Culture Expanding
Hundreds of western-influenced coffee shops have emerged across India's major and smaller "second tier" cities over the past decade. Coffee now competes against the once dominant tea in these cafes, especially among younger consumers. Aside from large coffee shop chains, artisanal coffee brands are emerging in metro cities, but these remain a niche category as coffee sold at these cafes are priced at a premium. Evolution of coffee as a beverage (cold brew, sparkling coffee, nitro coffee etc.) can be found at these specialist cafes offering new variants aside from the traditional versions. Consumers are increasingly shifting away from beverages with high sugar content and coffee is a much 'healthier' option. Five-star hotels are increasingly replacing instant coffee packs with single serve pods and/or placing coffee brewing machines in rooms, which is changing the way coffee is being consumed.

A growing willingness to consume food and drink outside the home and increasing disposable income has helped fuel coffee consumption growth in recent years. Many firms have targeted young professionals especially women, but the pace of expansion appears to have slowed in recent years.

Trade:
FAS Mumbai estimates MY 2019/20 exports at 5.6 million 60-kilogram bags because of expected higher production. Exports are projected higher than last year as exporters have found it difficult to serve their regular international buyers, due to limited availability of higher grades. So, exporters are either amending contracts as they need to discount the prices based on the quality (lower bean size), or are postponing shipments which may reflect in the MY 2019/20 crop year (October to September).

The domestic demand from roasters also remains uncovered. The uncertainty about availability of higher grades has made Indian coffee less competitive in the global market, currently facing downward pressure on prices due to excess global supplies. The Indian currency has appreciated by five percent since October 2018, further reducing support for exports. The uncertainty around the currency and the volatility in prices have prompted lower exports in MY 2018/19. Italy, Germany, and Belgium remain the top export markets for coffee beans, while Russia is a top export market for instant, soluble coffee. Trade sources indicate that if availability of Robusta variety remains a persisting issue, buyers will quickly switch to the nearest replacement origins, mostly from Uganda and Vietnam based on quality.

Shipments start from January onwards for Arabica, while Robusta shipments begin from February/March onwards. Shipments start to ease off before June when monsoon begins as the high moisture during storage leads to deterioration in quality. Most of the shipment delivery terms are quoted on an FOB basis.

According to the Board's export data, the permits issued for coffee exports by volume for (October – May) in MY 2018/19 were lower by nine percent compared to the previous year, but the unit value, per ton, has risen by six percent during the same period. Post estimates that MY 2018/19 exports will be lower than MY 2017/18 export volumes due to lower production and non-availability of higher grades.

FAS Mumbai estimates MY 2019/20 imports at 1.3 million 60-kilogram bags. Imports of green coffee are expected to be marginally lower due to the availability of a larger domestic crop. Most of the imported coffee is processed for re-export due to duty exemptions and lower overall prices. In MY 2018/19, imports of green coffee to India were dominated by Vietnam, Uganda, and Kenya.

Stocks:
There are no government-held stocks. The stocks are privately held by either the planters or the traders. Trade sources indicate that stocks of MY 2018/19 crop are being held by planters in anticipation of higher prices. Arabica Parchment and Robusta Cherry prices have remained firm since December 2018, onwards, which is the peak market arrival period.

Policy:
The Central Government approved the continuation of the XII plan scheme "Integrated Coffee Development Project" for a further period of three years during the Medium Term Framework Period (2017-18 to 2019-20) with an outlay of Rs.647.46 crore (US$ 93 million). Some of the key components of the scheme include:

Support for coffee development in traditional and non-traditional areas
To improve the production and productivity of coffee plantations by encouraging replantation of old and unproductive plantations with high yielding, disease-tolerant coffee varieties. The Board is providing subsidies for replantation, water augmentation, eco-certification and marketing. For more details, refer to Development Support for traditional areas.

To increase the area and production of Arabica coffee in the tribal areas of non-traditional coffee growing states of Andhra Pradesh and Odisha, the Board is providing financial support. The Board is providing subsidies for expansion/ consolidation, quality upgrades (for pulpers and drying yards) and market support. For details, please refer to Development Support for non-traditional areas.

The Board is also supporting development of new coffee areas in the tribal belt of the Northeastern part of India. The Board is providing subsidies for area expansion/consolidation, raising of seedlings through Group nurseries, quality upgrades (for pulpers and drying yards/trays), water augmentation (water storage / irrigation units), and support for coffee marketing. For more details, please refer to Coffee Development Program in North Eastern Region.

Freight Assistance for Coffee Exports
The Board is providing transit/freight assistance to exporters to mitigate the freight disadvantage for export of coffee in important markets. All registered coffee exporters with the Board with valid registration can avail transit/freight assistance for coffee exports which include
i. Assistance of Rs.2 per kilogram (1 cent per pound) for export of high value coffee to the destinations like the United States, Canada, Japan, Australia, New Zealand, South Korea, Finland and Norway.
ii. Assistance of Rs.3 per kilogram (2 cents per pound) for export of value-added coffee in retail packs as India Brand.
For more details, please refer to Transit or Freight Assistance for coffee exports.

In addition, coffee exports are also covered under the Merchandise Exports from India Scheme (MEIS) and Duty Drawback schemes of the Government of India. The MEIS reward rate can range from 3-7 percent of the FOB value of exports, depending on the harmonized tariff schedule and coffee classification (green coffee, roast and ground, or instant/soluble).

Support for Value Addition

In order to maximize export earnings by enhancing the market share of value-added coffees and high value differentiated coffees in important high value international markets as well as to support the value-addition for improving returns to small growers and exporters, the Board is providing subsidies on the machinery used in roasting, grinding and packaging units. Enhancing the quality of coffee products and achieving value-addition through the introduction of improved technologies in roasting, grinding, and packaging units will also result in increasing domestic coffee consumption. For details, please refer to Support for Value Addition.

Marketing:

Indian Coffee Marketing System

Common marketing practices include: 1) selling to exporters through an agent; 2) storing at a curing plant before selling; 3) selling at auctions; and 4) exporting directly. Small holders typically sell their parchment coffee (or dry cherry) to exporters through export agents and consolidators. The agent takes the coffee beans to the curing factory, where they are checked for quality against the standards of the destination country. Storing the coffee at a curing plant allows the coffee grower to retain ownership of the coffee before selling it in order to take advantage of price movements. Larger producers typically either sell at auctions organized by the Indian Coffee Traders' Association, or export directly.

Table 4. India: Coffee Bean Retail Prices in Major Consuming Centers, Rupees per Kilo 1

	Bangalore		Chennai		Hyderabad	
Year	**Arabica**	**Robusta**	**Arabica**	**Robusta**	**Arabica**	**Robusta**
Average 2007	137	87	170	91	150	89
Average 2008	150	114	157	118	164	127
Average 2009	210	105	215	109	229	119
Average 2010	217	98	225	104	233	110
Average 2011	297	131	300	134	314	141
Average 2012	247	156	298	148	309	170
Average 2013	199	157	229	182	250	190
Average 2014	311	169	321	187	332	185

Average 2015	309	152	328	178	366	191
Average 2016	259	151	298	172	336	182
Average 2017	246	162	283	180	300	179
Average 2018	216	155	255	176	277	179

1\ Exchange Rate equals Rupees 69.63 per dollar as of May 09, 2019
(Rupees per kilogram of clean coffee beans of Arabic Plantation A and Robusta Cherry AB)
Source: Coffee Board of India

Table 5. India: Uncured Coffee Bean Farm Gate Prices in Major Producing Centers, Rs. per 50 kilogram 1

	Chikmagalur		Sakaleshpur		Madikeri	
Year	**Arabica**	**Robusta**	**Arabica**	**Robusta**	**Arabica**	**Robusta**
Average 2009	6,752	1,869	6,418	1,872	6,459	1,929
Average 2010	6,949	1,940	6,894	1,821	6,966	1,870
Average 2011	10,144	2,663	10,151	2,606	10,061	2,600
Average 2012	7,984	3,000	8,053	3,036	8,046	3,036
Average 2013	6,393	2,945	6,411	2,956	6,473	3,056
Average 2014	10,011	3,399	9,952	3,728	9,805	3,349
Average 2015	9,116	2,962	9,047	2,978	9,302	3,041
Average 2016	8,118	3,018	8,224	3,051	8,210	3,035
Average 2017	7,897	3,436	7,933	3,404	7,955	3,454
Average 2018	6,828	3,180	6,896	3,173	6,909	3,223

1\ Exchange Rate equals Rupees 69.63 per dollar as of May 09, 2019
(Rupees per kilogram of clean coffee beans of Arabic Parchment and Robusta Cherry)
Source: Coffee Board of India

Table 6. India: Coffee Exports (Oct/Sep Marketing Year, includes Re-Exports)

S No.	Destination	MY 2011/12	MY 2012/13	MY 2013/14	MY 2014/15	MY 2015/16	MY 2016/17	MY 2017/18
		Quantity (MT)	Quantity (MT)	Quantity (MT)	Quantity (MT)	Quantity (MT)	Quantity (MT)	Quantity (MT)
1	Italy	78,010	68,662	70,782	65,509	83,769	78,780	79,622
2	Germany	25,726	28,372	29,163	24,256	32,699	39,217	32,899
3	Russia	29,392	19,596	18,914	20,914	28,149	29,806	23,180
4	Belgium	18,007	18,055	13,641	14,830	20,125	18,828	19,092
5	Turkey	4,906	9,905	14,055	15,293	14,656	18,167	16,055
6	Indonesia	1,932	4,855	10,937	5,079	5,494	3,653	15,544

7	Poland	4,567	2,558	3,208	5,051	8,500	13,980	14,492
8	United States	6,376	5,804	5,993	5,149	5,884	8,353	12,688
9	Jordan	7,506	10,337	7,741	6,772	8,643	8,672	10,756
10	Malaysia	8,328	6,777	5,819	5,742	6,185	6,387	9,910
11	Spain	7,982	6,421	4,998	5,709	8,173	10,109	8,924
12	Slovenia	13,133	10,339	7,868	9,248	11,839	8,316	7,684
13	Ukraine	5,163	6,815	5,691	5,044	3,537	6,393	7,307
14	Australia	4,736	6,888	5,114	6,341	5,496	7,048	6,953
15	Others	94,506	86,182	84,716	81,832	102,310	117,695	108,395
	TOTAL	**310,270**	**291,566**	**288,640**	**276,769**	**345,459**	**375,404**	**373,501**

Source: Coffee Board of India (Database - January 2019)

Table 7. India: Export Tax/Cess on Coffee and Related Products

S No.	Product description	Basic duty
1	Green	0%
2	Roasted	0%
3	Soluble	0%

Source: Coffee Board of India (Database - January 2019)

Table 8. India: Import Tariff on Coffee and Related Products

HS Code	Description	Standard Rate (Applied Rate)	Preferential Rate
0901	**Coffee, whether or not roasted or decaffeinated;**		
0901.11	Coffee neither roasted nor decaffeinated	**100%**	100% less 13 paise per kg
0901.12	Coffee not roasted decaffeinated	**100%**	100% less 13 paise per kg

0901.21	Coffee roasted not decaffeinated	**100%**	100% less 13 paise per kg
0901.22	Coffee roasted and decaffeinated	**100%**	100% less 13 paise per kg
2101.11	**Extracts, essences and concentrates of coffee, preparation with a basis of these extracts, essences or concentrates or with a basis of coffee:**		
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	Preparation with a basis of extracts, essences or concentrates with a basis of coffee	**30%**	**-**

Source: Coffee Board of India (Database - January 2019)

Production, Supply and Demand Data Statistics:

Coffee, Green	**2017/2018**		**2018/2019**		**2019/2020**	
Market Begin Year	**Oct 2017**		**Oct 2018**		**Oct 2019**	
India	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Planted (a)	440	454	450	450	-	450

Area Harvested (a)	400	413	422	422	-	424
Bearing Trees (b)	540	540	542	542	-	545
Non-Bearing Trees (b)	98	98	97	97	-	98
Total Tree Population (b)	638	638	639	639	-	643
Beginning Stocks	1,873	1,873	1,077	1,248	-	969
Arabica Production	1,583	1,583	1,500	1,470	-	1,483
Robusta Production	3,683	3,683	3,700	3,700	-	3,997
Other Production	-	-	-	-	-	-
Total Production	5,266	5,266	5,200	5,170	-	5,480
Bean Imports	1,300	1,385	1,250	1,265	-	1,235
Roast & Ground Imports	2	2	2	1	-	2
Soluble Imports	75	85	75	75	-	70
Total Imports	1,377	1,472	1,327	1,341	-	1,307
Total Supply	8,516	8,611	7,604	7,759	-	7,756
Bean Exports	4,300	4,127	3,750	3,700	-	3,750
Rst-Grnd Exp.	4	4	5	4	-	5
Soluble Exports	1,920	2,017	1,670	1,836	-	1,800
Total Exports	6,224	6,148	5,425	5,540	-	5,555
Rst,Ground Dom. Consum	525	525	530	530	-	550
Soluble Dom. Cons.	690	690	720	720	-	720
Domestic Consumption	1,215	1,215	1,250	1,250	-	1,270
Ending Stocks	1,077	1,248	929	969	-	931
Total Distribution	8,516	8,611	7,604	7,759	-	7,756
Figures in Thousand 60-kilogram bags, Except Where Indicated: (a) Thousand hectares, (b) million trees						