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Coffee Exports from India:

How the market has stirred up

Commodity In Focus

Global Dominance of Coffee

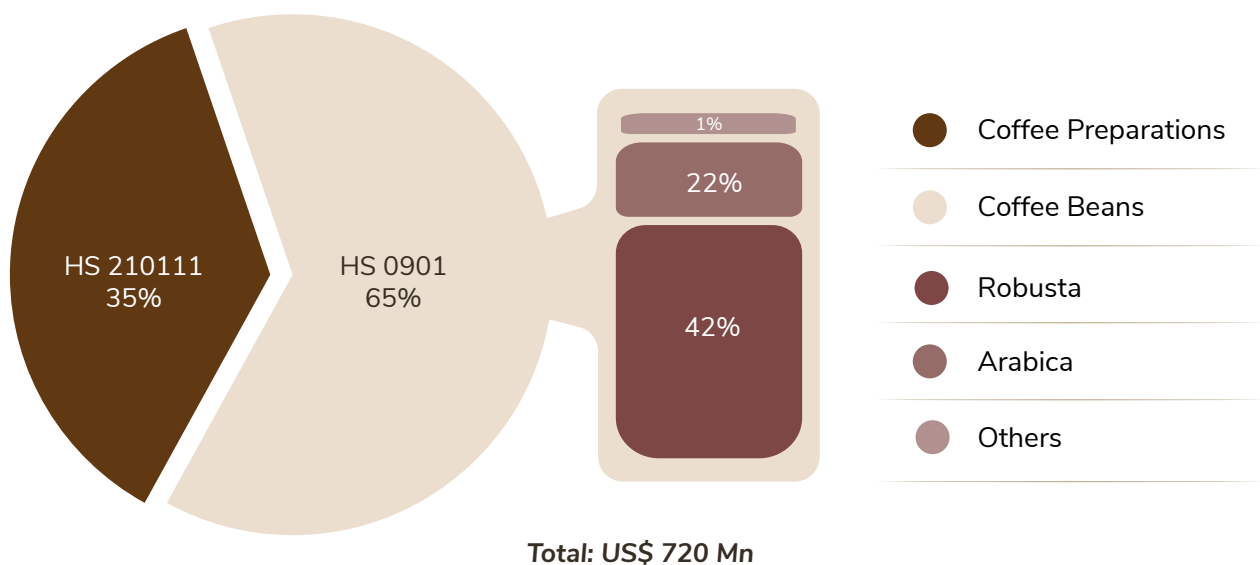
For some, the day begins with making a fresh pot of coffee at home, and for others, it starts with the usual coffee run to their favorite local cafe. Whatever the means to get a quick caffeine fix, coffee has become an irreplaceable staple in most of our day-to-day lives. Archives and legends illuminate the possibility that coffee originated in Ethiopia.² However, today, coffee is produced in more than 50 countries worldwide, with each region growing its local variants.

This report will examine the coffee trade across India and the globe from a principal commodity perspective: HS Codes 0901 and allied processed products/preparations falling

under HS Codes 210111. Analyzing India's competitors in the coffee market, understanding the impact of covid-19 on this sector are also some areas that we will study here. There are two primary varieties of coffee - Robusta and Arabica.

*Coffee is one of the world's most popular commodities, and as of 2020, the coffee market was valued at around US\$ 466 billion.*¹

Fig. 1 - Constituents of Coffee Exports from India in FY21



*Source: Ministry of Commerce and Industry, DGFT

1. Global Coffee Market Report

2. The History of Coffee

India majorly exports Robusta coffee beans, a species of coffee bean that has low acidity and high bitterness compared to Arabica coffee. While Arabica grows best in rich soil at high altitudes, the heartier Robusta prefers a higher temperature and can thrive on lower ground. The name 'Robusta' comes from the word 'robust' as its plant is resistant to diseases and easier to maintain than its

Arabica counterpart. Thus, Robusta usually sells at one-third the price of Arabica. Due to its 25% higher caffeine content and cheaper pricing than Arabica, Robusta is found in instant coffee, espresso, and as a filler in blended coffees. Apart from green coffee beans, preparations of coffee (31% of which is instant coffee) also have a significant share in India's export basket.

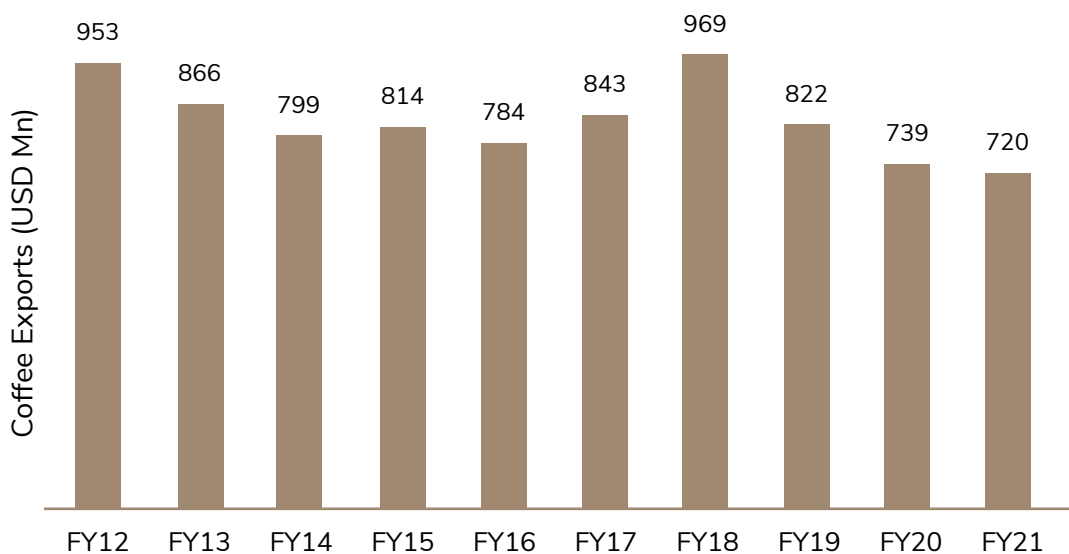
Sector Deep Dive

India's Cup of Joe

Coffee originated 400 years ago in India when saint Bababudan brought seven magical beans from Yemen and planted them in Karnataka's Chandragiri hills. Today, though, the aroma of coffee has enveloped us all. According to The Food and Agriculture Organization (FAO) statistics data, India is the eighth-largest producer and

exporter of coffee by volume. For the 10 years shown in Fig. 2, India's coffee exports have declined at a Compounded Annual Growth Rate (CAGR) of -3%. While part of this negative growth can be attributed to the covid-19 pandemic, the industry has been experiencing poor growth and stagnation for a long time now.

Fig. 2 - Indian Coffee Exports between FY12-21

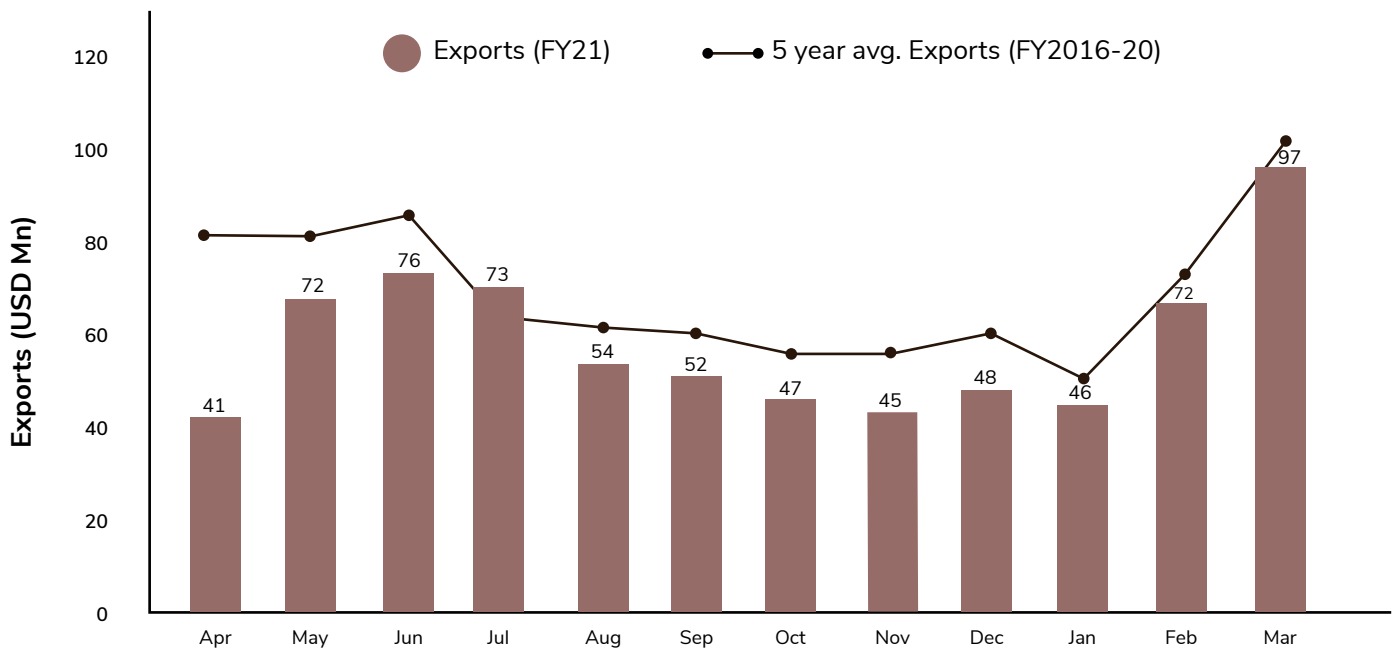


*Source: Ministry of Commerce and Industry, DGFT

Indian coffee exports display a strong seasonal tilt, with exports peaking from March to June (Fig. 3). In FY19-20, India's coffee exports reached a nine-year low in terms of its dollar value due to covid-19. The crisis significantly impacted green coffee

beans' shipments in March 2020, which is the key period for Robusta coffee harvesting and exports. Further, due to the pandemic-induced lockdowns, the overall exports of coffee plummeted by 44% in April 2020.

Fig. 3 - Seasonality of Coffee exports



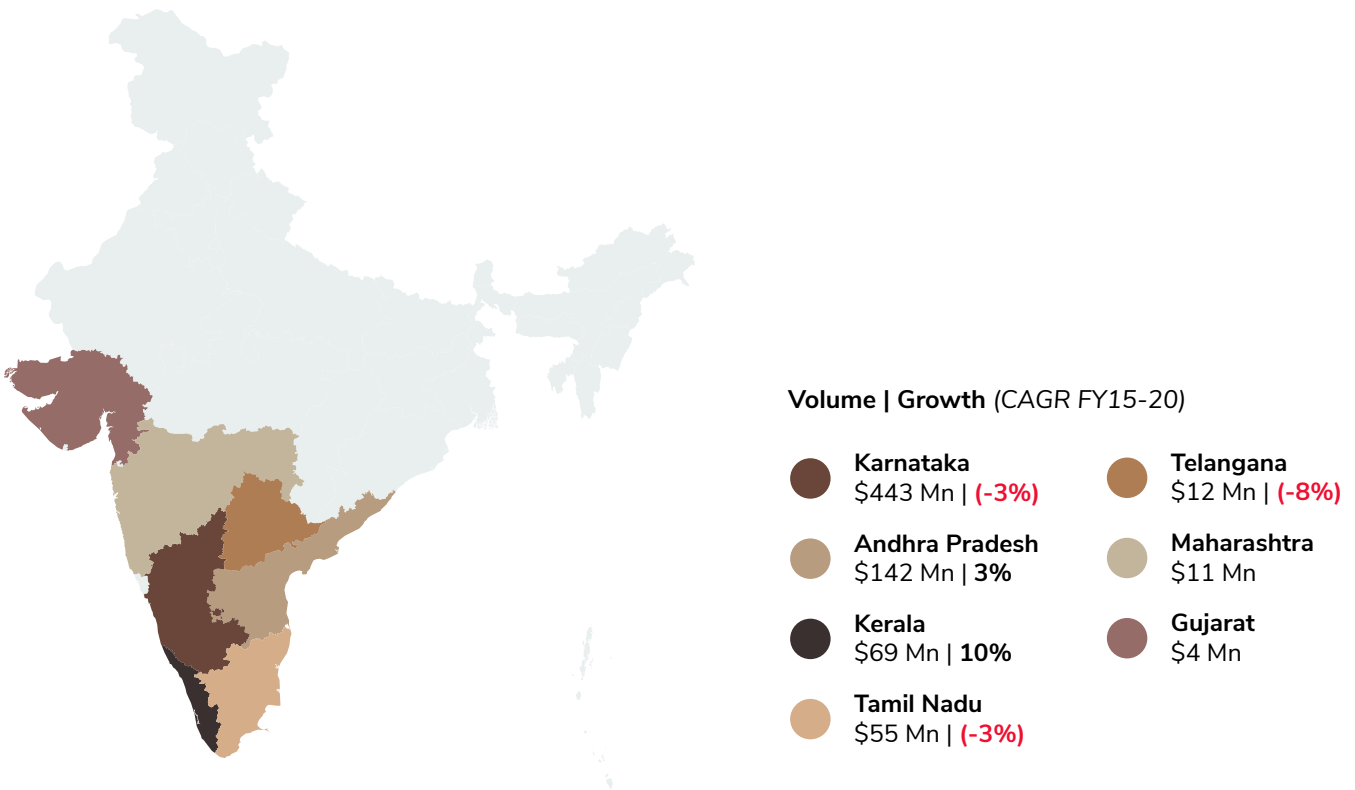
*Source: ITC Trade Map & DGFT

However, through gradual unlock phases and increasing economic activity, the fourth quarter of FY21 showed good recovery and a 10% year-on-year (Y-o-Y) growth.

India is the only country that produces all of its coffee under shade. The commodity is grown during the monsoon rainfall conditions at different elevations along with various other intercrops. Coffee is cultivated in the traditional southern regions of the country like Karnataka, Kerala, Tamil Nadu, and the newly developed, non-traditional areas like Andhra Pradesh and Orissa in the Eastern Ghats of India.

Baba Budangiri range in Karnataka is known as the birthplace of coffee in India. So, it is no surprise that Karnataka dominates the coffee industry, accounting for most exports. The second-largest exporter, Andhra Pradesh, possesses many manufacturing plants that process green coffee beans (Fig. 4). Chikmagalur and Coorg are the largest and most famous coffee-growing regions in Karnataka, followed by Araku Valley coffee plantations in Andhra Pradesh.

Fig. 4 - Indian States Exporting Coffee (US\$ Mn, FY20)



*Source Ministry of Commerce and Industry, DGCI&S

Internationally, India's coffee finds homes and offices in Europe, wherein people prefer the stronger and more bitter flavors of the Robusta blend, which makes up 42% of India's exports (Fig. 5). Italy, India's largest market, accounts for over 20% of bean coffee exports.

Exports to the Middle East are usually made up of Arabica coffee, the origins of which can be traced back to the Arabia regions. In FY20, Russia, Poland, the USA, Turkey, and Malaysia imported over 50% of coffee preparations (HS 210111) produced in India, worth close to US\$ 141 million.

Fig. 5 - Top Importers of Indian Coffee in FY20

Top importers of Indian Coffee			
Italy	\$128 Mn	Poland	\$30 Mn
Germany	\$78 Mn	Turkey	\$21 Mn
Russia	\$61 Mn	Jordan	\$21 Mn
Belgium	\$47 Mn	Kuwait	\$47 Mn
United States	\$32 Mn	Australia	\$32 Mn

*Source: ITC Trade Map & DGFT

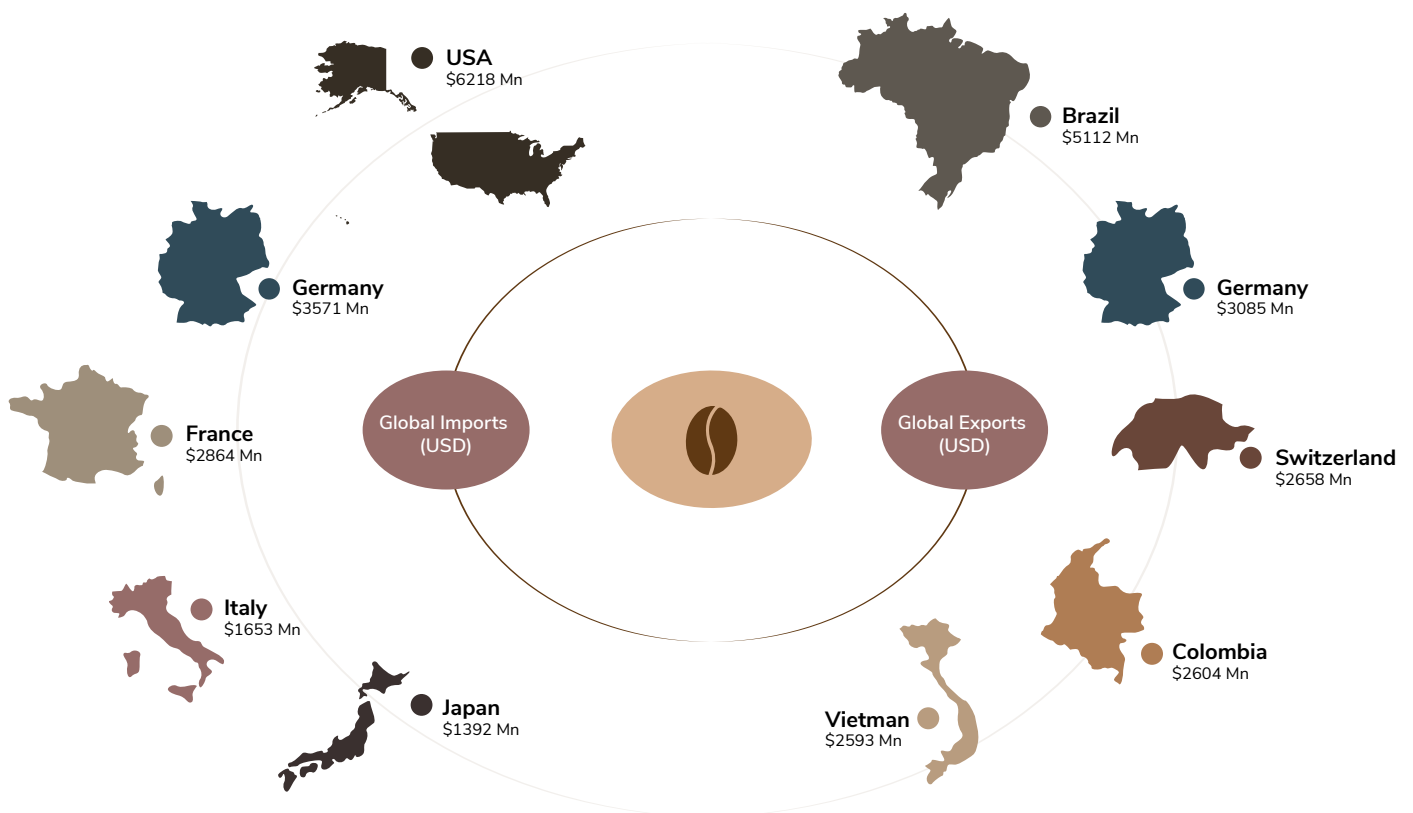
Trade Watch

From Shrub to Mug

As per the International Trade Centre (ITC), more than US\$ 30 billion worth of coffee (eight billion tons) is traded every year. Globally, the top producer and seller of coffee

is Brazil, while the leading importer is the USA (Fig. 6). Brazil harvests and exports almost 30% of the world's green coffee beans, whereas the USA imports 20% of the world's coffee.

Fig. 6 - Top 5 global exporters and importers of coffee



Around the World

Germany is the second-largest importer and exporter of coffee. In 2019, it imported almost US\$ 3.6 billion worth of green coffee beans, majorly from coffee-producing countries like Brazil, Vietnam, and Honduras. And, it re-exported close to US\$ 3.1 billion worth of coffee to the USA, Poland, France, and many other European countries. More than 70% of Germany's coffee imports are unroasted

green coffee beans. Germany roasts or even decaffeinate most of these green beans in its coffee roasteries located at Bremen, its coffee capital. Some of this roasted coffee is further processed into instant coffee as well. Thus, almost 86% of its coffee exports are coffee that has undergone some level of processing, preparation, or packaging (Fig. 7).

Interestingly, there are only a few countries like India whose weather and terrain permit the cultivation of both tea and coffee. According to FAO statistics data, one such nation is Vietnam, and the other is Indonesia, which as of 2019 are the second and the fourth-largest producers of coffee, respectively. In terms of the volume of coffee exported worldwide, Vietnam is the second-largest, and Indonesia is the sixth-largest nation.

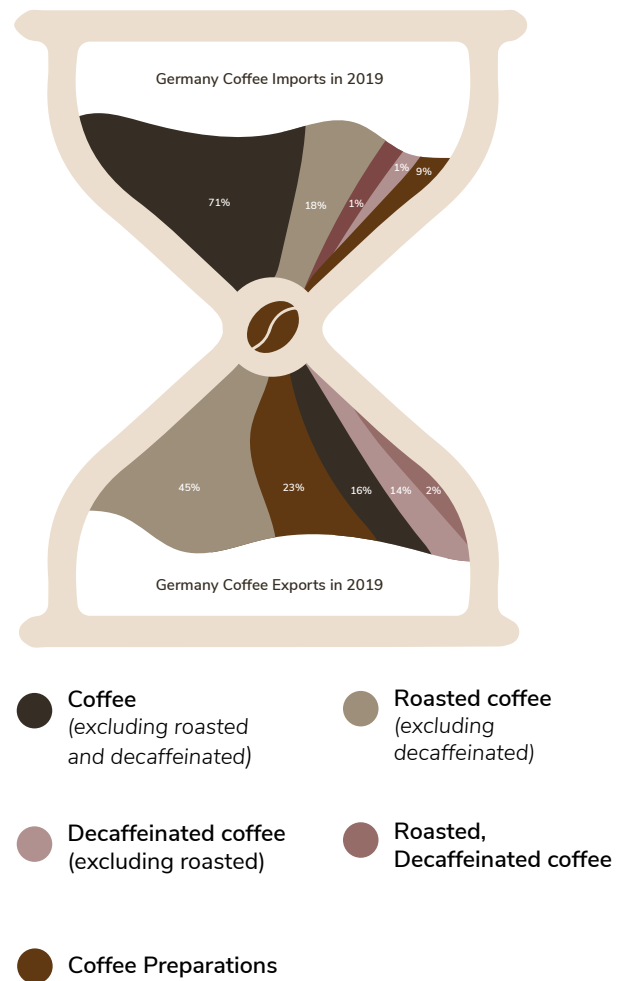
Most of the world's coffee grows within the “[Bean Belt](#)”³ -- the area around the equator between the Tropics of Capricorn and Cancer. This region includes parts of Central and South America, Africa, the Middle East, and Asia.

Product and Packaging Trends

Coffee is a highly seasonal product, and it is challenging to harvest, transport, and store it. All the steps from production to export require immense expertise and knowledge.

Mr. Ashwin Ram from Nadar Spices, a merchant exporter of green coffee beans from India, added further insights on the coffee procurement market -- “Higher temperatures common in southern India, can lead to weight loss and varied moisture content in the coffee beans. This is likely to have an impact on its taste and other characteristics. This makes

Fig. 7 - Types of Coffee Imported and Exported by Germany



bulk storage of coffee risky and, by virtue, does not permit a longer storage period in our warehouse at Virudhunagar. As a result, coffee is packaged within a day or so of its arrival to our warehouse and instantly shipped to its destination country.”

He also added, “Having larger command over the supply chain, for example, by also becoming a curing house for coffee, will give exporters much more control over the quality of coffee they sell; and this is a long-term goal for the company.”

³ [Coffee Around the World](#)

Coffee is profoundly sensitive to the environment it is grown in and the atmosphere it is stored in

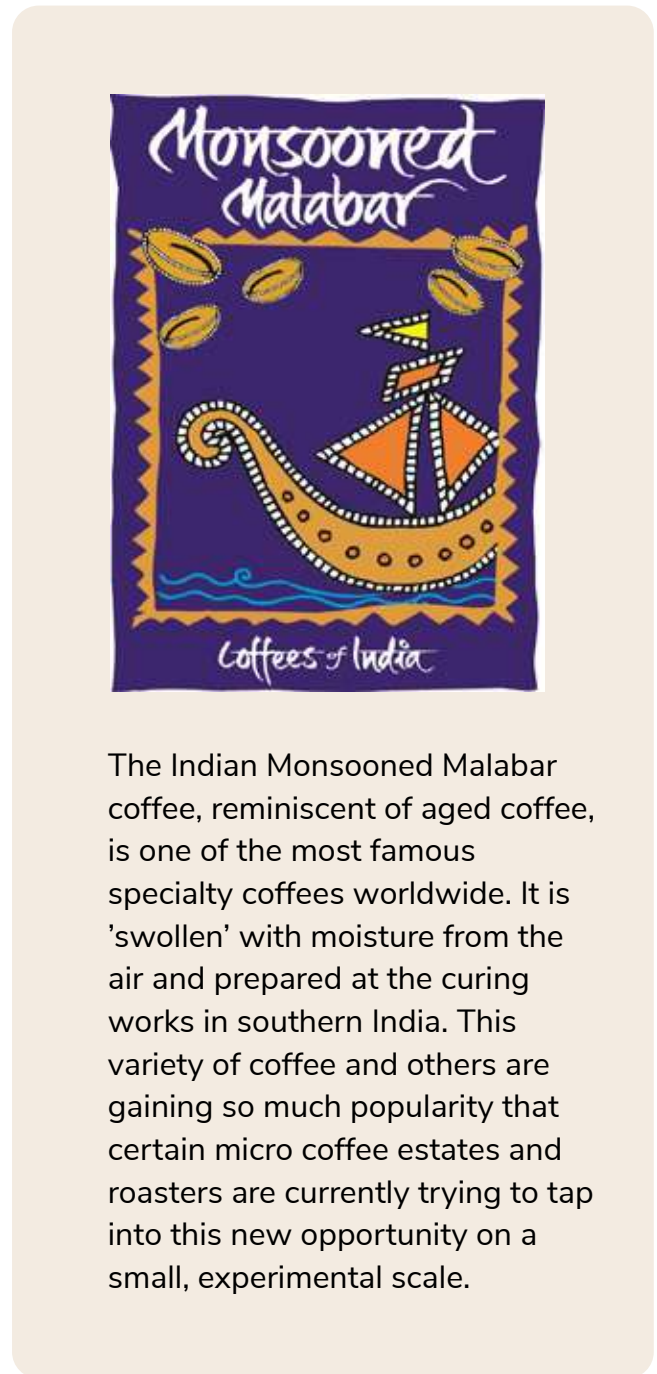
In recent years, specialty coffee⁴ from India has become an emerging market, garnering interest from global coffee enthusiasts. Specialty coffee is distinguished by its clear origin, a distinction made by careful cultivation practices, and routine of plucking and special processing, branding, handling, and appearance.

Each year, India imports more than US\$ 100 million worth of green coffee, mainly from Vietnam, Kenya, and Indonesia. A lot of this green coffee and the locally produced coffee are processed into instant coffee⁵ within India. Consequently, almost one-third of the country's total coffee exports constitutes instant coffee. Over the past ten years, until FY20, instant coffee has experienced a CAGR of 4%.

Overall, although demand for instant and specialty coffee is rising, exports of Robusta coffee have been stagnant, and that of Arabica coffee is experiencing a decline. For the past ten years until FY20, Arabica coffee exports fell at a CAGR of -4%.

Covid-19 Impact

As the covid-19 pandemic struck, the global marketplace saw a significant disruption, and consumption behaviors jumped onto unexpected trajectories. With people operating from the comfort of their homes,



The Indian Monsooned Malabar coffee, reminiscent of aged coffee, is one of the most famous specialty coffees worldwide. It is 'swollen' with moisture from the air and prepared at the curing works in southern India. This variety of coffee and others are gaining so much popularity that certain micro coffee estates and roasters are currently trying to tap into this new opportunity on a small, experimental scale.

the commute became rarer, and the opportunity to safely visit the local cafes reduced. This led to a shift in the purchasing patterns for coffee, and an alteration in the product mix in demand.

4. Specialty Coffees

5. Database on Coffee

As the intensity of the pandemic grew, the demand for coffee from large restaurants and cafe chains fell while that from retailers for home consumption purposes increased.

The [Tea and Coffee Trade Journal](#)⁶ interacted with some industry experts to gain insight in this regard. Fernando Serpa of Walmart Inc found that customers were buying larger quantities per purchase and were often doing so online. Takao Ueshima of Specialty Coffee Association of Japan further mentioned that out-of-home (OOH) consumption of coffee fell 90% in Japan, but that the sales of roasted ground coffee and whole beans in grocery stores, online, mail order/subscriptions grew 30-50%.

Roasted ground coffee needs to be brewed before consumption. This process requires a

brewing device like a French press machine, AeroPress machine, or Espresso machine. The growth in mail order/subscriptions mentioned above was happening in conjunction with increased global imports for domestically used electro-thermic coffee or tea makers (HS 851671). In 2020, shipments of these coffee makers to the USA soared by almost 50%, which is the highest number in the past five years. The quantity of these machines imported by the USA rose to 33.2 million units.

Similarly, in 2020, Australia, known for its boutique local coffee shops, imported 266 thousand more units than it did in 2019. This could have been a consequence of the multiple strict lockdowns that the Australian government imposed to curb the spread of the virus. Since making the daily run for their cup of coffee became difficult, many people purchased these coffee machines to prepare their coffees while working from home.

Recommendations

Wake up and smell the coffee

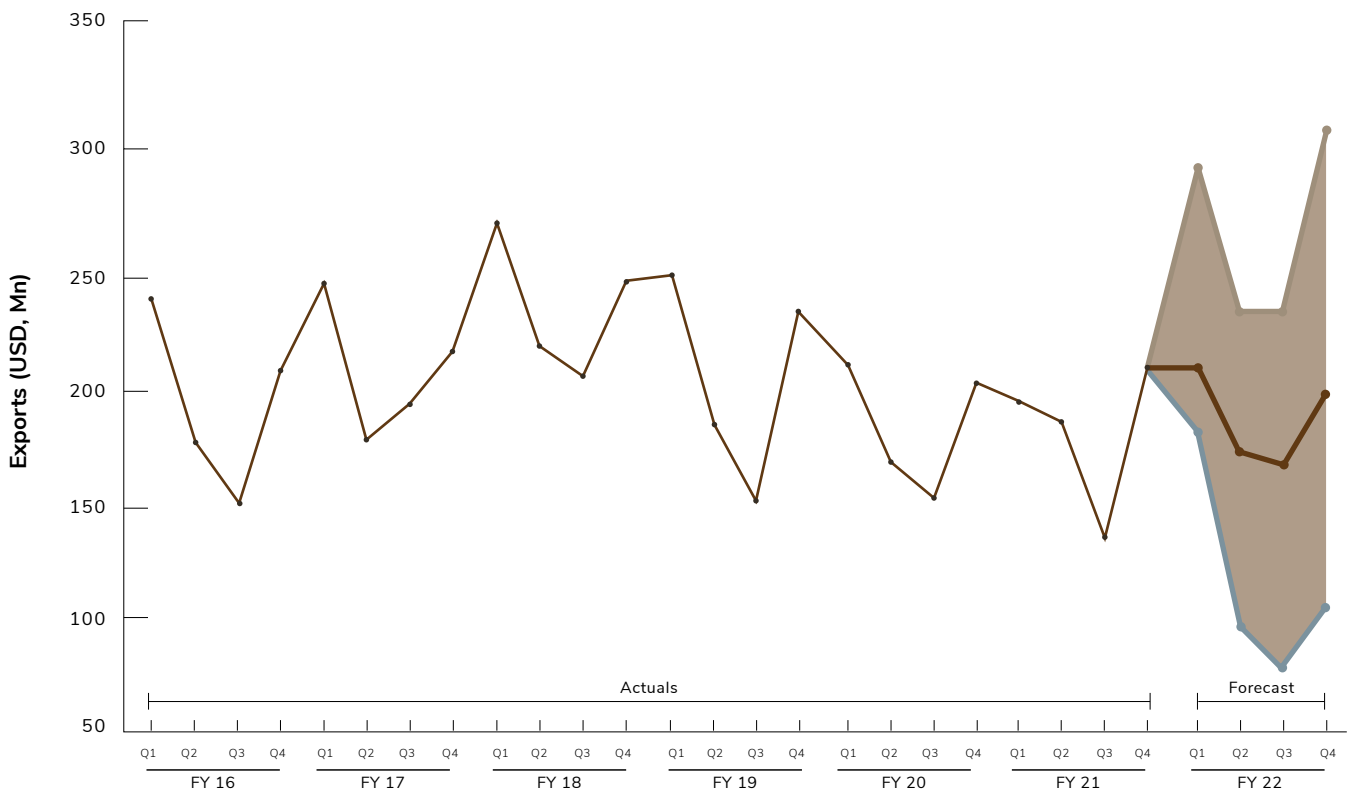
Unless specific ramifications are made in the coffee industry, we expect the stagnation in coffee exports to continue, as indicated by the previous years' statistics. This fall in overall coffee exports from India can be attributed to the decline in Arabica and plateaued exports of Robusta coffee. While environmental changes have been one of the reasons for low and delayed coffee

production, many other elements can be improved to promote India's coffee exports. The coffee industry has multiple layers of [value addition](#)⁷, and India should look at exploiting this opportunity. For this, India doesn't need to compete with coffee-producing giants like Brazil; instead, it could devise better strategies to create a niche market for Indian coffee.

⁶ [Covid-19 and its effect on consumer behavior](#)

⁷ [From Bean to Brew: The Coffee Supply Chain](#)

Flid. 8 - Future outlook of coffee exports



*Source: Ministry of Commerce and industry, DGFT

The first stage of processing coffee after harvesting is to remove the different layers of the coffee fruit to obtain the coffee bean or seed. This is done through two methods, either washing or drying (unwashed). Washing coffee is a newly developed technique for processing coffee. Since it also requires specific skills, the method is more expensive. But, coffee processed using this method has a growing preference because of its unique characteristics and, more importantly, consistent flavors. Data from the Coffee Board of India shows that the quantity of washed coffee exported is half the quantity of unwashed coffee (coffee cherries) exported. India’s exports could benefit from a shift towards washed coffee in its product mix.

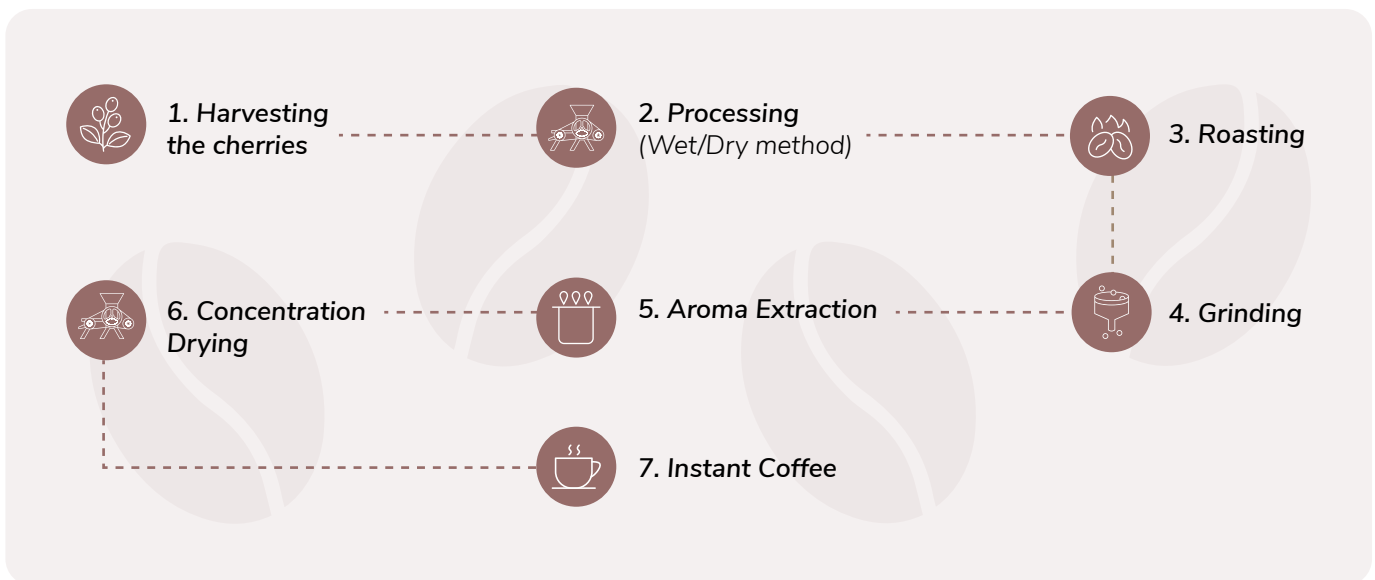
The next step to coffee processing is roasting. For India, in FY2020, out of US\$ 464 million of green coffee bean exports, only US\$ 2 million was roasted coffee, which was mainly shipped to the Middle East. One way of expanding horizons in this context could be by learning from Germany’s coffee exports model. Bremen in Germany boasts multiple well-known coffee roasteries where green beans imported mainly from Latin America are roasted and re-exported to most European countries. Analysis of the export value realization of coffee beans (value/volume) from 2019 shows that roasted coffee beans command a much higher average price per tonne than green coffee beans. India’s exports could also benefit from

such value addition by building more coffee roasteries closer to the coffee estates and experiment shipping smaller batches of roasted coffee to closer regions like the Middle East.

A step further is extracting the coffee aroma to make soluble/instant coffee. To counterbalance and come out of the green bean coffee exports downfall, Indian exporters need to stay abreast of developing trends in the instant coffee exports market

that shows a 4% 10-year CAGR. This growth is also an indicator of the rising popularity of the value-added coffee varieties. As a commodity, instant coffee enjoys the product feature of convenience- a quality in high demand and vital to today’s global, fast-paced life. Since more than 50% of instant coffee is exported from Andhra Pradesh, many other states could attempt to mimic Andhra Pradesh by setting up coffee processing plants to boost India’s overall coffee exports.

Fig. 9 - Future outlook of coffee exports



As seen above, there has been a growth in the purchase of home coffee makers, globally. With the ease of access to making cafe-like coffee at home, coffee enthusiasts might like to experiment with different varieties of coffee from around the world. This opens up a market opportunity for specialty coffee traders. A recent [Euromonitor coffee report](#)⁸ pointed out that in 2020, there was a shift towards more exclusive and premium coffee

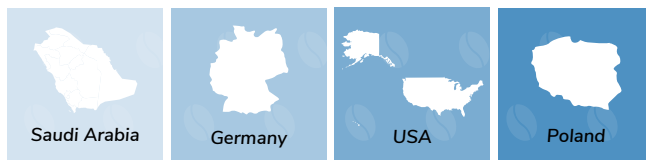
products in India. This domestic market appreciation also opens doors to international markets for artisanal and gourmet coffees hailing from different Indian regions. Venturing into exporting retail-size packages of high-quality coffee via e-commerce could be a good start for India’s coffee traders, which could create a gradual positive momentum for exports.

8. [Coffee In India | Market Research Report](#)

Rising and Declining Geographies

Green coffee beans exports by volume from India saw a 5% CAGR in the German market during the 2015-2019 period. Before the pandemic, in 2019, coffee exports to Germany stood at US\$ 81 million. A consumption pattern of developed nations is a constant need for variety in their products, often coming from different world regions. This consumption pattern can prove beneficial for the various coffee estates of India that are growing unique flavors of coffee.

Fig. 10 - Rising geographies for coffee exports from India



At present, India is the third-largest exporter of coffee under HS Code 210111 to Poland. In 2019, the demand for coffee preparations saw growth, with exports by value to Poland witnessing an 18% CAGR. Moreover, coffee preparations exported to the USA also grew at a 9% CAGR. Indian exporters should continue focusing on building a significant market share in Poland and the USA for instant coffee.

Mr. Ashwin Ram also highlighted Saudi Arabia as another nascent market Indian exporters could explore. He commented-- "As Saudi's economy gradually liberalizes to move towards its 'Vision 2030' goals, social mannerisms will change. Coffee shops will become prominent spaces for meetings and gatherings. Coffee has the potential of doing well in this market since another conventional social beverage, alcohol, is prohibited in the country."

While some markets show promising potential, certain long-established importers of Indian coffee are showing a dull, muted future scope of demand. The volume of exports to Italy-- India's largest importer of green coffee beans declined at a CAGR of -5% for the 2015-2019 period. One reason for the fall is that Italian coffee importers prefer more coffee from Uganda in their product mix over the Indian variety. This could be because African coffee sells cheaper than Indian coffee, among other reasons. Additionally, the value of instant coffee exports faced a decline in Turkey, where the CAGR was -11%. In 2018, India constituted 44% of Turkey's instant coffee imports, while in 2019, this proportion halved to 22%. Turkey seems to have started diversifying its imports, buying from a wider variety of regions.

One market India needs to work harder to hold onto for its coffee preparations exports is Russia. From 2009 to 2012, India was Russia's largest trading partner for this product, but gradually Brazil and Germany beat India. Indian coffee exporters could undoubtedly benefit from re-exploring opportunities in Russia.

Fig. 11 - Declining geographies for coffee exports from India



Conclusion

Drip Capital's analysis of Indian coffee exports uncovers an industry with high growth potential, and abundant untapped opportunities. Since coffee will never cease to be a constant in our daily lives, innovation and competition will remain the leading drivers for this sector. India needs to emerge as a dominant player within the coffee marketplace through its plethora of niche, high-quality offerings.

for players within the coffee supply chain in India. While being wary of the ongoing competition from African coffee, Indian coffee exporters should shift some focus from saturated markets to venturing into upcoming markets like Saudi Arabia. For this, the Coffee Board and the Government of India could aid the sector with exploratory budgets to identify new demands and geographies.

Beyond this, value addition at all stages of coffee processing should be a key area of focus

About Drip Capital

Drip Capital is a digital trade finance company based in Palo Alto, California. The company offers working capital solutions to small and medium-sized companies engaged in cross-border trade in India, Mexico, and the United States using technology and data analytics. Visit us at dripcapital.com for more details.

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