



CBI
Ministry of Foreign Affairs

CBI Competition:

Coffee

Introduction

Increasing sustainability requirements are making the coffee market challenging. The world coffee market is dominated by two large transnational corporations (Nestlé and Jacobs Douwe Egberts). Renewed professionalism at production sites and increasing processing capacity in producing countries are changing the competitive environment of the coffee trade. In the near future, there will be a worldwide deficit in the coffee supply. In the long term, consumption will be increasing in emerging markets (Brazil and Indonesia). This will open opportunities for exporters who are able to identify their own competitive advantage.

Market entry

The barrier of strict buyer requirements

To enter the European market, exporters must be able to comply with strict buyer requirements set by governments and companies with regard to health, food safety, quality, traceability and sustainability. This constitutes a serious barrier to suppliers seeking to access the market. Nevertheless, compliance can also be translated into competitive advantage over competitors and improved market access.

Buyers in the EU demand compliance with several buyer requirements. The strict buyer requirements regarding health, food safety, quality, MRLs, heavy metals, traceability and sustainability do not always match the capacities and realities of exporters or producers. Coffee rust (fungi) and the coffee berry borer (pest) are among the most harmful afflictions devastating coffee crops. In addition, thresholds have become more rigorous, as accredited laboratories are becoming increasingly able to detect lower residue levels in coffee. Sustainability-related requirements for coffee are expected to become more coordinated and harmonised in the coming years (e.g. [4C](#) aims to become a platform for pre-competitive coordination on sustainability in the coffee sector).

Having to choose from and comply with the various EU requirements can mean serious investments in time and money for producers, although such investments will eventually pay off in terms of improved market access.

Tips:

- See our study on [Buyer requirements on the European coffee market](#) and the [ITC Standards Map](#) for additional information on Legal, Additional and Niche requirements.
- Refer to the [EU Rapid Alert System for Food and Feed \(RASFF\) database](#) to see examples of withdrawals of coffee from the market and the reasons behind these withdrawals. Under 'Product', choose the category 'cacao and cacao preparations, coffee and tea'.
- Sustainability standards provide new opportunities to participate in trade, and they have the potential to provide a competitive advantage for exporters. As an exporter you can inform, align and facilitate your suppliers/ farmers in relation to this issue. Sustainability standards have also been found to have at least some level (to some extent; see [COSA](#)) of positive impact on producer communities. Higher incomes resulting from price premiums have been used to build wells, roads, schools and healthcare facilities, in addition to supporting woman-led projects. It is nevertheless important to avoid engaging in sustainability standards without verifying whether they are required by your current or potential buyers/target market.
- Note that standards (quality, health, social, environment, traceability and labour) are set by international bodies (UN, OECD, ISO), the public sector (government authorities, the United States, European Commission, etc.) and the private sector (multinational brands and supermarkets). Before investing in compliance with standards, always consult with your buyers with regard to the criteria to which they adhere and/or determine whether you will be able to find buyers for your products.
- When negotiating a sales transaction, be sure that the contract at least stipulates the buyer specifications in terms of quality, quantity and price of the goods, the shipment period, terms of payment and [delivery](#), and the period during which the offer or bid is firm (valid).

Financing new activities: Still a complex issue

Small companies in particular are struggling to finance new business. Product diversification and the implementation of measures to comply with strict requirements can be difficult issues. If the market requires a change of products or services, some companies may thus be unable to adapt. Note that large importers or distributors and non-governmental organisations have more access to government money in the EU for sustainability projects. Consider cooperating with them.

Tip:

- Standards can enhance competitiveness by improving product quality, production efficiency and access to finance. Requirements in terms of implementing good agricultural practices and soil conservation, as well as improving traceability systems, have resulted in productivity gains in quality and yield, while reducing human exposure to pesticides.

Product competition

Consumption increasing in producing countries

Further increases are expected in the demand for coffee in developing and emerging countries (particularly in Brazil, Colombia, Ethiopia and Indonesia), as is an increase in South-South trade. This indicates that consumption in producing countries has increased. There seems to be a link between the size of the urban middle class and the amount of coffee consumed. This development is characteristic of the 'first wave' in the coffee world. These markets are price-sensitive, as coffee is a luxury product.

Tips:

- Explore opportunities in your own domestic and regional markets. Large markets (e.g. Mexico) are expected to become net importers of coffee in the near future. Accessing such markets will require learning about their specific characteristics and access requirements.
- Understand, monitor and be aware of the various 'waves' in the coffee market, and make use of these trends, depending on your own possibilities and your target market:
 1. First wave: increase in per capita coffee consumption (including in producing countries) , at a guaranteed minimum level of quality and flavour.
 2. Second wave: differentiation in quality and flavour; increase in speciality and single-origin coffees.
 3. Third wave: the experience of drinking coffee: flourishing baristas, distinctive methods of roasting (darkness) and brewing (e.g. the [Chemex method](#)).

Increasing demand for speciality coffee

Approximately 70% of sales is controlled by large companies and industry giants (e.g. [Nestlé](#)). The other 30% is dominated by smaller coffee importers (green-coffee traders and/or roasters). Although the coffee industry is highly competitive, there are opportunities for smaller-sized companies, particularly in the speciality coffee market.

The number of consumers who are willing to pay higher prices for coffees of higher quality is increasing. Speciality coffee usually has a cupping score above 85, and it is sometimes produced in micro-lots. The increasing interest in speciality coffee is reflected in the proliferation of coffee bars, small and micro roasters, small local brands and baristas, all of which are characteristic of the third wave.

Tips:

- Sell your speciality beans to roasters or traders that supply out-of-home channels (e.g. small coffee bars and restaurants). The trend is often set within this context, after which it trickles down to other segments closer to the mainstream.
- Try to identify smaller traders of green coffee (particularly speciality varieties) or even smaller roasters that import directly from origin. Consult our [Tips for finding European coffee buyers](#) for additional information on such potential buyers.
- If you have gourmet coffee of extremely high quality, you might even be able to sell micro-lots directly to roasters. Be aware that this is a very small niche market.

Company competition

Intense rivalry in commodity coffee

Because there are roughly two types of product (bulk and speciality) in the coffee sector, competition can be tough. For example, in just two decades, Vietnam has become the second-largest exporter of bulk coffee, after Brazil.

Tip:

- Be aware that speciality products and products with sustainability certification and/or documentation (i.e. traceability) are becoming increasingly popular.

Rivalry between buyers in sustainable market

Manufacturers and retailers of coffee have all made sustainability commitments. This indicates that the amount of certified coffee on the market might exceed the amount that is actually sold ([Coffee Barometer](#), 2014).

Tip:

- Be flexible and adapt your crop. Investigate additional income by increasing your coffee quality (e.g. shade-grown coffee or specific coffee varieties). Individual sellers might offer premiums for specific qualities from your farm or for shade coffee grown under environmentally sustainable conditions. Banana and other fruit trees are used to provide shade for coffee trees, thereby providing income and food security.

Pricing system obstructs the market

The price for coffee trade is derived from the terminal markets (most importantly, the New York and London Coffee Exchanges). If the influence of investment funds and other speculators on the terminal markets becomes too dominant, quotations from the terminal market do not reflect the 'true' price. In this case, buyers and sellers could make their own long-term true-pricing systems and agreements in the future. In general, however, this applies only to the highest coffee qualities.

The causes of price volatility are largely systemic, being driven by price speculation, unfavourable weather conditions and climate change. The influence of speculation on the coffee market is currently greater than it has ever been. Causes are the prevailing uncertainty relating to the damage to the Brazilian crop and the higher than usual levels of price volatility ([ICO Monthly Coffee Report May 2014](#)). In addition, over-supply and increasing global production are contributing to the ongoing profit decline in the coffee sector, which is especially affecting profits for growers. International efforts (e.g. by the [International Coffee Organization](#), ICO) to secure a more stable and predictable relationship between supply and demand have not yet succeeded in counteracting the ongoing price volatility.

Tip:

- Add value to your products (e.g. by offering high-quality service or signature stories behind your product).

Fierce power of multinationals based in the US and Europe

Coffee traders hold large quantities of inventory. They gradually sell these supplies through numerous small orders. Large traders have the financial resources to stock many different kinds of quality coffee. Roasters rely heavily on green-coffee traders. This allows buyers to exercise considerable influence over the types of coffee sold to consumers. Major roasters (e.g. [Nestlé](#) and [Mondelez](#)) can easily switch to coffee from other origins, as most of the coffee they sell to consumers is in the form of blends (not single-origin varieties).

Future scarcity may transform the coffee commodity into a sellers' market. To date, the power of retail and multinationals has been fierce, controlling parts of the supply chain in terms of price, margin and quality standards.

Tips:

- Long-term contract management and logistical performance are important tools that exporters can use to overcome the bargaining power of buyers.
- Long-term contracts likely to increase longer-term contracts are expected to increase, due to scarcity and sustainability requirements.
- Consult the [standard forms of contract from the European Coffee Federation](#).
- Any offer must at least stipulate the quality, quantity and price, the shipment period, the specific conditions of sale and the period during which the offer or bid is firm (valid).
- If a modification to an existing contract is agreed, be sure to confirm it in writing (both parties).
- In addition to legislative buyer requirements, consult the private standards imposed by buyers, especially the retailers. Visit their respective websites for additional information.

The relatively weak position of coffee producers is changing

Most coffee is cultivated by smallholder farmers. Coffee is exported predominantly as a standard bulk product. The coffee chain is characterised by many competitive suppliers and concentrated purchasers (e.g. [ECOM's](#) takeover of Armajaro) leading to relatively low level of supplier power. There is also high concentration in manufacturing (e.g. [Mondelēz](#) and the merger of [D.E. Master Blenders](#) into Jacobs Douwe Egberts [JDE]), with limited processing between production and consumption. Moreover, farmers and exporters face a number of constraints, including unfavourable weather conditions, climate change, weak infrastructure and organisations, pests and diseases (e.g. coffee rust). Product differentiation, certification, added value and speciality products may nevertheless improve opportunities for increasing supplier power.

Tips:

- Refer to our study on [Channels and segments on the European coffee market](#).
- Be aware of the requirements demanded by your buyers. This will ensure that you know the industry standards or certification programmes with which you and/or your suppliers must comply.
- If the quantities demanded exceed your production capacity, try to engage in cooperative or joint ventures.
- If the cargoes demanded exceed your production capacity and it is not possible to participate in a group, intermediary traders may be able to connect several sellers and connect you with buyers.
- Use good agricultural practices (GAP) and improved processing and grading to increase productivity and quality.

Pro-active measures by governments in supplying countries

Governments (combined with international institutions, certifiers or buyers) are taking proactive measures to extend and provide various services, including the provision of seeds, fertilisers and other inputs including advice, logistics services and quality/price control. Examples can be found here for [Brazil](#), [Vietnam](#) and [Colombia](#). For exporters, this can have either positive or negative consequences depending upon the type of change. Greater consistency in the quality of coffee beans can be an advantage for both producers and local exporters. The consequences of increased local processing, however, will also depend upon buyer requirements.

Tip:

- Consult your national Ministry of Agriculture, Coffee Board and other local programmes from FAO, IFC, ICRAF and other organisations to identify possible programmes for supporting your crop.



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