INTERNATIONAL COFFEE ORGANIZATION
ORGANIZACION INTERNACIONAL DEL CAFE
ORGANIZAÇÃO INTERNACIONAL DO CAFÉ
ORGANISATION INTERNATIONALE DU CAFE

EB 3721/00 (E) Rev. 1

5 May 2000
Original: French

Study

COFFEE CONSUMPTION

CONSUMPTION IN JAPAN AND PROSPECTS FOR CHINA

Executive Board/
International Coffee Council
15 - 18 May 2000
London, England

COFFEE CONSUMPTION

CONSUMPTION IN JAPAN AND PROSPECTS FOR CHINA

INTRODUCTION

1. Japan and China have been traditional tea-drinking countries for many centuries. But Japan has seen its coffee consumption increase over the last two decades and is now the world's fourth largest coffee consuming country after the United States of America, Brazil and Germany. The spectacular growth of the Japanese coffee industry has prompted the Organization to analyse the underlying factors and to consider the extent to which similar factors could influence coffee consumption in China – a tea-drinking country like Japan – whose economy has made great strides during the last few years.

2. This report is an updated version of document EB-3721/99 of 6 September 1999 and aims to examine the factors which have contributed to the growth of coffee consumption in Japan and to analyse the extent to which similar growth could take place in the case of China. The following points are dealt with:

I. Evolution of coffee consumption in Japan since 1950

II. Factors accounting for the development of coffee consumption in Japan

III. Prospects for coffee consumption in China

I. Evolution of coffee consumption in Japan since 1950

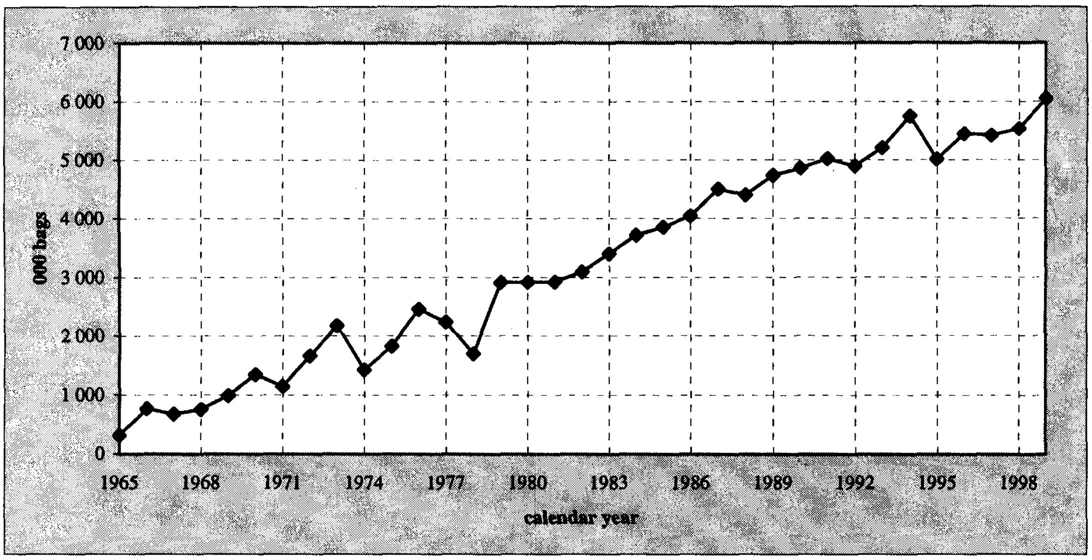
Imports

3. In a country where tea drinking has been traditional for many centuries, the remarkable growth of coffee consumption is almost inconceivable. Japan first imported coffee in 1877, the amount concerned being 330 bags of 60 kilos. After that date, imports averaged around 1,667 bags a year, reaching a level of 141,667 bags in 1937. Imports were curtailed during World War II and began to recover only during the 1950s with an annual average of 667 bags. Graph 1 shows the evolution of Japanese imports of green coffee during calendar years 1965 to 1999. Imports of green coffee into Japan have grown

spectacularly, rising from around 667 bags in 1950 to an average of 643,470 bags during the 1960s and 1.9 million bags in the 1970s. Japan imported an average of 3.8 million bags in the 1980s and 5.3 million bags during the 1990s. Imports totalled 5.5 million bags in 1998 and 6 million bags in 1999.

GRAPH 1

JAPAN
IMPORTS OF GREEN COFFEE



4. The rate of increase of Japanese imports of green coffee was very high (33.44 percent) between 1965 and 1969, as can be seen from Graph 1 above. A close relationship can be established between this rapid increase and the Japanese economic boom, as evidenced by the high growth rate of the gross domestic product during the same period (see Graph 5). Imports increased at a rate of 8.05 percent during the period from 1970 to 1979. This rate has fallen during the last two decades (4,98 and 2,24 percent respectively), but remains the highest among coffee importing countries.

5. The origins of Japanese imports are very varied, the most important being Brazil, Colombia and Indonesia, which accounted for 62.5 percent of total imports during the 1990s (Table 1). Imports from Africa have fallen significantly, particularly those from

Côte d'Ivoire, down from an average of 24.19 percent during the 1960s to 0.4 percent during the 1990s. Brazil has remained Japan's leading supplier, followed by Indonesia and Colombia. The breakdown of Japanese imports by group of coffee shows a sharp fall in the share of Robusta, which now accounts for 26.69 percent of total imports compared with 39.15 percent during the 1970s (Table 2). Imports of soluble and roasted coffee are shown in Table 3.

TABLE 1

JAPAN
PRINCIPAL COUNTRIES OF ORIGIN
OF IMPORTS OF GREEN COFFEE

(60-kilo bags)

	Total	Brazil	Indonesia	Colombia	Vietnam	Côte d'Ivoire
1965-69	699,182.00	225,305.20	15,655.60	78,397.40	2,832.40	169,151.60
Percentage	*100%*	*32.22%*	*2.24%*	*11.21%*	*0.41%*	*24.19%*
1970-79	1,885,586.80	418,963.00	139,290.30	168,065.10	6,830.90	232,983.50
Percentage	*100%*	*22.22%*	*7.39%*	*8.91%*	*0.36%*	*12.36%*
1980-89	3,756,648.00	952,207.10	708,348.00	531,672.20	1,444.90	122,880.20
Percentage	*100%*	*25.35%*	*18.86%*	*14.15%*	*0.04%*	*3.27%*
1990-99	5,320,109.20	1,221,098.80	1,083,264.50	1,020,941.40	188,272.50	21,203.60
Percentage	*100%*	*22.96%*	*20.37%*	*19.20%*	*3.54%*	*0.40%*

TABLE 2

JAPAN
STRUCTURE OF IMPORTS BY GROUP OF COFFEE

(60-kilo bags)

	Total	Colombian Milds	Other Mild Arabicas	Brazilian and Other Natural Arabicas	Robustas
1965-69	699,182.00	94,091.00	79,580.00	260,226.00	254,556.00
Percentage	*100%*	*13.46%*	*11.38%*	*37.22%*	*36.41%*
1970-79	1,885,586.80	232,839.10	406,725.70	487,746.30	738,164.40
Percentage	*100%*	*12.35%*	*21.57%*	*25.87%*	*39.15%*
1980-89	3,756,648.00	594,349.10	916,353.50	1,103,646.00	1,116,460.20
Percentage	*100%*	*15.82%*	*24.39%*	*29.38%*	*29.72%*
1990-99	5,320,109.20	1,184,388.10	1,152,233.40	1,524,446.60	1,419,974.10
Percentage	*100%*	*22.26%*	*21.67%*	*28.65%*	*26.69%*

TABLE 3

JAPAN
IMPORTS OF SOLUBLE AND ROASTED COFFEE

(60-kilo bags)

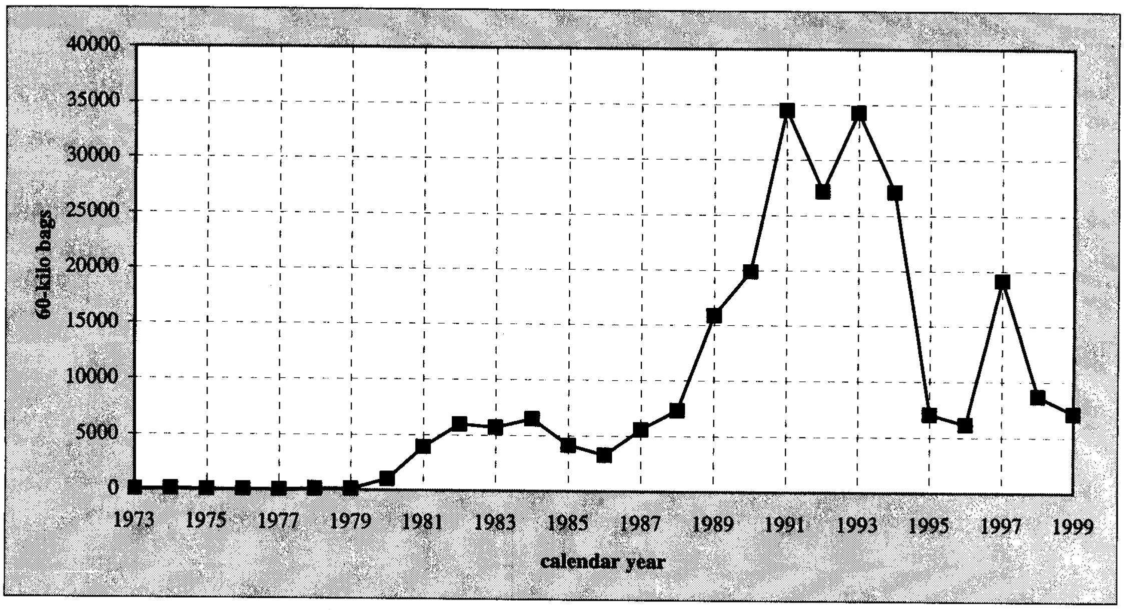
	Soluble	Roasted		Soluble	Roasted
1965	175,757	847	1980	316,633	2,098
1966	81,001	2,657	1981	339,259	4,880
1967	42,352	1,423	1982	364,988	3,633
1968	72,819	1,598	1983	343,323	3,705
1969	113,936	1,501	1984	318,987	3,185
			1985	261,646	3,952
1970	148,498	827	1986	294,398	9,825
1971	133,933	1,424	1987	290,535	25,663
1972	91,712	2,752	1988	347,479	32,334
1973	60,243	4,454	1989	289,449	42,386
1974	187,273	4,012			
1975	205,406	4,696	1990	247,183	52,155
1976	194,929	4,511	1991	253,786	37,783
1977	245,663	1,659	1992	218,061	41,269
1978	176,048	2,450	1993	252,492	53,292
1979	418,679	3,458	1994	238,978	46,243
			1995	271,620	42,257
			1996	262,429	66,204
			1997	257,958	35,250
			1998	300,010	31,339
			1999	284,646	37,117

Consumption

6. Graph 2 shows re-exports from Japan, which were practically non-existent up to the end of the 1970s Graph 3 shows the evolution of coffee consumption in Japan since 1965. Japanese consumption, which was very low in the 1960s, has increased very rapidly over the last two decades, rising from 526,000 bags in 1965 to 1.2 million in 1970, then to 2.3 million in 1975, 3.4 million in 1980, 4.3 million in 1985, 5.2 million in 1990 and 6.2 million in 1995. The rate of increase in consumption was 15.53 percent from 1964 to 1969, rising to 10 percent during the 1970s. The growth rate slowed down somewhat, falling from 4.25 percent between 1980 and 1989 to 1.94 percent between 1990 and 1999.

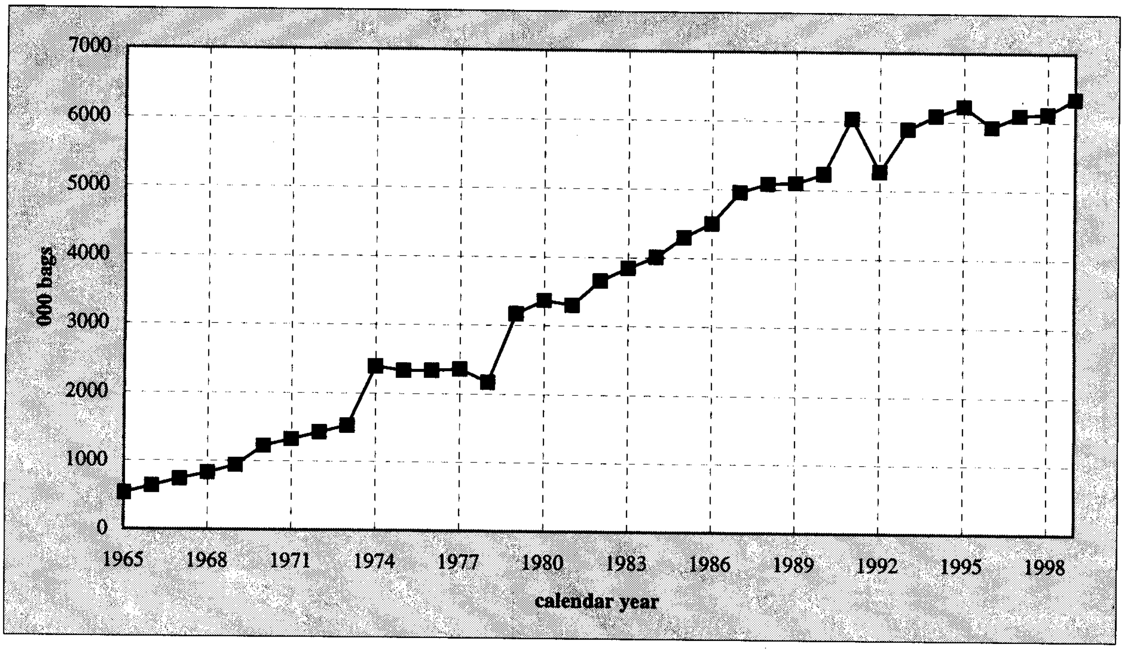
GRAPH 2

JAPAN
RE-EXPORTS



GRAPH 3

JAPAN
COFFEE CONSUMPTION



7. In terms of overall volume of consumption, Japan has now overtaken France, although its per capita consumption still remains low (2.9 kg in 1998) compared to that of France (5.4 kg). Coffee ranks just behind tea as the national beverage of Japan. Table 4 below gives data on total consumption, population and per capita consumption from 1965 to 1999. Per capita consumption rose from an average of 400 grammes between 1965 and 1969 to 1.1 kg during the 1970s. Average consumption was 2.1 kg between 1980 and 1989, before stabilising at around 2.8 kg during the 1990s. Graph 4 shows the annual evolution of per capita consumption since 1965.

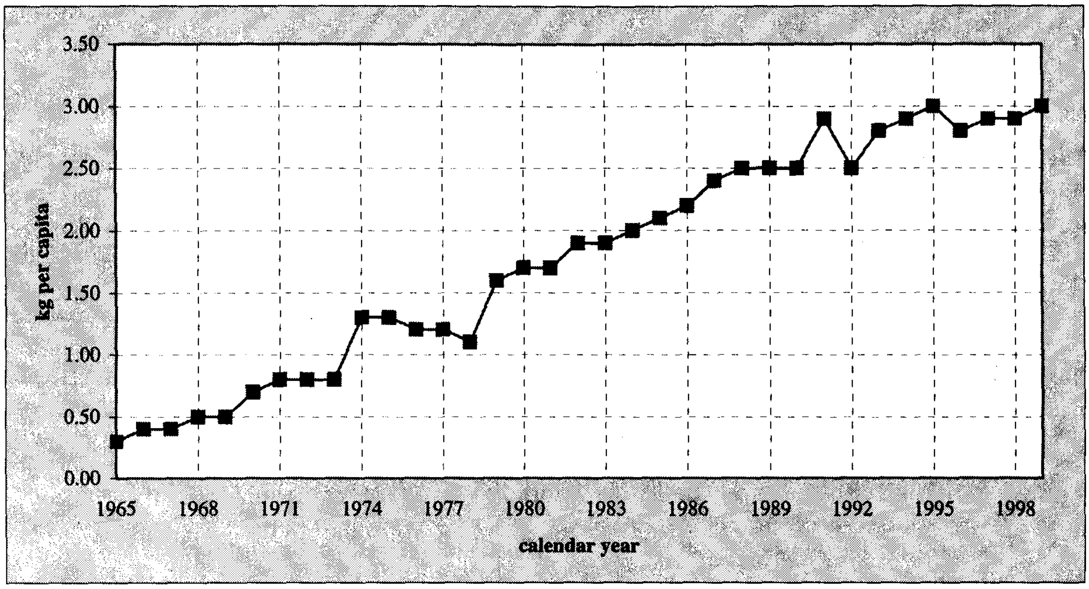
TABLE 4

JAPAN
CONSUMPTION, POPULATION AND PER CAPITA CONSUMPTION

Calendar year	Consumption (million bags)	Population (million)	Per capita consumption (kg)
	(1)	(2)	(3)
1965	0.5	98.9	0.3
1966	0.6	99.8	0.4
1967	0.7	100.8	0.4
1968	0.8	102.0	0.5
1969	0.9	102.2	0.5
1970	1.2	103.4	0.7
1971	1.3	105.7	0.8
1972	1.4	107.2	0.8
1973	1.5	108.7	0.8
1974	2.4	110.2	1.3
1975	2.3	111.6	1.3
1976	2.3	112.8	1.2
1977	2.4	113.9	1.2
1978	2.2	114.9	1.1
1979	3.2	115.9	1.6
1980	3.4	116.8	1.7
1981	3.3	117.7	1.7
1982	3.7	118.5	1.9
1983	3.8	119.3	1.9
1984	4.0	120.1	2.0
1985	4.3	120.8	2.1
1986	4.5	121.5	2.2
1987	5.0	122.1	2.4
1988	5.1	122.6	2.5
1989	5.1	123.1	2.5
1990	5.2	123.5	2.5
1991	6.0	124.0	2.9
1992	5.3	124.4	2.5
1993	5.9	124.8	2.8
1994	6.1	125.2	2.9
1995	6.2	125.5	3.0
1996	5.9	125.8	2.8
1997	6.1	126.1	2.9
1998	6.1	126.4	2.9
1999	6.3	126.4	3.0

GRAPH 4

JAPAN
PER CAPITA COFFEE CONSUMPTION



8. The structure of consumption (Table 5) shows the significance of the share of soluble coffee compared with roasted and canned coffee in the 1980s. This share has been reduced, however, in favour of new forms such as liquid coffee sold in cartons or plastic bottles.

TABLE 5

JAPAN
STRUCTURE OF COFFEE CONSUMPTION

(percentage)

	Soluble	Roasted	Canned	Others
1980	57.6	33.3	9.1	
1983	58.8	29.4	11.8	
1985	59.2	29.4	11.4	
1987	53.8	33.1	13.1	
1990	50.6	33.1	16.3	
1992	47.1	35.7	17.3	
1994	45.4	37.4	17.3	
1996	45.2	32.6	17.5	4.7
1998	43.8	32.8	17.9	5.5

Source: All Japan Coffee Association, December 1999

9. Despite this rapid growth during the last few decades, the level of consumption appears to have stabilised at around 6 million bags since 1996, particularly on account of the financial volatility in this region of the world. It is nevertheless reasonable to envisage a further increase since the potential still exists to raise per capita consumption.

II. Factors accounting for the development of coffee consumption in Japan

10. This significant growth of coffee consumption in a country where the tea ceremony has always been honoured as an art form is due to a number of factors, the most important of which relate to the country's economic environment, its trade policy, socio-demographic features, cultural influences and promotion policies supported by contributions from some coffee exporting countries and the International Coffee Organization.

Economic environment

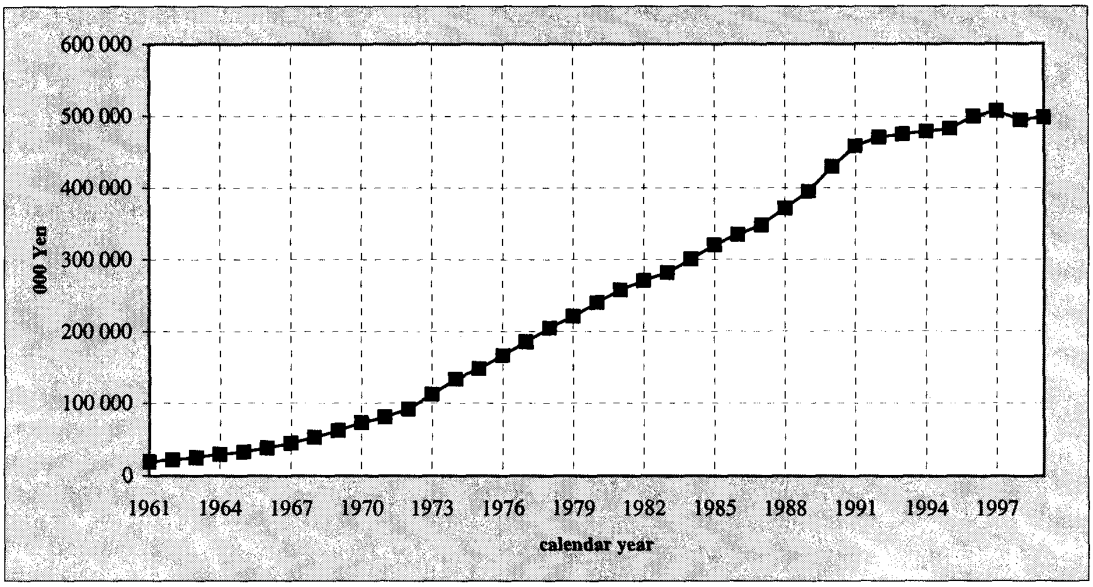
11. Japan's economic and industrial development since World War II is well known. Japan is an archipelago with very few natural resources and supports a population of more than 125 million inhabitants in a relatively small surface area (378,000 km^2). Despite these constraints and the massive destruction of its industries during World War II, Japan has now become one of the world's leading industrial and economic nations. Its economy continues to be one of the most solid in the world in spite of recent growth crises.

12. Immediately following World War II, the Japanese economy was paralysed by a chronic food shortage and galloping inflation. Domestic demand fell sharply and there was a thriving black market economy. Over the course of the first post-war decade, Japan successfully rebuilt its economy and, with investment support mainly from the United States, became one of the leading industrialised nations. Furthermore, far-reaching social reforms laid the foundations for subsequent economic development. From 1951 the gross domestic product (GDP) returned to the level of 1934-36. During the 1960s the rate of economic growth was almost 12 percent. Japan's GDP (the value of all goods and services produced in the country) is the world's second highest after the United States.

13. Graphs 5 and 6 show, in yen, the evolution of the gross domestic product and per capita gross domestic product.

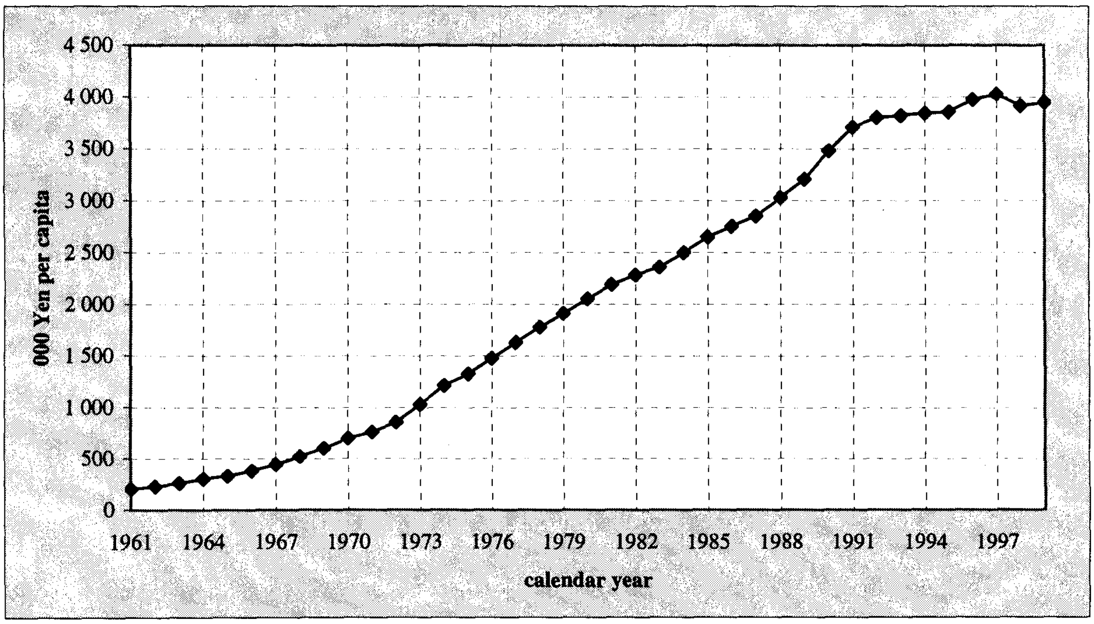
GRAPH 5

JAPAN
GROSS DOMESTIC PRODUCT



GRAPH 6

JAPAN
PER CAPITA GROSS DOMESTIC PRODUCT



Socio-demographic factors

14. Japan has a very highly concentrated population, particularly in the urban areas. More than 77 percent of the population lives in towns and cities, where the unemployment level is below 3 percent. The average worker's salary is one of the highest in the world. Expenditure on food and drink accounts for 25 percent of the household income and 2 percent of this expenditure goes on tea, coffee and cocoa. Cultural factors have also influenced coffee consumption. With the United States presence following World War II, eating habits began to conform increasingly to those of the western model. At the same time, the development of the country's industry and trade encouraged the adoption of the lifestyle of industrial western nations and large numbers of Japanese began to drink coffee at breakfast and after dinner.

15. Coffee, long considered a luxury beverage, kept its positive image. It was given as a special gift during the country's two major festive seasons (*Ochugen* in June and *Oserbo* in December) and among the millions of gifts given during these two festivals, coffee had a very important place. Furthermore, the difference in the cultural and economic levels of the urban and rural populations was gradually reduced. The demographic structure has also had a major influence on the increase of coffee consumption in Japan. In fact, young people, in particular those in their thirties and forties, are drinking much less tea compared to the older generation and are filling the gap with coffee, milk and other non-alcoholic beverages (soft drinks). Coffee is widely consumed in towns and cities by workers and trend-setters. It may be noted that for many years promotion campaigns were conducted in the country's main towns and cities.

Price levels

16. Tariff policies have had a favourable effect on the growth of coffee consumption in Japan. In fact, the level of taxes and import duties on green coffee favoured industrial development in the coffee sector. Table 6 shows the unit value of imports of green coffee and

the ICO composite indicator price from 1965 to 1999. Retail prices of soluble and roasted coffee are shown, in US cents and yen, in Tables 7 and 8 respectively.

TABLE 6

JAPAN
UNIT VALUE OF IMPORTS OF GREEN COFFEE AND ICO COMPOSITE INDICATOR PRICE

(US cents per pound)

	Unit value	ICO composite indicator price		Unit value	ICO composite indicator price
1965	33.93	40.37	1980	171.05	150.67
1966	31.70	39.61	1981	119.85	115.42
1967	35.56	37.22	1982	127.64	125.00
1968	27.72	37.36	1983	126.07	127.98
1969	27.09	38.71	1984	140.36	141.19
			1985	131.77	133.10
1970	31.49	50.52	1986	189.86	170.93
1971	27.37	44.66	1987	120.80	107.81
1972	27.06	50.41	1988	127.67	115.96
1973	42.07	62.16	1989	122.92	91.67
1974	66.30	67.95			
1975	62.76	71.73	1990	81.09	71.53
1976	104.22	141.96	1991	86.37	66.80
1977	220.36	229.21	1992	72.51	53.35
1978	164.45	155.15	1993	74.14	61.63
1979	157.08	169.50	1994	124.73	134.45
			1995	166.75	138.42
			1996	125.27	102.07
			1997	150.68	133.91
			1998	135.70	108.95
			1999	104.94	85.72

TABLE 7

JAPAN
RETAIL PRICE OF SOLUBLE COFFEE

	US cents/lb	Yen/150 g		US cents/lb	Yen/150 g
1965	639.95	765.00	1984	1,295.04	1,016.00
1966	641.56	768.75	1985	1,356.36	1,060.83
1967	619.15	741.50	1986	1,952.55	1,082.08
1968	426.83	509.00	1987	2,046.37	977.92
1969	420.50	498.33	1988	2,071.01	876.75
			1989	1,943.71	885.08
1970	417.13	493.92			
1971	448.05	514.58	1990	1,989.35	941.75
1972	502.57	503.83	1991	2,566.01	1,142.17
1973	550.80	494.17	1992	2,752.50	1,151.83
1974	598.99	577.92	1993	3,121.99	1,144.67
1975	671.53	659.00	1994	3,447.13	1,163.58
1976	728.75	714.08	1995	4,041.16	1,250.42
1977	1,191.06	1,045.08	1996	3,379.79	1,214.17
1978	1,700.52	1,182.50	1997	2,991.80	1,196.33
1979	1,436.50	1,028.18	1998	2,960.44	1,276.17
			1999	3,394.14	1,273.75

Note: Data not available from 1980 to 1983

TABLE 8

JAPAN
RETAIL PRICE OF ROASTED COFFEE

	US cents/lb	Yen/200 g		US cents/lb	Yen/200 g
1982	644.20	706.00	1990	1,025.74	651.42
1983	682.90	715.00	1991	1,188.16	705.17
1984	688.25	720.00	1992	1,262.08	704.00
1985	719.92	751.67	1993	1,457.21	712.42
1986	985.19	727.42	1994	1,469.47	661.25
1987	1,013.19	645.42	1995	1,771.76	729.58
1988	1,099.80	620.92	1996	1,524.21	730.67
1989	1,046.08	635.33	1997	1,421.62	757.58
			1998	1,351.57	777.33
			1999	1,532.37	767.17

17. Other factors, which are difficult to quantify, also contributed to the growth of coffee consumption in Japan, in particular restrictions on alcoholic beverages. The harsh climate has also had an influence on the consumption of hot beverages, including coffee. In summer, consumption is maintained by marketing coffee as an iced drink. In fact, Japan has proved extremely flexible in adopting new consumption trends.

Promotion of coffee consumption

18. As can be seen from the above paragraphs and from Graph 3 above, coffee consumption was negligible in the 1950s and 1960s. A sustained promotion campaign in the 1960s, 1970s and 1980s helped to increase consumption. Brazil was the first country to carry out promotion activities in Japan. The International Coffee Organization expanded the programme under the various International Coffee Agreements before handing over promotion activities to the Japanese private sector, in particular the All Japan Coffee Association. Colombia also carried out promotion activities in the mid-1980s.

The contribution of Brazil

19. Promotion campaigns carried out by Brazilian producers helped to increase the popularity of coffee consumption in Japan. Under the *Paulista* coffee promotion campaign, Brazil provided Japan with 800 tonnes of free green coffee a year during the period from

1912 to 1928. Moreover, when Japanese nationals living in Brazil returned to their country of origin, they took with them a taste for Brazilian coffee and maintained business relations in the coffee sector. Brazil supplied 32 percent of Japanese demand during the 1960s. It continues to be the leading supplier of the Japanese market, providing, on average, 23 percent of the country's total imports, followed by Indonesia and Colombia.

The contribution of Colombia

20. In the mid-1980s Colombia launched a major promotion and advertising campaign in Japan. In fact, Colombia was the only exporting country to invest large sums of money individually for promotion activities in Japan. This major promotion campaign influenced the structure of consumption in the country and a growing number of Japanese consumers have a preference for high-priced and high-quality coffee. Colombia, which exported around 532,000 bags of coffee to Japan in the 1980s, has been exporting an annual average of 1.02 million bags, or 19.2 percent of Japan's total coffee imports, since 1990.

The contribution of the International Coffee Organization

21. From the first International Coffee Agreement in 1962 up to the 1983 Agreement, generic promotion activities were conducted in 15 importing countries, namely Belgium, Canada, Czechoslovakia, Denmark, France, Germany (Federal Republic), Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom and the United States[1]. Apart from the period preceding the first International Coffee Agreement in 1962, promotion campaigns were conducted in Japan during two periods, namely from 1966/67 to 1972/73 under the 1962 and 1968 Agreements, and from 1979/80 to 1988/89 under the 1976 and 1983 Agreements.

22. The quota system operated within the framework of the aforementioned Coffee Agreements encouraged the disposal of excess stocks of exporting Member countries to

[1]*See document PC-649/92 "Promotion Fund, Report of the Chairman".*

certain Member and non-member countries at relatively low prices. It should be noted that, in order to encourage coffee consumption, the 1962 Agreement classified Japan among the Annex B countries[2] and not among the countries covered by quotas. Accordingly Japan, which up to then had consumed only tea, attracted the promotion efforts of exporting countries which sold the country high quality coffee at relatively low prices. This promotion policy helped to support Japan's love affair with coffee, with the result that the country has now become the world's third largest importer of coffee after the United States and Germany. Instant coffee has played a major role in promoting the increase of coffee consumption in Japan. This increase is linked to promotion campaigns for instant coffee conducted by private companies.

All Japan Coffee Association

23. The private sector of the Japanese coffee trade, through the All Japan Coffee Association, took over promotion activities from the International Coffee Organization, using its own funds to continue the generic promotion of coffee. The reorganisation of marketing channels, involving multiple distribution outlets for fresh coffee and a large number of intermediaries, has provided support for this promotion campaign. Importers and distributors have constantly come up with original ideas to persuade Japanese consumers to drink more coffee.

III. Prospects for coffee consumption in China

24. To what extent can this Japanese experience serve as an indicator of the development of coffee consumption in China? China is a huge country covering an area of 9.6 million km^2 with a population of around 1.23 billion inhabitants, of which only 31 percent lived in urban areas in 1996. China, a major tea-drinking country like Japan, is one of the world economies that has experienced rapid growth in the 1990s.

---

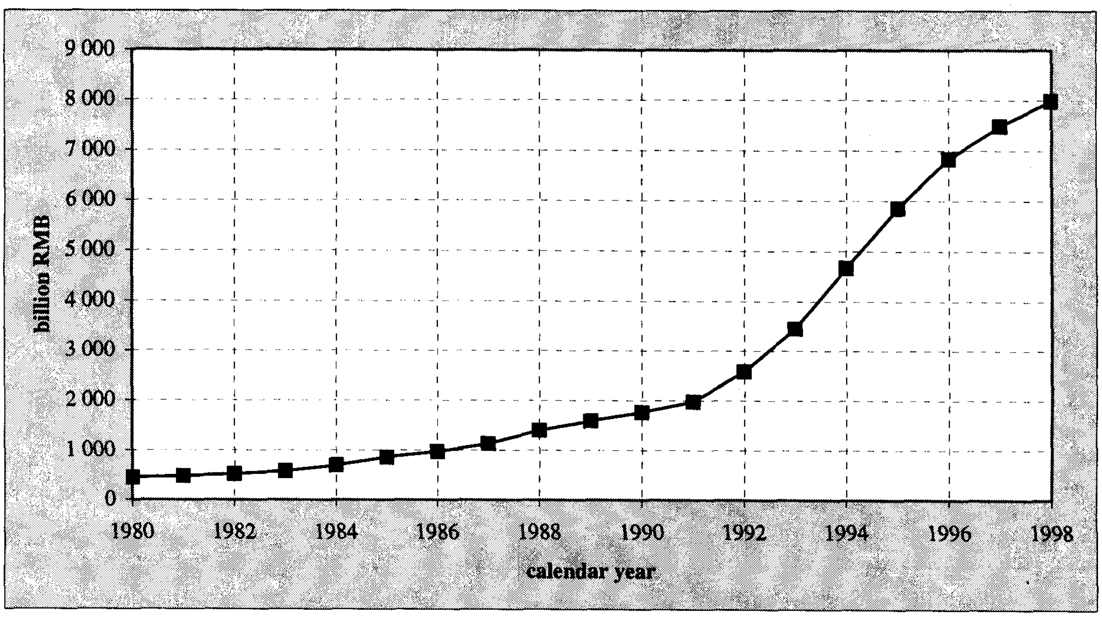
[2] *List of "new markets" annexed to the 1962 Agreement.*

Economic environment

25. A little over 20 years ago China was ranked among the world's poorest countries, with 80 percent of its population living on a daily income of around 1 US dollar. Only a third of the adult population could read and write. However, a major programme of economic, social and agricultural reforms launched in 1978 enabled China to make a significant changeover to a market economy, with a growth rate of around 8 percent a year. Graphs 7 and 8 show the evolution of the gross domestic product and the per capita GDP in China since 1964. Economic growth began in the early 1980s and has continued unabated during the 1990s. The per capita gross domestic product rose from between US$300 and US$370 between 1980 and 1991 to more than US$870 today. The average rate of increase of the gross domestic product for the period 1980 to 1989 was 13.54 percent, and 20.73 percent for the period 1990 to 1998. Over the same periods, the Japanese GDP was 5.13 and 1.78 percent respectively.

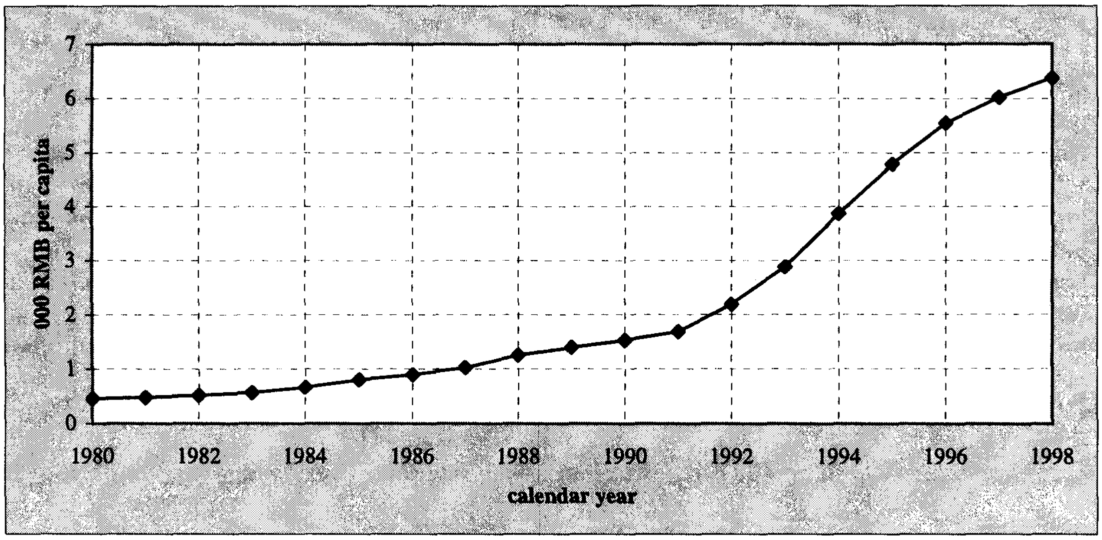
GRAPH 7

CHINA
GROSS DOMESTIC PRODUCT



GRAPH 8

CHINA
PER CAPITA GROSS DOMESTIC PRODUCT



26. The consumption of goods and services has more than doubled since poverty was substantially reduced. The standard of living of more than 200 million Chinese living in extreme poverty has improved accordingly Growth has been encouraged by massive foreign investments, in particular from Hong Kong and Taiwan. Table 9 below shows the main economic indicators of China since 1992:

TABLE 9

CHINA
PRINCIPAL ECONOMIC AND FINANCIAL INDICATORS

	1992	1993	1994	1995	1996	1997	1998
GDP (billion RMB[3])	2,663.81	3,450.10	4,669.10	5,851.10	6,833.00	7,489.50	7,985.30
Real GDP growth	14.20	13.50	11.80	10.20	9.70	8.80	6.60
Retail price index	5.40	13.20	21.70	14.80	6.10	0.80	n.a.
Consumer price index	6.4	14.6	24.2	16.9	8.3	2.8	-0.8
Urban per capita income (RMB)	1,826.10	2,336.50	3,179.20	3,892.90	4,377.00	5,140.00	n.a.
Rural per capita income (RMB)	784.00	921.60	1,221.00	1,577.70	1,926.00	2,080.00	n.a.
Unemployment rate (%)	2.30	2.60	2.80	2.90	3.00	3.00	3.10
Exchange rate (RMB/US$)	5.52	5.76	8.62	8.35	8.31	8.29	8.28
Foreign exchange reserves (billion US$)	19.44	21.20	51.62	73.60	105.03	139.90	144.96

Source : The United States-China Business Council. June 1998 / IMF - April 2000
n.a.: Not available

[3] *RMB = yuan renminbi.*

27. During the period 1990 to 1995, the growth rate of the gross domestic product was around 12 percent, making China the country with the world's fastest-growing economy. The gross domestic product reached 5,850 billion RMB yuan in 1995 (US$700 billion) and more than 7,900 billion RMB yuan in 1998 (US$964 billion). External trade increased at an annual rate of around 16 percent. Foreign exchange reserves rose from US$19 billion in 1992 to US$145 billion in 1998. Some analysts confidently predict that within 20 years the Chinese economy will overtake that of the United States.

Evolution of coffee consumption

28. China is known throughout the world as a major traditional tea-drinking country. For a long time coffee was regarded as a very expensive luxury beverage associated with Western culture. China produces small amounts of Arabica coffee in the Yunnan province and Robusta coffee in the Hainan island. Coffee growing was encouraged by the agrarian reforms of the early 1980s. Since 1988 the World Bank has provided financial support for the development of coffee growing in the Yunnan province. The United Nations Development Programme (UNDP) has also participated in the development of the coffee industry in that province.

Imports

29. Chinese coffee imports were practically non-existent until the late 1970s. Table 10 and Graph 9 show imports of coffee since 1980. During the 1980s, China imported an average of 233,173 bags a year, of which Colombian Milds accounted for 1 percent, Other Milds for 10 percent, Brazilian and Other Natural Arabicas for 6 percent, and Robustas for 60 percent. Imports fell by 57 percent during the 1990s. Robusta continues to be China's main coffee import, as was the case in Japan during the 1960s and 1970s.

GRAPH 9

CHINA
IMPORT OF GREEN COFFEE

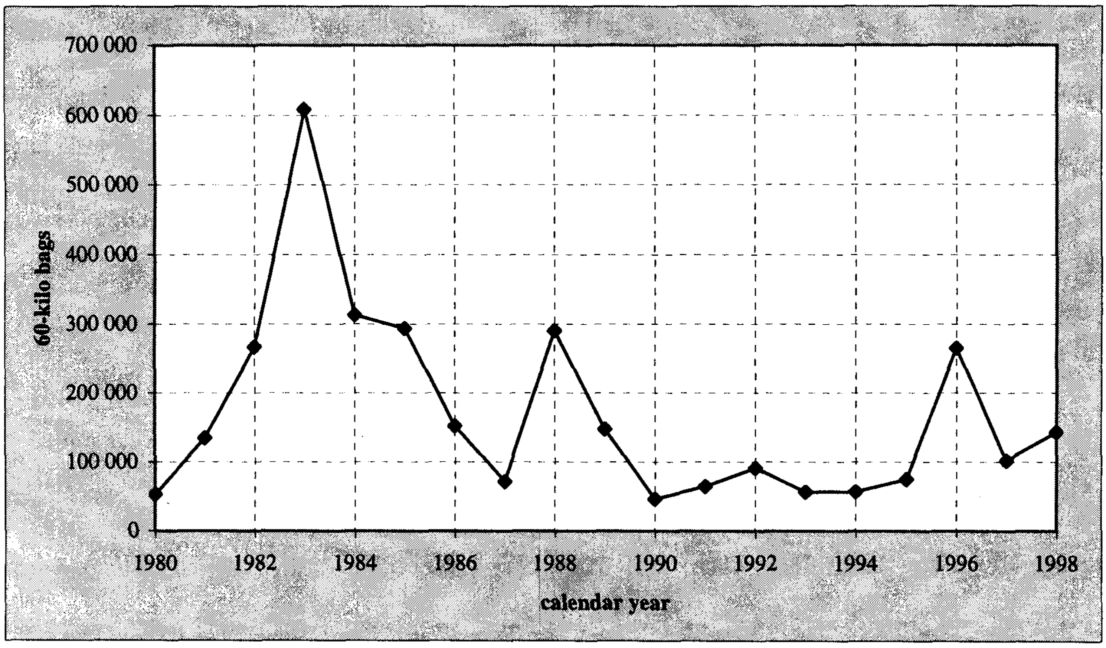


TABLE 10

CHINA
IMPORTS OF GREEEN COFFEE

(60-kilo bags)

	Total		Total
1980	53,244	1990	46,312
1981	134,537	1991	64,704
1982	266,908	1992	91,171
1983	608,293	1993	56,488
1984	313,200	1994	57,232
1985	293,721	1995	74,888
1986	152,054	1996	265,103
1987	72,040	1997	101,813
1988	290,433	1998	142,882
1989	147,296		

30. Re-exports by China (Table 11) sometimes exceed imports since China also produces coffee in some of its provinces. When production is greater than the level of domestic consumption China reduces its imports, becoming, on occasion, a net exporter of coffee (Table 12). China grows coffee on around 76,000 hectares in the provinces of Yunnan (Arabica) and Hainan (Robusta) producing an average of 30,000 bags of coffee a year.

TABLE 11

CHINA
RE-EXPORTS OF GREEN COFFEE

(60-kilo bags)

	Total		Total
1980	5,177	1990	31,934
1981	71,142	1991	5,548
1982	195,424	1992	715
1983	387,927	1993	11,731
1984	116,007	1994	18,994
1985	25,850	1995	8,051
1986	32,933	1996	1,584
1987	34,811	1997	239,292
1988	23,399	1998	34,420
1989	95,362		

TABLE 12

CHINA
NET IMPORTS OF GREEN COFFEE

(60-kilo bags)

	Total		Total
1980	48,067	1990	14,378
1981	63,395	1991	59,156
1982	71,484	1992	90,456
1983	220,366	1993	44,757
1984	197,193	1994	38,238
1985	267,871	1995	66,837
1986	119,121	1996	263,519
1987	37,229	1997	-137,479
1988	267,034	1998	108,462
1989	51,934		

Note: a negative symbol means net exports

Socio-demographic factors

31. With the takeoff of China's economic development, the size of its population is a favourable factor for the long-term growth of coffee consumption. The population structure is also a positive factor (Table 13). In fact, the population aged between 15 and 44, which tends to represent a potential consumption demand, was estimated at 628 million inhabitants in 1995, representing 51.4 percent of the total population. This population will be around 666 million, or 49.8 percent of China's total population in 2005. Since China is a country where tea-drinking has been a time-honoured practice, promotion activities directed

towards young people, who are more receptive to change and to western culture, are likely to bear fruit. It should be noted that the Chinese population aged between 15 and 24 is equivalent to the whole of the United States population.

TABLE 13

CHINA
POPULATION STRUCTURE

(in thousands)

	Total	0-14 years	15-24 years	25-44 years	45-59 years	60 years +
1995	1,221,462	322,509	221,219	406,994	156,581	114,159
Percentage	*100%*	*26.40%*	*18.11%*	*33.32%*	*12.82%*	*9.35%*
2000	1,284,598	325,600	197,431	439,621	194,276	127,670
Percentage	*100%*	*25.35%*	*15.37%*	*34.22%*	*15.12%*	*9.94%*
2005	1,337,310	304,799	216,354	449,851	226,098	140,208
Percentage	*100%*	*22.79%*	*16.18%*	*33.64%*	*16.91%*	*10.48%*
% 1995-2000	**9.48%**	**-5.49%**	**-2.20%**	**10.53%**	**44.40%**	**22.82%**

32. One of the characteristics that differentiates China from Japan is the geographical distribution of the population. In Japan more than three-quarters of the population lives in urban areas and the average annual income is among the highest in the world. In China two-thirds of the population lives in rural areas with an average annual income among the world's lowest. It should be noted that the tradition in China's rural areas is to consume only natural products, which are considered less harmful to the stomach and therefore favourable to human health. A promotion campaign focussing on the idea of fresh coffee could help to give the beverage a positive image.

Influence of price levels

33. Taxes on coffee remain one of the obstacles to an increase of consumption in China. Imports of green coffee are subject to an import duty of 20 percent, while those of roasted coffee pay 40 percent. On top of this, there is a value added tax of 17 percent. The level of international prices has a significant effect on coffee consumption, since coffee-drinking is a recently introduced habit. Table 14 shows the unit value of imports of green coffee into

China since 1980. For low average incomes, coffee is a luxury compared with tea. The switch to coffee was far easier in Japan, which benefited in the 1960s and 1970s from imports at relatively low prices thanks to the economic clauses of the International Coffee Agreements.

TABLE 14

CHINA
UNIT VALUE OF IMPORTS
AND ICO COMPOSITE INDICATOR PRICE

(US cents per pound)

	Unit value	ICO composite indicator price		Unit value	ICO composite indicator price
1980	110.30	150.67	1990	67.36	71.53
1981	90.06	115.42	1991	64.76	66.80
1982	67.73	125.00	1992	60.09	53.35
1983	51.53	127.98	1993	66.19	61.63
1984	50.51	141.19	1994	120.46	134.45
1985	60.34	133.10	1995	145.55	138.42
1986	123.53	170.93	1996	71.39	102.07
1987	99.42	107.81	1997	97.26	133.91
1988	76.28	115.96	1998	109.72	108.95
1989	64.93	91.67			

CONCLUSION

34. Although the current level of consumption in China is low, there are convincing reasons to believe that China's economic performance will help to increase the population living in urban areas and develop the coffee-drinking habit. In fact, the experience of Japan shows that even a traditional tea-drinking country can switch to coffee when its level of development approaches Western levels. However, as was the case in Japan, a strong promotion campaign by both private companies and exporting countries would no doubt help to bring about a substantial increase in coffee consumption in China.

35. China is a huge potential market for coffee consumption that is ripe for development. The current generic promotion programme of the Organization differs substantially, both in size and scope, from the promotion campaigns that were developed in the 1980s in Japan and other importing countries. Promotion is a long-term activity that produces results only

after a number of years. The current performance of the Chinese economy and its outstanding prospects clearly indicate that such an activity should be pursued in order to ensure a huge market for coffee consumption in both the medium and long terms.

36. Promotion campaigns in Japan carried out by private companies and by some exporting countries, and supported by exports to that country of high quality coffees at relatively low prices, made it possible to boost the coffee-drinking habit to the detriment of tea. Within the framework of the current generic promotion programme of the International Coffee Organization, results similar to those achieved in Japan could be envisaged provided that these three factors are combined, namely joint action by the private sector and Members of the Organization on the one hand and, on the other, the effect of the level of retail prices on coffee consumption in China. In the case of joint action by the private sector and the ICO, the establishment of the Private Sector Consultative Committee provides a very important framework for a partnership that would reinforce promotion efforts to increase coffee consumption both in China and in Eastern European countries.

37. The factors that favoured a rapid growth of consumption in Japan are not all wholly present in China but it should be noted that the opening up of the country's economy and trade is bound to create investment opportunities in the coffee industry. Foreign investment will lead to an increase in the incomes of a large part of the population and will help to change consumption habits, with the adoption of a western model of consumption. The number of coffee bars in the country's major towns and cities has already been growing year by year and the Chinese are becoming increasingly aware of coffee. In the case of Japan, it took some 20 years for the country to reach its present level of coffee consumption. But it could take China far less time to reach a similar level. Furthermore, the country's membership of the World Trade Organization is expected to produce positive effects.