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DEVELOPMENT OF GOURMET COFFEE
POTENTIAL

COMPLETION REPORT:
EXECUTIVE SUMMARY

International Coffee Council
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DEVELOPMENT OF GOURMET COFFEE POTENTIAL
COMPLETION REPORT: EXECUTIVE SUMMARY

This report summarizes results obtained by the development of gourmet coffee potential project (the last progress report contained in document EB-3649/97 Rev. 5 was circulated in September 1999). Copies of the full completion report will be made available to Members in due course.

**DEVELOPMENT OF GOURMET COFFEE POTENTIAL
COMPLETION REPORT: EXECUTIVE SUMMARY**

A. INTRODUCTION

1. The development of gourmet coffee potential project aimed to identify and market a small number of new coffees of gourmet quality from Brazil, Burundi, Ethiopia, Papua New Guinea and Uganda. The objective was to generate price premia which would demonstrate the added value “quality” can provide – the expertise so gained was to be made available to all ICO Members. The original duration was 30 months but this was subsequently extended to three years. The project closed in April 2000.

2. This presentation is a brief resume of the experiences and results obtained through this pilot project – the following preliminary and explanatory comments are relevant:

- In much of the report-back the term “gourmet” is replaced by “specialty” because, through US leadership in the growth of this market segment, this is the most frequently encountered and probably most comprehensive “umbrella” description.
- There is much justified concern about the practice of pricing physicals, especially better quality coffee, against the New York Futures Market “C” Contract (the NYKC). Yet the NYKC remains the most widely used basis for price comparison, also for the specialty industry, and it is therefore used in the different reports.
- In the context of this project “production” means the post-harvest process.

3. The project was approved by the International Coffee Organization at its 67th Council Session in May 1995. The ICO has acted as the Supervisory Body for the project, which was financed by the Common Fund for Commodities (US\$1.0 million)

with co-financing by the project countries (US\$0.3 million), and the ICO itself (US\$0.1 million). The International Trade Centre UNCTAD/WTO was the executing agency.

4. The project reports comprise this presentation, a project completion report with a number of annexes, five individual country reports, and three market studies of the US, Japanese and Italian specialty markets. All will shortly be available through the Internet from the Organization's Web site. The reports are intended to convey practical information to industry strategists and professionals, technicians, processors and growers alike. Accordingly the annexes and country reports go into some considerable detail and have not been formally edited in order to preserve the different messages intact.

B. MARKET DEVELOPMENT DURING PROJECT IMPLEMENTATION

1. Markets and prices

5. During the life of the project the market as a whole, and specialty coffee in particular, suffered dramatic price falls:

- The Hamburg/Bremen Arabica indicator fell from about 225 US cents/lb in April 1997 to just 110 US cents/lb ex-dock in April 2000. During the same period the 2nd trading position on the NYKC fell from 196 to about 95 US cents/lb at the time of writing.
- Premia for most specialty coffees fell even more. The differential for specialty grade Kenya AA grade came down from a high of about 335 US cents/lb in April 1998 to just about 40 to 50 US cents/lb in April 2000. The collapse of the Kenya "price umbrella" has caused extremely severe difficulties for most specialty producers, especially in Africa.

- Substantial corporate take-over activity in the US specialty sector means a growing concentration of green coffee buying power in fewer hands. The specialty market is witnessing increasing price resistance all-round as a result.

2. Price resistance and quality

6. Price resistance means cheaper types of “specialty coffee”, especially blends, are increasingly being promoted. This trend is exacerbated by competition from automated “in store” roasting units which enable coffee to be roasted at literally any point of sale, in any type of retail store or supermarket. The specialty market is increasingly splitting along roughly the following lines:

- *Exemplary:* Top “quality of life “ “straight” origin coffees for connoisseurs. Price of little importance. Includes top of the range organic. Small to medium operators – individualised purchasing, mostly from specialised importers. True “gourmet” coffees, comprising perhaps as little as 5 percent of the entire specialty business.
- *Specialty:* Freshly roasted, good quality coffee, not necessarily of single origin. Increasingly large to larger chain operators. Centralised purchasing, from importers and direct from origin. Very price conscious. Increasing proportion of sales consist of blends with “straight” origins concentrated in so-called “flagship stores”. General labels as organic, shade grown, etc.
- *Price Leaders:* Bulk, mediocre but “fresh” coffee. Entirely centralised bulk procurement. Extremely price conscious. Some “straight” origins but only standard qualities. No room for organics, etc. Base for many “flavoured” specialty coffees.

7. Despite this impression that overall “quality” is falling in the specialty segment, the overall impact of the “specialty concept” has been and continues to be exceptionally beneficial to the industry in that the average quality of coffee being purchased and served to-day in the US (and in a number of countries elsewhere) has improved tremendously since the 1970s and early 1980s.

C. PROJECT OUTPUT

8. Ten “new” Arabica coffees were identified and brought to market from Burundi (3), Ethiopia (4), Papua New Guinea (2) and Uganda (1). In addition washed Robusta trials were made in Uganda, and 10 different Brazilian coffees were selected through an international cupping competition. Apart from two estate coffees from Ethiopia, all the coffees from Africa and Asia come from typical smallholder groups. Those from Brazil originated from comparatively larger individual holdings whose larger output permitted them to be presented under each growers’ name.

9. Impressive assistance and cooperation from the All Japan Coffee Association (AJCA) and the Specialty Coffee Association of America (SCAA) result in project participation in exhibitions and tasting seminars in both the US and Japan. Wide exposure of all project coffees has been obtained and lasting links established between a number of producers and importers/roasters in these target markets.

10. As a world first for the international coffee industry 10 small parcels of Brazilian project coffee are successfully auctioned over the Internet at high prices to buyers in Europe and the US. Total direct and indirect sales of project coffee were just short of 10,000 bags by end April 2000 at premia over the NYKC ranging from 10 to 35 US cents/lb. The premia realised in the Internet auction were much higher but obviously included a certain “celebrity” value.

Brazil	1,433 bags	Japan	566	USA	200	Europe	667
Burundi	5,514 bags	Japan	2,283	USA	850	Europe	2,381
Ethiopia	600 bags	Japan	600				
Papua N. Guinea	300 bags	Japan	300				
Uganda	1,750 bags	Japan	300	USA	850	Europe	600

11. There are signs that the SCAA wishes to build on the success of the project to promote an extension of the concept in the form of a further project involving other countries.

12. Trade names and logos have been developed for all coffees with Brazil opting for a Mark of Excellence (applicable to any coffee meeting the required standard). A large number of promotional items (brochures, counter posters, information texts, magazine articles and some video material) were produced and distributed to the specialty trade in both Japan and the US. These were preferred target markets of all project countries with Papua New Guinea directing its smallholder coffee specifically at the Japanese market.

13. The future sustainability of these “stand alone” coffees depends on market developments generally, and on independent follow-up action by both sellers and buyers. In a few countries certain aspects of the internal marketing regulations were relaxed to facilitate the identification and control over project coffee: these need to be formalised to safeguard future availability. Finally, fairly simple authentication procedures have been agreed in all project countries but these are likely to be surpassed by ongoing research into the origin certification of coffee shipments generally.