

Huge growth in coffee industry

Opportunity for SA agricultural sector with demand from domestic and export markets

Gilberto Biauana

THERE has been a notable rise in coffee culture in South Africa in recent years driven by an increasing upwardly mobile middle class.

This, coupled with a growing café culture, continues to influence the positive trajectory of the coffee industry. Consumers are increasingly demanding better quality coffee, with organic and ethically sourced "fair trade" products at the forefront of this growth.

There has also been a general increase in the demand for speciality and more premium coffees such as origin-specific coffees, with a gradual shift from instant coffee to more authentic or speciality coffee consumption.

South Africa's consumption of coffee beans increased from 29 790 tons in 2012/13 to 35 400 tons in 2015/16, a compounded annual growth rate of 4.4%.

The profile of the everyday coffee drinker is also changing, with more young, black and upwardly mobile consumers drinking coffee as their beverage of choice.

This rise in the demand for premium coffees has fuelled growth in the number of coffee roasteries and coffee shops across the country. South Africa has more than 100 roasteries compared with fewer than 20 roasteries 10 years ago.

The domestic coffee market has also attracted the attention of multinational coffee chains.

The recent entry into the South African coffee market of the global coffee chain Starbucks is a case in point. From speciality roasteries serving trend-conscious consumers in the major cities, to franchise coffee outlets situated at the forecourts on every major route in South Africa, coffee consumption is more popular than ever.

The coffee value chain comprises coffee bean farming; the processing of the coffee beans including roasting; the manufacture of instant coffee by food processing firms such as Nestlé; and finally the coffee shops that sell the hot beverage to the consumer.

Coffee shops are the major channel through which coffee is consumed, particularly for speciality coffee.

The popularity of espresso machines among consumers at home has partly supported the increasing trend in consumption of speciality coffees.

Despite the increase in the domestic demand for coffee, the country does not produce enough to meet domestic demand.

Between 2001 and last year, coffee bean imports increased by an annual compounded growth rate of 4.1%, from 20.2 million tons in 2001 to 38.6 million tons last year (data from the International



DESIRABLE: Global demand for coffee is on the rise.

PICTURE: REUTERS

“
CONSUMPTION HAS BEEN RISING IN DEVELOPING COUNTRIES DUE TO THE RAPID GROWTH OF THE MIDDLE CLASS

Coffee Organisation).

It is estimated that the global coffee market is worth more than US\$100 billion (R1.3 trillion) and is projected to grow at 4.7% per annum up to 2019.

Last year, major global coffee producers included Brazil (35.7%), Vietnam (16.6%), Colombia (9.4%), Indonesia (7.5%) and Ethiopia (4.3%).

Global coffee production comprises Arabica and Robusta beans. Global coffee production is dominated by Arabica, which accounted for 63% of total global coffee production in the 2016/17 season. Arabica coffee variants mainly include

Colombian milds, Brazilian naturals and other milds (data from the International Coffee Organisation).

Globally, coffee beans are the second-most traded commodity after crude oil. Arabica coffee beans fetch a premium in the market compared with Robusta coffee beans.

The global price for Arabica beans was R43 719/ton in August, up 0.9% from the previous month.

During the same period, Robusta coffee beans were R30 488/ton, up 0.3% compared with the previous month.

From a pricing perspective, there has

been an upward trend with both Arabica and Robusta bean prices.

Global coffee prices had increased by more than 6% in January, this after a 30% increase last year (source: The World Bank).

The growing demand for coffee consumption domestically and internationally presents an opportunity for South Africa to increase its coffee production.

Over the years, coffee farming in South Africa has been limited to relatively few producers in the conducive growing areas of Mpumalanga, Limpopo and KwaZulu-Natal.

Coffee production has the potential to give farmers a good return while at the same time providing much-needed job opportunities for rural communities since production is labour intensive.

Coffee trees simultaneously bear flowers, green beans and ripe beans, and hand-picking of ripe fruit is widely used. Agricultural sector players can take advantage of this to create employment opportunities in sub-tropical areas such as Limpopo, Mpumalanga and KwaZulu-Natal, the country's best-suited growing regions.

Opportunities do not only exist in the primary sector of the value chain.

On-farm value addition of the crop coupled with agri-tourism in growing regions has the potential to create further employment opportunities.

There is also some potential for exports of coffee from South Africa, which could benefit the industry.

The growth in the consumption of coffee is not unique to South Africa.

Consumption has been rising in developing countries such as India, China, Latin America and other African countries due to the rapid growth of the middle class and the high pace of urbanisation.

The International Coffee Organisation estimates that the global demand for coffee will increase by 10.5 million tons by 2020.

This projected trend in the global consumption provides a highly lucrative opportunity for South Africa to increase the production of coffee beans to meet both domestic and export demand.

It is worth noting that some coffee bean producers in South Africa such as Beaver Creek are already exporting to countries like Japan, the UK, the US, Denmark and Germany.

However, the potential to extract more value throughout the coffee value chain should continue to be explored by the agricultural sector.

● *Gilberto Biauana is an economist currently serving as a research analyst for Commodities at the Land and Agricultural Development Bank of South Africa (Land Bank).*