

ROMANIA IN THE EUROPEAN AND WORLD COFFEE MARKET

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Abstract: *The paper is analyzing the position of Romania on the world and EU coffee market, in terms of imports, re-exports and consumption, as well as the relationship between the level of the domestic consumption and the taxes paid by the Romanian coffee consumers. With the third lowest per capita consumption in the EU, the Romanian coffee market has an important potential for further development, along with the overall economic recovery.*

Key words: *coffee trade, consumption, excise duties, Romania*

INTRODUCTION

Worldwide, coffee is the second most consumed beverage, after water. In economic terms it is an important market, and for developing countries it is the second largest export commodity (after crude oil), with an export value estimated to USD 19 billion in 2010. The international trade policy of the '80s in Romania was centered on the repayment of the foreign debt by increasing the exports and reducing as maximum as possible all imports.

The first "victims" of the import cuts were the agri-food products that were not produced domestically and originated from abroad only, such as citrus fruit, bananas, coffee, tea, cocoa, spices etc. As a consequence, coffee, a beverage traditionally consumed in Romania for more than two centuries (due to the presence of the Ottoman Empire), disappeared almost completely from the markets. Along with the shift of political and economic regime, since the beginning of the '90s, coffee was imported again and consumption resumed, such as it doubled in 2005 as compared to 1990.

MATERIALS AND METHODS

The present paper is examining the main evolutions on the Romanian coffee market in the context of the European and world coffee markets, in terms of imports, re-exports, and consumption, by comparison with other EU Member States and EU-27 as an entity. The Romanian coffee market is not particularly transparent, since it still has is an important potential for expansion, and major companies are disputing it, thus information on sales, market shares, consumption patterns are made public in very rare cases. Therefore detailed data series for the domestic coffee market are difficult to find.

The data used in the calculations are extracted from the Eurostat databases, in CN (Combined Nomenclature), at 2 and 4-digit level. The analysis is performed in terms of trade volume (quantities and values), as well as in trade flows (direction and balance).

RESEARCH RESULTS

Coffee production. There are more than 60 coffee species, but only few of them are commercially cultivated (*Coffea Arabica*, *Coffea canephora (robusta)*, *Coffea liberica*). The Robusta coffees (cultivated in Ethiopia, Vietnam) take about 1/3 of the total production. Among the Arabica types of coffee, important for the world exports are the Colombian milds (cultivated in Colombia, Kenya and Tanzania), the Brazilian Naturals (cultivated in Brazil, Ethiopia and Paraguay) and other milds (largely cultivated in India, Mexico, Ecuador, Peru).

The main producer and exporting countries are located in Central and South America, Africa, Asia and Oceania. Due to their geographical location, as well as to the specific variety mix, the coffee output comes on the market in three periods yearly: the

April group (Brazil, Indonesia, Peru, Ecuador); the July group (Tanzania, Dominican Republic, Haiti) and the October group (Vietnam, Colombia, Ethiopia, India, Mexico, Honduras). More than 50 countries are producing and exporting coffee on the world market. Coffee is a high value raw material export, and in some of the producing countries coffee is the backbone of the economy and their exports are relying almost completely on this product. Nevertheless, two countries alone account for half of the world production: Brazil and Vietnam (table 1), while the top 7 producing countries are providing $\frac{3}{4}$ of the total coffee output.

Table 1

Top world coffee producers

Production year	2010/11		2011/12	
	'000 tons*	%	'000 tons*	%
Total world	8063.2	100.0	7875.2	100.0
Brazil	2885.7	35.8	2609.0	33.1
Vietnam	1168.0	14.5	1200.0	15.2
Indonesia	547.7	6.8	495.0	6.3
Colombia	511.4	6.3	468.0	5.9
Ethiopia	450.0	5.6	390.0	5.0
India	302.0	3.7	320.0	4.1
Mexico	291.0	3.6	258.0	3.3

*Note: GBE=green beans equivalent

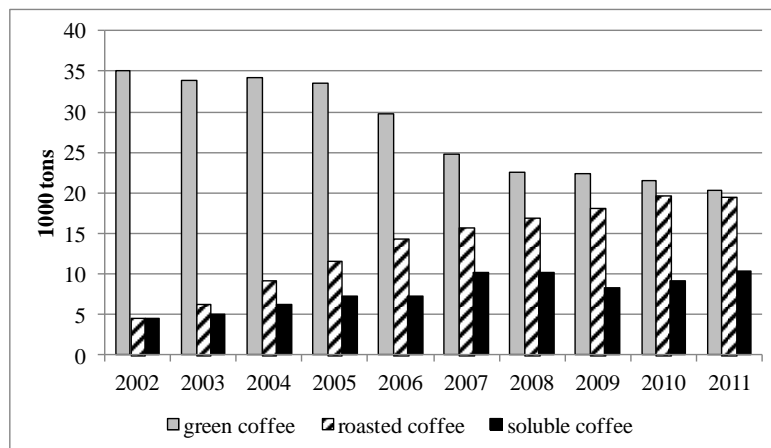
Source: author's calculations based on ICO (International Coffee Organization) data

Coffee trade. Export by producing countries. The two main future markets for coffee are London (Euronext/LIFFE) and New York (ICE). The total value of the world coffee trade increased by 58% (from 18.5 to 29.2 billion USD) between 2006 and 2010 according to FAO estimations. Since coffee is a world-wide consumed product, all producing countries are exporting part of their output. The top exporting countries are the same as the producing ones, but ranking may appear different due to the volume of domestic consumption. The top two producing countries are the top two exporting countries as well, and thus Brazil and Vietnam account for almost half of the total exports.

Imports and re-exports by non-producing countries. Traditionally, the developed countries are the main coffee importers. USA is currently the top coffee importer (21.2% of the total world imports in 2010), followed by Germany (17.9%), Italy (7.1%), France (5.8%) and Belgium (5.1%). Other important non-EU importers are Japan, Canada and Russia.

A special mention is to be made here: the top producing countries are exporting mainly green coffee. Many developed countries are important importers of green coffee (at low import duties) and, after processing (roasting, blending, decaffeinating), they become exporters on the world market. The high import duties for processed coffee (such as 11.5% for soluble coffee from Brazil) prevent the exporting-producer countries to diversify their exports, by increasing the share of products with higher value-added. As an example, in 2010, 95% of the EU-27 extra-community coffee imports were green coffee, while the extra-community re-exports were divided almost equally between green decaffeinated, roasted and soluble coffee. Thus, non-producing coffee countries such as EU member states or the USA appear as important re-exporters of coffee and coffee products.

Romania is a net importing country for coffee. Since 2005, the total coffee imports are rather stable (around 50,000 tons yearly), but the shares of green, roasted and soluble coffee changed significantly over the years (fig. 1). In 2002, 80% of the imports were green coffee, while roasted and soluble coffee took 10% each; in 2011 the share of green coffee halved (down to 40%), while the shares of roasted coffee quadrupled (up to 39%), and the share of soluble coffee doubled (up to 21%).



Source: author's calculations using EU Export Helpdesk data

Fig 1 – Romania's coffee imports (2002-2011)

The main sources for green coffee in Romania in 2002 were Indonesia and Vietnam, with a share of 37.5% each. In 2011, Vietnam was the first source for imported green coffee to Romania (34%), followed by Uganda (11.4%), Brazil (10.9%) and Indonesia (9.8%). EU countries (Germany, Belgium and Italy) supplied only 9% of the green coffee.

The story is quite different for roasted coffee. In 2002, 2/3 of the imports were coming from CEFTA countries (Hungary - 48.5%, Czech Republic - 19.5%), then from EU countries (Germany - 12.8% and Italy - 8.8%). In 2011, 99.9% of the roasted coffee was coming into Romania from EU re-exporting countries (Germany – 32.5%, Bulgaria – 22.8%, Italy – 17.4%, Poland – 10.8%).

Romania is re-exporting insignificant quantities of roasted coffee on the EU market, about 1000 tons in 2009, 2010 and 2011.

Prices. The world coffee consumption shows a slight increase over the years, with no major variations. Therefore, the coffee prices are influenced mainly by the supply volume and the quality of the production, which depends on its turn on the weather conditions of the year in the main production areas.

In 1963 the International Coffee Organization (ICO) was established, including as members 38 of the major producer and exporting countries (accounting for almost 89% of the world supply) and 6 major importing members - EU-27, Norway, Switzerland, Tunisia, Turkey and USA (accounting for almost 85% of the world imports by non-producing countries). Thus the organization is covering most of the world coffee market.

The first International Coffee Agreement (ICA 1962, entered into force in 1963), operating under ICO, contained provisions that allowed the withhold from the market (by means of country quotas) of coffee supply that surpassed excessively the demand, in order to avoid the fall of prices that would result in bankruptcy of small farmers and economic difficulties in the countries where coffee production is the backbone of the economy.

This system that intervened directly for regulating the international coffee market operated until 1973. The following agreements (up to the latest one, ICA 2007, entered into force in 2011) eliminated the direct intervention on the market, but promoted coordinated policies, financed projects that benefitted the world coffee economy, and mostly promoted coffee quality in order to allow sustainable development of the sector and avoid major crises on the international coffee market.

The prices for the four major types of coffee (Robusta, Brazilian Naturals, Colombian milds and Other milds) are rigorously surveyed, and a daily ICO composite indicator price is calculated, as a weighted price.

The retail prices are influenced by the world supply and prices of the raw material (green coffee), but much more by the economic trends in the major processing and re-exporting countries. On the other hand, in 2011 retail prices for coffee increased visibly, as a direct effect of the high price of green coffee on the world markets.

It is difficult to calculate an average retail price for Romania, due to lack of published data on various coffee segments sales, but direct observations on the market show that it ranges from about 9 EUR/kg for current coffees to 30 EUR/kg for super premium coffees.

Market observations indicated also the increasing trend of the retail prices for coffee in Romania in 2011 as compared to 2010, similar to the trend in EU-27 and USA.

Consumption. During the last 50 years, coffee consumption increased worldwide. Recent studies indicate as main factors: globalization, expansion of multinational food retailers, brands and caterers, improved travel opportunities, new media expansion and changes in traditional national food models. The highest increase rates in the coffee consumption occurred lately in traditionally tea-consuming countries, such as Russia, China, Korea. In major importing countries which traditionally consumed coffee (such as France, Germany, Italy, USA), the coffee consumption increased slowly, but constantly, by 10% only over the last 20 years.

In Romania, coffee consumption decreased sharply in the 80's, due to the severe restrictions imposed to food imports. In that period, coffee became very scarce and the black market flourished. In 1990 imports were liberalized and coffee imports and consumption increased 2.4 times in 20 years (1991 to 2011). Consumption doubled between 1990 and 2005 and then a diminishing trend appeared: it went down by 10% between 2005 and 2009, and then resumed a slight upward trend in 2010 and 2011. Still, the per capita consumption in Romania is the third lowest in the EU-27.

The EU-27 average coffee per capita consumption was 4.89 kg in 2010, with significant variations among the Member States. The highest coffee consumers were in 2010: Finland (12.12 kg/capita), Denmark (9.46 kg/capita) and Sweden (7.89 kg/capita). Romania, ranking 25-th among the Member States, consumed only 2.25 kg/capita.

Tax policies on coffee. Since for the major consuming countries coffee is an imported commodity and its consumption is rather important (in the world, coffee is the second most consumed beverage after water), the public authorities deem it as a good and continuous source for budgetary income. Therefore there are various taxes and levies applied on coffee. They are applied in three main points along the product chain: first, when the commodity crosses the border of the importing country (custom duties), and then inland taxes: excise duties, and VAT.

Import duties. The EU offers preferential trade access to an important number of exporting countries under various programs and agreements, as a consequence, 37 exporting countries are granted 0% tariffs on coffee imported into the EU.

For most exporting countries, the import duty into the EU for green coffee is 0%. Yet, the major exporting countries such as Brazil, Vietnam, India and Indonesia do not benefit from EU preferential measures, therefore the import duties are for them 4.8% for green coffee (4).

In the EU, import duties are moderate; they vary from 0 to 9%. The EU-27 is the largest coffee importer on the world market (60% in 2010, that is about 4 million tons), followed by the USA (21% in 2010, about 1.5 million tons).

VAT rates for coffee

VAT on coffee varies very much among the member states (**Error! Reference source not found.**). It ranges from 0% (Ireland, Malta, UK) to 27% (Hungary).

It is worth mentioning the fact that six member countries, Romania among them, increased their VAT rate in 2011 as compared to 2010: by 2% in Greece, Hungary and Lithuania, by 4% in Czech Republic, and by 5% in Cyprus and Romania (2).

Consumption is influenced by a wide range of factors, both economic and non-economic.

For instance, in Romania, cumulated excise duties and increased VAT represent up to 27% of the retail price in 2010. They apparently influenced the consumption, by blocking its possible expansion.

On the contrary, in other cases one cannot observe a correlation between the consumption and the level of VAT and excise duties: in Denmark VAT for coffee is among the highest in EU-27 (25%), and excise duties are present; yet the consumption is 9.46 kg/capita, which is far higher than in countries with 0% VAT and no excise duties (such as Ireland, Malta, United Kingdom).

In these cases, non-economic factors such as national habits or fashion trends should be taken into consideration.

Coffee consumption in the major developed importing countries seems to be mostly unaffected by the changes in tariffs and taxes, since the market is mature and stable and coffee shows a low level of price elasticity (4).

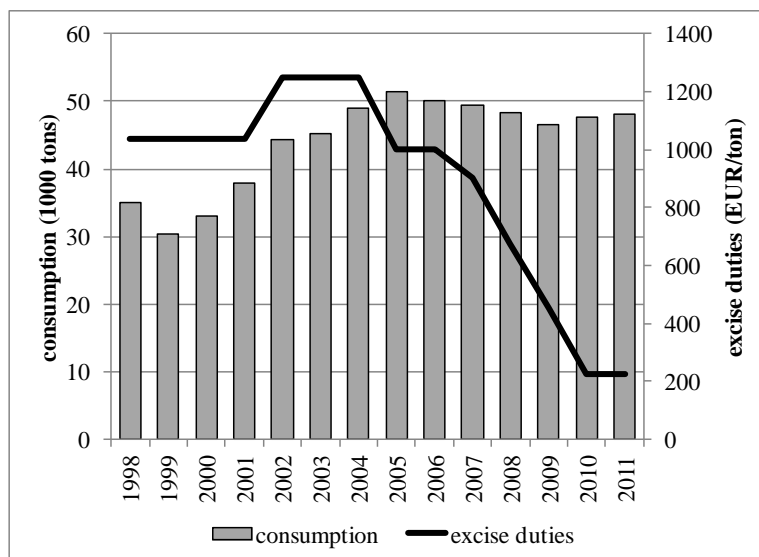
Excise duties. Romania is among the five EU member countries that still apply excise duties on coffee, together with Belgium, Denmark, Germany and Latvia.

Excise duties have initially been applied in Romania to the value of imports in customs (in 1990-1997), at very high rates: 50% of the coffee value in the customs, and since mid-1993 till end of 1997 they increased to 80%, thus placing a heavy burden on retail prices. Since 1998, excise duties changed from “ad valorem” to fixed amount per quantity unit, thus eliminating fiscal evasion by undervaluation. They varied between 1998 and 2010. The Law 343/2006 regarding changes in the Fiscal Code, enforced at the moment of Romania’s EU accession, included provisions that were stipulating the decrease of excise duties in four steps and their complete elimination starting 2011, but the huge need of budgetary incomes during the economic crisis imposed the continuation of their applicability up to the present day. Currently, the excise duties for coffee in Romania are: 153 EUR/ton for green coffee, 225 EUR/ton for roasted coffee and 900 EUR/ton for soluble coffee.

Romania has high retail prices for coffee, which contain high VAT and excise duties. These statements are obviously true, but cannot explain the consumption evolution. In 1999 to 2001, consumption increased by 25%, while excise duties and import duties remained unchanged (fig 2). This evolution might be explained by the rise in households income associated with the economic growth of the period.

In the following years of the economic growth period, the increasing trend of consumption continued at a slower pace (13% in 2002-2006), while excise duties increased by 4% only.

The post-accession period (2007-2011) is really interesting, because of contradicting factors and evolutions: consumption decreased very slowly in 2007-2011 (by 3%), while excise duties went down sharply by 50%.



* Note: GBE= Green Beans Equivalent.

Source: author's calculations based on ICO data

Fig. 2 – Coffee consumption and excise duties evolution in Romania (1998-2011)

One might have expected a rise in consumption under such a tax cut, but the possible positive effect was most probably reversed by the strong impact of the economic crisis. The exchange rate went up by 26% in 2007-2010, the VAT rate increased by 5% (from 19 to 24%) in 2010 and the population's incomes went down due to severe wage cuts both in the private and in the state sector (by 25% in administration, health, education, research, defense etc.). These negative trends most probably blocked the consumption expansion which might be expected once the economic crisis will come to an end and economic growth will resume.

Specific features of the coffee consumption in Romania. A market study (5) performed in urban areas overall Romania (all regions) in 2010 showed that the main factors determining the coffee purchasing are: price (40%), quality (33%), brand and promotional offers (10% each). Other factors, such as the variety of the product range, attractive packaging, details on the label, availability in the shop and commercials have virtually no effect in the coffee purchasing decision.

In 97% of the cases, producer brands are purchased (as opposite to private brands – those of the supermarkets), despite higher prices.

Purchase of super premium coffees is quite rare (less than 5%) in supermarkets, but it is expanding in the “away-from-home” segment (coffee shops, restaurants). The segmentation of producer brands purchase by size of the town, age group and income group did not change the above-mentioned results.

A study on drinking patterns in Romania in 2007 (1) shows some interesting features. First, Romanians prefer by far the coffee to the tea.

The most consumed type of coffee is the simple roasted (65%), while simple instant coffee takes only 15%. The remaining 20% include other types of soluble coffee (coffee mixes, such as “3 in 1” with added sugar and creamer, cappuccino etc.).

The category of roasted coffee consumers is drinking daily about 2 cups per day, while the consumption frequency and quantity in the category of soluble coffee consumers is significantly lower.

Consumers drinking both roasted and soluble coffee are generally adding sugar (about 80%), but no milk (75%).

Another specific Romanian feature of the coffee consumption is the way it is brewed: 8% are using espresso machines, 32% coffee filters and – this is still very traditionally Romanian: 60% boiled coffee (called also Turkish or Greek coffee). This custom is inherited from the old Ottoman Empire which introduced in the first place coffee consumption in Romania, but, nonetheless, the result of several decades of virtually no appliances imports (coffee filters were sold in Romania after 1990 only and espresso machines even later in the 90's).

The coffee market in Romania is estimated (6) at 250-300 million EUR per year (2010). Although showing a very slight increase in value terms (due to higher retail prices), the sales volumes diminished by 4.4% (2010/2009) and by 3% (2011/2010). The sales volume diminished both for roasted coffee (for at-home consumption), and for sales for away-from-home consumption (coffee shops, restaurants, vending machines).

The future evolutions on the coffee markets are uncertain. The continuation of the economic crisis lead to a contraction in demand, fueled by the decrease of incomes in southern EU countries, such as Greece, Spain and Italy, major coffee consumers on the European and world markets.

CONCLUSION

Although the Romanians' preferred non-alcoholic beverage, the coffee market in Romania is still underdeveloped as compared to similar markets in the other EU member states.

The country is a net coffee importer; the volume of coffee imports increased between 1990 and 2004, but, since 2005, they remained constant at about 50,000 tons per year. The main trend consisted of the increasing share of roasted coffee, at the expense of green coffee, and the constant increase of soluble coffee.

Retail prices in Romania are quite high, since they include the second highest VAT rate, after Hungary, and excise duties (Romania is among the five EU member countries that are still perceiving excise taxes on coffee). Excise duties were supposed to be eliminated starting 2011, but the need for higher budgetary revenues led to their continued application in 2011-2012, and most probably in 2013 as well.

Coffee consumption doubled in 1990-2005; since 2006, the consumption showed minor variations. The main factors which are blocking the expansion of the coffee demand in Romania are: low incomes, high retail prices for coffee, high VAT, presence of excise duties.

As a result, the coffee per capita consumption in Romania was 2.25 kg in 2010, ranking 25-th in the EU-27.

There are some specific consumption features that are influencing the composition and magnitude of coffee consumption in Romania, such as preferences for roasted coffee, for the brewing method and the drinking frequency and location (at home versus away from home), as well as the upward trend in the soluble coffee consumption, due mainly to the strong expansion of coffee vending machines during the last four years.

The continuation of the economic crisis in Europe and its effects in Romania is probably the main obstacle for further expansion of the coffee market in Romania in 2013, but the potential for development is present, waiting for a better economic environment.

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