

Report on identifying Micro Lots coffee buyers in Europe



Regarding the EU-project: "HAMRO COFFEE- Expanding Opportunities for Nepalese Coffee Farmers and Traders"



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Contents

- 1. Introduction 3
- 2. Methodology 4
- 3. The European coffee market 4
- 4. Coffee market in the Netherlands 13
- 5. Coffee market in Germany 20
- 6. Pricing and doing business with Nepalese coffee 28
- 7. Potential buyers 31
- 8. Summary and conclusions 42



1 Introduction

In 2017 the European Union decided to support the development of coffee sector in Nepal. The project is called “HAMRO COFFEE” and the implementation will be done in partnership with ICCO Cooperation and NCPA. The project refers to Expanding Opportunities for Nepalese Coffee Farmers and Traders’.

HAMRO COFFEE aims to bridge the gap between the potential rewards and current productivity of the sub-sector by creating an enabling environment for the key stakeholders across the coffee-value chain to form a sustainable, well-managed and integrated coffee production. The overall objective (impact) of HAMRO COFFEE is: “Increased income of small holders through an enhanced market driven specialty coffee sector”.

Project will work in six districts with coffee producers to enhance the quality and quantity of coffee cherries produced through improved farming techniques and affordable access to quality inputs and services, thereby providing the means for a sustainable income for 4.000 smallholder farmers directly.

The project will also help to conduct market study and promotion, including tourism activities in growing areas. The project will be implemented by a consortium of partners, with the ICCO Cooperation having overall responsibility for coordination.

In this report we describe our study of the European market for Nepalese coffee (chapter 3) and for the Netherlands (chapter 4) and Germany (chapter 5) more in particular. More specific the study was concentrated on identifying Micro Lots coffee buyers in Europe (chapter 7). In this report we will describe how a relationship between Nepalese coffee traders, farmers, cooperatives and European Micro Lots buyers can be established.

In chapter 6 we describe the pricing of the coffee in Europe in relation to the prices of Nepalese coffee.

We selected potential European Micro Lot buyers for Nepalese coffee and provided them with coffee samples. The results of the roasting and cupping of these samples will be addressed in chapter 7.

The summary and conclusions of this study will be presented in chapter 8 of this report.

2 Methodology of the study

We received the assignment for the study on the 11th of February 2018 and started our study by then. The study was conducted via the following stepping-stones:

- Desk research on the European coffee market and more specific on the Dutch and German market;
- Interviews with professionals in the European market, amongst them Mr. J. van der Hee;
- Visits to and interviews with potential Micro Lots coffee buyers (purchasers, roasters, etc.);
- Sending samples to potential Micro Lots coffee buyers;
- Contact with potential buyers regarding feedback on roasted and cupped samples;
- Writing draft report on the study;
- Receiving and discussing remarks and comments of the stakeholders of the Hamro Coffee project on the draft report;
- Finalizing the report.

3 The European coffee market

3.1 General

Europe accounts for nearly 30% of the global coffee consumption. European consumption remained relatively stable between 2013 and 2016. In the European Union alone, coffee consumption amounted to 2.5 million tons (41.6 million 60 kg bags) in 2015. The European coffee market is large and consumption is expected to remain stable in the long term.

The majority of European consumers still purchase cheaper mainstream coffee, usually in the form of standard blends. Recent research suggests that most European consumers still do not distinguish between low and high quality coffees. This indicates that there is lack of consumer awareness and education regarding specialty coffee, but at the same time, industry insights suggest that a growing number of European consumers is prepared to pay higher prices for high-quality coffees (with high cupping scores between 80 and 100) with a special stories. The increasing interest in specialty coffee is reflected in the growing number of coffee bars, small roasters, small local brands and baristas. In paragraph 3.2 we give you a definition of specialty coffee.

In our search for European buyers, it is important to understand the characteristics of the target market. Each national coffee market in Europe differs from the next. These differences may relate to factors such as consumption patterns, levels of trading, preferences for specific coffee varieties, how many roasters there are and how big these roasters are.

3.2 Trends of specialty coffee consumption

While the mainstream market grows with cheaper products, the consumption of higher-quality blends, consisting of more expensive and specialty Arabica coffees, is also growing at a fast pace in Europe. The increasing interest in specialty coffee is reflected in the growing number of coffee bars and chains, small roasters, small local brands and baristas. For example, specialist coffee shops were the fastest growing restaurant category in 2016, increasing 9.1% from 2014-2015.

The specialty coffee segment is most pronounced in North-Western Europe, marked by higher income levels and consumer awareness, as well as a more developed coffee culture. In Nordic markets, there is a strong growth in out-of-home consumption, where coffee shops lead the way for the introduction of higher qualities.

In the United Kingdom, where coffee consumption is generally increasing at 10% yearly, the specialty segment grows at an estimated rate of 13% yearly. In Germany, a traditional market for in-home consumption, specialty coffee does not grow as strongly. However, the expansion of coffee shops and consumers' desire to replicate the coffee shop experience at home is contributing to the growth of this segment.

Specific Europe-wide data on the consumption of specialty coffee are not available. This is partly because there is no industry consensus on a clear-cut definition of specialty coffee.

Within the market for specialty coffee three developments stand out:

Signature blends: These are carefully selected coffees from various origins which reach unique taste palettes. They cater for specific consumer tastes and communicate balance and quality.

Single origin: The origins of coffee are receiving increasing attention from the industry and consumers. Single origin is associated to high-quality and uniqueness from a certain region or country.

Micro-lots: The specialty coffee market has also led to an increase in *micro-lots*. These higher quality coffee beans sold separately, in quantities up to 50-75 bags, for a higher price. Micro lots are allowing for more direct trade between producers and smaller buyers (such as specialized traders and smaller-scale roasters). This opens up an interesting opportunity for top quality and value-added coffees. See also paragraph 3.5.

The conclusion is that the European market for specialty coffee is growing significantly and offering opportunities for suppliers offering high-quality coffees. The specialty segment is a small niche, but which commands high quality and high value.

3.3 Certification

European consumers are increasingly concerned about the social and ecological impact of their consumption. This has a great influence on the coffee market, where sustainability commitments are becoming more popular and companies are increasingly required to conform to them. However, note that there is currently more certified coffee in the market than actually sold.

Growth in certification also relates to an increasing demand in Europe for transparency and traceability of food products, including coffee.

Importers, roasters and retailers are now required to have traceability systems in place, registering the path and the history of a product and monitoring the processes it goes through along the supply chain.

Certification showed a sharp growth within the coffee market in recent years. Both the production and sales of sustainably produced coffee have grown significantly more than conventional coffee. The European market plays a major role in the market for certified coffee. Certification has become a market requirement of several buyers and retailers, becoming essential for medium and large coffee companies. Smaller coffee roasters in the specialty segment are more interested in trust building with suppliers and increasingly in direct trade, and less so in third-party certification.

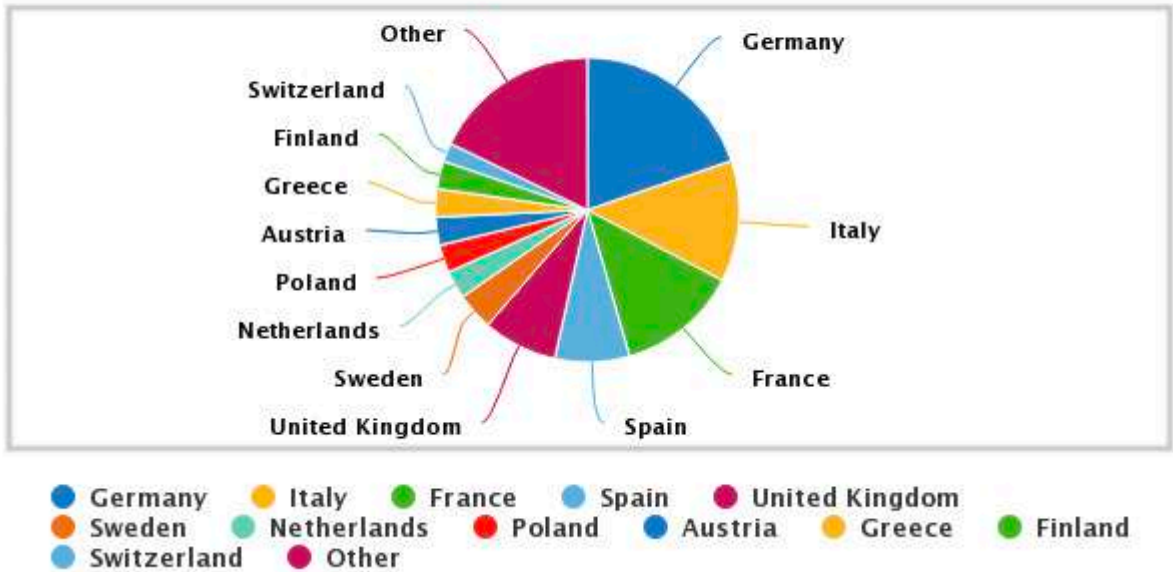
The major production standards in coffee are: Fairtrade organic Rainforest Alliance / UTZ Certified 4C (verification standard operated through the Coffee Assurance Services).

The importance of the various certification schemes differs from country to country. They also cater for different markets: UTZ and Rainforest Alliance have large-scale operations and reach mainstream markets in Europe.

3.4 Consumption in the European market

Germany accounts for around 20% of total European consumption, followed by Italy (13%). Other large consuming market are: France (13%), Spain (8%) and the United Kingdom (8%) (source: International Coffee Organization, 2016).

Figure 1: Share of coffee consumption in Europe 2015
in volume



Source: ICO, 2016

Europe has the highest per capita consumption in the world, amounting to around 5 kg of coffee per inhabitant yearly. Coffee consumption varies per country.

In the United Kingdom per capita consumption of coffee currently is around 3.3 kg per year (significantly below the European average). Growth is registered as tea consumption has fallen by 19% since 2010. As described above, the specialty segment is especially interesting in the United Kingdom.

Consumption also grows steadily in some Central and East European countries such as Poland. In Poland 80% growth was registered over the last 10 years. However, per capita consumption is much below the European average (2.3 kg per year in 2015). Around 74% of consumers choose instant coffee. At the same time, there are prospects for growth in specialty coffees as coffee shops and smaller roasters enter the market.

Nordic markets such as Finland, Sweden, Norway and Iceland register the highest per capita consumption, above 8 kg per year.

These are stable markets, where the average per capita consumption of coffee is unlikely to change significantly. The choice for more high-quality coffee and the growth in out-of-home consumption indicate changes in drinking habits.

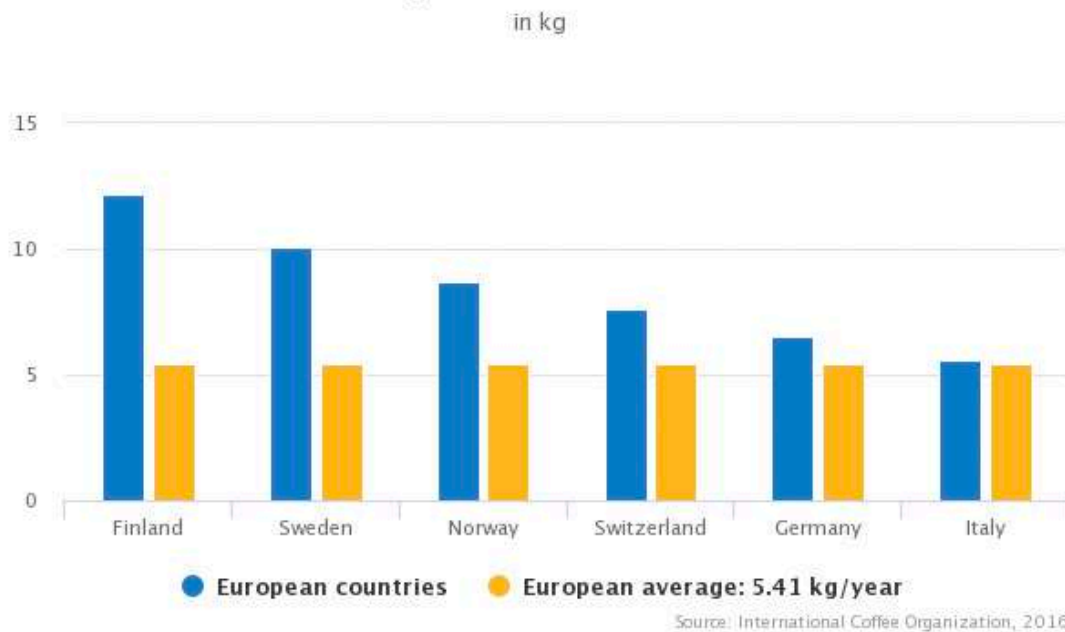
More information on coffee consumption per country is available on our country-specific factsheets such as France, Belgium, the Netherlands, Italy, Germany, Finland and the United Kingdom. Our study on channels and segments for coffee also highlight some interesting differences in coffee consumption across various European countries.

3.5 Imports and direct trade

There is no production of green coffee beans in Europe. As a consumer market, Europe is therefore dependent on imports from coffee-producing countries. However, Europe has a significant coffee- roasting industry (see below).

In 2016, Europe imported 3.4 million tons of green coffee beans. Between 2012 and 2016, the volume of imports increased slightly at an annual average rate of 1.6%. The value of imports decreased by 3.1% since 2011.

Figure 2: Per capita coffee consumption in selected European countries 2015



Around 91% of European imports of green coffee beans were sourced directly from producing countries. Intra-European trade accounted for 13% of supplies.

Germany was the largest importer of green coffee beans importing directly from developing countries in 2016, with a share of 35% of total European imports (1.1 million tons).

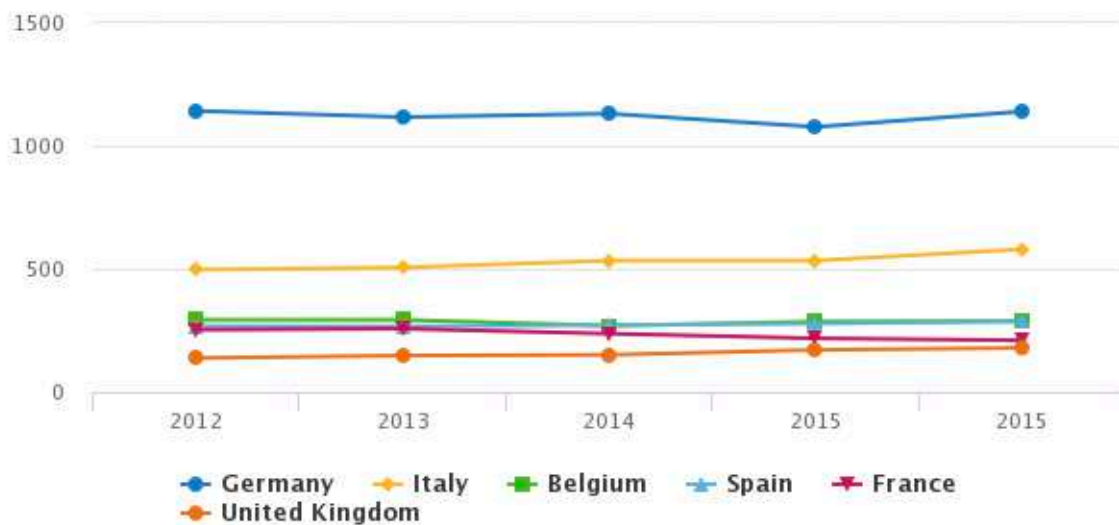
Germany has a large coffee roasting industry and most green beans are transported via the port of Hamburg, the largest transition point for coffee in Europe. The port of Bremen is also used as an entry point into the country. Examples of large coffee-roasting companies in Germany are Tchibo, Melitta, Jacobs and Dallmayr.

Italy was the second largest importer importing directly from developing countries in 2016, with a share of 18%. Since 2011, imports of Italy registered an average annual increase of around 4.1% in volume and remain relatively stable in value. Italy has some of the world's most renowned coffee companies, such as Illy, Lavazza and Segrafredo. Italy imports a relatively large share of Robusta varieties, which are used as a basis for espresso blends.

Other large importers of green coffee beans are Belgium, Spain, France and the United Kingdom. In 2016, Belgium imported 268 thousand tons of green coffee from developing countries. Spain's imports reached 237 thousand tons, while French imports amounted to 183 thousand tons and the United Kingdom imported 173 thousand tons.

Figure 3: Main European importers of green coffee beans from developing countries 2012-2016

in 1,000 tonnes



Source: Eurostat, 2017

In the traditional trade structure for coffee, the raw material is sourced through importers, and then distributed to roasters in Europe. This still represents the bulk of the market, but direct trade initiatives are increasing.

Direct trade is a term used by coffee roasters who buy straight from the growers, cutting out both the traditional middleman buyers and sellers. Most roasters engaged in direct trade are located in Northern Europe, where the concept appeals most to consumers.

During our study we identified several potential buyers who operate like this. With cutting out the middlemen they feel more secured for finding the best specialty coffees. The relationship between the buyers and the farmers are well. The buyers benefit of a quality and taste they search for. Because they start at the source, the parcels can be followed easily by them (in the valuechain). The farmers can get a better price because the margin of the middlemen is not applicable anymore. In some cases we found out that the farmers indeed get better prices (through a premium on the usual market price). It takes several years to build a good relationship between buyers and farmers, but when the parties trust each other the general believe is that there will be a great benefit for both.

The demand for transparency in the coffee chain has strengthened the links between coffee producers and roasters. More and more coffee houses and sustainability-driven brands try to create a direct link to the farmer, also satisfying the consumers' demand to be more closely connected to the source. Through the Internet, producers and roasters can more easily find each other and establish partnerships.

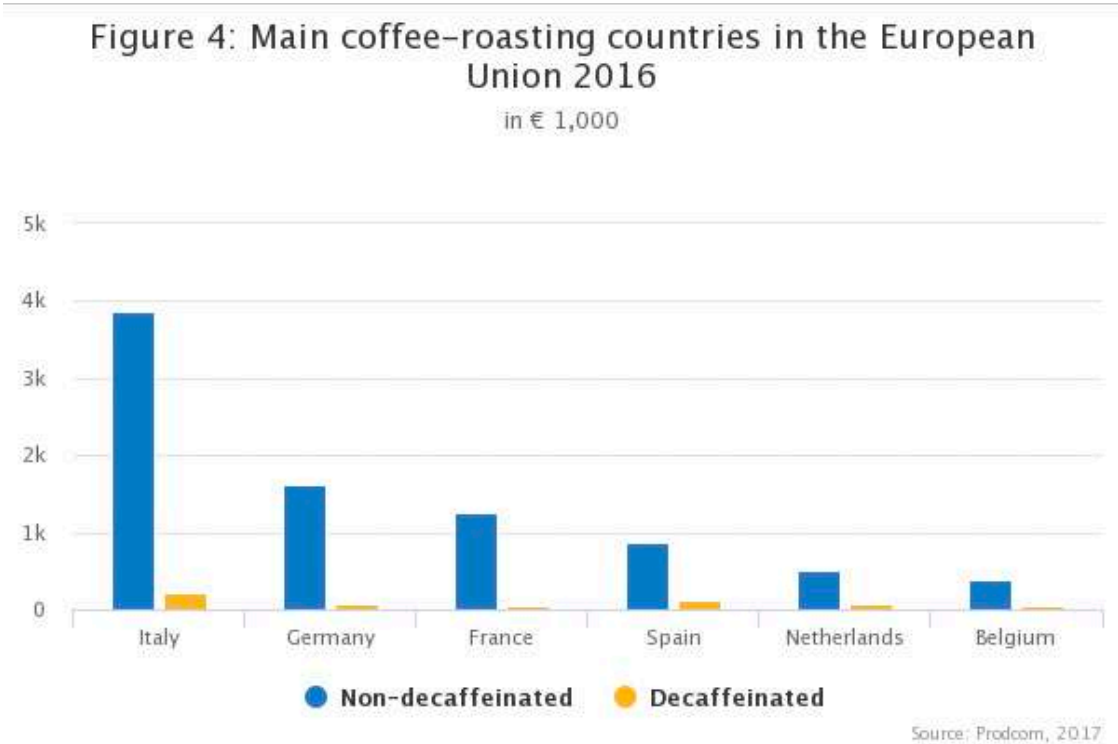
The direct trade between producers / exporters and roasters has normally meant that the importer is taken out of the equation. For some small-scale roasters, direct trade was translated into new challenges and market risks such as logistics, transaction costs, pre-financing, contract defaults, non-compliances and other.

For this reason, the role of importers in performing these tasks is crucial to several roasters. In some cases, importers still intermediate the contact and carry out basis tasks, but give roasters good access to producers.

Other roasters have successfully established direct and long-term relationships to producers, and have managed to create an authentic product portfolio to consumers.

3.6 Roasting

In 2016, total production of roasted coffee in Europe had a value of over €11 million. Italy and Germany are the main producers of roasted coffee, with respective shares of 37% and 16%. France (12%) and Spain (9%) are other large European players.

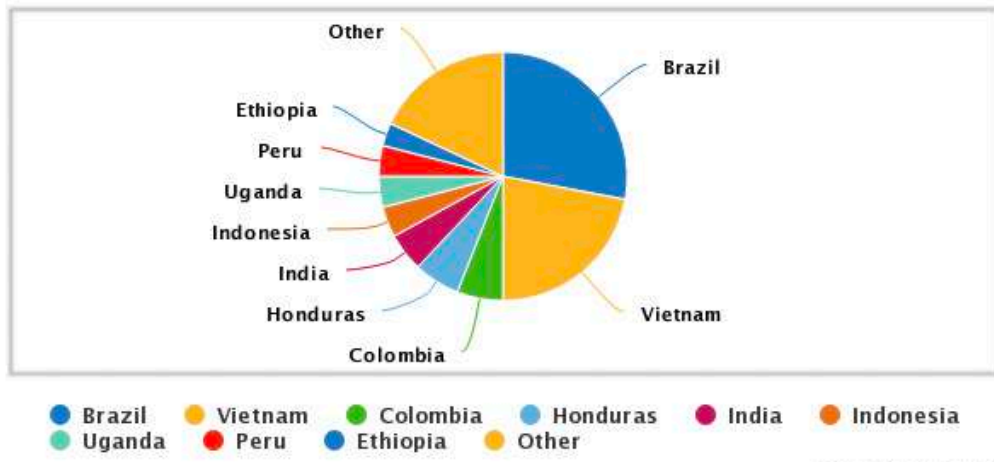


3.7 Supplying countries of green beans for Europe

Brazil is the main supplier, followed by Vietnam and Colombia. Smaller, but also significant suppliers, are Honduras, Indonesia and India.

Figure 5: Main developing country suppliers of green beans to Europe 2015

in %



Source: Eurostat, 2017

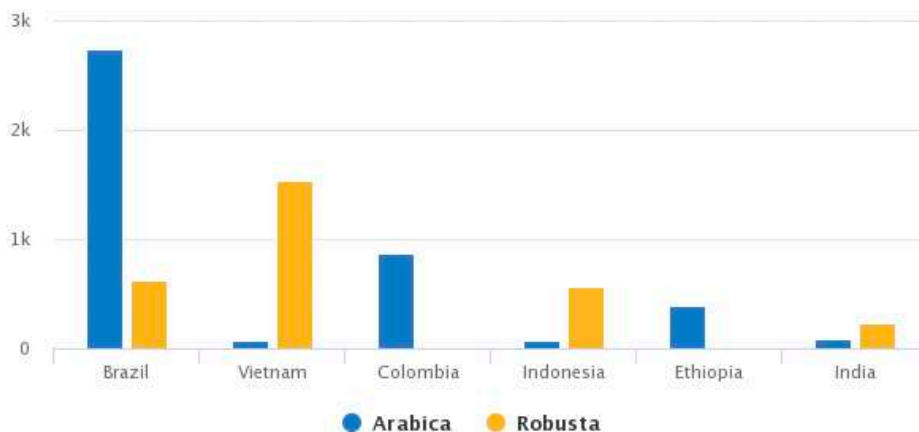
The relative positions of the most important supplying countries have not changed significantly in recent years.

Emerging suppliers such as Ethiopia and Peru currently account for a small share of the market, but are expected to grow within the high quality / specialty segments. Peru has special potential within the market for organic coffee, being the second largest producer and exporter of organic-certified coffees worldwide – only behind Mexico. Ethiopia has a strong edge for being the birthplace of coffee and is one of the favourite sources for high-quality coffees. Ethiopia also plans on increasing its exports significantly in the coming years.

Each supplying country has its own role and strengths within the European coffee sector. Brazil is a large supplier of both Robusta and Arabica varieties. Vietnam, India and Uganda have a strong focus on Robusta production. Colombia is known for its large Arabica production, similarly to Honduras.

Figure 6: Production of coffee by the main producing countries 2016/17

in 1,000 tonnes



Source: United States Department of Agriculture, 2017

Brazil supplied 956 thousand tons (28% of all supplies to Europe) in 2016, which increased in volume (+4.2%), but decreased in value (-3.9%) since 2012. Brazil's production of Arabica coffee is expected to reach 2.7 million tons (56 million 60 kg bags) in 2017 and the production of Robusta coffee is expected to reach 630 thousand tons (11 million 60 kg bags).

With a share of 22% in volume (755 thousand tons) in 2016, coffee imports sourced from Vietnam remained relatively stable. Vietnam's production in 2017 is estimated at 1.6 million tons (26 million 60 kg bags), of which 96% is Robusta coffee and 4% Arabica. However, production in Vietnam is expected to drop in 2016 and 2017 due to severe drought.

In 2016, Colombia supplied 218 thousand tons of green coffee to Europe (6.4% share in volume), and supplies increased at a significant average rate of 14% in volume between 2012 and 2016. Colombian production of green coffee beans grew 83% between 2012 and 2015, from 7.7 million (around 462,000 tons) to 14.2 million 60 kilos bags (around 852,000 tons). Colombia's production is focused on Arabica varieties.

Honduras is also a relative large supplier, with supplies amounting to 197 thousand tons in 2016, and experiencing stable growth in volume between 2011 and 2015. Honduras is followed by India (154 thousand tons), Indonesia (125 thousand tons) and Uganda (123 thousand tons).

In spite of being a large producer (5th worldwide, at around 391 thousand tonnes), Ethiopia does not account for a high share of European coffee imports (3%, mostly directed to Germany). Ethiopia's Arabica coffee beans mainly have high potential on the speciality market, which commands low volumes at a high price. The country's coffee also relies on the storytelling aspect, as Ethiopia is considered to be "the birthplace of coffee" (YouTube documentary).

Peru's production of Arabica varieties and organic-certified coffees also provide potential for speciality and niche markets in Europe. The country currently accounts for around 4% of total European imports. These are mostly directed to Germany, the largest organic market in Europe.

According to the National Coffee and Tea Developing Board, Nepalese coffee is considered as specialty coffee for its distinct flavour aroma and body as it is grown in higher altitude. The Board says that Nepal exports its beans mostly to Japan, America and European countries.

4 The coffee market in the Netherlands



4.1 Channels and market segments

Coffee is generally purchased from exporting countries by international trade houses, dealers and traders. The largest roasters in Europe, including in the Netherlands also maintain their own in-house buying companies, which buy directly from origin. Besides that, roasters tend to buy their coffee from international trade houses or from specialized imports agents who represent specific exporters in producing countries.

Market channels

There has been a steady decrease of green coffee importers in the Netherlands. This development occurs due to two main reasons:

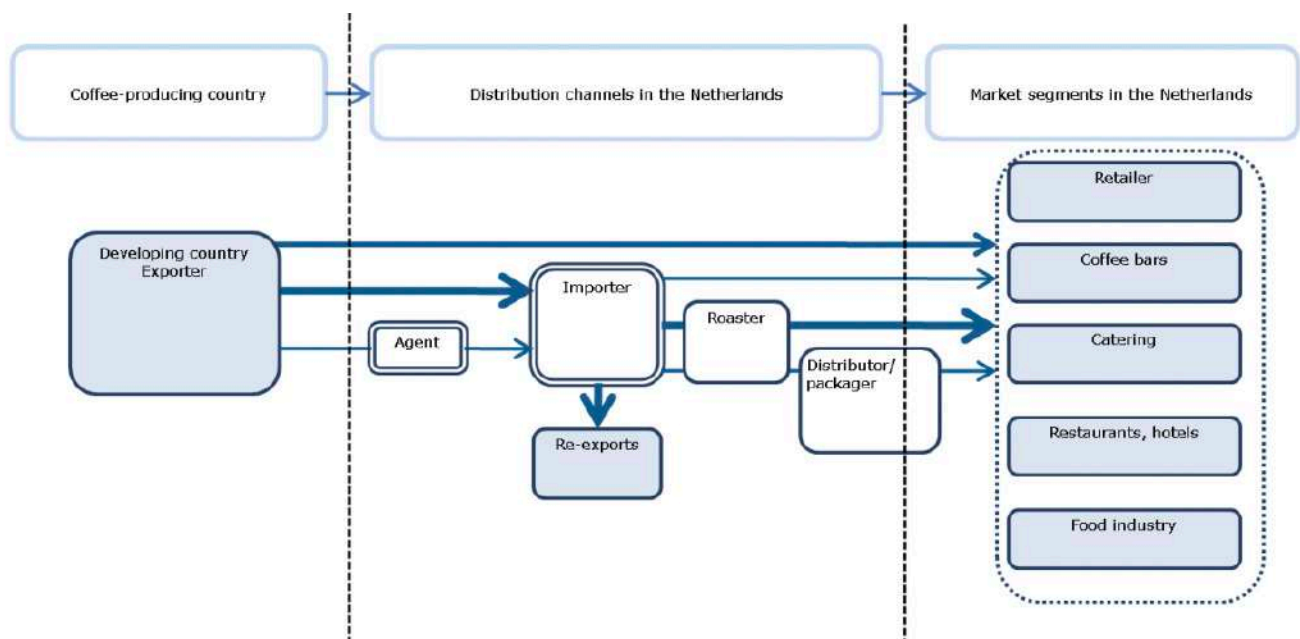
- 1) larger multinational traders merge (e.g. Jacobs Douwe Egberts group) or buy smaller traders;
- 2) more and more roasters source directly from origin, particularly in the premium and specialty segment.

Market segments

About 70% of the coffee in the Netherlands is consumed in house. The out-of-home market accounts for the other 30%, where offices, coffee bars and restaurants are the main segments. Out-of-home coffee consumption is increasing, partly due to the growing number of coffee bars and quality coffee sold at establishments such as petrol stations.

Coffee for in-house consumption is mainly bought at supermarkets in the Netherlands. Here the mainstream market consists of 'filter-ground' coffee. Prices for coffee in this retail channel have risen due to the increase in the single-serving segment and espresso coffee. The food retail market is highly concentrated. The top three retailers (Albert Heijn, Superunie and Jumbo Groep) have a market share of around 80%. Albert Heijn has its own coffee roasting plant (Ahold Coffee Company). Fierce competition between these supermarkets has led to continued pressure on unit prices for coffee. Increased price promotion as major retailers tried to hold on to their market share (Euromonitor, 2014).

Besides supermarkets, the Dutch retail channel for coffee consists of smaller supermarket chains, independent grocery stores and specialist coffee (and tea) sellers who may also sell online.



4.2 Dutch coffee consumption

The Netherlands, with nearly 17 million inhabitants, accounted for approximately 4% of total European Union consumption of green coffee in 2015. In total, Dutch consumption amounted to 1.5 million bags (60 kg) of green coffee (90 thousand tons).

It is estimated that an average of 5.3 kg of coffee per capita was consumed in the Netherlands in 2015, which is similar to the per capita consumption registered in Italy (5.7 kg / year). However, it has a fairly low per capita consumption when compared to Nordic countries such as Sweden (10.1 kg / year) and Finland (12.2 kg / year).

The most popular coffees consumed by the Dutch belong to the cheap bulk segment, with a special mention to the market leader 'Roodmerk', defined by Douwe Egberts (D.E.) Master Blenders (now part of the Jacobs Douwe Egberts group) and composed of 40% Robusta and 60% Arabica.

Roasting in the Netherlands is 'medium', darker than Scandinavia, slightly darker than Germany, but lighter than in France. More than half of the coffee consumption in the Netherlands consists of filter coffee; almost one-third is coffee pods, the other 15% is evenly split between whole coffee beans and instant coffee.

About 85% of the Dutch population consumes traditional mainstream coffee. The other 15% is interested in specialty coffee. This is as a result of more educated consumers who are also willing to pay higher prices for higher quality. As such, the specialty segment develops with a wider variety of products such as single origin coffees. The rise in out-of-home consumption, and the proliferation of coffee bars, is also observed in the Netherlands.

The growing number of coffee bars, small roasters, small local brands and baristas, all typical trends of the 2nd and 3rd wave, illustrate the development of the coffee culture in the Netherlands. People are interested in the story behind their cup of coffee, focusing on the origin of the bean and its production circumstances. Consumers have a preference for authenticity and like the (regional) uniqueness of their cup of coffee. Also, consumers are eager to try different brewing methods.

The share of coffee pods market is decreasing, while beans, cups and filter are on the rise.

In exporting high-quality coffee to the specialty market in the Netherlands, Nepal has to increase the cupping scores and learn how to cup your own coffee. Consider getting a Q-certificate for your coffee, an independent confirmation of quality that can be deemed specialty.

4.3 Demand for coffee in The Netherlands

The Netherlands is the seventh largest importer of green coffee in Europe, accounting for nearly 5% of total imports. Total Dutch imports amounted to 159 thousand tons (€ 431 million) in 2015. Despite a small decrease in 2013, imports increased significantly between 2011 and 2015, with an annual average increase of around 20% in volume and 14% in value.

The Netherlands is geographically located between two largest coffee ports, Antwerp (Belgium) and Hamburg (Germany), which explains the large share of Dutch imports sourced from within Europe (71%).

Direct imports from coffee-producing countries accounted for the remaining share of total Dutch imports, where Brazil and Vietnam played the most significant roles in 2015. Brazil accounted for 10% of total imports in 2015, whereas Vietnam was responsible for a 4.6% share. Imports from Brazil and Vietnam registered a significant annual decline in volume since 2011, respectively -6.5% and -15.6%.

Other significant developing countries supplying green coffee to the Netherlands in 2015 were Honduras (2.7% share) and Colombia (2.1%). Honduras' exports to the Netherlands remained relatively stable in volume with an annual decline of -6.5% in value since 2011, whereas Colombia registered a sharp annual increase of 44%. This strong increase indicates the higher demand for (mild) Colombian Arabica's stemming from the Dutch market. This also gives opportunities for the mild coffee from Nepal.

Figure 5: Imports of green coffee to the Netherlands in 1000 tonnes
2011-2015

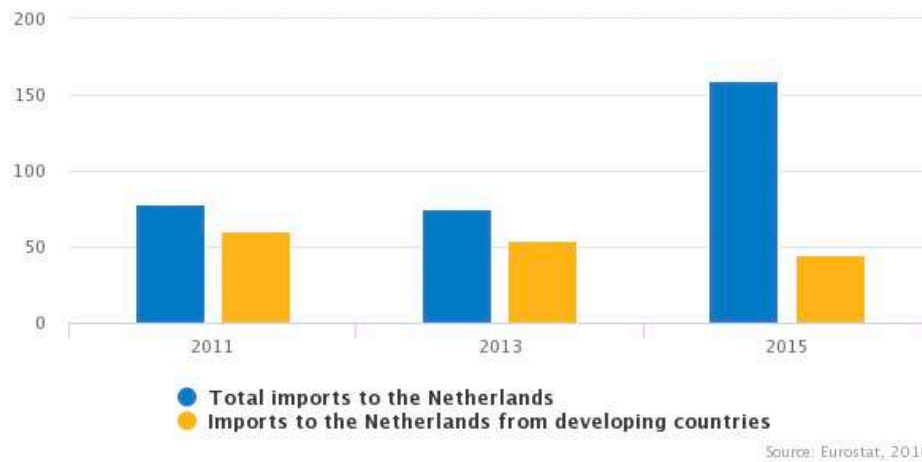
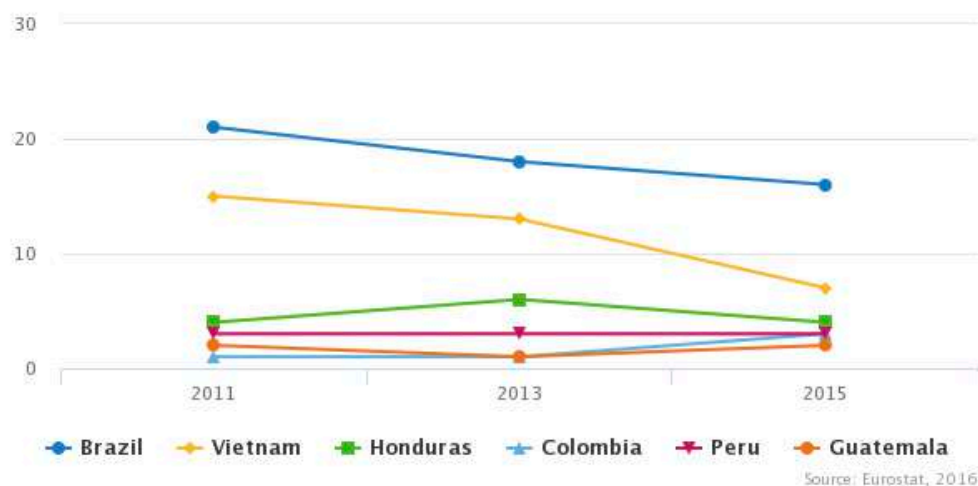


Figure 6: Main developing country suppliers of green coffee to the Netherlands in 1000 tonnes
2011-2015



A firm part of Dutch importers (traders and/or roasters) are working together in the Royal Dutch Association for Coffee and Tea, which consists of over 50 member companies. Other important organization are: the International Coffee Organisation (ICO) , KNVKT - The Dutch Association of Coffee Roasters and Tea Packers , Beleef Koffie - Trade fair for coffee and tea, mainly for consumers and the Nederlandse Voedsel- en Waren Autoriteit - Netherlands Food and Consumer Product Safety Authority.

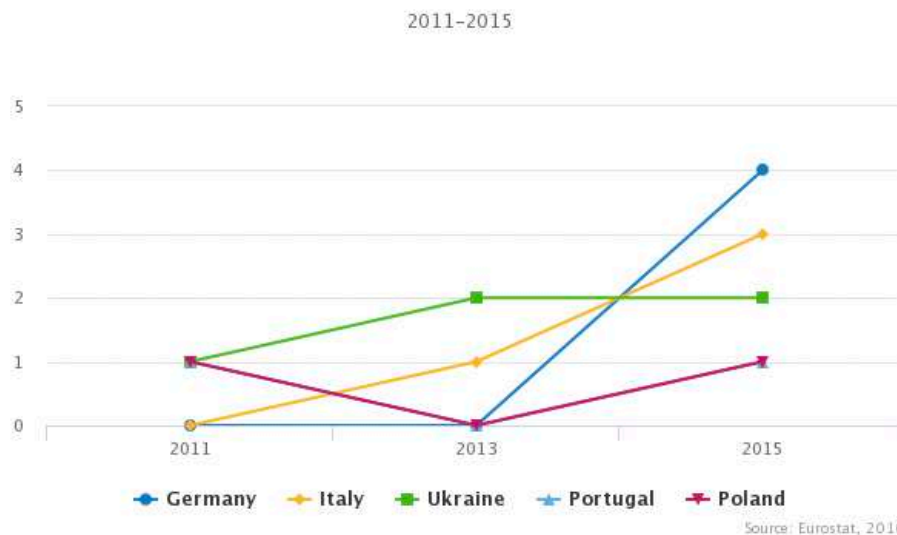
Exporting coffee to The Netherlands means that Nepal has to be pro-active and take the business seriously. Approach traders (use internet, use LinkedIn), communicate correctly and respond to emails. Set realistic expectations and act as you say. Send corresponding samples & batches.

4.4 Export

The Netherlands is the fourth largest re-exporter of green coffee beans in Europe. Total Dutch re-exports amounted to 16 thousand tons (€ 55 million), registering an annual increase of +1.0% in volume and +2.0% since 2011. The main destinations for Dutch re-exports of green coffee in 2015 were Germany and Italy, accounting for respective shares of 25% and 21% of total re-exports. Re-exports to Germany registered a sharp increase of around +275% (in volume) annually since 2011, and re-exports to Italy had a strong annual increase of 51%. This increase indicates the growing importance of the Netherlands as a trading hub for coffee within Europe.

Other important destinations for Dutch re-exports of green coffee in 2015 were Ukraine (share of 12%), Portugal (7.8%) and Poland (4.4%).

Figure 7: Main destinations for green coffee exports from the Netherlands in 1000 tonnes



Tips:

Consider the Netherlands as a possible entry point to reach markets such as neighboring Germany and more distant markets such as Italy, Ukraine and Portugal.

4.5 Coffee pods and innovative coffee machines

In the Netherlands, home or office espresso coffee machines have become increasingly popular. These machines provide tasty coffee for the single serve segment (coffee pods or sachets that serve one cup of coffee). These machines function only with specific pre-packaged coffee dispensers (pods/capsules) adapted for use in the machine and good for one or two cups of coffee each. Due to its popularity, single-serving coffee is increasingly dictating the quality and taste perception of Dutch consumers. Once market leader, Douwe Egberts' soft pod brand Senseo has suffered increasing pressure from hard pod/capsule alternatives such as Nespresso and Tassimo. Nonetheless, bear in mind that coffee capsules came under attack, because the waste poses environmental challenges.

4.6 Certified coffee

The Netherlands is the leading coffee market for certified coffee. About half of the coffee sold in the Netherlands has a sustainability certification. Most companies have a sustainability strategy integrated within their supply chains.

Sustainability covers environmental, economic and social aspects, including health and safety issues. In the mainstream coffee market, the most relevant certification schemes and consumer labels for sustainable sourcing are:

UTZ Certified Rainforest Alliance: Sustainable Agriculture Network The Global Coffee Platform with its Baseline Common Code A.F.E. Practices Nespresso AAA

Each certification scheme is explained fully in CBI Buyer Requirements for Coffee.

UTZ Certified originated in the Netherlands in 1997 and is currently the main certification on this market. UTZ Certified addresses sustainability of the mainstream market and is by far the main label in terms of market share. Ahold Coffee Company and Jacobs Douwe Egberts, and most of the private label brands of the supermarket chains sell an increasing amount of UTZ certified coffee.

Certification standards primarily focus on strict and/or specific sustainability principles and therewith apply to niche segments of the coffee market. Specific certifications per theme for this market are listed here:

Organic: Organic certification is a non-legal requirement for coffee but, in order for a company to market their product as ‘organic’ in the Dutch market, it must comply with the EU legislation for organic production and labeling – which is in itself a legal requirement.

Fair Trade: Having your coffee Fair Trade-certified, is the proven way to show your business performance for social conditions in your supply chain. After certification by an independent third party, you are allowed to put the Fairtrade logo on your product. In general, prices for fair trade products consist of a minimum price plus a premium.

Fairtrade (Max Havelaar, founded in 1988) is a niche market in the Netherlands, with a one-digit (3%) market share, but which has significant market recognition. The market for organic coffee is growing, but still accounts for a small share of the total coffee market in the Netherlands. This reflects the relatively low uptake of organic food and beverages in the Netherlands when compared to Germany or Scandinavia. Other niche sustainability concepts are still in their infancy in the Netherlands; consumer recognition is very low.

4.7 Sustainability, food safety, food control and corporate responsibility

In 2010, a declaration of intention was signed by different stakeholders in the coffee supply chain in the Netherlands establishing that 75% of the coffee sold in the Netherlands should be sustainably-produced (i.e. certified) by 2015. In 2013, 50% of the Dutch coffee market was estimated to be sustainable.

Certified coffees are mainly sold through the traditional retail channels, like supermarkets, but also through organic retailers and specialty shops. Penetration is also high in the out-of-home segment.

Food safety and food control are key issues in EU food legislation. The General Food Law (Regulation (EC) 178/2002) is the EU legislative framework regulation for this subject. Food products must be traceable throughout the entire supply chain to guarantee food safety, to allow appropriate action in cases of unsafe food and to limit risks of contamination.

An important aspect to control food safety hazards is defining critical control points (HACCP) by implementing food management principles. Subjecting food products to official controls is another important aspect. Products that are not considered safe will be denied access to the EU.

The EU has set maximum levels for certain contaminants, also applicable to the Netherlands. Beside pesticide residues (see below), monitoring may take place for:

1. Pesticides: The presence of pesticides is one of the most common reasons for border authorities to reject coffee coming from producing countries. EU legislation on Maximum Residue Levels (MRLs) of pesticides establishes the MRLs of pesticides permitted in products of animal and vegetable origin which are intended for human consumption. MRLs are relevant to many natural ingredients, including coffee. Be aware that products containing more pesticides than allowed will be withdrawn from the EU market.
2. Mycotoxins: Moulds and fungi are another important reason for border rejections for coffee. Ochratoxin A (OTA) levels are a specific point of attention; nonetheless, there are no specific limits for green coffee beans – since the product is roasted or goes through other types of processing before reaching consumers. For roasted coffee beans and ground roasted coffee, the maximum level of Ochratoxin A (OTA) is set at 5 µg/kg while the maximum is set at 10 µg/kg for soluble coffee (instant coffee).
3. Salmonella: It is a very serious form of contamination and occurs occasionally as a result of incorrect harvesting and drying techniques. Coffee beans are considered low-risk commodities regarding salmonella contamination. In the current EU legislation no microbiological criteria specifically targeting coffee have been set. Food safety authorities however can withdraw imported food products from the market or prevent them from entering the EU when Salmonella is found present. Irradiation is a way to combat microbiological contamination but this is not allowed by EU legislation for coffee.

5 Coffee market in Germany



5.1 Channels and market segments

The German coffee sector can be divided into two segments:

In-home consumption – most of the coffee consumption in Germany takes place at home. Home consumption is becoming increasingly diverse as a result of new, innovative methods such as coffee pods and capsules. The most popular category, with over 60% of the market, is filter coffee (ground beans). However, Germany sees increasing consumer interest in whole beans (around 23% market share). Capsules have a market share of over 5%. One in four Germans consumers try to replicate their coffee shop experience when drinking at home, focusing on quality and special flavours. Out-of-home consumption – this market segment is growing. More and more Germans are consuming coffee out of their homes, mainly at coffee shops and cafes. Traditional German bakeries are also large drivers of this growth, increasingly focusing on their coffee sales. In 2015, around 25% of the coffee consumption in Germany happened outside of the household: bakeries and standing cafes (35% of the market), vending machines (13%), classic cafes (12%) and petrol stations (11%).

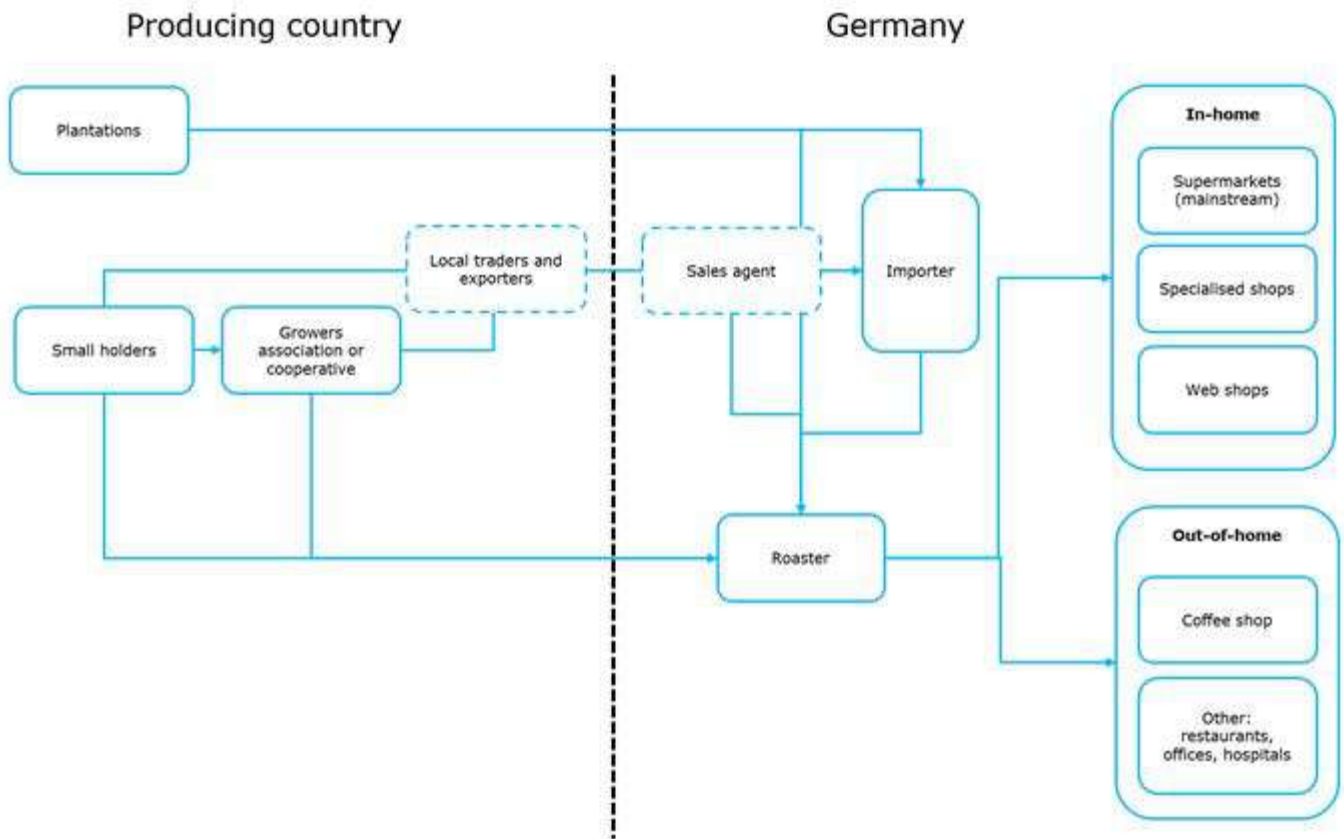
The mainstream market for coffee is dominated by Jacobs Douwe Egberts (formerly Mondelēz Deutschland), with a retail value share of 19% in 2016. Jacobs Douwe Egberts is followed by Tchibo with 12% (*source: Euromonitor 2017*). Other large retailers in Germany are: Aldi ,REWE, Lidl and Coop.

Important coffee players in the food service industry are companies such as Melitta and Illy (Italian brand). The changing profile of coffee consumption in Germany has opened up space for an increase in high-quality coffees with specific flavours and aromas.

The coffee market can also be segmented according to quality (for example, the percentage of high- quality *Arabica* coffees in blends, single origins, micro-lots, marketing aspects, and so on) and related prices (see the section on "Prices" below).

The German market reflects the segments found on the European market (see our study of Channels and segments in the European coffee sector): upper-end, mid-range and lower-end segments. Both in-home and out-of-home consumption of coffee incorporate these segments.

Figure 4: Market channels for coffee in Germany



Germany has a very traditional coffee market. The trading structure is well established, with clear roles in each part of the chain. Imports of green coffee beans into Germany mainly enter via the port of Hamburg, where most importers, agents and some roasters are located. Bremen is also an important port for coffee imports; Jacobs has its plant here. The expansion of the specialty coffee market has opened up possibilities for more specialized players operating in niche markets.

As an exporter, entering the German market will depend on the quality of your coffee, your volume capacities (for example, more or less than ten containers per year) and the strategy of your company (for example, supplying the market through intermediaries or directly to end-users).

If an exporter of green coffee bean can offer higher volumes (ten containers or more) it is possible to enter the German market through large importing companies. Germany has some of the largest coffee importers in the world, such as: Neumann Kaffee Gruppe, InterAmerican Coffee Benecke, List & Beisler Hacofco and Rehm Coffee

These importers cover a wide range of qualities, varieties and certifications. Some focus exclusively on specialty green coffee beans (thus requiring high-quality beans).

In Germany also direct supply to large roasting companies is a significant part of the coffee market. The six main roasters in the German market account for 85% of the market. The largest coffee roaster is Tchibo, followed by Jacobs. Together, Tchibo and Jacobs account for more than 40% of the German coffee market. Other large roasters are: Dallmayr, Darboven Group and Melitta Aldi (with its brands Markus Gold and Amaroy).

Targeting smaller roasters directly is also a possibility. Germany is experiencing an increase in specialty roasters which import directly from producing countries. Smaller specialty roasters normally focus on higher-quality green coffee beans, paying special attention to long-term partnerships. Examples of specialized German roasters that import directly are: Supremo, Kaffeerösterei Baden-Baden and Flying Roasters.

The end market prices for coffee vary depending on which segment of the market is targeted. Typically, export prices of green coffee only account for around 5–25% of the end market prices, depending on the coffee quality, the size of the lot and the supplier's relationship with the buyer.

These are the price ranges for the German coffee market:

Upper-end: €91.60 per kg (Mykona Hawaii Paradise Meadows – 250-gram packaging); €71.60 per kg (Claudio José Costa Rica – Public Coffee Roasters – 250-gram packaging)

Mid-range: €18.99 per kg (Origo Coffee Barista Espresso – Organic certification – 1-kg packaging); €13.49 per kg (REWE Feine Welt Incahuasi kaffee – Fairtrade and Organic certified – 1-kg packaging); €12.99 per kg (Jacobs Espresso D' Aroma Espresso – 1-kg packaging)

Lower-end: €6.58 per kg (Bellarom Kaffee Mild – 500-gram packaging)

(Sources: Lidl, REWE, Kaffee Zentrale, Public Coffee Roasters)

5.2 German coffee consumption

Germany is the largest coffee-consuming country in Europe. The country represented 21% of the total European consumption in 2015. It consumed around 534 thousand tons of green coffee (8.9 million 60-kg bags).

Germany's per capita coffee consumption is above the European average of 5.41 kg per year. Germans consumed 6.5 kg of coffee per person in 2015 (see Figure 1 below). Germany lags behind Nordic countries such as Sweden (7.0 kg/year) and Finland (12 kg/year).

Germans prefer to consume high-quality *Arabica* coffee and prefer lightly roasted coffee. In line with this preference, there has been a shift towards Brazilian Naturals and Other Mild flavours within the *Arabica* group. In 2015, 72% of Germans owned a coffee machine for filter coffee and 23% drank three cups of coffee per day.

More than half of the roasted coffee consumption in Germany consists of filter coffee.

In 2014, a total of 261,650 tons of filter coffee were consumed, representing a market share of 70%. Whole beans represent a market share of 17% (63,450 tons in 2014), while the rest is split between capsules (8%) and pads (5%). The share of filter coffee has decreased by 5% since 2013, while in the same period beans and individual portions such as capsules and pads increased by 2% and 8%, respectively.

The number of specialty coffee shops in Germany is growing. The frequency of coffee shop visits is expected to increase as well. This development illustrates the desire of German consumers to incorporate quality and variety in their coffee drinking experience. However, the demand for specialty coffee is not growing as fast as in other western European countries such as the Netherlands and the United Kingdom.

Germans still consume most of their coffee at home. According to research, one in four Germans stated that they are trying to replicate their experience of the specialty coffee shop when drinking coffee at home.

The specialty coffee market in Germany is also marked by the expansion in small-scale roasters, such as Berlin-based Flying Roasters and Hamburg-based Public Coffee Roasters. These roasters cater for niche markets and introduce concepts such as direct trade (as discussed in our study of Trends for coffee).

The Coffee Quality Institute states that coffees graded and cupped with scores above 80 are considered specialty coffees.

Germany is the market leader in organic food sales and consumption within Europe. In Germany, the organic food and beverage sector is no longer considered as part of the niche market but rather as an important and growing market segment. In 2015, the organic market in Germany reached a turnover of €8.6 billion, following an 11% annual growth. In that same year, Germans spent around €106 per person on organic food and beverages.

This growing trend towards organic products among German consumers has resulted in a strong interest in organic coffee. Euromonitor estimates that the market for organic coffee in Germany increased at a rate of 6% from 2014 to 2015. It is expected that the sector will register the strongest growth of all coffee product groups.

The popularity of organic foods in Germany is driven largely by consumers' interest in health and ecological impact. In addition, German consumers have a relatively high disposable income compared to other countries in Europe. This situation makes them willing to spend extra money on everyday products such as coffee.

Furthermore, German consumers are demanding more single-serve methods such as coffee pods and capsules. These methods have become more popular because they are easy to use and have a wide variety of flavours. According to research by Mintel, 50% of German consumers consider the quality of coffee pods and capsules to be just as good as coffee bought at the coffee shop. To comply with the increasing demand, more and more German manufacturers are introducing coffee pods into their range of products.

However, coffee pods and capsules have developed a negative image in Germany. This image is due to the increase in environmental waste from using these pads. An example is that the city of Hamburg banned coffee pads and other disposable coffee products from its local governmental buildings in the beginning of 2015. This measure was intended to reduce the environmental waste of the local government.

5.3 Hub for coffee re-exports in Europe

Germany is an important trade hub in Europe, with a major role in coffee re-exports as well. Germany was the largest re-exporter of green coffee beans in Europe in 2015 with a share of 53%. The total re-exports of green coffee beans reached 311 thousand tons in 2015. Since 2011, German exports have decreased slightly in volume at an annual rate of 2.9%.

In 2015, the main destinations for Germany's green coffee re-exports were Poland and the United States. Re-exports to Poland remained relatively stable in both volume and value. Exports to the United States decreased at an annual rate of 4.3% in volume and 9.3% in value.

5.4 Certification

Sales of coffee with other sustainability certifications show a continuous growth rate in Germany. In 2014, a growth rate of 13% was recorded for sustainable coffee, reaching 15,700 tons. The market segment of certified sustainable coffee (including Organic) represented about 8% of the German coffee market in 2014.

The main reason for this growing interest is that German consumers increasingly request socially and environmentally sound conditions under which their coffee is produced.

Germany was the second-largest European market for coffee certified by Fairtrade, UTZ and the Rainforest Alliance:

Germany represents 17% of Fairtrade certified coffee sales worldwide, selling 16,000 tons in 2014. Of the Fairtrade certified coffee sold in Germany, 71% was certified as Organic as well. Important origins for Germany's supplies of Fairtrade certified coffees are Honduras, Peru, Mexico and Tanzania.

Around 60 Germany-based retailers, brands, importers and roasters were certified by UTZ in 2016. Some of the players on the list certified by UTZ are importers such as Bernhard Rothfos GmbH (Member of Neumann Kaffee Gruppe), List & Beisler and InterAmerican Coffee. Examples of roasters are Tchibo and Melitta, while examples of retailers include Rewe and Lidl. Around 40 Germany-based retailers, traders, coffee shops and brands were certified by the Rainforest Alliance in 2016. Some of the players on the list certified by Rainforest Alliance are roasters such as Roestfein and Tchibo or retailers such as Lidl and Kaufland.

5.5 Exporting to the German market

Buyers in Germany have strict requirements for coffee, just as other European Union buyers. You can only export your product to European Union countries if you comply with these requirements. Specifically for the German coffee market, the following topics are important:

Legal requirements

You must follow the European Union legal requirements applicable to coffee, mainly dealing with food safety. Traceability and hygiene are the most important themes. Special attention should be paid to specific sources of contamination. Pesticides, mycotoxins and Salmonella (though coffee is considered a low risk) are the most common for green coffee beans. Although Germany applies the same legal requirements as other European Union countries, industry sources indicate that import controls for factors such as pesticides and moulds are very strict in the country.

Quality criteria for coffee

Green coffee beans can be classified using two methods: the Specialty Coffee Association of America (SCAA) green coffee classification; the Brazilian/New York green coffee classification (applicable to Brazilian coffee only). Grading is usually based on the following criteria: altitude and/or region; botanical variety; preparation (wet or dry process, washed or natural); bean size (screen size), sometimes also bean shape and colour; number of defects (imperfections); roast appearance and cup quality (flavour, characteristics, cleanliness); density of the beans.

Higher-quality coffee (specialty coffee) is graded according to a cupping score. The fragrance, flavour, aftertaste, balance, acidity, sweetness, uniformity and cleanliness are important aspects of the grading process (see below for more information).

Specialty and *speciality* are terms that are very closely related and often interchangeable. *Specialty* is more commonly used in American English (such as by the Specialty Coffee Association of America), while *speciality* is more commonly used in British English such as by the Speciality Coffee Association of Europe (SCAE).

The definition of speciality coffee has not been formally established within the coffee industry. A cupping score below 80 is considered standard quality rather than speciality. This criterion is in line with the Coffee Quality Institute, which states that coffees graded and cupped with scores above 80 are considered specialty coffees. The cupping protocols of the Specialty Coffee Association of America also consider a score of 80 to be below speciality quality. However, the exact minimum scores defining speciality coffee differ per country and buyer. Some buyers consider a score of 80 as too low and demand a cupping score of 85 or higher.

Labelling requirements

Labelling of coffee exported to Germany should be written in English. Labels should contain the following details to ensure the traceability of individual batches: product name; manufacturer lot or batch code; country of origin; grade; net weight in kg; in the case of organic or Fair Trade, name/code of the inspection body and certification number.

Packaging requirements

Green coffee beans are sensitive to water absorption. As a result, they are transported in woven bags made from natural fibre (jute or hessian). These bags allow the free circulation of air.

Most green coffee beans of standard quality imported into Germany are packed in container-sized bulk flexi-bags. These bags hold roughly 20 tons of green coffee beans. The rest of the green coffee is transported in traditional 60-kilo jute sacks, which have a net volume of around 17–19 tons of coffee.

Materials such as GrainPro or other innovative materials can be used to pack specialty coffees.

Additional requirements

Quality management system certification may be required by buyers. A system based on hazard analysis and critical control points (HACCP) is often required as a minimum standard, but some buyers will also expect you to have certificates such as International Featured Standards: Food (IFS) or British Retail Consortium (BRC)

As corporate responsibility and sustainability is of growing importance in the coffee sector, adopting codes of conduct or sustainability policies related to the environmental and social impact of your company can provide you with a competitive advantage. See, for example, the corporate responsibility websites of Tchibo or Jacobs, both important players in the German coffee market.

Germany is one of the largest markets for UTZ and Rainforest Alliance. These certifications are usually part of the sustainability strategy of traders, roasters and retailers. Importers such as Neumann and List & Beisler handle a wide range of coffees from various origins and certifications. Roaster Tchibo also cooperates with all main certification schemes for coffee to achieve its sustainability mission. Large mainstream retailers such as Lidl and Edeka offer coffees certified with both major sustainability standards (in addition to minor certifications such as Organic and Fairtrade).

The German Coffee Association estimated sustainable coffees with a certificate or seal (including Organic) to represent around 10% of the total German coffee market in 2015 (8% in 2014).

The Coffee Platform is expected to play an important role in sustainability within the German coffee industry. The platform also cooperates with the German Federal Ministry for Economic Cooperation and Development.

Requirements for niche markets

Organic certification is expected to grow strongly in Germany over the coming years. Every major coffee company, as well as smaller roasters, offers a range of organic coffees to comply with consumer demand in Germany.

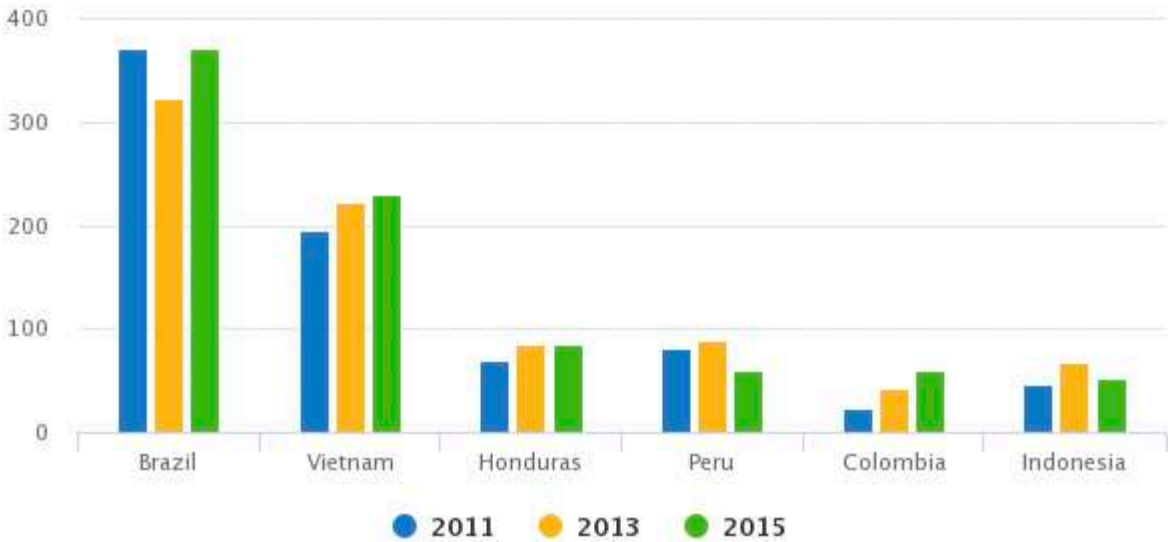
The combination of Organic certification and Fairtrade certification for coffee is popular among German consumers. From 2013 to 2014, the German market registered a growth of 16% in Fairtrade coffee volume (in green bean). This share amounted to over 15,000 tonnes. Over 70% of Fairtrade certified coffees in Germany also hold an Organic certification.

Supplying countries of green beans for Germany

Germany sourced 97% of its imports directly from developing countries, mainly through the port of Hamburg. The main suppliers in 2015 were: Brazil (34% of the total German imports), Vietnam (21%), Honduras (7.9%), Peru (5.5%), Colombia (5.5%) and Indonesia (4.9%).

Figure 3: Main developing country suppliers of green coffee beans to Germany 2011–2015

in 1,000 tonnes



Source: Eurostat, 2016

6 Pricing and doing business with Nepalese coffee

6.1 Coffee prices in general

The price of commodity coffee depends on the futures markets. The two most relevant futures markets are New York (Arabica) and London (Robusta).

Specialty coffees in general fetch higher prices than commodity coffees, but their prices still relate to the futures markets. However, there are some specialty coffees that trade on fixed prices. The fluctuations on the futures markets have no bearing on these prices. But this is very rare, and only applies to high-end coffees, such as Jamaica's Blue Mountain.

Getting the right price for coffee is all about timing. This means you need to follow these futures markets closely.

Export sales prices are always in US dollars and are fixed against the price levels on the New York and London futures markets (with the subtraction or addition of a pre-agreed premium, which is called 'differential').

Your buyers will be watching the futures markets closely, as they have to follow them as well. They will try to agree on a price for a coffee contract when they perceive the world market is working in their favour (low prices). They will also try to conclude contracts for future deliveries.

In 'direct trade' coffee producers and buyers can agree on a price without looking at terminal markets, but this is considered as quite exceptional (for direct trade: see also paragraph 3.5). An example of one of the potential buyers is operating as follows. This buyer operates mostly in the Ethiopian coffee market. They build a relationship with the local farmers for several years. Now they trade directly with the Ethiopian farmers and were willing to pay a premium of 40% in last fiscal year.

6.2 Pricing of Nepali coffee

As a part of our study we visited several potential customers in the Netherlands. Next to the desired quality of the coffee (see chapter 6) prices for the coffee are of course a very important part of doing business.

In general the prices for Nepali coffee are considered as high. On top of that coffee from Nepal is quite unknown and we have to bear in mind that this is also an important topic (next to quality and pricing).

During our study we compared prices of Nepali coffee with other important coffee countries. We were able to get quite detailed figures from one of our potential customers and we found out these figures were in line with other possible customers. They purchased and sold from traditional coffee supplying countries.

The results were as follows; prices per kg and used currency exchange rate 1 € = 120 Nrs.):

Country of origin	Purchase in € (excl. transport)	Purchase in Nrs. (excl. transport)	Sales price in €	Sales price in Nrs.	Cupping score
Colombia	€ 5,08	610	€ 25,00	3.000	83-87
Panama (1)	€ 6,79	815	€ 25,00	3.000	83-87
Brazil	€ 5,95	714	€ 25,00	3.000	83-87
Indonesia (Java)	€ 6,00	720	€ 25,47	3.056	83-87
Ethiopia	€ 6,88	826	€ 27,36	3.283	83-87
Panama (2)	€ 7,12	854	€ 30,66	3.679	>88
Thailand	€ 8,58	1.030	€ 30,66	3.679	>89
El Salvador	€ 7,81	937	€ 30,66	3.679	>90

The 5 coffees with a cupping score between 83 and 87 were the top 5 of this customer (sales volume in total > 100,000 kg). As you can see the price range is between 610 Nrs. and 854 Nrs. When we compare that to the pricing of Nepali coffee, Nepali prices are 40 to 90 % higher.

The selling prices were 3,000 Nrs. per kg for coffee with cupping scores between 83 and 87 and 3,679 Nrs. for coffee with a cupping score of 88 and above.

For an important part these higher prices are caused by relatively high prices paid to the farmers. For example, in comparison with Ethiopia: farmers normally are paid for their coffee with Nrs. 34 per kg. A Dutch company is operating as a fair chain company. Therefore they paid a higher price to the Ethiopian farmers: 49 Nrs. This price is more than 60% !! lower than the latest price set by the National Tea and Coffee Development Board in Nepal.

The prices for a parchment of Green Beans (before hulling and grading) are between Nrs. 475 and Nrs. 580. After hulling and grading prices for A grade green beans are set between Nrs. 800 and Nrs. 1,100 by traders and cooperatives. Of course these prices are before shipping cost and taxes.

Next to the fact that the coffee is not very known in Europe yet, the cupping scores (see chapter 6), do not meet the demanded >85 points. Herewith sales of Nepali coffee is even more difficult. Although some potential customers like Nepali coffee, they all think the prices for the coffee is too high. Herewith pricing is a major issue, which has to be addressed for successful exporting to the Netherlands and Germany.

6.3 Build up a sustainable business for Nepali coffee

Of course pricing is not the only issue for customers to buy coffee from Nepal. Availability, certification, act according to agreements, good communication, etc. are also very important.

With respecting all of these important business rules, set up a long-term relation with the buyer (mostly also the roaster) of your coffee is probably the most important part of doing business in the Netherlands and Germany. Therefore trust between the parties is key and it will take several years to build good relationships.

The building of a good relationship mostly depends on delivery of good quality coffee. Visits of Nepali sellers to their potential customers do not have a very high added value. Buyers get quotes and samples every day and their decision is usually based on the quality of the specialty coffee only. We believe good communication in writing is important for both parties. Furthermore samples have to be delivered in a decent way and should be representative for the total lots to be delivered. The way the samples were delivered for this study was properly done and can be used as an example for future sample deliveries. We also refer to paragraph 6.2. Only improvement to be made is it should be mentioned on the packaging whether the coffee is certified. If the coffee is certified, the used certification standard should be mentioned and presented on the sample packaging (with the certification logo).

For a good communication it is important to have proper English language skills. Our experience is that traders and middlemen mostly are quite well in English. The most farmers do not speak or write English. When it comes to direct trade, they should work together and should be represented by skilled farmers who also manage English language.

Thereby the unique selling points of your coffee to rise above your competition should be improved. For example, you could promote the high quality or single origin of your coffee beans. For that the cupping scores need to be analyzed intensively and have to be improved.

6.4 Certification

As explained in chapter 3, 4 and 5 of this report, European consumers are increasingly concerned about the social and ecological impact of their consumption. Therefore certification showed a sharp growth within the coffee market in recent years. Both the production and sales of sustainably produced coffee have grown significantly more than conventional coffee.

Certification has becoming essential for medium and large coffee companies in Germany and The Netherlands. Smaller coffee roasters in the specialty segment are more interested in trust building with suppliers and increasingly in direct trade, and less so in third-party certification. They want to have direct contact with coffee farmers and want to know all exact details of production and the value chain.

Certifications are very important tools to underline your story and to emphasise the quality of your coffee. Also traceability of the coffee is an important aspect in exporting Nepalese coffee, which requires a traceability system that provides information about the origins of the coffee to all the parties in the supply chain.

Some major production standards in coffee are: Fairtrade organic Rainforest Alliance / UTZ Certified 4C (verification standard operated through the Coffee Assurance Services) and Max Havelaar. Each certification scheme is explained fully in CBI Buyer Requirements for Coffee.

7 Potential buyers

7.1 General

The coffee trade is a volatile business and Europe has the world's largest and most competitive market. If you want to do business in Europe successfully, you will need a clear picture of the international supply chain, specific European requirements and national market trends.

Once you have found a potential buyer, it is important to understand their business, their culture and their individual requirements and demands. Coffee buyers in Europe differ significantly from country to country, and this can make the next steps in doing business quite challenging.

These were described in chapter 2 and more specific for the Netherlands and Germany in chapter 3 and 4.

7.2 Samples from NCPA

Samples give potential buyers the opportunity to approve the coffee beans and make sure they match their quality requirements before committing to buy.

In general, when we send a sample, we have to make sure it is a true representation of the coffee we want to sell to the client. Be honest and transparent about your samples and the quality of your coffee deliveries. If you are not, you risk losing the trust of your potential buyers. If we cannot match the sample quality in some aspect, we should inform our buyer as soon as possible.

Regarding the study we had contact with Nepal Coffee Producers Association to have samples of the Nepali coffee products for European interested companies.

We received the following samples from these area on 24 February 2018:

1. Syangja (7 pieces of 500 grams)



2. Kaski (5 pieces of 500 grams)



3. Kavre (3 pieces of 500 grams)



4. Nuwakot (3 pieces of 500 grams)



5. Sindupalchowk (1 piece of 500 grams)



The samples were delivered to us in a proper way. The plastic zipped packaging bags and the description on the packaging were in good order. Normally a proper factsheet, providing information such as variety, altitude, soils, rainfall, location, annual production (by grade / type of coffee), harvest/ marketing season, labour practices, processing system, anti-pollution measure, warehousing, etc. should be added to the samples. This factsheet was not provided.

Directly after we received the samples, we contacted several selected potential buyers in the Netherlands and send these samples to them (by courier and free of charge). The beans were not roasted, which is in line with the usual way of providing samples to potential buyers.

Because the number of delivered samples was limited, we could not deliver samples to all customers and also the numbers per sample were not in line. Therefore some potential buyers could only receive one of the available coffee areas.

7.3 Potential buyers

The selected and identified potential buyers are:

1. Moyee Coffee (<https://www.moyeecoffee.com/>)



2. Trabocco (<https://www.trabocca.com/>)



3. Ahold Delhaize Coffee company (<http://www.aholdcoffeecompany.nl/en/>)



4. Roast n Toast(<http://www.roastntoast.nl/>)



5. Boot Koffie (<https://www.bootkoffie.nl/>)



B O O T
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— 1973 —

6. Koffie Max (<http://koffiemax.nl>)



7. Coffee Company (owned by Douwe Egberts; <https://www.coffeecompany.nl/>)



8. Jose Mollura Amsterdam (<https://www.jose-mollura.com/>)

JOSÉ MOLLURA

AMSTERDAM

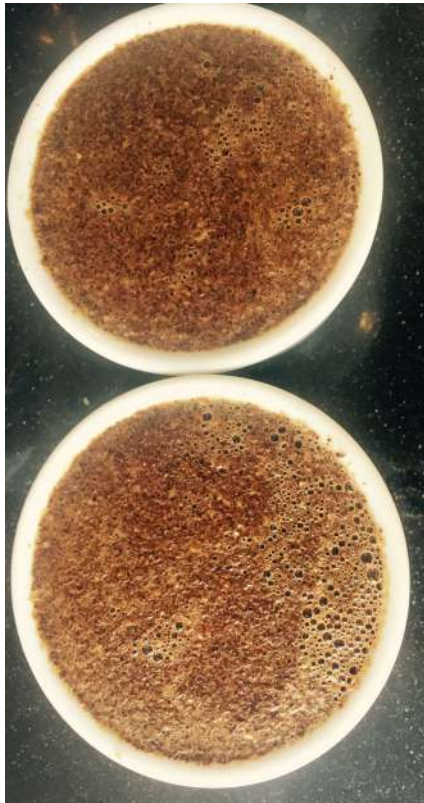
9. Single Estate Coffee Roasters (<https://www.singlestatecoffee.nl/>)



10. Koffiebranderij Het Hoofdkwartier



7.4 Feedback on the quality of the samples (cupping)



In general quality is the result of many factors in coffee production and processing. Most important are the place of origin of the product, the specific coffee variety (Robusta or Arabica, and Arabica sub- varieties: Bourbon, Castillo, Geisha and other), the adequate sowing and agronomic management, the harvest and post-harvesting processes and the industrialisation of the bean.

The attributes of a green coffee are related to its physical and intrinsic quality: factors like moisture content, colour, greenish shrivelling, bean size and defect count could lower the value and quality of coffee; their absence could result in a premium coffee (speciality coffee).

Sensorial attributes of the roasted coffee are also related to the extraction process. These quality attributes can vary depending upon the principal organoleptic qualities that are used to evaluate the beverage which are:

- Aroma
- Flavour
- Acidity
- Body
- Bitterness
- Global impression and aftertaste

Each of these five attributes are reflected in both intensity (how much) and quality (how good), which are based on cupping protocols. Overall ratings provide a summary assessment based on a scale of 50 to 100; the higher the score, the better the quality.

In spite of the wide classifications of speciality / specialty coffees worldwide, the Specialty Coffee Association of America (SCAA) uses a cupping score above 85 as a quality criterion for this coffee segment. This is an important and measurable quality criterion for speciality coffee. Q graders (and recently R Graders) are in charge of assigning a score to the coffees evaluated according to cupping protocols; the Coffee Quality Institute is the institution providing training to Q and R graders.

At the time of writing of this report we did not have all feedback yet, but with the feedback we did get, we have enough information on the quality of the delivered samples.

In appendix 1 you will find the cupping scores of Moyee Coffee on the 3 delivered samples to them. There you will find the remarks on flavour, acidity, etc. from the Q grader.



The results of the cupping scores were:

- Kavre: 81,75
- Kaski: 82,25
- Syangia: 81,25

From Boot coffee we did get the following quote of the 14th of March 2018 on the delivered samples:

“Last Thursday we cupped all of your coffee. Some of them had a moisture of over 13%, which made the roasting process a little bit difficult. We do not know whether this is the reason, but the quality of the samples were not that good. Non of the samples gave us the quality we need to offer the coffee in our product range. Do you have more samples available we can test? “

From Roast ‘n Toast and Koffiebranderij Het Hoofdkwartier we did get the feedback that they only were positive about the sample fromKaski.

Roast ‘n Toast also roasted and tested samples from the harvest of 2017 and was more positive for the whole range (7 samples). They were most positive and enthusiastic about the sample of Buddha Organic Coffee Industries.



In appendix 2 you will find the cupping scores from coffee samples received from NCPA (harvesting season 2017), which were delivered earlier (June 2017) to Trabocca. Trabocca gave as feedback that the samples were quite similar in tasting except for sample 1. Therefore they thought this sample was probably some older. The results were better than the tested samples in March 2018 as you can see. They were most enthusiastic about sample 2 with a score of 83 ('Mustang'). This potential customer said they were only interested in coffee with a cupping score above 85 ('excellent coffee').



8 Summary and conclusions

In this report we described our study of the European market for Nepalese coffee and for the Netherlands and Germany more in particular.

European market

Europe accounts for nearly 30% of the global coffee consumption. In the European Union alone, coffee consumption amounted to 2.5 million tons (41.6 million 60 kg bags) in 2015. The European coffee market is large, but saturated. Therefore, consumption is expected to remain stable in the long term.

The majority of European consumers still purchase cheaper mainstream coffee, usually in the form of standard blends. The European market for specialty coffee is growing significantly and offering opportunities for suppliers offering high-quality coffees. The specialty segment is a small niche, but which commands high quality and high value.

In our search for European buyers, it is important to understand the characteristics of the target market. Each national coffee market in Europe differs from the next.

While the mainstream market grows with cheaper products, the consumption of higher-quality blends, consisting of more expensive and specialty Arabica coffees, is also growing at a fast pace in Europe. The increasing interest in specialty coffee is reflected in the growing number of coffee bars and chains, small roasters, small local brands and baristas.

European consumers are increasingly concerned about the social and ecological impact of their consumption. This has a great influence on the coffee market, where sustainability commitments are becoming more popular and companies are increasingly required to conform to them. The demand for certification in Europe for transparency and traceability of food products, including coffee increased in the past years.

Brazil is the main supplier of green beans in Europe, followed by Vietnam and Colombia. Smaller, but also significant suppliers, are Honduras, Indonesia and India.

The Dutch coffee market

The Netherlands, with nearly 17 million inhabitants, accounted for approximately 4% of total European Union consumption of green coffee in 2015. In total, Dutch consumption amounted to 1.5 million bags (60 kg) of green coffee (90 thousand tons). It is estimated that an average of 5.3 kg of coffee per capita was consumed in the Netherlands in 2015. The most popular coffees consumed by the Dutch belong to the cheap bulk segment. The Netherlands is the seventh largest importer of green coffee in Europe, accounting for nearly 5% of total imports. Total Dutch imports amounted to 159 thousand tons (€ 431 million) in 2015.

The German coffee market

Germany has a very traditional coffee market. The trading structure is well established, with clear roles in each part of the chain. Imports of green coffee beans into Germany mainly enter via the port of Hamburg, where most importers, agents and some roasters are located.

Germany is the largest coffee-consuming country in Europe. The country represented 21% of the total European consumption in 2015. It consumed around 534 thousand tonnes of green coffee (8.9 million 60-kg bags).

Germany's per capita coffee consumption is above the European average of 5.41 kg per year. Germans consumed 6.5 kg of coffee per person. Germans prefer to consume high-quality *Arabica* coffee and prefer lightly roasted coffee. In line with this preference, there has been a shift towards Brazilian Naturals and Other Mild flavours within the *Arabica* group. In 2015, 72% of Germans owned a coffee machine for filter coffee and 23% drank three cups of coffee per day.

More specific the study was concentrated on identifying Micro Lots coffee buyers in Europe (chapter 6). In this report we described how a relationship between Nepalese coffee traders, farmers, cooperatives and European Micro Lots buyers can be established.

Pricing and doing business

In chapter 6 we described the pricing of the coffee in Europe in relation to the prices of Nepalese coffee.

In general specialty coffees fetch higher prices than commodity coffees, but their prices still relate to the futures markets. The prices for Nepali coffee are considered as high. On top of that coffee from Nepal is quite unknown and we have to bear in mind that this is an important topic to be addressed to (next to quality and pricing).

When we compare pricing of Nepali coffee with quality coffee from main importing countries, Nepali prices are 40% to 90 % higher.

For an important part these higher prices are caused by relatively high prices paid to Nepalese farmers.

Of course pricing is very important but not the only issue for customers to buy coffee from Nepal. Availability, certification, act according to agreements, good communication, etc. are also very important. With respecting all of these important business rules, set up a long-term relation with the buyer (mostly also the roaster) of your coffee is probably the most important part of doing business in the Netherlands and Germany.

Potential buyers and quality

We selected ten potential European Micro Lot buyers for Nepalese coffee. At the end of February we received samples from 5 districts, which were delivered to us by NCPA.

The samples were delivered in a proper way. The plastic zipped packaging bags and the description on the packaging were in good order. Only a proper factsheet was not added to the samples. This is preferred for providing samples to new potential customers.

Directly after the receipt of the samples, we contacted the selected potential buyers (on pages 33,34 and 35) and send these samples to them (by courier and free of charge). The beans were not roasted, which is in line with the usual way of providing samples to potential buyers.

Because the number of delivered samples was limited, we could not deliver samples to all customers and also the numbers per sample were not in line. Therefore some potential buyers could only receive one of the available coffee area's.

The Specialty Coffee Association of America (SCAA) uses a cupping score above 85 as a quality criterion for this coffee segment. This is an important and measurable quality criterion for speciality coffee. The results of the cupping scores of the provided samples were between 81 and 83 and therefore under the required score.

Thereby the unique selling points of your coffee to rise above your competition should be improved. In reaching that promotion of high quality or single origin of the coffee beans would be possible. For that the cupping scores need to be analysed intensively and have to be improved. Of course this is identified as one of the purposes of the Hamroo Coffee program.

In exporting high-quality coffee to the specialty market in the Netherlands, Nepal has to increase the cupping scores and learn how to cup their own coffee. We recommend you to consider to get a Q-certificate for your coffee. Herewith you will have an independent confirmation of quality wherewith the coffee can be deemed as a speciality.

Future

We recommend you to make a strategic marketing plan in selling to the selected European countries and its potential buyers. In this plan you should visit the website of potential buyers and uncover as much information as you can about their business, their philosophy and business practices. In the marketing plan the story of Nepalese coffee should be addressed. Think about what your story is. What sets you apart from the competition and how do you contribute to the potential consumers of Nepalese coffee?

Many buyers in Europe are looking for products which originate from socially responsible production programmes, for example, and environment-friendly producers.

Certifications are very important tools to underline your story and to emphasise the quality of your coffee. Also traceability of the coffee is an important aspect in exporting Nepalese coffee, which requires a traceability system that provides information about the origins of the coffee to all the parties in the supply chain.

There are also small buyers (mainly roasters) who are less interested in certification, but who want to have direct contact with coffee farmers and want to know all exact details of production and value chain.


It takes time before a buyer decides making a contract with a new coffee supplier. Usually, he has a number of good suppliers with longstanding relations. Do not expect to have a deal after you submitted a first coffee sample: Sometimes, it takes one or two years of exchange of information and samples, before you get an order.

European buyers appreciate suppliers who are reliable, transparent and good communicators. Transparency means developing an open relationship in which risks can be addressed properly, shared and discussed.

Good communication means involving your buyer(s) in your considerations; providing him with clear and prompt information, especially regarding price, contract, quality and transportation. Buyers will consider you to be a reliable supplier if you keep to your agreements and deliver on time.

We like to thank all persons and organisations involved in our study, especially the potential customers, NCPA and ICCO.

NEPAL



Specialty Coffee Association
Arabica Cupping Form

Name: JOSE MALLURA
 Date: 23/3/2018
 Table no: 1

Quality Scale			
6.00 - GOOD	7.00 - VERY GOOD	8.00 - EXCELLENT	9.00 - OUTSTANDING
6.25	7.25	8.25	9.25
6.50	7.50	8.50	9.50
6.75	7.75	8.75	9.75

Sample No.	Roast Level of Sample	Fragment/Aroma <u>7.5</u>			Flavor <u>7.5</u>			Acidity <u>6.5</u>			Body <u>8.5</u>			Uniformity <u>10</u>			Clean Cup <u>10</u>			Overall <u>7.5</u>																		
		Dry			Qualities			Break			Aftertaste			Intensity			High			Low			Level			Heavy			Thin			Balance			Sweetness			Defects (subtract)
KAVRE		Notes: <u>CARAMEL SWEETNESS - LOW ACIDITY - LEMON CANDY MELON</u>																								Final Score <u>81.25</u>												

Sample No.	Roast Level of Sample	Fragment/Aroma <u>7.5</u>			Flavor <u>7.5</u>			Acidity <u>6.5</u>			Body <u>8.5</u>			Uniformity <u>10</u>			Clean Cup <u>10</u>			Overall <u>7.5</u>																		
		Dry			Qualities			Break			Aftertaste			Intensity			High			Low			Level			Heavy			Thin			Balance			Sweetness			Defects (subtract)
KASKI		Notes: <u>APRICOT - VANILLA - LONG AFTERTASTE - SWEET RYRIP</u>																								Final Score <u>82.5</u>												

Sample No.	Roast Level of Sample	Fragment/Aroma <u>7.5</u>			Flavor <u>7</u>			Acidity <u>6.5</u>			Body <u>8</u>			Uniformity <u>10</u>			Clean Cup <u>10</u>			Overall <u>7</u>																		
		Dry			Qualities			Break			Aftertaste			Intensity			High			Low			Level			Heavy			Thin			Balance			Sweetness			Defects (subtract)
SYNGJA		Notes: <u>PUNGENT CARAMEL SWEETNESS / HEAVY BODY - LEMON CARAMEL FINISH</u>																								Final Score <u>81.25</u>												

This form is designed and intended to be used in conjunction with the SCA Protocol for Cupping Specialty Coffee.

Appendix 2



Specialty Coffee Association of America Coffee Cupping Form

Name: Cerianne

Date: 2/16/2017

Quality scale			
6.00	7.00	8.00-Specialty	9.00-
6.25	7.25	8.25	9.25
6.50-Good	7.50-Very Good	8.50-Excellent	9.50-Outstanding
6.75	7.75	8.75	9.75

Sample # 78.75

Notes: musty coffee 1st cupping 11.27.16
woody
choc orange sl. woody

Sample # 83

Notes: 1000 mas!
musty coffee 1st cupping 11.9.16
choc orange vanilla nutty flat. peanut.

Sample # 82.5

Notes: 1000-1000 mas!
musty coffee 1st cupping 11.27.16
choc cacao melon nutty watery sl. woody aging

Sample # 83.25

Notes: handwashed wet 1000 mas!
nutty
choc nutty lemon (sl. woody) flat



Specialty Coffee Association of America Coffee Cupping Form

Name _____

Date: _____

Quality scale			
6.00	7.00	8.00-Specialty	9.00-
6.25	7.25	8.25	9.25
6.50-Good	7.50-Very Good	8.50-Excellent	9.50-Outstanding
6.75	7.75	8.75	9.75

Sample # _____

Roast Level of Sample _____

Notes: *wet washed 1300 masl north east 14.1. 6.2-3*

Score	Score	Score	Score	Score	Score	Score	Score	Score	Total Score
Fragrance/Aroma	Flavor	Acidity	Body	Uniformity	Clean Cup	Overall	Defects (subtract)	Taint=2 # cups Intensity	
6-10	6-10	6-10	6-10	6-10	6-10	6-10	0-10	Fault=4	
8.5	7.5	7.5	7.5	8.5	8.5	8.5	0	0	80
Notes: <i>choc grassy lemon flat watery</i>									Final Score

Sample # _____

Roast Level of Sample _____

Notes: *5yanga 1000 masl highland dry coffee 10.27. 6.5-9*

Score	Score	Score	Score	Score	Score	Score	Score	Score	Total Score
Fragrance/Aroma	Flavor	Acidity	Body	Uniformity	Clean Cup	Overall	Defects (subtract)	Taint=2 # cups Intensity	
6-10	6-10	6-10	6-10	6-10	6-10	6-10	0-10	Fault=4	
8.5	7.5	7.5	7.5	8.5	8.5	8.5	0	0	80.5
Notes: <i>choc lemon orange nutty flat bayleaf</i>									Final Score

Sample # _____

Roast Level of Sample _____

Notes: *west africa dry forest organ 2 11.2. 7.5-11*

Score	Score	Score	Score	Score	Score	Score	Score	Score	Total Score
Fragrance/Aroma	Flavor	Acidity	Body	Uniformity	Clean Cup	Overall	Defects (subtract)	Taint=2 # cups Intensity	
6-10	6-10	6-10	6-10	6-10	6-10	6-10	0-10	Fault=4	
8.5	7.5	7.5	7.5	8.5	8.5	8.5	0	0	82.5
Notes: <i>lemon nutty sl earthy flat bayleaf</i>									Final Score

Sample # _____

Roast Level of Sample _____

Notes: _____

Score	Score	Score	Score	Score	Score	Score	Score	Score	Total Score
Fragrance/Aroma	Flavor	Acidity	Body	Uniformity	Clean Cup	Overall	Defects (subtract)	Taint=2 # cups Intensity	
6-10	6-10	6-10	6-10	6-10	6-10	6-10	0-10	Fault=4	
8.5	7.5	7.5	7.5	8.5	8.5	8.5	0	0	
Notes: _____									Final Score