

Coffee Industry Yet To Awaken To Chinese Beans

By Leslie Josephs, Of DOW JONES NEWSWIRES

SAN JOSE, Costa Rica -(Dow Jones)- Despite a dwindling supply of beans and soaring prices, the coffee industry is still wary of turning to China for new supplies.

Earlier this month, Starbucks Corp. ([SBUX](#)) signed a deal with the government of Yunnan Province in southern China to open the company's first coffee bean farm in the country, one of the fastest growing coffee markets in the world. Starbucks, the largest U.S. coffee shop chain, said it aimed to "bring the distinctive Yunnan coffee taste" to coffee drinkers around the world. Starbucks didn't release how much it is investing in the Chinese province.

Starbucks' move has the potential to reshape the market. Coffee consumption has increased globally, even during the economic downturn, and some of the strongest growth is in China. As its economy expands, roasters, particularly Starbucks, are eager to quench the population's thirst for coffee--and Western brands--in the traditionally tea-drinking nation.

"We always need to look for new opportunities," Robert Nelson, president of the National Coffee Association trade group, told Dow Jones Newswires at a recent coffee industry conference in Costa Rica. "Wise businesspeople look globally, if you will, to find the best coffee."

Still, selling Chinese-grown beans outside of Asia is a challenge, even as the industry is beset by production shortfalls in Latin America, the main source of the high-quality mild-washed arabica beans that fetch a top price in the market. The IntercontinentalExchange's (ICE) benchmark coffee contract reached a 13-year high on Nov. 10, at \$2.1865 a pound before slipping to \$2.0715 on Wednesday.

Bad weather and a sweeping replanting program in Colombia, the world's top grower of prized arabica beans, have led to two consecutive shortfalls in output, sending prices skyrocketing and shaking buyer confidence in future harvests. The country will miss its target for a third year, according to the National Federation of Coffee Growers, which last month slashed its 2010 production estimate to 9.5 million 60-kilogram bags, from 11 million, amid unseasonable rains.

Central America's high-quality beans, typically filling the gap after disappointing Colombian growing seasons, are also scarce after a violent hurricane season damaged infrastructure and spread plant disease.

But in turning to China, Starbucks is running out ahead of the coffee market, which is slow to

embrace new sources of beans. Many buyers, traders and analysts are skeptical that surging global demand can be met by bringing novice growers into the mainstream, even when traditional sources fall short.

"I remain on the cautious side on China," said Stefan Uhlenbrock, a commodities analyst at F.O. Licht. "The advantage of China is definitely that they have lower costs, but they're having other problems."

China's rapid urbanization might be a challenge to coffee growing as cities encroach on the lands best suited to growing beans, he said.

"We come down to the usual suspects such as Brazil and Vietnam to raise yields," Uhlenbrock said, referring to the world's top two coffee producers. "There are not so many alternatives."

Despite the clear shortfall in global production, Chinese coffee could also be a tough sell to consumers who trust in products from traditional quality growers.

"We do get concerned with the continued decline in production out of Central America and Colombia," said Allen Sasaki, president of Atlantic Specialty Coffee, Inc., which sells to big roasters, including Starbucks. "I just don't know if places like China will have the same quality."

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