

The New Frontier

Specialty coffee's emergence in China,
India, the Middle East and Russia

In China, instant coffee gives middle-school students a competitive advantage, helping them to stay awake for late-night and early morning study sessions.

In India, young professionals are opting to drink coffee rather than the traditional tea, and coffeehouse chains are primed to open thousands of new stores in the coming years to serve the growing demand.

In Dubai, United Arab Emirates, where developing brand loyalty is a lucrative business, coffee chains are looking to capitalize on an untapped market for specialty beverages prepared in Western-style cafes.

And in Russia, coffee shops offer pizza and sushi along with coffee drinks.

Welcome to the new frontier of specialty coffee.

Historically, people in China, India, the Middle East and Russia have not been known for consuming vast quantities of coffee. But these regions are generating a buzz for their potential as growth markets for specialty coffee. Although reliable data on regional coffee consumption is difficult to come by, a spate of news articles in recent months points to the continued growth of the specialty coffee segment as well as regional enthusiasm for the expansion of coffee knowledge. Coffee roasters, exporters and business development experts offered glimpses into the intriguing new coffee cultures emerging in China, India and the Middle East. See page 32 for Andrew Hetzel's report on Russia, where the interest in coffee is growing swiftly.

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China

Two facts about China make it especially enticing for specialty coffee businesses. First, it's the world's most densely inhabited country, with a population of more than 1.3 billion. Second, China has traditionally been a tea-drinking country, but the younger generations are switching to coffee.

Granted, coffee consumption in China is still very low: Ji Ming, the president of the Beijing Coffee Association, estimates that the per-capita consumption is about 3 cups per year, compared with the average per-capita consumption in the United States of 3.5 cups per day. But to the optimistic, this statistic shows that the specialty coffee market in China has nowhere to go but up.

There are plenty of optimists, and Huang Wei is one of them. A vice president of the Beijing Coffee Association and the coffee director of Beijing Sculpting in Time Company, Huang cites China's consumption data to show how rapidly the country's appetite for coffee is growing. "The annual increase of coffee consumption in China is around 15 percent, which is much higher than the world average," says Huang, who buys green beans and roasts coffee for his company. "Chinese per-capita coffee consumption has been on the rise for the last 15 years or so," agrees Matt Michaelson, marketing director for Beijing-based Arabica Roasters. "The biggest difference between now and 15 years ago is the sheer number of Western-style cafes in China. Starting in first-tier cities like Beijing and Shanghai, then expanding to nearby cities, they've now begun to open in large numbers even in less-developed inland cities. The rapid growth of coffee shop chains, along with the concurrent development of the Western food and beverage scene, is the main driver of Chinese coffee consumption."

Starbucks, for example, opened its first store in China in 1999 and is planning to expand from 450 existing mainland shops to 1,500 shops by the year 2015, Huang says, and 85°C, a Taiwanese chain that has 158 shops on the mainland, is aiming to expand to 1,000 shops within six years. Other chains including Costa, Lavazza Espresso and Pacific Coffee are looking to expand, as well.

Additionally, barista competitions and coffee-themed expositions have moved into the Chinese market in recent years. Since 2005, the Beijing Coffee Association has been holding an annual China Barista Championship as well as the Beijing Coffee Expo to drum up local enthusiasm about specialty coffee.

Because the coffee industry is still in its infancy in China, most coffee drinkers purchase beverages in coffee shops rather than purchase beans to brew at home, Huang says. "Most coffee shops use espresso machines and blends for espresso and espresso-based beverages," he adds. "Single-origins are uncommon in coffee shops." However, he says, coffeehouses featuring micro-roasted beans and fancy brewing styles (pour-overs and siphon brewing) are emerging.



Lujiangba Region of Yunnan Province | photo by Huang Wei

Today's coffee drinkers are mostly young, white-collar workers with disposable income, Michaelson says, but he sees that profile changing in the future. "As the population ages and becomes more wealthy, the average age of the coffee consumer is rising," he says.

One of the biggest changes in the green coffee market in China has been the rise of domestic production. Building domestic Chinese supply chains for green beans has been a long-term project. Traditionally, the coffee being grown in Yunnan Province in southwest China, near the border of Vietnam, was low-quality, Michaelson says, but it has shown marked improvement.

"The arrival of a truly high-quality Yunnan coffee may still be a ways off," he says, "but the process of building the infrastructure to support local farmers in Yunnan, to improve the soil, fight pollution and in general create the conditions for that eventual high-quality varietal, this whole process has big effects on the way coffee is seen in China, and on the business of green beans here."

But educating people about the characteristics of specialty coffee—especially as average consumption levels are so low—will be a challenge in coming years. "People [in China] do not know much about coffee and roasted coffee," Huang says. "The coffeehouses have the tendency to use cheap, bad-quality roasted beans" and, as a result, "people think coffee is bitter and astringent."

Michaelson adds, "There's still a lot of work to be done educating people about coffee: how to make it, how to drink it and, in particular, what good coffee tastes like. Isolated communities are developing high-level tastes and following international fads with respect to new brewing methods and newly popular single-origin coffees, but in general even consumers who go to coffee shops regularly often can't tell the difference between a latte and a cappuccino."

Increasing coffee knowledge will take time, Huang concedes. "Roasting is a big problem in particular," says Huang, who is a member of the SCAA's Roasters Guild. "Most of the coffee roasters are not well-educated and do not attend trainings on roasting by foreign experts. The good side is that with more coffeehouses emerging and barista competitions, more people can have the chance [to try a good] cup of coffee."



Coffee farmers' houses in Baoshan, Yunnan Province | photo by Huang Wei

And maybe by the time those instant-coffee-swilling middle-school students have moved on to high school, they will have graduated to specialty coffee as well.

"Certainly the mainland Chinese market has a long way to develop before it could be considered mature," Michaelson says, "but there are true coffee lovers in China, and their numbers are growing."

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India

India is the world's second most-populous nation with 1.2 billion people, more than half of whom are under 25 years old. Though India is still mainly a tea-drinking country, the population's youth movement is the likely reason that coffee consumption levels have been increasing. "Coffee is considered a very 'in' drink; a lot of younger people drink coffee," says Nishant Gurjer, managing partner of Kaapi Royale Coffee, which grows and exports coffees from India as well as supplies the domestic market.



A coffee stand in the farming area near Chikmagalur and Badra's coffee plantations | photo by Andrew Hetzel

For many years, India's coffee consumption rate has remained stagnant at between 55,000 and 60,000 metric tons annually. But in the past six to eight years, in-country coffee consumption has grown rapidly, and India now consumes more than 100,000 metric tons per year, says Gurjer.

"India is developing to be more like the Western coffeehouse culture," says Andrew Hetzel, founder and director of CafeMakers, who has consulted with coffee businesses in India. "There's not a huge in-home consumption market there, but definitely the retail cafe lifestyle is something that is taking hold, particularly with the younger generation."

Capitalizing on this trend, chains like Café Coffee Day, Starbucks, Gloria Jean's and Barista have announced plans to expand and, combined, will add thousands of new shops to India's marketplace.

"India was not hit as hard by economic recession as the other regions of the world," Hetzel explains. "Not being burdened by debt service levels of the Western world and while still undergoing its own rapid transformation from blue to white collar, India was one of the last to be affected by the economic collapse and one of the first to emerge. The positive economic climate and political stability make India a very attractive safe haven for global companies looking to expand in all areas, including but not limited to coffee."

India's upwardly mobile middle class has provided a growing demand for specialty coffee and other high-quality food and beverages. "In the more cosmopolitan cities of India, there's a cocktail culture that has developed," Hetzel says. "You have these higher-end bars that are up-and-coming, and the



Cow outside cupping lab | photo by Andrew Hetzel

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younger people like to be at and be seen at [them]. And [people in India] really understand better quality in terms of food and beverages, which makes for a much easier transition into specialty coffee."

Even so, India is still very much a tea-drinking nation, Gurjer says, owing to the country's role as one of the world's largest producers of tea. However, he adds, "Now the cafe culture has become big in India. Espressos are hardly consumed. It's mainly lattes and cappuccinos and a lot of cold coffees and frappes."



Nishant Gurjer of Kaapi Royale Coffee and Gwilym Davies of Prufrock Coffee at a coffee shop in Bangalore, India | photo by Andrew Hetzel

In addition to tea, India produces about 300,000 metric tons of coffee annually; robusta makes up two-thirds of that amount, Gurjer says. About 45,000-50,000 metric tons of the country's arabica is consumed in-country. "Earlier, robusta was hardly ever consumed except in instant coffee, but with more cafes in India now and with espresso blends based on the Italian style of coffee, robusta—especially good, washed robusta—is being blended into espresso," Gurjer says.

Coffeehouses in India tend to use beans that were grown in-country because doing otherwise would be cost prohibitive. "There is a huge financial disincentive to bring coffee in from elsewhere: there is a 100-percent import tax, so anything coming into the country becomes extraordinarily expensive," explains Hetzel. "There are consumers who are able and willing to pay that, but until there's a change in how the taxes are levied, there's not going to be a huge advance in specialty coffee from origins other than India within the country. ... There are some very nice coffees [from India] that you can buy and use in your own business, but you're limited to the flavor profile that you can serve."

Like the specialty coffee industry in China, India faces the challenge of finding ways to educate a mostly tea-drinking population about the fine distinctions between different coffees.

"Specialty coffee in India has not yet matured, where consumers are aware of the nuances of varietals and origin," Gurjer says. "Basic coffee knowledge is very poor in India. Today, most consumers will

only drink a coffee or whatever is served in the various cafes. There has been effort from certain organizations like the Coffee Board of India and the Specialty Coffee Association of India to educate the consumer, but it will take a while as coffee consumption increases."

Additionally, many people in India believe that it's difficult to brew a cup of coffee and that tea is much easier to make, Gurjer says. "This has to be corrected so that more people can prepare coffee at home."

The political upheaval in some parts of the world makes India look like a more attractive place to open a coffee business, says Hetzel. "There are some companies that would have looked at developing businesses in the Middle East and also in Africa that are seeing India as a really attractive, stable market economy where they can set up shop and be able to conduct business ... and expect to get some new profits from a new market that wasn't there before—and probably much more so than even China. China definitely has the consumer power in terms of numbers, but I just don't see the same sort of middle class emerging in China that you have in India right now. Really, the middle class is the champion of consumer business."

"There's definitely a very well-educated, hard-working young force of high-school and college-age kids, recently graduated, that perhaps for the first time in the country's history are leaving school and going directly into white-collar jobs," Hetzel adds. "I see that as the real driving force in specialty coffee right now."



Café Coffee Day, the largest cafe chain in India | photo by Sergiy Reminny

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Middle East

Socializing in traditional coffeehouses has been a custom in the Middle East for centuries, and today most people in the region drink coffee on a daily basis. But in certain areas of the region, the place where consumers purchase their daily cup, and the type of coffee they are drinking, is changing.



"You have countries such as Saudi Arabia, Turkey and Egypt, where the male-dominated traditional coffeehouses continue to thrive, but now we are seeing huge growth in the modern coffeehouses, particularly in the United Arab Emirates (UAE), Lebanon and Kuwait," says Kim Thompson, owner and director of Raw Coffee Company, a boutique roastery that opened in 2007 in Dubai, UAE. "Alcohol is banned in most countries, or only available in hotel restaurants, [so] cafes have become socially oriented businesses that attract students and other young people of various ages, genders and cultural backgrounds."

Like in India and China, the younger generation in the Middle East is fueling the change in venue. During Raw Coffee's first two years of operation, Thompson says, the business appealed mainly to the expatriate community and those who purchased coffee to drink at home. Now, however, Emiratis are frequenting modern cafes—"particularly the young people who have traveled or studied overseas, who are aware of ethically traded coffee and have previously tried freshly roasted coffee and know the difference."

Thompson pegs the interest in modern cafes on their social appeal, as well as on a government initiative in the UAE to encourage Emiratis to launch small and medium-sized enterprises. "Cafes offer a modern, social and trendy option" for a new business, she says.

Though the global financial collapse may have slowed the rate of new business openings in the region, the Middle East remains attractive to those educated about the concept of branding, explains Hetzel of CafeMakers. "People are excited about having uniquely identifiable businesses with a Starbucks-like atmosphere and seating."

Coffee Planet is one local business that has taken advantage of consumers' interest in, and loyalty to, specific brands. The roasting company opened its doors six years ago and targeted the convenience-store sector; the

company now roasts between 20 and 30 tons of coffee each month and sells 10,000 cups per day out of gas station service centers in the region. It has also branched out its brand into cafes and kiosks, and has started to franchise in other countries, including Malaysia, Oman and Pakistan.

In the Middle East, "the scene is all about franchises, which become the safer bet for getting tourists and locals through the doors," says Rosco Franklin, Coffee Planet's roastmaster. "The general standard of coffees here is still not high, but more people, led by Western expats and Western-oriented brands, are learning more about quality in their cup. Roasteries like us have a job to do, and we feel we are playing an important role in the development of specialty coffee consumption."

Roasting companies like Raw Coffee and Coffee Planet are shouldering much of the responsibility for consumer education in the Gulf, as there are a dearth of organizations in the Middle East that are geared specifically toward helping the specialty coffee industry grow. Dubai hosts the United Arab Emirates Barista Championship, held in conjunction with the Middle East Coffee and Tea Convention each year, but the specialty coffee concept has not firmly taken hold in the region despite the proliferation of international brands, such as Starbucks and Costa.

"I think that specialty is still a foreign concept in the Middle East, not just related to coffee—across all categories of specialty foods and beverages," Hetzel says. "The idea that something can be made better is still kind of foreign. For the real development of the specialty market, it's still going to have to change pretty significantly. That's not true of the expatriate population, and that's probably why most of the advances we've seen in the Middle East have come from the heavily expatriate-populated areas, specifically Dubai, and a little bit in Abu Dhabi, smatterings here and there that are more Western. But I think they've still got a long way to go."

Thompson agrees that the specialty coffee market in the Gulf is still immature. "Large franchises have enjoyed control of the market, where consumers are looking for a recognized brand and consistency, rather than freshness or quality," she says. "From the roasting perspective, it would be nice to see more roasteries looking at quality and not volume sales."

International franchises dominate the available high-quality retail space, Franklin says. Coffees served in many of these cafes are roasted abroad and shipped to the Middle East.

"As a roaster, that is one of the biggest hurdles I face when serving fresh-roasted coffee to potential customers, when this is what so many of the consumers have become accustomed to drinking," Franklin says. "When the roasting and selling of really good coffee becomes more competitive and the knowledge and understanding improve instead of just acceptance of the current level, we should see the level of coffee standards improve greatly across the whole sector."

Coffee Planet has not seen a great interest from customers in single-origins, but Franklin hopes that will change with time. "We are hoping that future marketing to widen this knowledge will [prompt] an increase in origin awareness. As in any developing market, milky coffees sell best."

Despite the global view of the Middle East as an unstable region, Franklin says that not all countries in the region share the volatile reputation that has been reported in the Western media. "This is very much a land of opportunity, and that's why we set up here," he says. "There are vast populations that are becoming more economically relevant, and Dubai and the UAE are right in the heart of it. I believe that we are at the forefront of a new era of economic power shift as India, China ... and other big-population countries start to accelerate their growth."

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Russia

Text and photos by Andrew Hetzel

I could be back home on a beach right now.

That thought has crossed my mind more than once over the last few winters on my routine 9,000-mile commute to work from Hawaii to Russia. With average high temperatures in the warmer cities of Northwest Russia reaching only into single digits each February, the country is second only to Greenland as the world's coldest.

Through many dark nights that I have spent in the small Baltic port town of Kaliningrad and in the urban centers of Moscow and St. Petersburg, my Big Island neighbors find it miraculous that I have been able to stave off frostbite and retain all of my own digits. "Why do you do it?" they ask. My answer is simple: there is an emerging specialty coffee market in Russia that is more than hot enough to keep me warm.

Barely one generation after the fall of communism, Russia is still a sort of Wild West capitalist gold rush, meaning that huge opportunities are everywhere—particularly in the segment of specialty goods and services that includes coffee. Despite pent-up demand for the best of all things by a trendy new upper-middle class of Russian consumers, better quality goods still seem to trickle slowly into the country though a bureaucratic logjam of rules that struggle to keep pace with rapidly changing times. Few specialty goods are produced domestically, largely for the same reason.

Traveling within the country as an American, one can't help but look around and see entrepreneurial potential on every corner not limited to coffee: takeaway restaurants, dry cleaners, hardware stores, landscapers, snow plowing services—if it saves you a little time or makes your life a little better in America, there's a wide open market for it in Russia, the new land of opportunity.

That same opportunity summoned me to Russia in 2008 when I was approached by representatives of a young and energetic company with what appeared to be a monumental challenge: build the country's first mid-sized specialty coffee roasting business from scratch and educate a nation of tea drinkers about better coffee. Soyuz Coffee

Roasting (SCR) would establish state-of-the-art roasting facilities in their hometown of Kaliningrad, design and develop three brands of specialty with quality standards set on par with the better micro-roasters of North America, only at three to five times their size. Who could resist?

Instant Change

Specialty coffee is new in Russia; until just 20 years ago, any form of coffee had been considered a luxury reserved for the elite and was far beyond the reach of average consumers. Today, half of all coffee consumed is still soluble (instant) coffee, making it one of the biggest markets for Nescafe in the world. The other half is a hodgepodge of commodity and specialty coffees, whether ground or whole-bean, that all fall under the label "natural coffee."

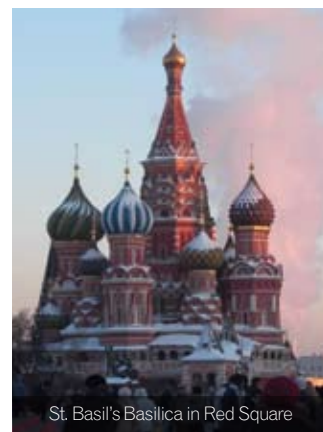
Soluble and natural coffees combined trail far behind tea consumption, but market research indicates and informal observation at local grocery stores confirms that consumer interest in coffees, and more specifically in the upper-end segment, is growing rapidly.

The majority of natural coffee consumed in Russian homes is prepared in a style similar to Turkish coffee, where beans are pulverized into fine powder and then brought to boiling temperature in multiple cycles with the addition of spices and sugar. Most out-of-home consumption is in coffee shops or restaurants serving espresso, with a strong preference for milky cappuccinos. Filter coffee is rare.

Coffee shops do exist in Russia, but with a few twists from the models that we know. Chain giants like Shokoladnitsa and Coffee House each have hundreds of locations, dominating the retail cafe landscape, but they fall short of beverage quality standards set by Western quick-service restaurants. Skillful preparation and better coffees, some rivaling the best cafes on the hipster specialty coffee scene, can be found in the smaller regional chains of Moscow, St. Petersburg and Novosibirsk.

Takeaway service at any of these shops is nonexistent, even at the handful of multinational brand locations like Starbucks (with 50 or so right now), Costa, McCafe and others best known for "to-go" cups elsewhere. A coffee drinker in Russia prefers to dine seated at his or her own pace, often in the omnipresent glow of flat-screen television monitors showing high-fashion videos.

However, the most unexpected fact about the coffeehouses in Russia is how little coffee is actually consumed by its patrons. Despite having an appearance like Western coffee shops with the word кофе (coffee) prominently featured in brand names, a typical Russian shop makes less than 5 percent of its revenue from selling either bean or beverage.



St. Basil's Basilica in Red Square



Setup for the Spasskaya Tower Festival in Red Square

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The drink is lost in large menus that curiously include a combination of soups, salads, sandwiches, sushi, pizza, pasta, desserts, alcohol and cigarettes. Even at the most sophisticated Russian third-wave coffee shops serving tableside Chemex brewers of thoughtfully roasted Cup of Excellence-winning coffees, the coffee itself is secondary to a catalog of food thicker than that offered at most American casual dining chains.

To Kaliningrad

Armed with all of the available data and a hardworking management team that routinely works into the early morning hours seven days a week, SCR set out to design and build a facility in Kaliningrad.

Kaliningrad itself is a kind of specialty. The territory was annexed from Germany in 1945 and left disconnected from the Russian mainland after the Soviet Union disbanded

in 1991 and today remains as a tiny outcropping of Russia sandwiched between Poland and Lithuania.

This historic seaport town, once home to the proud Soviet Baltic Fleet, has seen an economic boom in recent years due to its strong manufacturing base of electronics, automobile and food companies, a favorable climate (known both as the only nonfreezing Russian Baltic seaport and a popular tourist beach destination) and its convenient proximity to Western Europe. One finds the culture and style of Kaliningrad feels and looks more European than other Russian cities, something that Moscow hopes will continue flourishing to become the "Hong Kong of Russia." It's a perfect place from which to lead a revolution in specialty coffee.

Untamed Frontier

The two years of design and construction leading up to the launch of Russia's arguably most sophisticated all-specialty coffee roasting facility and quality control laboratory was not without its hurdles; in fact, it is probably more accurate to say that it was a road made with the interconnected series of hurdles on which Russians have become accustomed to walk as if it were a newly paved sidewalk.

Improvisation and optimism are musts to succeed in Russia: All of your packaging foil rolls just got stuck at the border in Lithuania due to a trade dispute? Go around through Poland. The flooring contractors didn't show up today? Have them show up at 5 p.m. and work all night. The service tech's visa is expiring tomorrow? Get started on a new visa application today. And that's just an average day on the job.

Frontiers are not known for conveniences, particularly where building highly specialized facilities are concerned, so just about everything from the largest coffee storage silo to the smallest stubby screwdriver needs to be imported from somewhere else, the preferred shipping methods being full container load or checked suitcase, with few viable options in between.

Green coffee availability is a universal concern for all coffee roasters in Russia. Very few green-coffee brokers operate

there, with good reason: the process of importing coffee into the country is extraordinarily complex and essentially the same whether shipping one 350-gram sample or 10 cargo containers. The few brokers who do stock coffee usually do not warehouse a wide selection of fresh higher-end specialty lots; such things historically have not been in high demand.

Having opted for direct trade of all coffees for SCR, we found one additional complication: when mentioning that the destination of coffees purchased would be Russia, some exporters would stop returning calls. It may take a few years, but I suspect that as established roasters' buying habits change and new high-end roasting operations continue to come online, Russia's outdated reputation of being a strictly low-quality buyer will slip into the past.

It's Showtime

Coffee culture in Russia has made progress by leaps and bounds in just the past few years and seems positioned to continue its stratospheric growth. So quickly is the concept of specialty coffee becoming popular in Russia that SCR was asked to organize a large festival in the center of historic Red Square in September 2011.

Held each year, the Spasskaya Tower Festival is a five-day military-marching-band festival celebrating cooperation and the unity of widely diverse cultures through music.

For the first time in the festival's history, barista champions from seven countries—including World Barista Champion Alejandro Mendez and U.S. Barista Champion Pete Licata—demonstrated their talents alongside the marching bands in the shadow of the Kremlin. At the conclusion of the festival, over 12,000 drinks had been served to the delight of a crowd of more than 42,000 and media from around the globe.

Fireworks, laser light shows, marching bands, dancing horses, leggy supermodels, cannon fire, rock 'n' roll musicians and, of course, champion baristas serving espresso. That's a party that can only be found in Russia.

My Russian coffee adventure continues, and there is travel scheduled in the months ahead. I find myself going through the preflight ritual of wiping off the thin coating of mold that grows on infrequently used things in tropical closets like my gloves, parka and winter boots. Sure, the beach is still waiting for me 10 minutes from my doorstep, but it will still be there when I get back.

New and exciting markets for specialty coffee don't reach the sort of fevered pitch that we're seeing now in Russia every day, so I'm in a hurry to get back into the heat.

ANDREW HETZEL is the founder of global coffee agriculture and roasting consultancy CafeMakers and likes writing about coffee from an island in the Pacific. E-mail him at ahetzel@cafemakers.com.

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