

Korean Coffee Lovers Luring Brazilian Arabica Sales

By Mario Sergio Lima, Heesu Lee and Rose Kim - Feb 5, 2014

For about a decade, [South Korea](#) has been the new [Japan](#) for electronics [exports](#) and a vibrant domestic consumer culture. Now it's becoming the new Japan for expensive coffee drinking in [Asia](#) -- and coffee exporters in [Brazil](#) are starting to notice.

The nation is Asia's fastest-growing market for arabica coffee, the mild-tasting beans used in premium blends. Shops increased about ninefold since 2006 to 15,000 last year, including 554 Starbucks Corp. stores. Hugo Villas Boas, a grower in the lush hills of southeastern Brazil, is hoping efforts to supply Seoul's upscale cafes will help boost demand for the beans after prices slumped in the past two years.

South Koreans, whose emergence as a wealthy people is satirically portrayed in the "Gangnam Style" music video that went viral on YouTube, are drinking more premium coffee than ever and paying equal or more than [New Yorkers](#). The electronics and automobile-industry powerhouse epitomizes the markets that arabica exporters from Brazil seek to conquer as global supplies are forecast to top demand for a fourth straight year.

Brazilians are targeting "a younger person, usually wealthier, who equates drinking coffee with friends as a change in tradition, as a moment to be idle," said Adam Belanich, who co-founded Joyride Coffee Distributors in New York in 2011 and focuses on premium blends.

Generation Shift

School teachers Cho Ami and Oh Sae Sook sip Ethiopia Yirgacheffe Mocha and Brazilian Cerrado arabica coffee blends near Seoul's city hall in a cafe where a cup goes for as much as 10,000 won (\$9.20).

Cho often takes along her 80-year-old father. His generation was introduced to the habit by Americans drinking instant coffee from more bitter-tasting robusta beans, which are cheaper.

"He definitely enjoys premium coffee when he doesn't know the price," says Cho, 51. "I don't show him the menu."

Luiz Paulo Dias Pereira Filho, who has exported Brazilian arabica for more than a decade and had never sold a bag to [Korea](#) three years ago, now ships 15 percent of his coffee to the Asian country.

Korean roasters are paying more than their counterparts in the U.S. for a bag of Brazilian arabica to secure better beans, said Janio Zeferino da Silva, the [Agriculture Ministry](#)'s coffee director. Some shipments to Korea sell for about 1,000 reais (\$415) per 60-kilogram (132-pound) bag. The same coffee is sold to U.S. roasters at 315 reais, he said by phone from Brasilia.

Coffee Freedom

The Korean lyrics of rapper Psy's hit testify to the emerging culture that Boas, the grower, expects to help him market his coffee. The singer, whose real name is Jae-Sang Park, depicts "a classy girl who knows how to enjoy the freedom of a cup of coffee" and "a guy who one-shots his coffee before it even cools down."

University student Song Byung Ho, who stands in line to buy drip coffee made from organic arabica at the Beans & Berries in [Seoul](#)'s upscale [Gangnam area](#) is that kind of young coffee drinker.

"It's almost a must-do these days to drink a cup of coffee after having lunch with your friends," the 24-year-old says, sporting Converse sneakers, jeans and a gray sweater. "For us a coffee shop is a place to go and just chill."

Brazilian exporters are betting they will increase shipments to Korea by 4.5 percent annually in the next five years, the fastest rate for any of the major markets they supply, said Guilherme Braga, head of coffee exporters group CeCafe. That compares with less than 1 percent growth estimated for sales to Japan, Asia's biggest coffee market.

Quality Awareness

"There's an attention to brands, the origin of coffee and quality in Korea," Braga said in an interview from [Sao Paulo](#). "This is why Korea is seen now as one of the most important emerging coffee markets."

Customers at Beans & Berries pay as much as 5,800 won for a cup of premium coffee. A large coffee at Starbucks on 59th St. in [Manhattan](#) costs \$2.45 without tax, or \$4.45 for a latte, though you can easily spend more at several competitors.

The U.S., the biggest buyers of Brazilian coffee, is a more difficult market for suppliers of premium beans to expand into because of established competition from other arabica-supplying countries, Joyride's Belanich said.

Arabica coffee, native to Ethiopian volcanic mountains more than 6,500 feet high and located under the Equator, is grown in almost identical conditions in [Colombia](#) and Central America. Brands such as Colombia's Juan Valdez and [Jamaica](#)'s Blue Mountain already have a captive U.S. clientele.

Scale Advantage

In Boas's Sul de Minas area, where arabica is grown at half the height in less rich soil, producers have the advantage of massive scale to win newer markets such as Korea. He's one of about 12,000 members of the Cooxupe arabica growers cooperative, the largest in the world and responsible for about 10 percent of Brazilian exports of the variety.

In Korea, Brazilian exports rank second only to [Vietnam](#)'s robusta sales, which had about 30 percent of the market in the first half of last year, compared with about 20 percent for Brazil, according to the Terarosa report.

Arabica futures in [New York](#) hit a seven-year low on Nov. 7 after plummeting 66 percent in 2 1/2 years because of successive bumper crops in Brazil, the largest producer and exporter.

They have since erased part of the losses on expectation roasters will use more arabica in their blends and jumped in the past few days on concern a drought in Brazil will reduce crop yields. Prices are still down 56 percent from May 3, 2011, when they touched the highest in almost 14 years.

Coffee Futures

Coffee for March delivery rose 0.4 percent to \$1.3675 at 9:00 a.m. on ICE Futures U.S.

While a slump in benchmark arabica prices in the past two years undercut profits for growers, the lower price is helping open markets for the beans in countries where robusta is still predominant, Rabobank said in a Jan. 28 report.

Korea is leading this trend in Asia and is seen by Brazilian exporters as a gateway to the region, where other markets such as [China](#) are likely to follow suit in coming years, Silva said. Korean sanitary standards are also a benchmark for future imports from neighboring nations, he said.

Pereira, the exporter from Carmo, Brazil, estimates Korean purchases of premium blends have increased 30 percent annually on average in the past five years.

"Every Brazilian coffee exporter who goes to trade fairs in Korea comes back with a good deal," the partner at Carmo Coffees, said by phone from the namesake city about 270 miles southeast of Boas's farm.

Matching Japan

So far, Brazil's total green-bean exports to Korea have increased 19 percent since 2009 to 326,000 bags last year. While the amount is small compared with 2.6 million bags sold to Japan, the Korean market for Brazilian coffee has the potential to reach a similar level as early as in five years, said Americo Sato, the head of the country's coffee industry association.

“Korea has the potential to catch up with Japan,” Sato said in an interview from Brasilia. “Japan is the third-biggest consumer of coffee, but there’s not much more room to grow.”

To contact the reporters on this story: Mario Sergio Lima in Brasilia Newsroom at mlima11@bloomberg.net; Heesu Lee in Seoul at hlee425@bloomberg.net; Rose Kim in Seoul at rkim76@bloomberg.net

To contact the editor responsible for this story: James Attwood at jattwood3@bloomberg.net