



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 6/3/2002

GAIN Report #PE2010

Peru

Coffee

Annual

2002

Approved by:

Lawrence D. Fuell

Prepared by:

Gaspar E. Nolte

U.S. Embassy

Report Highlights:

Coffee production for Marketing Year 2001/2002 (April/March) is expected to reach 2.55 million 60-kilogram bags, a ten percent decrease compared to the previous year. This decrease is due to lower international prices. Exports are forecast at 2.3 million 60-kilogram bags for MY 2002/2003, about 50,000 bags less than the previous year.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Lima [PE1], PE

Executive Summary

Coffee production for Marketing Year 2001/2002 (April/March) is expected to reach 2.55 million 60-kilogram bags, a decrease of 10 percent compared to the previous year. Exports are forecast at 2.3 million 60-kilogram bags for MY 2002/2003, about 50,000 bags less than the previous year. Though favorable weather conditions are foreseen and technical assistance in production and marketing is provided by several international aid agencies, production is declining due to lower international prices.

PSD Table						
Country	Peru					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		04/2000		04/2001		04/2002
Area Planted	215	270	215	270	0	270
Area Harvested	210	250	210	250	0	230
Bearing Trees	380	430	390	430	0	430
Non-Bearing Trees	20	20	20	20	0	20
TOTAL Tree Population	400	450	410	450	0	450
Beginning Stocks	89	20	21	20	21	20
Arabica Production	2500	2824	2550	2550	0	2500
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	2500	2824	2550	2550	0	2500
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	45	35	45	0	0	0
TOTAL Imports	45	35	45	0	0	0
TOTAL SUPPLY	2634	2879	2616	2570	21	2520
Bean Exports	2408	2664	2400	2360	0	2310
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	2408	2664	2400	2360	0	2310
Rst,Ground Dom. Consum	65	60	60	60	0	60
Soluble Dom. Consum.	140	135	135	130	0	130
TOTAL Dom. Consumption	205	195	195	190	0	190
Ending Stocks	21	20	21	20	0	20
TOTAL DISTRIBUTION	2634	2879	2616	2570	0	2520

Export Trade Matrix	
Country	Peru
Commodity	Coffee, Green
Time period	2001
Exports for:	
U.S.	40965
Others	
Germany	59983
Canada	9702
Netherlands	7938
France	5737
Japan	5236
Total for Others	88596
Others not Listed	30301
Grand Total	159862

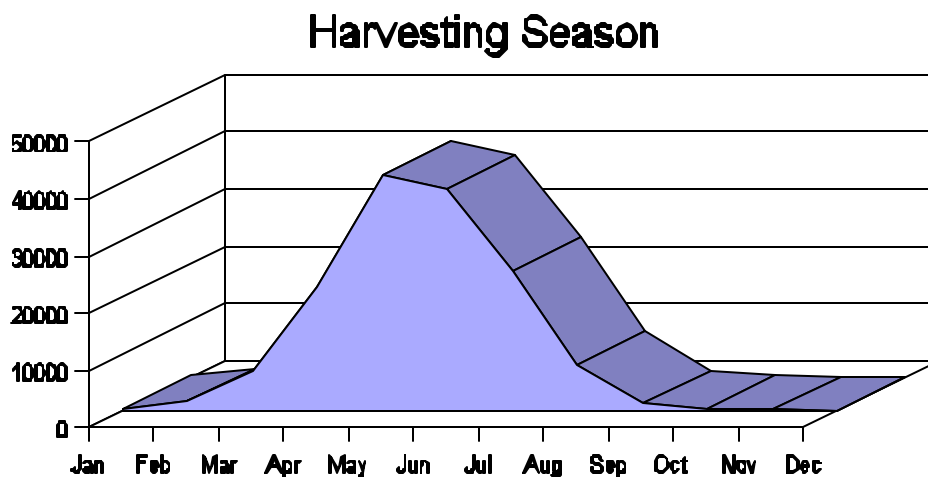
Units: Metric Tons

Production

Coffee production in 2003 is forecast at 2.5 million 60-kilogram bags. Coffee is grown in Peru in three areas. The most important for both volume and quality is the central eastern slopes of the Andes in Chanchamayo. The northern Andes and Cusco are the other two areas. Chanchamayo has been one of the most affected by drug trafficking and terrorism in the past, which has not allowed any increases in production or technical assistance until recently. Though terrorism has been eliminated from most parts of the country, it continues to have a threatening presence in this area.

The vast majority of coffee producers limit their cultural practices to picking the beans during the harvest, provided prices are attractive. Because of relatively high costs, plant replacement and fertilization are rare among coffee growers. Thus average yields are quite low, between 8 and 16 bags per hectare, compared with 75 bags that some of the top producers are able to obtain in the same area (Chanchamayo), they replant and use fertilizers.

As with most Peruvian agricultural crops throughout the country, coffee producers face two major constraints. First, a lack of credit, as private banks still do not accept the farmers' often untitled land as loan collateral, and there is no official government lending institution. Most farmers obtain their loans from coffee buyers, with the consequent high interest rate, and a sale contract on the coffee's price. Second, during the land reform of the 1970's, land was divided into small plots, making it extremely difficult to efficiently manage coffee production, harvesting and processing. The average coffee finca in Peru is less than 10 hectares.



Peru's coffee quality is improving. In 2000, The York Coffee, Sugar and Cocoa Exchange (NYCSCE) reduced the discount applied to Peruvian coffee from \$0.04 per pound to only \$0.01 per pound. Unfortunately, this quality improvement has coincided with all time record low international prices. According to the industry, they have lost \$135 million in 2001 and \$ 307 million since 1999. Currently, farm gate prices are about 58 percent of production cost.

Because coffee grows in the coca producing areas, there have been some efforts by international aid agencies to provide technical assistance to produce and market coffee as an "alternative crop" for coca. Organic coffee production, in particular, has been targeted. There are about 17,000 hectares planted, with a production of about 172,000 60-kilogram bags certified as organic.

Consumption

Coffee consumption in Peru is rather low, about 45 cups per capita which translates into about 160,000 60-kilogram bags. Peruvian consumers have changed their consumption habits from roasted and ground to soluble coffee; around 75 percent of the coffee consumed in the country is soluble.

Trade

Coffee is by far Peru's largest single agricultural export, as it accounts for half of the total agricultural exports. The main importers are Germany with 38 percent and The U.S. with 26 percent of the total exports.

Policy

Contradrogas, the government's umbrella agency for counter narcotic affairs has been encouraging coffee production as an alternative crop to coca leaf production. The U.S. Agency for International Development (USAID) is assisting approximately ten percent of Peru's coffee farmers to increase the production and quality as part of an economic development program aimed at increasing farmers' licit incomes in coca areas. Part of this program is to match Peruvian coffee producers with U.S. gourmet coffee markets. A success story has been Seattle's Best Coffee (SBC), the third largest gourmet coffee chain in the U.S., which ran a marketing campaign in 2000 featuring coffee grown by small Peruvian producers who are part of the USAID alternative development program..

Due to low international prices, the GOP is looking for an alternative crop, other than coffee, to coca. A hand full of native products have been identified but a substantial marketing effort has to be made to develop demand, which at the time seems unlikely due to GOP's economic restrictions.