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## El Salvador

### Coffee

### Annual

### 2004

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**Report Highlights:**

El Salvador's coffee production continues to decline and in MY 2003/04 is expected to reach 1.25 million 60 Kg. bags green bean equivalent (GBE). Some efforts to promote Specialty and Gourmet coffee are being spearheaded by the U.S. Agency for International Development (USAID) in conjunction with the Salvadoran Coffee Council (CSC). However, El Salvador still lacks a national program to market its coffee abroad. Imports of mainly soluble low quality coffee have gained control of local consumption. Coffee exports in 2004/05 are expected to only generate approximately \$100 million in foreign exchange

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Annual Report  
San Salvador [ES1]  
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## Executive Summary

El Salvador's 2003/2004 coffee harvest is expected to be approximately 4 percent lower than previously reported. New data provided by the Salvadoran Coffee Council (CSC) reveals that the 2003/04 harvest is expected to reach 1.25 million bags. Reduced investment due to low international prices continues to be the main cause for the extended production down slide. Favorable conditions are expected to positively impact production for the 2004/05 crop, returning yields to more normal levels. Final output for the 2004/05 crop will ultimately depend on the availability of funds to cover fertilizer investment and adequate production techniques.

Coffee exports in 2003/04 are expected to reach 1.24 million bags. Expected higher production in 2004/05 will increase export numbers in 2004/05. Local financial institutions continue to require farmers to have a planned coffee-sales program in order to have access to loans. This requirement is forcing farmers to forward contract their coffee and avoid speculation. The U.S. is the main export destination for Salvadoran coffee accounting for 36.6 percent of MY2003/04 exports through April 2004. In MY 2003, exports to the U.S. are expected to reach 456,400 sixty kg. bags. Other important markets are Germany, England, Belgium, France, Sweden, Canada and Japan.

The closing of a Nestle processing plant in 2003 caused domestic consumption to shift from mostly ground coffee to mostly soluble coffee. This has led to a sharp increase in soluble imports.

The CSC continues to monitor exports through the use of export registrations permits. The GOES has guaranteed through the Multi-Sectoral Investment Bank (BMI) a loan of \$ 25.00 per hundredweight (cwt) to cover for routine maintenance and harvesting during the 2004/05 crop. Coffee is still the most important source of employment in rural areas, with coffee harvest alone providing approximately 130,000 jobs. Coffee is no longer the major source of export revenues in El Salvador. In 2003, coffee only accounted for 4 percent of total export earnings. The maquila industry (cut and sew operations) is the major source of export revenues. Family remittances from Salvadorans residing in the U.S. in the excess of \$2 billion in 2003 are also helping the country's economy remain afloat. Coffee exports in 2004/05 are expected to generate approximately \$100 million in foreign exchange.

Even though the GOES has not dictated a national policy to promote Salvadoran coffee, some efforts are being focused mainly on Specialty and Gourmet qualities (See Trade). A new GOES administration takes office on June 2004 and the coffee sector as well as other agricultural sectors are waiting for campaign promises to be fulfilled.

<b>El Salvador Coffee, Green</b>							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2002		10/2003		10/2004	MM/YYYY
Area Planted	178	178	177	177	0	176	(1000 HA)
Area Harvested	166	166	165	165	0	164	(1000 HA)
Bearing Trees	548	548	545	545	0	541	(MILLION TREES)
Non-Bearing Trees	54	54	54	54	0	53	(MILLION TREES)
TOTAL Tree Population	602	602	599	599	0	594	(MILLION TREES)
Beginning Stocks	2	2	2	2	2	2	(1000 60 KG BAGS)
Arabica Production	1302	1351	1300	1250	0	1285	(1000 60 KG BAGS)
Robusta Production	0	0	0	0	0	0	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Production	1302	1351	1300	1250	0	1285	(1000 60 KG BAGS)
Bean Imports	25	25	24	24	0	23	(1000 60 KG BAGS)
Roast & Ground Imports	6	3	6	3	0	3	(1000 60 KG BAGS)
Soluble Imports	30	111	32	112	0	112	(1000 60 KG BAGS)
TOTAL Imports	61	139	62	139	0	138	(1000 60 KG BAGS)
TOTAL SUPPLY	1365	1492	1364	1391	2	1425	(1000 60 KG BAGS)
Bean Exports	1192	1343	1189	1242	0	1276	(1000 60 KG BAGS)
Roast & Ground Exports	1	1	1	1	0	1	(1000 60 KG BAGS)
Soluble Exports	32	4	34	4	0	4	(1000 60 KG BAGS)
TOTAL Exports	1225	1348	1224	1247	0	1281	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	110	28	109	28	0	28	(1000 60 KG BAGS)
Soluble Dom. Consum.	28	114	29	114	0	114	(1000 60 KG BAGS)
TOTAL Dom. Consumption	138	142	138	142	0	142	(1000 60 KG BAGS)
Ending Stocks	2	2	2	2	0	2	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	1365	1492	1364	1391	0	1425	(1000 60 KG BAGS)

## Production

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador revealed that the 2003/04 coffee harvest is expected to reach 1.25 million bags. Continued depressed coffee prices that forced farmers to abandon their farms is the main reason for the lower output. Lack of investment on inputs and proper farm management is causing a reduction in yields. So far, weather conditions have been favorable for coffee, providing adequate humidity during coffee blossoming. In addition, coffee cyclical production nature calls for an on production year in 2004/05. Thus, the 2004/05 harvest is expected to increase by approximately 3 percent compared to 2003/04.

Lack of profitability in the coffee sector continues to reduce investment at the farm level. However, coffee prices for the 2004/05 crop in the "New York C contract" futures market have improved, and could provide fresh income for coffee farmers to cover normal farm management costs. Also, the GOES has recently announced that it will guarantee loans to the coffee sector and has provided a tax break for farmers to import inputs up to \$1,000.00 duty free. Last season, most farmers were only able to fertilize once with Ammonium Sulfate due to extremely high costs for other more effective fertilizers. This rather slightly favorable panorama is expected to have a positive effect on forecasted 2004/05 coffee yields.

The reduction of investment on coffee areas also poses an environmental threat for El Salvador. Coffee trees are the main source of forests in the country. El Salvador is already at a critical point and considered one of the most deforested countries in the western hemisphere. Also, coffee provides most of the tree cover in the watersheds and is the natural habitat for many wild species.

Bearing tree population continues to diminish due to urbanization in low altitude coffee areas, decreased cultural practices and lack of replacement due to low coffee prices. In 2004/05, bearing tree population is expected to decrease by 4 million.

Searching for added value, coffee farmers are turning to gourmet, specialty and organic production. Recently, the CSC organized the second "Cup of Excellence" promotional event to try to introduce fine Salvadoran coffee into the specialty market. In addition, in May 2004 the CSC, USAID and the Coffee Quality Institute (CQI) held an Internet coffee auction called "Q" (Refer to Trade for further information).

## Consumption

Based on new consumption data computed by FAS/San Salvador, the forecast for local coffee consumption for 2003/04 has been increased by 4,000 bags to 142,000 bags. Increased competition from imported soluble coffee is having a positive effect on local coffee consumption. With the closedown of a Nestle coffee processing facility on March 2003, imports from Nicaragua, Brazil and Mexico have picked up the slack. As a result, domestic consumption of soluble coffee increased dramatically in 2002/03 and 2003/04. Likewise, domestic consumption of roasted/ground coffee has decreased due to consumer preference for soluble. In 2003/04 soluble domestic consumption is expected to reach 114,000 bags GBE.

The coffee sector is expecting the new GOES administration to focus on increasing promotion of Salvadoran coffee, which includes the export and local markets. El Salvador, as is the case in most coffee producing nations, only consumes approximately 3 percent of local production.

## Trade

Coffee exports for 2003/04 are estimated at 1.24 million bags. This number is a little higher than previously reported mainly due to a dramatic increase in total imports that have substituted consumption of local production. In 2004/05 coffee exports are forecast at 1.28 million bags.

Exports to the U.S. in MY 2003 are expected to account for approximately 37 percent of total exports reaching 456,400 bags. Germany closely follows the U.S. as the main export destination with approximately 35 percent of total exports. Other active buyers in this market are France, Belgium and Japan.

Premium prices obtained by Gourmet and Specialty coffees have increased the amount of exports of this type of coffee. The CSC in association with USAID and a non-government organization called Cooperative League U.S.A. (CLUSA) have sponsored for the second year in a row a promotional event called the "Cup of Excellence". The best coffees produced in El Salvador are judged by local and international coffee connoisseurs to participate in a global electronic auction. Prices obtained by Salvadoran coffee in last years' auction were among the highest ever obtained by a Latin American producer, reaching over \$14.00 per pound. In May 2004, CSC/USAID/CQI held the first "Q" Internet auction where 7 Salvadoran coffee producers participated with lots that ranged from 150 to 250 sixty Kg. bags. Six lots were successfully sold to U.S., Japanese and European buyers with prices ranging from \$90.00 to \$104.00 per cwt.

<b>Export Trade Matrix El Salvador Coffee, Green</b>			
<b>Time Period</b>	<b>MY</b>	<b>Units:</b>	<b>60 Kg. Bags</b>
<b>Exports for:</b>	<b>2003</b>		<b>2004</b>
U.S.	456,400	U.S.	468,845
<b>Others</b>		<b>Others</b>	
Germany	440,020	Germany	452,190
France	68,585	France	70,455
Belgium	64,845	Belgium	66,510
Japan	63,600	Japan	65,330
Canada	47,400	Canada	48,680
England	21,200	England	21,800
Sweden	21,200	Sweden	21,500
Italy	19,950	Italy	20,500
<b>Total for Others</b>	746800		766965
<b>Others not Listed</b>	44,100		44,900
<b>Grand Total</b>	1247300		1280710

Impacted by the closedown of a Nestle coffee processing facility in 2003, coffee imports have increased to 139,000 bags in 2003/04 from the previously reported 62,000 bags. Nestle has become a net importer and distributor of mainly Brazilian and Mexican origin coffee.

Nicaragua is also very aggressive in the soluble coffee market and accounted in CY 2003 for 18 percent of total imports.

Both green and low quality roasted coffee from Honduras manages to enter El Salvador through illegal border crossings. In 2003/04 approximately 26,000 bags are expected to be imported illegally from Honduras.

<b>Import Trade Matrix El Salvador Coffee, Green</b>			
<b>Time Period</b>	<b>CY</b>	<b>Units:</b>	<b>60 Kg. Bags</b>
<b>Exports for:</b>	<b>2003</b>		<b>2004</b>
U.S.	1,319	U.S.	1,400
<b>Others</b>		<b>Others</b>	
Brazil	77,511	Brazil	78,000
Honduras	26,173	Honduras	25,200
Nicaragua	24,641	Nicaragua	27,000
Mexico	6,027	Mexico	6,500
<b>Total for Others</b>	134352		136700
<b>Others not Listed</b>	4,400		1,650
<b>Grand Total</b>	138752		138350

### Policy

The GOES continues to offer a 6.0 percent drawback program for non-traditional exports. This drawback is used by the GOES as an incentive for exporters that trade their products outside the Central American region. The GOES through the Ministry of Economy provides six percent of the taxes incurred in the export transaction back to exporters. El Salvador has negotiated this program under the World Trade Organization (WTO) and has authorization to continue using this program until 2005. Soluble and roasted coffees are eligible to apply for this program.

The GOES is providing a loan guarantee of \$25 per hundredweight (cwt) to cover coffee maintenance and harvesting costs. Farmers contract the loan with a local bank and the GOES guarantees up to \$15 per cwt if there is a default.

El Salvador continues to actively participate in International Coffee Organization (OIC) meetings. The GOES has designated a Presidential Commissioner for Coffee to serve as liaison with the coffee sector assisting in regulatory issues and providing a framework for an export promotion agenda for Salvadoran coffee. The new GOES administration has announced a program to assist the agricultural sector (including coffee) called "ProAgro" that includes investment in agricultural technology and R & D capacity.