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## El Salvador

### Coffee

### Annual

### 2006

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**Report Highlights:**

Rebounding from a historically low production in MY2004/05, El Salvador's coffee production is expected to increase approximately 2 % in MY 2005/06, and 4 % above previous estimates. Improved international coffee prices are providing relief to El Salvador's depressed coffee sector. Efforts to promote specialty coffee are paying off as exports of higher quality coffee account for 18 % of total exports. El Salvador has used activities such as the Cup of Excellence and Q auctions to promote coffee abroad. In addition, El Salvador had a stand at the 2006 Specialty Coffee Expo where various coffee brands had exposure to quality coffee buyers. Foreign exchange income from coffee exports is expected to increase in 2006/07 reaching approximately \$160 million.

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Includes PSD Changes: Yes  
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Annual Report  
San Salvador [ES1]  
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## Executive Summary

El Salvador's 2005/2006 coffee harvest is expected to be approximately 4 percent higher than previously reported. New data provided by the Salvadoran Coffee Council (CSC) reveals that the 2005/06 harvest is expected to reach 1.35 million 60 Kg. bags. Lack of financing to carry out necessary agricultural practices due to carried over debt burden in the coffee sector continues to negatively affect a sustained production turn-around. Favorable weather and some increase in fertilizer use are expected to positively impact production for the 2006/07 harvest. Higher coffee prices are providing some relief to the sector and assisting in dealing with carryover debt as well as input investment. However, there is a large group of producers that are selling their properties to be able to honor their debt.

Coffee exports in 2005/06 are expected to reach 1.33 million bags. Expected higher production in 2006/07 will increase export numbers. 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. Germany is the main export destination for Salvadoran coffee, accounting for 34.8 percent of MY 2005/06 exports through April 2006. In MY 2006, exports to the U.S. are expected to reach 440,249 sixty Kg. bags. Exports to Canada have more than doubled in MY 2006. Other important markets continue to be Belgium, Japan and France.

Lack of local ground coffee processing facilities has favored the market for soluble coffee. This has led to continued increase in soluble imports mainly from Brazil and Nicaragua. Guatemala's coffee has also reached the retail and institutional market.

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 \$ 32.00 per hundredweight (cwt) to cover routine maintenance and harvesting during the 2006/07 crop. Coffee is still the most important source of employment in rural areas, with the coffee harvest alone providing approximately 130,000 jobs. Coffee is no longer the major source of export revenues in El Salvador. Exports of non-traditional products such as processed food products and tropical fruits are carrying export revenue growth. Family remittances from Salvadorans residing in the U.S. on the order of \$2.8 billion in 2005 are also helping the country's economy remain afloat. Coffee exports in 2006/07 are expected to generate approximately \$160 million in foreign exchange.

El Salvador continues to promote Salvadoran coffee focusing mainly on Specialty and Gourmet qualities (See Trade). The agricultural sector is the highest growing sector in the economy assisted by higher coffee prices and increased market access for sugar under the Central America – Dominican Republic (CAFTA-DR) free trade agreement.

<b>El Salvador Coffee, Green</b>							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2004		10/2005		10/2006	MM/YYYY
Area Planted	176	176	176	176	0	176	(1000 HA)
Area Harvested	164	164	164	164	0	164	(1000 HA)
Bearing Trees	541	541	541	541	0	541	(MILLION TREES)
Non-Bearing Trees	53	53	53	53	0	53	(MILLION TREES)
TOTAL Tree Population	594	594	594	594	0	594	(MILLION TREES)
Beginning Stocks	2	2	2	2	0	3	(1000 60 KG BAGS)
Arabica Production	1258	1329	1300	1359	0	1400	(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	1258	1329	1300	1359	0	1400	(1000 60 KG BAGS)
Bean Imports	25	28	25	25	0	23	(1000 60 KG BAGS)
Roast & Ground Imports	3	3	2	8	0	7	(1000 60 KG BAGS)
Soluble Imports	96	95	105	95	0	98	(1000 60 KG BAGS)
TOTAL Imports	124	126	132	128	0	128	(1000 60 KG BAGS)
TOTAL SUPPLY	1384	1457	1434	1489	0	1531	(1000 60 KG BAGS)
Bean Exports	1237	1309	1286	1327	0	1360	(1000 60 KG BAGS)
Roast & Ground Exports	1	1	1	1	0	1	(1000 60 KG BAGS)
Soluble Exports	2	2	2	2	0	2	(1000 60 KG BAGS)
TOTAL Exports	1240	1312	1289	1330	0	1363	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	28	28	28	30	0	32	(1000 60 KG BAGS)
Soluble Dom. Consum.	114	115	115	126	0	133	(1000 60 KG BAGS)
TOTAL Dom. Consumption	142	143	143	156	0	165	(1000 60 KG BAGS)
Ending Stocks	2	2	2	3	0	3	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	1384	1457	1434	1489	0	1531	(1000 60 KG BAGS)

## Production

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador revealed that the 2005/06 coffee harvest is expected to reach 1.35 million 60 Kg. bags. This is a rebound from the historically low production posted in the previous season. Higher prices for Specialty coffee are providing fresh capital for additional investment in cultural practices as well as in agricultural inputs. Favorable weather conditions and increased investment due to improved coffee prices are expected to lift production in 2006/07 by approximately 3 percent compared to 2005/06.

The Government of El Salvador (GOES) continues to guarantee loans to the coffee sector. Improved agricultural practices carried out last season are expected to have a positive impact in 2006/07 coffee yields.

Value-added coffee production such as gourmet, specialty, fair trade and organic are providing additional revenue to coffee producers. Specialty coffee production has steadily increased reaching approximately 18 % of total production in MY 2006. Recently, the CSC organized the fourth "Cup of Excellence" promotional event to increase exposure of fine Salvadoran coffees in the specialty market. In addition, the CSC is promoting trade missions composed of European and American specialty coffee bars to sample Salvadoran coffee. (Refer to Trade for further information).

## Consumption

New data compiled by the CSC shows an increase in domestic coffee consumption. Increased availability of coffee brands at the retail level is providing a positive impact to consumption. In addition, there is a trend for coffee bars to be located in major shopping malls. In 2005/06, consumption increased to 156,000 sixty Kg. bags. Most local consumption has shifted to soluble coffee that is mainly imported from Brazil, Nicaragua and Mexico. In 2005/06, soluble domestic consumption is expected to reach 133,000 sixty Kg. bags Green Bean Equivalent (GBE).

In 2006, the CSC contracted a marketing consultant firm to assist in improving sales and consumption of local coffee. El Salvador, as is the case in most coffee producing nations, only consumes approximately 3 percent of local production. So there is room to grow local usage as well as to promote the unique specifications of Salvadoran coffee in the export market.

## Trade

Coffee export for 2005/06 is estimated at 1.33 million bags. This number is higher than previously reported mainly due to a larger coffee crop. In 2006/07 coffee exports are forecast at 1.36 million 60 Kg. bags.

Exports to the U.S. in MY 2005 accounted for approximately 32 percent of total exports, reaching 429,590 sixty Kg. bags. Germany has surpassed the U.S. as the main destination for Salvadoran coffee with approximately 35 percent of total exports. Other active buyers in this market are Canada, 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, assisted by USAID, sponsored for the fourth year in a row the promotional event called the "Cup of Excellence". The best coffees produced in El Salvador are selected by local and international coffee connoisseurs to participate in a global electronic auction. Local coffee was successfully sold to U.S., Japanese and European buyers with prices higher than spot Contract C prices.

<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>2005</b>		<b>2006</b>
U.S.	429,590	U.S.	440,249
<b>Others</b>		<b>Others</b>	
Germany	462,840	Germany	474,324
Canada	99,750	Canada	102,225
Japan	98,420	Japan	100,862
Belgium	78,470	Belgium	80,417
<b>Total for Others</b>	739,480		757,828
<b>Others not Listed</b>	161,330		165,173
<b>Grand Total</b>	1,330,400		1,363,250

The CSC is also actively promoting coffee through trade missions composed of European, American and Japanese specialty coffee bars that roam throughout the country's best coffee production sites and get to sample the unique qualities that Salvadoran coffee provide to a coffee cup blend.

Nestle has become a major importer and distributor of mainly Brazilian and Mexican origin coffee. Nicaragua is also very aggressive in the soluble coffee market and accounted in CY 2005 for 17 percent of total imports.

Both green and low quality roasted and soluble coffees from Honduras manage to enter El Salvador through illegal border crossings. In 2005/06 approximately 27,000 bags are expected to be imported illegally from Honduras. Legally imported roasted/ground Honduran coffee reached 2,500 sixty Kg. bags in CY 2005.

<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>2005</b>		<b>2006</b>
U.S.	2,183	U.S.	2,500
<b>Others</b>		<b>Others</b>	
Brazil	52,668	Brazil	53,700
Honduras	29,600	Honduras	27,000
Nicaragua	21,170	Nicaragua	22,300
<b>Total for Others</b>	103,438		103,000
<b>Others not Listed</b>	22,029		22,900
<b>Grand Total</b>	127,650		128,400

## 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 returns six percent of the taxes incurred in the export transaction back to exporters. Soluble and roasted coffees are eligible to apply for this program.

The GOES is providing a loan guarantee of \$32 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 Presidential Commissioner for Coffee serves as liaison with the coffee sector to deal with regulatory issues and provide a framework for an export promotion agenda for Salvadoran coffee. The GOES has set up a program to assist the agricultural sector (including coffee) called "ProAgro" that includes investment in agricultural technology and R & D capacity.

The GOES continues providing assistance to the coffee sector through the coffee recovery program launched in 2005. This is a program administered by the BMI with a \$ 40.0 million funding level. The program establishes a maximum of \$335.0 per hectare for farmers interested in recovering their plantations. This program has a 100 percent GOES guarantee and also contemplates \$200,000.00 for the establishment of a coffee nursery where new and improved varieties will be developed. The GOES expects to have positive results from this program in approximately 4 to 5 years.