



USDA Foreign Agricultural Service

# GAIN Report

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## Peru

## Coffee

## Annual

## 2007

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**Report Highlights:**

~~With exports of \$514 million, coffee was Peru's largest agricultural export in CY2006. Coffee exports are forecast at 3.09 million 60-kilogram bags for MY2007. Coffee production for Marketing Year 2008 is expected to fall 25 percent to 3.19 million 60-kilogram bags.~~

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

## Summary

Coffee production for Marketing Year 2008 (April/March) is estimated to fall 25 percent to 3.19 million 60-kilogram bags. This reduction is partially due to the normal alternative year production cycle but is compounded by adverse weather conditions during flowering phase earlier this year. Average yields are around 750 kilograms per hectare but can reach 2,300 kilograms per hectare among the most efficient producers.

Coffee is grown throughout the eastern slopes of the Andes but is concentrated in three principal growing areas. The most important area for both volume and quality is the central eastern slopes of the Andes in Chanchamayo with 30 percent of total production. The other two areas are the northern Andes and Cusco region, with 21 and 18 percent, respectively.

Coffee in Peru is mostly grown by very small producers; an average producer has 2-3 hectares under production. Almost two million people depend directly or indirectly on coffee production.

Per capita coffee consumption in Peru is 300 grams per capita, which converts to total domestic consumption of 7,200 MT a year, one of the lowest in the region. Coffee is Peru's lead agricultural export, totaling \$514 million in CY2006. Main markets for Peruvian coffee were Germany with 35 percent and the U.S. with 22 percent of the total exports in terms of value.

<b>PSD Table</b>									
<b>Country</b>	<b>Peru</b>								
<b>Commodity</b>	<b>Coffee, Green</b>					(1000 HA)(MILLION TREES)(1000 60 KG BAGS)			
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
<b>Market Year Begin</b>		04/2005	04/2005		04/2006	04/2006		04/2007	04/2007
Area Planted	280	280	280	285	285	285	0	0	285
Area Harvested	255	255	255	260	260	262	0	0	260
Bearing Trees	520	520	520	525	525	455	0	0	460
Non-Bearing Trees	20	20	20	20	20	22	0	0	20
Total Tree Population	540	540	540	545	545	477	0	0	480
Beginning Stocks	39	39	39	24	24	24	24	24	24
Arabica Production	2420	2420	2420	3500	3500	3996	0	0	3190
Robusta Production	0	0	0	0	0	0	0	0	0
Other Production	0	0	0	0	0	0	0	0	0
Total Production	2420	2420	2420	3500	3500	3996	0	0	3190
Bean Imports	0	0	0	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0	0	0	0
Total Supply	2459	2459	2459	3524	3524	4020	24	24	3214
Bean Exports	2225	2225	2225	3290	3290	3876	0	0	3094
Rst-Grnd Exp.	0	0	0	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0	0	0	0
Total Exports	2225	2225	2225	3290	3290	3876	0	0	3094
Rst,Ground Dom. Consum	70	70	70	70	70	12	0	0	10
Soluble Dom. Cons.	140	140	140	140	140	108	0	0	100
Domestic Use	210	210	210	210	210	120	0	0	110
Ending Stocks	24	24	24	24	24	24	0	0	10
Total Distribution	2459	2459	2459	3524	3524	4020	0	0	3214
Exportable Production	2210	2210	2210	3290	3290	3876	0	0	3080

<b>Export Trade Matrix</b>	
<b>Country</b>	Peru
<b>Commodity</b>	Coffee, Green
Time Period	CY 2006
Exports for:	
U.S.	50972
Others	
Germany	83282
Belgium	32787
Netherlands	13745
Japan	7856
Sweden	6750
Colombia	5715
Total for Others	150135
Others not Listed	36429
Grand Total	237536

Units: Metric Tons

## Production

Coffee production for Marketing Year 2008 (April/March) is forecast to fall 25 percent to 3.19 million 60-kilogram bags. This significant drop is due to the normal alternative year production cycle but was compounded by adverse weather conditions during flowering period earlier this year. However, production is expected to increase significantly in the upcoming years as producers respond to higher prices with increased plantings and improved cultural practices.

Coffee in Peru is mostly grown by very small producers; an average producer has 2-3 hectares under production. Most producers are grouped in associations or cooperatives that allow them to negotiate better prices and improve post harvest handling of crops. The larger associations can have up to 2,000 members and over 7,000 hectares and the most sophisticated ones can even have a financial branch that provides funds to producers to increase or improve their crop. Almost two million people depend directly or indirectly on coffee production, out of total farm population of 9 million people.

Yields are around 750 kilograms per hectare but can reach 2,300 kilograms per hectare among the most efficient producers. Low yields are due to poor cultural practices. Due to relatively high costs, plant replacement and fertilization are rare among coffee growers. Average cost of production is about \$62 per hectare of which about 80 percent is labor. Harvesting season begins in April and reaches its peak in June-September.

Coffee is grown throughout the eastern slopes of the Andes but is concentrated in three principal growing areas. The most important area for both volume and quality is the central eastern slopes of the Andes in Chanchamayo with 30 percent of total production. The other two areas are the northern Andes and Cusco region, with 21 and 18 percent, respectively. Peru grows Arabica coffee almost exclusively, of which 70 percent is *typica* variety, about 20 percent *caturrea*, and 10 percent other. About 85 percent of the crop is harvested between April and July.

About 75 percent of the coffee grown in Peru is produced between 1,000 and 1,800 meters above sea level. Coffee grows under shade with an average plant density of 2,000 plants per hectare. It is hand picked and sun dried, giving it great potential for targeting high quality markets. Currently, producers are in search of a profitable shade tree variety to plant with coffee to increase revenues. Some varieties of pine have been tested commercially with excellent results, for example, after a twelve-year period, producers can obtain as much as \$80,000 per hectare from lumber, which is equivalent to an extra yield of 34 60-kilogram bags per harvest each year.

Like almost all other agricultural producers in Peru, coffee producers continue facing two main constraints. The first is lack of credit, as private banks still do not accept the farmers' often-untitled land as loan collateral. Most farmers obtain their loans from coffee buyers or informal lenders, with high interest rates (around 14-20 percent) 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.

## Consumption

Annual coffee consumption in Peru is 300 grams per capita, which translates into about 7,200 MT a year, one of the lowest in the region (per capita consumption in Colombia and Brazil are 2 and 4.6 kilograms per annum respectively). Peruvians consume mostly instant coffee, comprising about 75 percent of total consumption.

With more cafes and restaurants opening almost every day, coffee consumption habits in Peru are slowly beginning to change. However, this sector only accounts for 10 percent of the demand. Small corner stores and supermarkets are still the main source of coffee, accounting for 60 and 30 percent of total demand, respectively.

## Trade

With total exports of \$514 million in CY2006, coffee was once again Peru's lead agricultural export. The main markets for Peruvian coffee were Germany with 35 percent and the U.S. with 22 percent of the total exports in terms of value. Coffee exports in MY 2007/2008 are expected at 3.09 million 60-kilogram bags, a considerable reduction due to lower overall production. Around 70 percent of the coffee production is traded on spot prices, 30 percent is sold in the futures market. Average price for CY2007 is estimated at \$105 per MT.

Peru continues to be the second largest organic coffee producer in the world (Mexico being the largest). Peruvian exports of specialty coffees have grown consistently over the years, from \$7.9 million in CY 1998 to \$100 million in CY 2006. Even small producers are beginning to learn about premiums for specialty coffees and are accessing different certifications:

- Fair Trade: price is set at \$141 per MT, certified by Fairtrade Labelling Organizations International (FLO)
- Sustainable Coffee: \$7 per MT premium, certified by Rainforest Alliance
- Café Practice: \$10-14 per MT premium, certified by Starbucks
- Organic: \$9 per MT premium, certified by several agencies such as the USDA's National Organic Program (NOP), Japanese Agricultural Standards (JAS), Natureland and the Organic Crop Improvement Association (OCIA).

## Policy

The coffee industry in Peru generates 855,000 jobs in very poor and remote areas where transportation can be extremely difficult. The GOP, through DEVIDA, the umbrella agency for counter narcotic affairs, has encouraged coffee production as an alternative crop to coca leaf production. The U.S. Agency for International Development (USAID) has been assisting approximately 10 percent of Peru's coffee farmers in increasing their 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. Currently, USAID – through the Poverty Alleviation and Reduction (PRA) project – is involved in developing business opportunities for exporting coffee. They are switching their focus from production to developing markets overseas. Another important contribution of the USG is assisting producers in complying with Peruvian procedures for land titling.

As coffee buyers develop higher quality standards – such as good agricultural practices, good processing practices, HAACP – coffee producers will need regular training to be able to comply with the international demand.