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Peru

Coffee

Annual

2008

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Report Highlights:

Coffee production for MY 2009 is forecast at 4.3 million 60-kilogram bags. Coffee is Peru's largest agricultural export. Its main markets are Germany and the U.S. Coffee exports for MY 2009 are forecast at 4.18 million bags.

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

Summary

Coffee production for Marketing Year 2009 (April/March) is forecast to increase 9 percent to 4.3 million 60-kilogram bags. Average yields are around 750 kilograms per hectare but can reach 2,300 kilograms per hectare among the most efficient producers. Annual coffee consumption in Peru has increased somewhat in the last five years but remains very low, per capita consumption is 500 grams, one of the lowest in the region. Coffee is Peru's lead agricultural export. The main markets for Peruvian coffee in CY 2007 were Germany and the U.S. with 32 percent and 30 percent, respectively, of total exports in terms of value.

PSD Table									
Country	Peru								
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)				
	2007	Revised		2008	Estimate		2009	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		04/2006	04/2006		04/2007	04/2007		04/2008	04/2008
Area Planted	285	285	285	285	285	287	0	0	287
Area Harvested	262	262	262	260	260	264	0	0	264
Bearing Trees	455	455	455	460	460	462	0	0	462
Non-Bearing Trees	22	22	22	20	20	20	0	0	20
Total Tree Population	477	477	477	480	480	482	0	0	482
Beginning Stocks	24	24	24	24	24	24	10	10	16
Arabica Production	3996	3996	4550	3190	3190	3950	0	0	4300
Robusta Production	0	0	0	0	0	0	0	0	0
Other Production	0	0	0	0	0	0	0	0	0
Total Production	3996	3996	4550	3190	3190	3950	0	0	4300
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	4020	4020	4574	3214	3214	3974	10	10	4316
Bean Exports	3876	3876	4430	3094	3094	3840	0	0	4180
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	3876	3876	4430	3094	3094	3840	0	0	4180
Rst,Ground Dom. Consum	12	12	11	10	10	10	0	0	10
Soluble Dom. Cons.	108	108	109	100	100	108	0	0	108
Domestic Use	120	120	120	110	110	118	0	0	118
Ending Stocks	24	24	24	10	10	16	0	0	18
Total Distribution	4020	4020	4574	3214	3214	3974	0	0	4316
Exportable Production	3876	3876	4430	3080	3080	3832	0	0	4182

Export Trade Matrix	
Country	Peru
Commodity	Coffee, Green
Time Period	CY 2007
Exports for:	
U.S.	52,688
Others	
Germany	54,868
Belgium	15,504
Netherlands	7,886
Sweden	7,869
Korea	5,609
Canada	5,321
U.K.	4,382
France	2,606
Total for Others	104,045
Others not Listed	16,881
Grand Total	173,614

Units: Metric Tons

Production

Coffee production for Marketing Year 2009 (April/March) is forecast to increase 9 percent to 4.3 million 60-kilogram bags. Improved agricultural practices and solid international prices will drive this increase and will most likely continue in upcoming years.

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 production. 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.

Average 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 cultivation 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 *caturra*, 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.

Coffee producers face 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 has increased somewhat in the last five years but remains very low, per capita consumption is 500 grams, 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

Coffee is Peru's lead agricultural export. The main markets for Peruvian coffee in CY 2007 were Germany with 32 percent and the U.S. with 30 percent of the total exports in terms of value. Coffee exports in MY 2008/2009 are expected at 4.18 million 60-kilogram bags, a 9 percent increase from the previous year. Around 70 percent of the coffee production is traded on spot prices, 30 percent is sold in the futures market. Average price for CY2008 is estimated at \$132 per MT a significant increase from the \$105 per MT paid in 2007.

With exports of \$91.3 million in 2007, Peru has become the largest organic coffee exporter. Peruvian exports of specialty coffees have grown consistently over the years, from \$7.9 million in CY 1998 to \$120 million in CY 2007. Even small producers are beginning to learn about premiums for specialty coffees and are accessing different certifications:

- Fair Trade: price is set at \$161 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 Government of Peru, 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, HACCP – coffee producers will need regular training to be able to comply with international demand.