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## Mexico

## Coffee

## Annual

## 2008

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**Report Highlights:**

Coffee production for MY 2008/09 is forecast to remain at the same level as MY 2007/08, 4.5 million 60-kilogram bags. Exports are also expected to remain on par with the previous year's forecast. Imports, which are rather small relative to domestic production, are expected to increase by approximately seven percent compared to last year's estimate driven by strong demand within the specialty coffee sector. In order to offset the effects of adverse weather conditions, President Calderon's administration recently stated that an additional 300 million pesos will be delivered to producers for the renewal of coffee plantations, purchase of machinery/equipment, and market promotion of domestic brands.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
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## SECTION I. STATISTICAL TABLES

## PS&amp;D, Coffee

PSD Table									
Country	Mexico								
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	10/2006			10/2007			10/2008		
Area Planted	700	700	700	700	700	700	0	0	700
Area Harvested	600	600	600	600	600	600	0	0	600
Bearing Trees	700	700	700	700	700	700	0	0	700
Non-Bearing Trees	180	180	180	180	180	180	0	0	200
Total Tree Population	880	880	880	880	880	880	0	0	900
Beginning Stocks	700	700	700	390	390	390	0	0	210
Arabica Production	4,000	4,000	4,000	4,250	4,250	4,250	0	0	4,250
Robusta Production	200	200	200	250	250	250	0	0	250
Other Production	0	0	0	0	0	0	0	0	0
<b>Total Production</b>	4,200	4,200	4,200	4,500	4,500	4,500	0	0	4,500
Bean Imports	140	140	140	150	150	150	0	0	150
Roast & Ground Imports	50	50	50	60	60	50	0	0	60
Soluble Imports	0	0	50	0	0	50	0	0	60
<b>Total Imports</b>	190	190	240	210	210	250	0	0	270
<b>Total Supply</b>	5,090	5,090	5,140	5,100	5,100	5,140	0	0	4,980
Bean Exports	2,500	2,500	2,500	2,500	2,500	2,500	0	0	2,500
Rst-Grnd Exp.	20	20	20	20	20	20	0	0	20
Soluble Exports	180	180	200	180	180	210	0	0	210
<b>Total Exports</b>	2,700	2,700	2,720	2,700	2,700	2,730	0	0	2,730
Rst,Ground Dom. Consum	1,500	1,500	1,500	1,600	1,600	1,600	0	0	1,600
Soluble Dom. Cons.	500	500	530	600	600	600	0	0	600
Domestic Use	2,000	2,000	2,030	2,200	2,200	2,200	0	0	2,200
Ending Stocks	390	390	390	200	200	210	0	0	50
<b>Total Distribution</b>	5,090	5,090	5,140	5,100	5,100	5,140	0	0	4,980

COFFEE		UNITS: Metric Tons	
Exports to:		Imports from:	
Destination	CY 2007	Origin	CY 2007
U.S.	88,439	U.S.	2,201
Japan	18,594	Vietnam	969
Other not listed	42,556	Other not listed	639
<b>Grand Total</b>	<b>149,589</b>	<b>Grand Total</b>	<b>3,809</b>

Source: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, January 2007.

Data comprises: Green, Roasted and Soluble coffee figures.

## SECTION II. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

### Production

MY 2008/09 (Oct-Sept) coffee production is forecast at 4.5 million 60-kilogram bags, the same as last year's production estimate. Heavy rains and low temperatures in late MY 2007/08 in Chiapas and Veracruz prevented farmers from attaining a larger production. While some adverse weather conditions from last year affected the blooming stage of some plantations, the coffee sector is confident that favorable weather — so far this year — and ample moisture for plantations located in unaffected areas would fuel younger trees into full bearing. Also, the timely release of the GOM's monetary support for producers would help offset the negative weather effects from last year. In response, the Chiapas coffee sector is developing a project, currently in its first year of a six-year term, to stimulate production through the renewal of coffee plantations, the recovery of affected areas, and the promotion of support schemes to encourage the certification of organic plantations, which could fulfill certain market niches. However, the production forecast in large, producing countries - mainly Brazil and Vietnam - is still a concern for the Mexican coffee sector since coffee prices could drop. The MY 2007/08 and MY 2006/07 production estimates were kept unchanged.

Due to geographical and climatological conditions, Mexico is ideally suited for coffee production. About 97 percent of the coffee produced in Mexico is of the *arabica* variety (85 percent produced through the wet milling process and 12 percent from the natural sun dried process) while three percent is of the *robusta* variety. This production ratio is not likely to be changed in the short term. Recent reports indicate that the states of Chiapas, Veracruz, Puebla, and Oaxaca account for nearly 94 percent of Mexico's coffee production, 85 percent of the area planted, and 83 percent of the total number of producers. The states of Hidalgo, San Luis Potosi, Colima, Nayarit, Jalisco, Guerrero, Queretaro and Tabasco account for the rest of that total. Approximately, 35 percent of the area planted is located at an altitude of 900 meters above sea level, which typically produces the best coffee. Nearly 43.5 percent of the coffee produced is between 600 and 900 meters above sea level, which is good export quality coffee, and 21.5 percent of the coffee produced is below 600 meters, generally where lower quality coffee is produced.

Currently, Mexico is the world's largest producer of organic coffee. Within Mexico, the state of Chiapas is the largest organic coffee producer, followed by Oaxaca, Veracruz, Guerrero and Puebla. These states boast 82,816 hectares of organic coffee production, and they produce 576,416 60 kg bags of organic coffee. Currently, organic coffee yields are at 7.47 "quintales" (60 kg. bag) per hectare.

A number of factors have led to an overall lack of an increase in production in recent years, including: low international prices, abandonment of production areas due to migration, and higher production costs. In recent years, the cost of production has increased due to the lack of labor in the fields, primarily caused by migration to the U.S., and elevated input costs.

### Crop Area

MY 2008/09 planted and harvested areas are expected to remain at the same level as MY 2007/08. As stated earlier, the coffee sector's current strategy is to stimulate production through the replanting of coffee plantations, the recovery of affected areas, and the promotion of support schemes to encourage the certification of organic plantations while increasing domestic consumption. Over the next few years, planted and harvested areas are expected to increase at a moderate pace, driven by the development of new coffee nurseries and younger trees coming into production. Figures for MY 2007/08 and MY 2006/07 remain unchanged.

## Yields

Yields continue to vary widely in Mexico due to variations in crop care and weather. MY 2008/09 yields are expected to be similar to MY 2007/08 levels, assuming favorable weather conditions in recovered and non-affected areas and expected improvements in cultural practices. Yield figures for MY 2006/07 remain unchanged. Average yields in Mexico are roughly five quintales per hectare. Chiapas boasts yields of 7.59 quintales per hectare while Puebla registers 13.76 quintales per hectare.

## Consumption

The per capita consumption of coffee in Mexico is still relatively low. MY 2008/09 domestic coffee consumption of both roasted ground and soluble coffee is forecast to remain at the same level as MY 2007/08. However, the Mexican coffee industry is working hard to increase domestic consumption by promoting the high quality of Mexican blends through the promotion of value-added coffee known as “functional” beverages among medium income consumers. Consumers with relatively greater purchasing power have been targeted by the specialty coffee sector for years. The rapid growth in cafes, initially intended for the low-to-medium income high school and university age populations, has now become a more mature venture and has attracted foreign and domestic investment. Various fast-food chains (McDonalds) and convenience stores (Oxxo, 7-Eleven) have targeted various age and income groups. In recent years, about 70 percent of the Mexican coffee has been directed to the export market while only 30 percent is consumed domestically. This focus on exports has historically been fueled by the expectation of higher international prices and a relatively stable domestic demand. (See marketing section.)

Consumption estimates for MY 2007/08 were kept unchanged while MY 2006/07 figures were revised slightly upward in accordance with recently updated industry data. Current official data indicates that per capita consumption is still low at 1.2 kilograms per year/per capita compared to 4.5 in Brazil or the 11 kilograms per year/per capita in Europe.

## Stocks

MY 2008/09 ending stocks are forecast to decrease considerably from the previous year’s revised estimate, mainly due to sustained domestic consumption mixed in with an unchanged production level. Ending stock estimates for MY 2007/08 were revised upward due to a slight increase in imports. MY 2005/06 figures were kept unchanged.

Authorities from the National Coffee System (NCS) report that Mexico has never had a reliable system to register final stock numbers; thus data is largely anecdotal. Current stock estimates reflect information obtained from industry sources since no official government statistics are available.

## Trade

The international global coffee trade volume has risen in recent years, but Mexico’s coffee exports have remained relatively flat. MY 2008/09 exports are forecast to maintain the same level as MY 2007/08. These stagnant export volumes are primarily attributed to the fact that Mexico’s coffee has lost competitiveness in international markets since the quality factor has been left aside, which is generally the main aspect for accessing new market niches. Roughly, 90 percent of exported Mexican coffee is exported as green beans. The United States continues to be the main international market for Mexican green beans. Industry sources have stated that countries, like the United States and Germany, buy Mexican coffee, add value to it (i.e., sort, roast, and package), and then re-export it back to Mexico. Mexico

has been unable to take advantage and capture the value-added feature in the production chain because the country lacks the infrastructure and distribution system to do so efficiently. The MY 2007/08 exports estimates have been revised slightly upward from the previous estimate due to increased domestic production and relatively stable international prices. MY 2006/07 export figures were revised slightly upward to reflect recently updated industry data.

MY 2008/09 import levels are forecast to increase minimally over the previous year's revised estimate. This growth is attributable to strong demand from coffee retailers who market to consumers with mid-to-high income levels in search of fashionable value-added imported coffee. The import estimates for MY 2007/08 and MY 2006/07 were also revised upward due to recently updated industry data.

## Marketing

Historically, Mexico's coffee blends have not reached top prices in foreign markets due to the use of inappropriate processing techniques, such as mixing coffee grains from different altitudes and maturity stages, and mishandling grains during the wet milling process. Through the continued enforcement of SAGARPA's "Productive Development and Quality Improvement of Mexican Coffee" program, coffee producers are being taught appropriate processing and marketing techniques. This should enable growers to produce a higher-quality coffee as well as create new coffee brands.

Currently, the Mexican coffee sector — along with the current marketing campaign to increase the consumption of coffee — is developing a medium term project to promote the consumption of value-added coffee. The project identifies four functional beverages:

1. a "fortified coffee blend", which is composed of calcium, folic acid, and iron;
2. an "immunological coffee" prepared with zinc, the "cat's claw plant" and ginkgo biloba;
3. a "metabolic blend" added with green tea and zinc;
4. a "relaxing coffee blend", which is a decaffeinated mixture of Linden flower (*Tilia Americana*) & orange blossom (*Citrus spp.*) teas.

## Policy

Currently, the "Sustainable and Integral Coffee Development Law" is on hold while Congress analyzes and debates its merits. This law proposes a package of producer subsidies, and a complicated government-private sector scheme to guarantee average prices. Several producers have reported that they oppose the law because it will cede power over how federal coffee funds are spent away from producers. The Lower House has passed the proposed law, but the Senate has yet to ratify. At this point, it is uncertain if the law will be voted on during the ordinary session of Congress in 2008.

However, for 2008, Congress appropriated 900 million pesos (U.S. \$85.7 million) to the coffee sector, roughly 25 percent lower than allocations under the 2007 budget. Recently, President Calderon's administration stated that an additional 300 million pesos will be delivered to producers for the renewal of coffee plantations, purchase of machinery/equipment, and market promotion of domestic brands.