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Coffee

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Report Highlights:

After reaching a historic low in MY 2006/07, El Salvador's coffee production is expected to rebound and reach 1.48 million 60 Kg. bags in 2007/08. Favorable international coffee prices are providing relief to El Salvador's depressed coffee sector. Continued efforts to promote specialty coffee are paying off as exports of higher quality coffee are increasing, and now account for almost 28% of total exports. El Salvador continues to use activities such as the Cup of Excellence to promote coffee abroad. In addition, El Salvador once again had a stand at the 2008 Specialty Coffee Expo, where various coffee brands were exposed to quality coffee buyers. A Coffee Trust (Fonserva) has been created by the Government of El Salvador (GOES) to sell ecological bonds and cover 30 percent of the coffee sector debt of approximately \$189.00 million.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
San Salvador [ES1]
[ES]

Table of Contents

Executive Summary 3
Production 5
Consumption..... 5
Trade..... 5
Stocks 7
Policy 7

Executive Summary

El Salvador's Marketing Year (MY/October-September basis) 2007/2008 coffee harvest is expected to be approximately 6 percent higher than previously reported. New data provided by the Salvadoran Coffee Council (CSC) reveal that the 2007/08 harvest is expected to reach 1.48 million 60 Kg. Bags due to the bi-annual production cycle and to favorable weather. Lack of sufficient 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. A good rainy season; and some increase in fertilizer use and agricultural practices are expected to lessen the decrease in production for the 2008/09 harvest. Higher coffee prices are providing some relief to the sector and assisting in dealing with carryover debt as well as input investment. However, property sales to honor overdue debt continue as well as urban encroachment.

Coffee exports in 2007/08 are expected to reach 1.38 million 60 Kg. bags. Export numbers for 2008/09 are expected to decrease slightly due to the production off year. 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 almost 40 percent of MY 2007/08 exports through April 2008. In MY 2008, exports to the U.S. are expected to reach 525,483 sixty Kg. bags. Germany continues to be an important export market accounting for approximately 35 percent of total exports. Other important markets are Belgium, Japan and Canada.

Lack of local ground coffee processing facilities has favored the market for soluble coffee. This has led to a continued increase in soluble imports, mainly from Brazil and Nicaragua. Guatemalan and Mexican coffees are also present in the retail and institutional market.

The CSC continues to monitor exports through the use of export registrations permits. The Government of El Salvador (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 2008/09 crop (Please refer to Policy for further information). Coffee is still the most important source of employment in rural areas, with the coffee harvest alone providing approximately 130,000 jobs. However, coffee is no longer the major source of export revenues in El Salvador, having been replaced by non-traditional products such as processed food products and tropical fruits. Coffee exports in 2008/09 are expected to generate approximately \$185 million in foreign exchange.

The coffee sector continues to struggle due to outstanding debt of approximately \$189.00 million that has been deferred to long term debt through the GOES "FICAFE" (Coffee Trust) program that began in 2001. Under FICAFE, the debt burden was negotiated with the private banking sector so that the coffee producers would have 23 years and a 3 year grace period to cover their debt.

El Salvador continues to promote Salvadoran coffee, focusing mainly on specialty and gourmet qualities (See Trade). The agricultural sector is the fastest growing sector in the economy assisted by higher prices for coffee and sugar, as well as increased market access for sugar and growing processed food exports under the Central America – Dominican Republic (CAFTA-DR) free trade agreement.

El Salvador Coffee, Green										
	2007 Revised			2008 Estimate			2009 Forecast			UOM
	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	10/2006		10/2007	10/2007		10/2008	10/2008	MM/YYYY
Area Planted	176	176	176	176	176	176	0	0	176	(1000 HA)
Area Harvested	164	164	164	164	164	164	0	0	164	(1000 HA)
Bearing Trees	541	541	541	541	541	541	0	0	541	(MILLION TREES)
Non-Bearing Trees	53	53	53	53	53	53	0	0	53	(MILLION TREES)
Total Tree Population	594	594	594	594	594	594	0	0	594	(MILLION TREES)
Beginning Stocks	45	30	111	21	30	31	0	0	44	(1000 60 KG BAGS)
Arabica Production	1242	1242	1235	1500	1400	1480	0	0	1400	(1000 60 KG BAGS)
Robusta Production	0	0	0	0	0	0	0	0	0	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	0	0	0	(1000 60 KG BAGS)
Total Production	1242	1242	1235	1500	1400	1480	0	0	1400	(1000 60 KG BAGS)
Bean Imports	31	31	31	30	30	30	0	0	30	(1000 60 KG BAGS)
Roast & Ground Imports	14	14	14	13	13	15	0	0	15	(1000 60 KG BAGS)
Soluble Imports	72	72	72	80	80	80	0	0	80	(1000 60 KG BAGS)
Total Imports	117	117	117	123	123	125	0	0	125	(1000 60 KG BAGS)
TOTAL SUPPLY	1404	1389	1463	1644	1553	1636	0	0	1569	(1000 60 KG BAGS)
Bean Exports	1200	1151	1215	1375	1315	1376	0	0	1313	(1000 60 KG BAGS)
Rst-Grnd Exp.	3	3	3	3	3	2	0	0	2	(1000 60 KG BAGS)
Soluble Exports	2	2	2	2	2	2	0	0	2	(1000 60 KG BAGS)
TOTAL EXPORTS	1205	1156	1220	1380	1320	1380	0	0	1317	(1000 60 KG BAGS)
Rst, Ground Dom. Cons.	28	28	32	28	28	32	0	0	32	(1000 60 KG BAGS)
Soluble Dom. Cons.	150	175	180	175	175	180	0	0	180	(1000 60 KG BAGS)
Domestic Use	178	203	212	203	203	212	0	0	212	(1000 60 KG BAGS)
Ending Stocks	21	30	31	61	30	44	0	0	40	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	1404	1389	1463	1644	1553	1636	0	0	1569	(1000 KG BAGS)
Exportable Production	1064	1039	1023	1297	1197	1268	0	0	1188	(1000 60 KG BAGS)

Production

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador reveal that the 2007/08 coffee harvest is expected to reach 1.48 million 60 Kg. bags. A normal rebound due to the on-production cycle and good weather conditions are the main reasons for the increased production. Also, higher coffee prices are providing fresh capital for additional investment in cultural practices as well as in agricultural inputs. So far, favorable weather conditions and increased investment due to improved coffee prices are expected to lessen the decrease in production in 2008/09. Total production is now estimated at 1.4 million 60 Kg. bags.

The GOES continues to guarantee loans to the coffee sector. Cultural practices have improved due to fresh capital from higher prices. However, the high cost of fertilizers and other important inputs plus the increased transportation costs will definitely affect future coffee production.

Value-added production such as gourmet, specialty, fair trade and organic coffees continue to provide additional revenue to coffee producers. Specialty coffee production has steadily increased, reaching approximately 28% of total production in MY 2008. Recently, the CSC organized the sixth "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 show an increase in domestic coffee consumption. Increased availability of coffee brands at the retail level is providing a positive impetus to consumption. In addition, the trend for coffee bars located in major shopping malls continues. In 2007/08, consumption increased to 212,000 sixty Kg. bags. Most local consumption has shifted to soluble coffee which is mainly imported from Brazil, Nicaragua and Mexico. In 2007/08, soluble domestic consumption is expected to reach 180,000 sixty Kg. bags Green Bean Equivalent (GBE). Roasted/ground domestic consumption is also increasing reaching 32,000 sixty Kg. bags in the same period. Guatemala and Costa Rica are now new players in the retail market for this type of coffee.

A marketing consultant contracted by the CSC in 2006 to assist in improving sales and consumption of local coffee has provided new tools to develop the domestic market. El Salvador, as is the case of 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 characteristics of Salvadoran coffee in the export market.

Trade

Coffee exports for 2007/08 are estimated at 1.38 million 60 Kg. bags. This number is higher than previously reported mainly due to a larger coffee crop. In 2008/09 coffee exports are forecast at 1.31 million 60 Kg. bags.

Exports to the U.S. in MY 2007 accounted for approximately 40 percent of total exports, reaching 550,620 sixty Kg. bags. Germany is the number two export destination for Salvadoran coffee accounting for approximately 35 percent of total exports. Other active buyers in this market are Belgium, Canada and Japan.

Premium prices obtained by gourmet and specialty coffees have increased the amount of exports of this type of coffee. The CSC, backed by USAID, sponsored for the successive sixth year 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 is successfully sold to U.S., Japanese and European buyers with prices higher than spot Contract C prices.

Export Trade Matrix El Salvador Coffee, Green			
Time Period	MY	Units:	60 Kg. Bags
Exports for:	2007		2008
U.S.	550,620	U.S.	525,483
Others		Others	
Germany	481,620	Germany	459,633
Belgium	114,540	Belgium	109,311
Japan	71,760	Japan	68,484
Canada	55,200	Canada	52,680
Italy	34,500	Italy	32,925
Total for Others	757,620		723,033
Others not Listed	71,900		68,700
Grand Total	1,380,140		1,317,216

The CSC also continues to actively promote coffee through trade missions composed of European, American and Japanese specialty coffee bars that roam the country's best coffee production sites and get to sample the unique qualities that Salvadoran coffee provides to coffee blends.

Also programs such as the Rainforest Alliance Certification are being extended to include more coffee producers in this ecological seal program. Up to now, 231 farms and 34 mills have been certified. Farmers that join this certification program have to improve workers quality of life as well as surrounding communities, must preserve the ecosystem, protect wild life and conserve water resources in order to have access to a premium for their coffee production.

Nestlé 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 Calendar Year 2007 for 7 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 2007/08 approximately 32,000 bags are expected to be imported illegally from Honduras. Legally imported roasted/ground Honduran coffee reached 2,500 sixty Kg. bags in CY 2006.

Import Trade Matrix El Salvador Coffee, Green			
Time Period	CY	Units:	60 Kg. Bags
Imports for:	2007		2008
U.S.	3,705	U.S.	4,000
Others		Others	
Brazil	58,200	Brazil	58,000
Honduras	35,100	Honduras	35,300
Nicaragua	8,454	Nicaragua	8,500
Mexico	5,090	Mexico	5,200
Guatemala	3,338	Guatemala	3,500
Costa Rica	1,980	Costa Rica	2,200
Total for Others	112,162		112,700
Others not Listed	8,800		8,500
Grand Total	124,667		125,200

Stocks

New data provided by the CSC substantiate an increase in the 2007/08 stock number to 44,000 sixty Kg. bags. Most of this coffee is previous crop unsold product held up by coffee farmers looking for better prices.

Policy

The GOES continues to offer a six percent drawback program for non-traditional exports. This drawback is used by the GOES as an incentive for exporters that trade their products outside of 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 a 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 GOES Multi-Sectoral

Investment Bank (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 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.

The GOES through the BMI has announced an Environmental Services Fund (Fonserva) that through the sale of environmental (CO2) bonds would cover 30 percent of the FICAFE debt. By the end of 2007, the FICAFE accumulated debt stood at \$189.00 million.