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Ecuador

Coffee

Annual Report

2004

Approved by:
Melinda D. Sallyards
U.S. Embassy Lima

Prepared by:
Carlos M. Yugcha

Report Highlights:
Ecuador's coffee production will decrease for MY 2004/2005 due to lack of incentives to harvest all available beans and lack of investments in fields. Ecuador exports more coffee products than coffee beans. The coffee industry, in order to comply with their commitments, will import 200,000 60 kgs. bag of coffee beans under a temporary admission regime

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Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Quito [EC1]
[EC]

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Executive Summary

Coffee production for Marketing Year 2004/2005 (April/March) is expected to decrease to 750 thousand 60 kg bags, down from the already depressed production of 796,000 60 kg. bags produced in the previous MY 2003/2004. The harvest in MY2003/2004 was worse than expected mainly due to the bad weather conditions and also due to the fact that farmers were discouraged from harvesting because of depressed international prices for coffee beans. In order to meet domestic demand of coffee beans for the industry, Ecuador imported under a temporary admission regime 140,000 60 kg bags in 2003 from Vietnam. The upcoming market year is forecasted to import 200,000 60 kg bags from Vietnam, Indonesia or Brazil. These importations are due to the expected depressed production of beans both of Arabica and Robusta varieties.

PSD Table							
Country	Ecuador						
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)		
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		04/2002		04/2003		04/2004	MM/YYYY
Area Planted	232	225	235	221	0	215	(1000 HA)
Area Harvested	200	200	220	195	0	193	(1000 HA)
Bearing Trees	195	190	200	188	0	185	(MILLION TREES)
Non-Bearing Trees	10	8	10	7	0	5	(MILLION TREES)
TOTAL Tree Population	205	198	210	195	0	190	(MILLION TREES)
Beginning Stocks	9	9	19	29	13	38	(1000 60 KG BAGS)
Arabica Production	410	410	470	430	0	400	(1000 60 KG BAGS)
Robusta Production	370	380	410	358	0	350	(1000 60 KG BAGS)
Other Production	0	0	0	8	0	0	(1000 60 KG BAGS)
TOTAL Production	780	790	880	796	0	750	(1000 60 KG BAGS)
Bean Imports	130	130	100	140	0	200	(1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Soluble Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Imports	130	130	100	140	0	200	(1000 60 KG BAGS)
TOTAL SUPPLY	919	929	999	965	13	988	(1000 60 KG BAGS)
Bean Exports	220	222	300	207	0	200	(1000 60 KG BAGS)
Roast & Ground Exports	2	1	6	1	0	1	(1000 60 KG BAGS)
Soluble Exports	378	377	380	419	0	450	(1000 60 KG BAGS)
TOTAL Exports	600	600	686	627	0	651	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	240	240	240	235	0	230	(1000 60 KG BAGS)
Soluble Dom. Consum.	60	60	60	65	0	70	(1000 60 KG BAGS)
TOTAL Dom. Consumption	300	300	300	300	0	300	(1000 60 KG BAGS)
Ending Stocks	19	29	13	38	0	37	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	919	929	999	965	0	988	(1000 60 KG BAGS)

Production

Coffee production for the Marketing Year 2004/2005 (April/March) is expected to decrease to 750 thousand 60 kg. bags, down from the depressed production of 796,000 60 kilogram bags produced in the previous MY 2003/2004. The harvest in MY2004/2005 will be worse than current MY 2003/2004 mainly due to the bad weather conditions and also due to the fact that farmers are discouraged from harvesting because of depressed international prices for coffee beans. Since, farmers are abandoning some plantations with beans both in the plants and on the ground, coming production is predicted to be more infested by coffee borer. The most notable change from the recent past is the greater production of Arabica coffee of 430,000 60 kg. bag compared with Robusta coffee of 358,000 60 kg bag.

The area planted and harvested is forecasted to decrease to 215,000 hectares and 193,00 hectares respectively. Farmers are replacing their coffee plantation with more profitable crops such as corn, cassava, and cotton.

Coffee prices have also played a major role in the decreased production in MY 2003/2004. Prices for Arabica and Robusta coffee in the international market have dropped consistently since 1989, when quota system was cancelled. Prices paid to coffee growers many times do not cover the cost of production; however, some farmers have continued with the business. This is explained by the fact that farmers have diversified their production, i.e., producing other products than coffee such as corn, fruits, cassava, which have offset losses in coffee. Farmers, that could not diversify production, prefer to abandon coffee plantations rather than harvest coffee beans. Prices paid to growers in Ecuador for washed Arabica beans were placed at US$57.19 in December 2003 for 45.36 Kg bag. The average price for washed Arabica in calendar year 2003 went up to US$52.01 for 45.36 kg from US$46.98 in the year 2002. Improved coffee prices for the calendar year 2003 to a certain extent have encouraged producers to harvest available Arabica beans, rather than Robusta varieties. Average prices for Robusta coffee ranged between US$24.0 to US$29.0 per 45.36 kg bag.

Consumption

Local consumption is forecasted at 300,000 60 kg bags for the upcoming market year 2004/2005. The tendency of Ecuadorians is to consume more instant coffee than to use as roasted and ground coffee. This is explained by changes in habits of consumers and the short time to prepare the cup of coffee instead of using roasted and ground coffee. There are many popular local and some imported brands in the market, being Press café 2, Si café, Montecristi, Dolca, Nescafe.

Trade

Exports of coffee and coffee products for MY 2004/2005 are forecasted to increase to 651,000 60 Kg bags from the revised figure of 627,000 in the previous marketing year. This increment in exports is mainly due to the dramatic increment of coffee products rather than the increase of coffee beans, which will decrease from 207,000 60 kg bags to 200,000 60 kg bags. However, soluble coffee exports are foreseen to increase to 450,000 60 kg bags green bean equivalent (GBE) from an increased quantity of previous MY of 419,000 60 kg bags GBE year 60 kg bag GBE. The increment of coffee products rather than beans is explained by the low prices of coffee beans in the domestic market which, in turn becomes more competitive coffee products in the international markets. In addition to that, the coffee industry has gained markets for coffee extract; freeze dried coffee, agglomerated, spry dried coffee, and flavored coffee. Ecuador will be producing 300 MT of freeze dried coffee (lyophilic coffeee) per month and exporting similar quantities to the international market.

As it occurred last year, the coffee industry, in order to comply with their export commitments, had to import coffee beans, mainly Robusta variety. For the MY 2003, Ecuador imported 140,000 60 kg bags of coffee beans from Vietnam and a small quantity from Brazil, and for MY 2004/2005 to meet the demand from the Ecuadorian coffee industry it is forecasted to import 200,000 60 kg bags of Robusta coffee from Vietnam and Brazil. These importations were made under the special regime of temporary admission as a condition to export once the coffee is industrialized. The coffee that entered Ecuador under the temporary admission regime does not appear in the official data, but post has included it in the PS&D table as bean imports.

Ecuador's main markets for coffee beans for calendar year 2003 are the United States with 58 percent, Chile with 9 percent, Germany with 20 percent, Spain 4 percent. Germany and England are the main markets for Ecuador's industrialized coffee with 33 and 17 percent respectively, as well as Japan with 12 percent and Poland with 11 percent of market share. The US market for industrialized coffee is low with 1.5 percent.

Policy

The current focus of national coffee policy is the established private/governmental institution called the National Council for Coffee (COFENAC). According to the law, COFENAC is the institution, which is in charge of implementing the Law for the Coffee Industry.

This new law basically provides a framework to promote and organize a modern coffee industry to deal with the fluctuations of international coffee prices and to provide loans through private banks at preferential interest rates to producers for the rehabilitation, renovation, and maintenance of coffee plantations. The primary goal of the loans provided by COFENAC is not to increase the planted and harvested area, but to provide small and medium producers access to better coffee seedlings, to improve quality, and increase yields. The Ecuadorian coffee industry realizes that this is the only way to create a more market-oriented industry in the coming years. However, COFENAC is concerned because these goals may not be reached since coffee farmers do not have incentives to replant coffee or make investments in the farms because current coffee prices for beans do not justify such investments. On the other hand, farmers started replacing coffee plants with remunerative crops such as corn, cassava, and cotton. But, in case farmers decide to maintain coffee plantations, due to the depressed price for coffee beans, most of time they do not decide to harvest the beans and leave them on the plant. Beans on the plants and beans on the ground can be infested by coffee borer, deteriorating the quality of coffee. COFENAC has led a project, which is aimed at identifying gourmet coffee and encouraging this type of coffee. Some farmers started producing organic coffee and have exported 9,000 MT of organic coffee. Europe is the main client for this kind of coffee.

Coffee bean producers and coffee bean exporters think that the return to the quota system for exportation can encourage the coffee farmers to make investments in the sector both in planting and in harvesting. However, the coffee industry sector thinks that the return to the quota system will increase the prices of beans making the industry less competitive in the international market.

Export Trade Matrix

Country	Ecuador		
Commodity	Coffee, Green		
Time Period	Jan-Dec	Units:	60 Kg bag
Exports for:	2002		**2003**
U.S.	135601	U.S.	127104
Others		Others	
Germany	135183	Germany	166756
England	70612	England	73161
Japan	42361	Japan	45942
Holland	21392	Chile	19550
Polland	31040	Polland	49422
Belgium	24028	Belgium	19807
Rusia	19197	Rusia	30514
Total for Others	343813		405152
Others not Listed	99127		92134
Grand Total	578541		624390
Total exports GBE			

Prices Table

Country	Ecuador		
Commodity	Coffee, Green		
Prices in	USDollars	per uom	45.36 kg
Year	2002	2003	% Change
Jan	39.02	51.65	32%
Feb	38.76	54.65	41%
Mar	50.99	49.27	-3%
Apr	52.92	49.02	-7%
May	44.07	55.54	26%
Jun	44.07	50.12	14%
Jul	41.35	50.18	21%
Aug	38.62	51.86	34%
Sep	44.81	55.62	24%
Oct	47.59	52.55	10%
Nov	64.44	50.93	-21%
Dec	57.19	52.79	-8%
Exchange Rate		Local Currency/US $	
Date of Quote	5/5/2004	MM/DD/YYYY	