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## **Report Name:** Coffee Annual

**Country:** El Salvador

**Post:** San Salvador

**Report Category:** Coffee

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### **Report Highlights:**

El Salvador's coffee production is expected to reach 650,000 sixty-kg bags in marketing year (MY) 2022/23. The Salvadoran coffee sector continues to struggle mainly due to climate vulnerability and a lack of long-term strategy that hinders needed investment at the farm level. The MY2023/24 crop is forecast to reach 670,000 sixty-kg bags. The lack of labor is affecting coffee farm activities, including pruning, tree renovation, and coffee berry picking and processing. In addition, prices for fertilizer and other inputs remain high, thus increasing coffee production costs. In April 2021, the Government of El Salvador (GOES) announced a coffee sector rescue program that included renovation of approximately 35,000 hectares, as well as debt re-structuring, however lack of funding has placed this plan on hold.

**Executive Summary:**

El Salvador's MY2022/23 harvest, which begins in October and ends in September, will decrease slightly, thus FAS San Salvador's estimates production will reach 650,000 sixty-kg bags. Due to the on-year production cycle, the MY2023/24 harvest is expected to increase approximately 20,000 sixty-kg bags reaching 670,000 sixty-kg bags.

Exports in MY 2022/23 are expected to reach 621,048 sixty-kg bags, up 14 percent from the previous crop. Export numbers for MY2023/24 are forecast to decrease slightly to 620,200 sixty-kg bags. The United States remains the main export destination for Salvadoran coffee, accounting for 44.4 percent of MY2022/23 exports through April 2023. Belgium has overtaken Germany as the second largest destination for Salvadoran coffee, followed by Japan, Italy, South Korea, Australia, and the United Kingdom. The Salvadoran Coffee Council (SCC) continues to monitor exports through export registration permits.

A tendency to look towards the export market has contributed to a lack of development of the domestic market. This has led to increases in soluble coffee imports, mainly from Mexico, Brazil, and Nicaragua. Coffee bar chains, including Starbucks, Juan Valdez, and El Salvador's The Coffee Cup continue growing in the retail market. In addition, McDonald's has continued expanding its McCafé coffee shops.

In the past, the Government of El Salvador (GOES) guaranteed loans to the coffee sector both through state and private banks; however, private banks are now reluctant to lend to the coffee sector due to price volatility and climate change vulnerability.

Coffee is still an important source of employment in rural areas. However, the drastic decline in production (As a result of coffee rust, low prices, and a lack of investment) has led to big job losses in the sector. In the past, coffee production accounted for over 100,000 jobs, however this number has continuously dropped reaching a low of 37,005 jobs in the 2019/20 crop. Over the last two crops, jobs have picked up reaching 42,513 for the 2022/23 crop. Coffee is no longer the top source of export revenues in El Salvador and has been replaced by non-traditional products such as processed ethnic foods, tropical fruits, and sugar. However, a rebound in prices for coffee exports in 2023/24 is expected to increase foreign exchange generation reaching approximately \$180 million.

El Salvador continues to promote its coffee through trade expos and buyer missions, focusing mainly on specialty and gourmet qualities (See Trade Section, below).

The GOES announced a coffee sector rescue program. Under the plan, the GOES aims to renovate approximately 35,000 hectares, re-structure debt, provide new loans with lower interest rates and a lengthier payback period, make export sale schemes more transparent to benefit farmers, and promote local consumption, among other activities. Also, the Salvadoran Coffee Institute (ISC) has been recently created to conduct much needed coffee research.

**Commodities:**

Coffee, Green

**Production:**

New production numbers compiled by FAS San Salvador estimate the 2022/23 coffee crop at 650,000 sixty-kg bags. The 2023/24 production is forecasted to increase to 670,000 bags.

GOES assistance is focused on small farmers (less than 10 hectares) with a plant and fungicide giveaway program that has had a minimal positive impact on the recovery of the coffee sector. Salvadoran coffee production could recover with increased activities to counter coffee rust and an adequate renovation program that includes financing to provide plants with appropriate nutrients and post-harvest management until they reach berry production.

Value-added production such as gourmet, specialty, and fair-trade coffees continues to provide additional revenue to a small, but growing number of coffee producers that are focusing on this type of market. These farmers are now focusing on micro (5-100 bags) and nano (less than 5 bags) coffee lot sales to specialty retailers in the United States, Europe, and Asia. The COVID-19 pandemic affected sales through this marketing channel due to extensive quarantines imposed in importing countries, however with easing of Covid restrictions sales have started to recuperate.

In 2022, El Salvador held the Cup of Excellence competition using a virtual component for coffee grading. The Geisha and Pacamara varieties continue to dominate this competition with scores in the 90-point range. The pandemic affected export promotion through postponed trade missions to the European, Asian, and U.S. specialty coffee markets. In-person participation in these trade events rose in started the fourth quarter of 2022 (see Trade section, below).

**Consumption:**

Consumption in coffee bars continues to grow in El Salvador. The number of establishments is expanding – now opening in strip malls and major shopping centers, which is the case with Juan Valdez, Starbucks, McCafé and local competitors Viva Espresso, Four Monkeys and The Coffee Cup. In addition, new coffee brands at the retail level are stimulating demand for local Bourbon, Pacas and Pacamara variety coffee. In addition, batches of locally grown high quality Geisha variety have started to flow in local coffee shops.

In MY2022/23 consumption is estimated to reach 300,000 bags. Due to the impact of COVID-19 on consumer spending, domestic consumption had practically stalled. However, a post-pandemic economic rebound that is one of the highest in Latin America, has had a positive effect on consumption. However, most local consumption continues to be lower quality soluble coffee imported from Mexico, Brazil, Colombia, and Nicaragua, as well as locally produced brands such as Coscafe. In MY2022/23, soluble domestic consumption is expected to reach 262,000 sixty-kg bags-Green Bean Equivalent (GBE). Roasted and ground domestic consumption reached 38,000 sixty-kg bags GBE in the same period. Local consumers continue to favor soluble coffee due to ease of preparation and lower price.

Insufficient investment in marketing to boost consumption of local higher-quality roasted beans, and a market that tends to be price elastic are factors that continue to favor soluble consumption. The SCC has continued to work to boost consumption of higher quality coffee by holding local coffee promotion events and participation in international coffee expos such as the 2022 Specialty Coffee Expo-Boston. Also, in March 2023 El Salvador hosted the Producer Roaster Forum bringing global industry leaders to provide presentations on coffee latest trends, as well as carry out tasting events to highlight the quality of locally grown coffee.

**Trade:**

Coffee exports for MY2022/23 are estimated at 621,048 sixty-kg bags, up 14 percent from the previous crop. In MY2023/24 coffee exports are expected to slightly decrease reaching approximately 620,200 sixty-kg bags.

In MY2022/23 the United States is expected to be the main export destination for Salvadoran coffee reaching approximately 276,137 sixty-kg bags, or about 44 percent of total exports. Belgium has become the number two export destination accounting for approximately 9 percent of total exports. Other important destinations are Germany, Italy, and Japan. South Korea and Australia are slowly increasing purchases of Salvadoran coffee, accounting for almost 7 percent of total exports.

Premium prices obtained by gourmet and specialty coffees create an incentive to increase exports of these types of coffees. Even though the pandemic posed a challenge, the SCC conducted various promotional events, including the Cup of Excellence. The best quality coffees produced in El Salvador are offered for sale through global electronic auctions. Through these events, local coffee is acquired by U.S., Asian, and European buyers at premium prices that range from \$100 to \$300 per hundredweight over the spot market "Contract C" prices.

<b>Export Trade Matrix El Salvador Coffee, Green</b>			
<b>Time Period</b>	<b>MY</b>	<b>Units:</b>	<b>60 kg bags</b>
<b>Exports for:</b>	<b>2022/23</b>		<b>2023/24</b>
United States	276,137	United States	275,369
<b>Others</b>		<b>Others</b>	
Belgium	55,839	Belgium	55,818
Germany	53,867	Germany	53,957
Japan	41,479	Japan	41,553
Italy	39,679	Italy	39,693
South Korea	22,463	South Korea	22,327
Australia	20,627	Australia	20,467
United Kingdom	20,369	United Kingdom	20,455
Saudi Arabia	14,229	Saudi Arabia	14,265
Canada	12,231	Canada	12,404
Sweden	11,736	Sweden	11,784
Netherlands	10,063	Netherlands	9,923
France	7,430	France	7,442
Others not Listed	34,899	Others not Listed	34,743
<b>Grand Total</b>	<b>621,048</b>		<b>620,200</b>

Source: Trade Data Monitoring

Local non-government organization (NGO) Salvanatura continues to expand the number of producers that are participating in environmental and social responsibility certifications such as the Rainforest Alliance certification. Currently, over 230 farms and 34 mills have been Rainforest Alliance certified. Other certification efforts such as Starbucks Cafe Practices, Fair Trade, UTZ, and coffee-related geographical indications (GIs) are also expanding in El Salvador. The SCC, working with the six coffee regions in El Salvador, has established GIs for the coffee produced in those regions. Coffee with these certifications commands a higher price on the market. The SCC has also trained local cuppers to obtain a “Q” grade certification that helps to position Salvadoran coffee as a reliable source of quality

beans. Starbucks Cafe Practices program enables Salvadoran farmers under the program to sell their coffee at prices about \$50 above international “Contract C” prices.

In marketing year (MY) 2023/24, Mexico is expected to supply approximately 103,202 sixty-kg bags GBE of soluble coffee to the local market. Brazil is expected to export 80,03 sixty-kg bags and Nicaragua 24,357 sixty-kg bags. Colombia is also present in the market with soluble product brand Colcafe, as well as with its’, “Juan Valdez”, coffee retail outlets selling 18,330 sixty-kg bags of Colombian coffee. U.S. imports are estimated at 6,026 sixty-kg bags of both roasted and soluble coffee.

<b>Import Trade Matrix El Salvador Coffee, Green</b>			
<b>Time Period</b>	<b>MY</b>	<b>Units:</b>	<b>60 kg bags</b>
<b>Imports for:</b>	<b>2022/23</b>		<b>2023/24</b>
United States	5,886	United States	6,026
<b>Others</b>		<b>Others</b>	
Mexico	100,041	Mexico	103,202
Brazil	78,184	Brazil	80,603
Nicaragua	23,658	Nicaragua	24,357
Colombia	17,755	Colombia	18,330
Honduras	6,857	Honduras	7,031
United Kingdom	3,589	United Kingdom	3,767
Guatemala	3,160	Guatemala	3,264
Others not Listed	4,311	Others not Listed	4,520
<b>Grand Total</b>	<b>243,441</b>		<b>251,100</b>

Source: Trade Data Monitoring

**Stocks:**

FAS/San Salvador estimates stock numbers reaching 10,000 sixty-kg bags in MY2022/23. Stocks for MY2023/24 are forecast to slightly increase to 11,000 sixty-kg bags.

**Policy:**

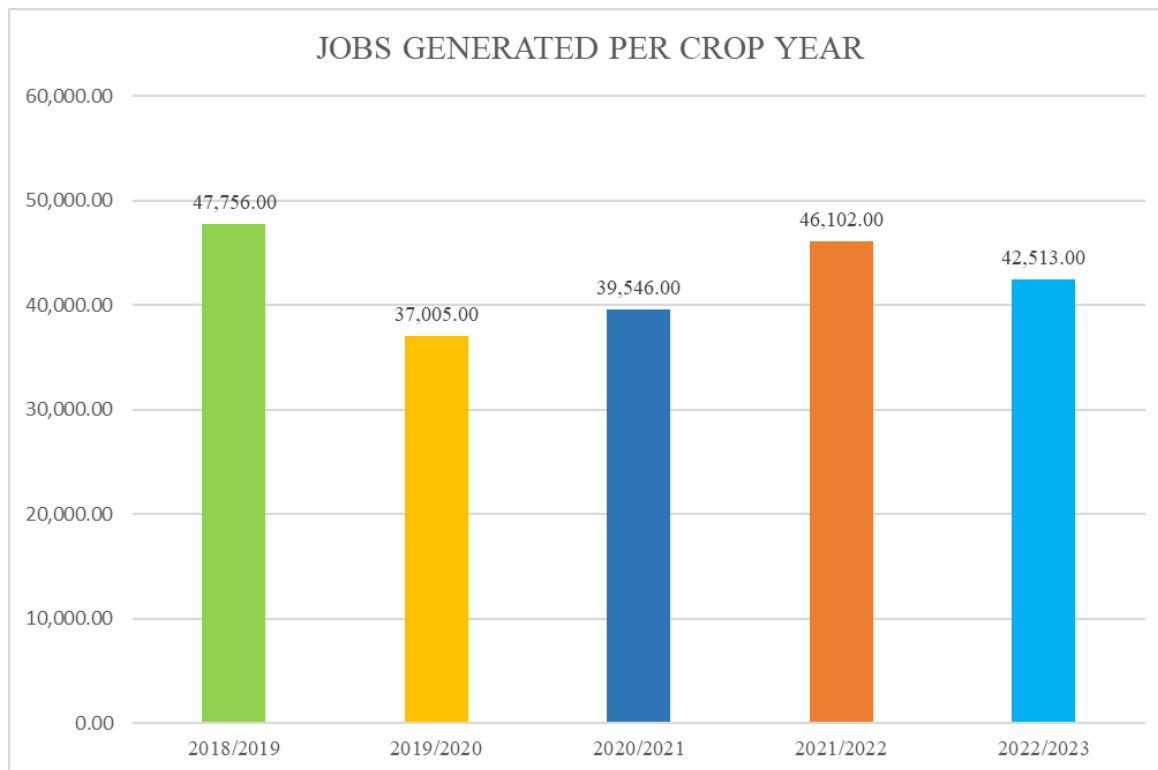
The Salvadoran coffee sector continues to lack a broad strategy to create sustainability and profit for coffee farmers.

While there have been some efforts by past government administrations to implement assistance programs, they have not been effective in helping producers recover from losses due to diseases such as coffee leaf rust and anthracnosis.

In 2014, the GOES created the CENTA (National Agricultural Research) coffee program within the Ministry of Agriculture (MAG). This new institution oversees extension services for coffee farmers. In addition, in 2016, MAG started a new fungicide and plant giveaway program for small farmers. According to MAG, in calendar year 2020, the GOES provided approximately 18 million rust-resistant plants through CENTA. These government programs mainly target small farmers with less than 3 hectares, which account for less than 10 percent of planted areas. The seedlings provided are not certified, and farmers often lack the resources for upkeep to enable the plants to reach production age (approximately 3 years). As such, most of the time farmers sell the plants or they die due to a lack of inputs (i.e. fertilizer, insecticides, fungicides). In addition, this program usually has logistical issues, and the plants are distributed almost at the end of the rainy season, thus many plants are left unplanted.

The sector would benefit from a major replanting program to renovate coffee production areas with new trees. In most areas, trees are over 25 years old and have surpassed their productive age. Every year over 7 million plants need to be planted, just to replace those that die naturally. According to the Salvadoran Coffee Association, approximately 30 million good quality rust-resistant plants are needed per year for a period of 10 years to completely renovate the national coffee area.

As a result of the problems the sector faces, jobs continue to disappear in coffee producing areas resulting in migration to urban areas. Approximately 10,000 jobs are lost for every 100,000-quintal drop in production – approximately every 45,000 tons. In addition, more coffee farms are being abandoned, depriving the country of its main source of forestation and water retention.



Source: Salvadoran Coffee Council

Coffee farmers continue paying back the Coffee Trust (FICAFE) program, which was established in 2001 to defer accumulated debt. As part of the GOES program to assist the coffee sector, the capital payments to FICAFE were deferred in 2014 for a grace period of 3 years, so that those funds could be used to plant new coffee trees, to improve agricultural practices to fight coffee leaf rust, and to increase productivity at the farm level. The GOES has extended this grace period through the end of 2024.

The GOES is providing loans through state banks to certain qualified farmers to carry out production activities and harvest collection for the upcoming production cycle. The GOES is also providing fungicides and liquid fertilizers to small farmers to alleviate the coffee rust outbreak. However, given the continued damage by rust, this loan program and provision of inputs will again not be enough to keep farmers afloat. Private banking institutions are reluctant to provide loans to the sector due to the high-risk of default because of price volatility and dwindling cherry yields.

Through the Food for Progress program, USDA continues working with the NGO Technoserve on the Modernizing Coffee and Cocoa in the Americas (MOCCA) project to assist approximately 5,000 coffee farmers with new production technologies, extension work, access to high-quality coffee seeds, access to higher paying export markets, and a loan guarantee program to facilitate lending to the sector. This program could serve as a model of what the coffee sector could do to overcome the challenges posed by coffee rust, low yields, and lack of profitability.



Another issue impacting farmer profitability is the high cost that coffee mills charge to farmers for the service to transform their coffee to export-ready green beans. Currently this cost is approximately \$60 per hundredweight GBE. Also, increasing roasted and soluble coffee imports are impacting local farmers. According to the Ministry of Economy, current duties are too low, and changes are needed to alleviate the impact on local coffee consumption. Every year, El Salvador imports around 260,000 sixty-kg bags mainly of soluble low-quality coffee that affects market opportunities for local coffee.

The future of El Salvador's coffee sector will depend upon the ability of both producers and government institutions to implement a strategy that includes debt re-structuring; extending repayment periods; and a unified coffee association that oversees research, technical assistance, and quality control; labor; food security; and crop diversification. If these issues are not addressed, the number of farmers that have already abandoned their farms (currently 35 percent) will continue to grow, deepening the labor, environmental, and economic crises.

A new GOES administration, which took office on June 1, 2019, has been working with the coffee associations, and they have drafted a program called Cafe-Proyecto Pais. This program was viewed as an opportunity to get the coffee associations together and come up with a unified strategy that could help farmers become sustainable in the near future. Under the program, the issues affecting the sector were divided into four areas: financing for plant renovation; debt restructuring; research and technology transfer; and commercialization (export and domestic). However, due to the COVID-19 crisis, in 2020 this program was put on hold by the GOES.

In April 2021, the GOES administration announced a coffee rescue program that seeks to increase production and farmer profitability in the medium term. Under the program, the GOES plans to re-structure carry over debt from the sector estimated at \$240 million, create a coffee research institute, build a coffee seed/nursery certification program, renovate approximately 35,000 hectares, create a transparent coffee processing mechanism among farmers and coffee mills, promote local consumption of Salvadoran coffee, review coffee import duties, increase direct trade, and crop diversification to increase farmer income and diminish dependency on a single crop, among other activities.

To date, the GOES has only secured a \$45 million loan from the Inter-American Development Bank (IDB) to assist smallholder farmers (approximately 8 % of total coffee area) through technical assistance and preferential loans, and to create the Salvadoran Coffee Research Institute to provide much needed technology transfer to outdated farmers. However, the country's fiscal deficit issue has put on hold this initiative. If this plan moves forward, it could pose an opportunity for ailing coffee farmers to become profitable and sustainable in the near future.

## Production, Supply and Demand Data Statistics:

Coffee, Green	2021/2022		2022/2023		2023/2024	
Market Begin Year	Oct 2021		Oct 2022		Oct 2023	
El Salvador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (Has.)	137	137	137	137	0	137
Area Harvested (Has.)	130	130	130	130	0	130
Bearing Trees (Million)	324	324	324	324	0	324
Non-Bearing Trees (Million)	19	19	19	19	0	19
<b>Total Tree Population (Million)</b>	<b>343</b>	<b>343</b>	<b>343</b>	<b>343</b>	<b>0</b>	<b>343</b>
<b>Beginning Stocks (Thousand 60 Kg. Bags)</b>	<b>21</b>	<b>21</b>	<b>14</b>	<b>38</b>	<b>0</b>	<b>10</b>
Arabica Production (Thousand)	605	655	575	650	0	670
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
<b>Total Production (Thousand 60 Kg. Bags)</b>	<b>605</b>	<b>655</b>	<b>575</b>	<b>650</b>	<b>0</b>	<b>670</b>
Bean Imports (Thousand 60 Kg. Bags)	14	5	15	6	0	5
Roast & Ground Imports (Thousand 60 Kg. Bags)	15	15	15	11	0	15
Soluble Imports (Thousand 60 Kg. Bags)	200	215	200	226	0	231
<b>Total Imports (Thousand 60 Kg. Bags)</b>	<b>229</b>	<b>235</b>	<b>230</b>	<b>243</b>	<b>0</b>	<b>251</b>
<b>Total Supply (Thousand 60 Kg. Bags)</b>	<b>855</b>	<b>911</b>	<b>819</b>	<b>931</b>	<b>0</b>	<b>931</b>
Bean Exports (Thousand 60 Kg. Bags)	600	527	550	601	0	600
Rst-Grnd Exp. (Thousand 60 Kg. Bags)	0	1	0	5	0	5
Soluble Exports (Thousand 60 Kg. Bags)	11	15	10	15	0	15
<b>Total Exports (Thousand 60 Kg. Bags)</b>	<b>611</b>	<b>543</b>	<b>560</b>	<b>621</b>	<b>0</b>	<b>620</b>
Rst,Ground Dom. Consum (Thousand 60 Kg. Bags)	30	40	30	38	0	38

Soluble Dom. Cons. (Thousand 60 Kg. Bags)	200	290	215	262	0	262
Domestic Consumption (Thousand 60 Kg. Bags)	230	330	245	300	0	300
Ending Stocks (Thousand 60 Kg. Bags)	14	38	14	10	0	11
Total Distribution (Thousand 60 Kg. Bags)	855	911	819	931	0	931
Exportable Production (Thousand 60 Kg. Bags)	375	325	330	350	0	370

**Attachments:**

No Attachments