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Report Highlights:

Despite multiple government and private sector initiatives to increase coffee production in Mexico, the MY 2020/21 forecast shows only a moderate increase. Challenges to growth include low global prices, labor shortages, little to no information or marketing systems, and the emergence of the coffee borer pest. Additionally, a lack of impactful government investment in the sector is a severe impediment to consistent growth in the years to come. Covid-19 effects are expected to stunt consumption growth, as restaurants and cafes around the country are closed, stymying government and specialty producer efforts to increase consumption of high-value Mexican coffee that has been gaining increasing popularity in urban cafes.

CROP AREA

Planted area is forecast at 600,000 hectares (ha) for MY 2020/21, according to the Secretariat of Agriculture and Rural Development (SADER), down from the 2019/20 forecast of 700,000 ha. While planted area is decreasing, industry and government efforts are concentrated on recovering existing coffee planted area with higher density planting of disease resistance trees, resulting in more efficient production. Planted area density with new varieties is between 3,330 and 3,500 plants per ha. According to SADER, 150,000 ha were rehabilitated in 2019, with plans for an additional 150,000 ha in 2020. However, contacts indicate that sanitary measures implemented in response to Covid-19 have interrupted work to recover and expand planted area, which is likely to suppress efforts to increase production for MY 2020/21.

Mexico is the 10th largest coffee producer in the world, where it is grown in 15 states concentrated in the central and south of the country. The state of Chiapas produces 41 percent of supplies, followed by Veracruz at 24 percent, and Puebla with 15 percent. Harvesting usually begins in the southern states in November and ends in April; the central states begin in July and end in April. According to SADER officials, around 35 percent of Mexico's coffee production is high-quality high-altitude coffee, located at 900 meters or higher above sea level. Another 43.5 percent grows between 600 and 900 meters above sea level.

Although there are several Arabica varieties planted in Mexico, newly planted areas have changed to more pest-resistant varieties like Oro Azteca, Marsellesa, Costa Rica 95, Sarchimor, and varieties from Nicaragua and Guatemala. The new resistant varieties require full sun; however, a number of cooperatives within the country are working to breed traditional shade grown varieties.

Efforts to Control Coffee Pests and Recover Planted Area

Coffee rust is a fungal disease that causes plant defoliation and can reduce plants' ability to produce fruit in the next cycle, and in serious cases, plant mortality occurs. Since 2016, Federal and States Governments and the private sector have made significant efforts to recover production after coffee rust disease decimated production in MY 2015/16. A multi-stakeholder effort between SADER, the National Service of Health, Food Safety, and Food Quality (SENASICA), the Integrated Coffee Production Chain (Sistema Producto Café), the Mexican Coffee Association (AMECAFE), the National Institute of Research for Forestry, Agriculture, and Livestock (INIFAP), and the private sector continue to work together to prevent and control coffee rust and other pests and diseases. Some of the most successful interventions in recovering production have been the establishment of certified nurseries, improvement of coffee plants by grafting and cloning, funding for agrochemicals and the hiring of technicians to provide technical support and training through the government sponsored Sustainability and Welfare for Small Coffee Producers (SUBICAFE) program (please see more information below).

An emerging pest concern with producers is the coffee berry borer (CBB, *Hypothenemus hampei*), the primary arthropod pest of coffee plantations worldwide. To date, SENASICA has placed alcohol-based capture and kill traps on more than 11,000 ha, and provided technical training to producers. However, contacts indicated that the borer becomes more evasive if plants are left unharvested for too long. Due to labor challenges (more information below) during harvest season, many producers expect a surge of CBB next season.

PRODUCTION

The Post forecast for MY 2020/21 (October/September) coffee production is 3.9 million 60/kg bags, reflecting efforts to recover production, but lower than initially anticipated. The MY 2019/20 forecast is revised down from previous estimates to 3.7 million 60/kg bags, on information from SADER, traders, and producer associations: the National Industrialization of Coffee Association (ANICAFE), and the National Association of Coffee (AMECAFE).

Production Timeline:

Period	**Activity**
March-May	Propagation of shade plants.
May-June	Fertilization and application of copper or other fungicides.
July-August	Plantation cleaning of unwanted vegetation with glyphosate or machete.
December-March	Harvest. Southern states November to September, until May in the State of Mexico.

Approximately 85 percent of coffee produced in Mexico is Arabica variety and 15 percent Robusta. The government is currently promoting Robusta production for its coffee rust resistance and increased soluble and capsule coffee consumption. The Nestlé Company has announced plans to invest USD $700 million to modernize its 16 factories in Mexico, and to construct an additional operation in the state of Veracruz. The investment is expected to create 400 direct jobs and 4,000 indirect ones over the coming years. First announced in December 2018, the plant is expected to begin operations in the last quarter of 2020 and process 20,000 tons of Mexican-grown coffee a year. Producers are expressing concern that they will be forced to deforest Arabica trees in order to accommodate the planting of 150,000 hectares of Robusta trees (which require full sun).

Mexico produces high-value organic coffee, mainly for export to the United States. However, coffee rust has affected the output of organic coffee more than conventional. According to SADER, about seven to eight percent of growers are cultivating organic coffee.

While government and private sector initiatives have been successful in spurring a moderate recovery of Mexican coffee production (production reached 4.6 million 60/kg bags in 2012, and fell to 2.3 million 60/kg bags in 2016), the sector faces significant challenges –both domestic and global- that will prohibit growth in the near future. They are outlined below.

1-Prices

Volatile global coffee prices remain the biggest impediment, with costs of production often higher than returns. Producers indicated that during the first months of 2019, average producer prices were $98 dollars per 45/kg bag of Arabica, while costs of production reached approximately $140 dollars 45/kg bag.

2-Producer Profile

Eighty five percent of Mexican coffee producers are from indigenous communities and do not speak Spanish. They are disadvantaged in many aspects, from lack of information systems, to an inability to market their products according to quality. Without formalized systems and information, they are often taken advantage of when selling their products, and do not receive a fair price for their product. The lack of liquidity hampers production expansion and innovation to produce a higher quality product. Contacts indicate there are efforts underway to provide business skills to producers in indigenous languages, but a more robust and comprehensive effort is necessary to bring sectoral change.

3-Labor and Migration

Access to field labor has become difficult for many producers, as new governmental policies have greatly reduced the number of migrant field workers (mainly from Guatemala) available. This has resulted in increased labor casts, which now make up more than 80 percent of total production costs. For many year's Chiapas received a large amount of temporary migrant workers, replacing indigenous labor from highland communities. However, since 2017, the number of Central Americans arriving in agricultural areas in Chiapas has decreased 50 percent, from 40,000 to approximately 20,000-day laborers. During the previous administration, the GOM issued 87,839 Border Worker Cards (TTF) to citizens of Guatemala, according to the National Immigration Institute (INM). During 2018, 10,714 permits were issued, and in 2019, only 10,018 permits were issued to workers of all nationalities.

The reduction of TTF's issued has resulted in high levels of volatility and informality in the labor market. Large fincas are offering a wide variety of services in order to attract workers. During harvest, one finca can require and host more than 800 laborers (and their families) in their facilities, providing room and board, food facilities, free medical services and vaccination campaigns. They also provide Rural Elementary School for basic education to the workers children. An agreement was recently reached with the Mexican Migration Institute so that the children of temporary workers from Guatemala can also validate their studies in their country.

4-Impactful Government Support

Since coming to office in December of 2019, Mexican President Andres Manuel Lopez Obrador has focused much of his administration efforts and initiatives toward supporting the poor in southern Mexico. In the agricultural space, this has meant developing programs to increase smallholder production of a number of staple crops, in the name of self-sufficiency and at the expense of other agricultural producers throughout the country. In addition, his strict austerity measures have reduced the SADER budget in 2020 by 24 percent.

The SUBICAFE program is now managed between SADER and the newly established Secretariat of Wellbeing (Bienestar), and provides direct support of 5,000 pesos ($208) per production cycle to all producers, regardless of farm size. Contacts indicated that the small amount of support issued through direct payments were unlikely to improve production in substantial ways. In 2019, SUBICAFE distributed with the Wellbeing Secretariat support for 250,000 producers and is expecting to distribute to the 320,000 producers in 2020.

Production Systems

Eighty five percent of coffee producers in Mexico are from indigenous populations, with 95 percent of them considered small producers, with less than three hectares. The other five percent is made up of large fincas with thousands of ha. The last agricultural census in 2016 found 515,000 producers, but there is general distrust in this figure. According to AMECAFE, there are 320,000 producers, with only 250,000 receiving the government cash support through the SUBICAFE program.

Mexico has approximately 600 cooperatives, many of which were founded in the 80´s and 90´s by smallholder coffee farmers worried about their volatile economic situation. The cooperatives vary in the level of innovation and quality of their products. Chiapas has 400 cooperatives with 178,000 producer members, (95 percent small producers). Cooperative membership allows producers to obtain certifications (USDA Organic, Fair Trade, Shade Grown, Rainforest Alliance, Small Producer, etc.), access to financing from government banks, private banks, and technical support from SADER to control pests and diseases.

Coffee is often inter planted with citrus, corn, bananas, and other crops for self-consumption. This 'milpa' planting system is being encouraged through a new government sponsored agroforestry program called *Sembrando Vida* (managed by the Secretariat of Wellbeing). The program supports smallholder producers (2.5 ha or less) in eight southern states with direct cash payments to produce fruit and timber trees. Coffee producers with this planting scheme are able to receive 5,000 pesos ($208) per month, along with technical assistance and training. To date, the program has received some criticism due to its lack of formality and performance measures. However, some producers believe the program could be used to subsidize Robusta production in degraded lands, and displace Arabica plantings in other areas.

Private Sector Support

The private sector has been an important provider of technical and financial assistance to Mexican coffee producers. For example, Starbucks Mexico launched TODOS SEMBRAMOS CAFÉ in 2015. Through the program, rust resistant coffee plants are purchased for coffee growers in Chiapas that need assistance renewing their plots. The varietals are known for generating better yields, higher cup quality, and improved rust resistance – Costa Rica 95, Guacamaya (Macaw) and Marseillas. The program is managed in collaboration with Agroindustrias Unidas de México (AMSA), Amecafé and the Alsea Foundation.

A number of Mexican coffee roasters are interested in improving and marketing high quality Mexican coffee. Efforts exist to empower producers by investing in extension services, innovation and traceability systems, and improved marketing campaigns. Additionally, trading companies are offering a range of products and services along the green coffee value chain, including buying of coffee as cherry; local transport and logistics from farm

via mill to port; milling, blending and preparation of export-grades; price hedging and safeguarding against other risks; and international sales and shipping.

YIELDS

Coffee yields vary throughout Mexico due to variations in management, weather, altitude and variety. Overall yields for MY 2020/21 are forecast to increase to more than 5.47 60 kg/bags/ha, due to replanting of new varieties and better field management. Overall yields for MY 2019/20 are forecast at 5.28 60 kg/bags/ha.

POLICY

SADER 2024 Vision

Coffee is a priority product in SADER's '2024 Vision', which lays out plans to increase productivity of a number of agricultural products in a sustainable way, according to market requirements and without expanding the agricultural frontier. As it relates to coffee, the vision is to increase productivity to eight million 60/Kg bags in 2024 and to promote domestic consumption of Mexican coffee. Currently, more than 50 percent of the national consumption is imported.

The vision contains nine objectives:

1. The Mexican countryside will be a source of food for Mexicans and development option for rural producers.

2. Agricultural fields in Mexico are a pillar of well-being.

3. Mexico will achieve self-sufficiency in corn, beans, rice, beef, pork, poultry and eggs, to significantly reduce imports, including milk.

4. To overcome production and economic disparities.

5. Small and medium producers achieve improved incomes and social inequality will be reduced.

6. Greater regional balance and development in rural and coastal territories.

7. Creation of new local markets, that through fair trade rejuvenate the value of traditional products.

8. Social enterprises and microenterprises will transform and market products.

9. Mexico will remain a prominent food producer and exporter that attracts foreign exchange.

Integrated Coffee Production Chain

SADER manages the Integrated Coffee Value Chain program that helps stakeholders within the supply chain to obtain access to technology, training, industrialization, and market intelligence. AMECAFE, SADER, and the coffee sector sponsor the Cup of Excellence competition annually in Mexico, with the aim of promoting Mexican coffee in international markets and promoting internal consumption. The coffee sector has also been working

to create a Sustainable Coffee Institute to help regulate the domestic market, and create policies aimed at boosting production and consumption.

CONSUMPTION

According to sources, average annual coffee consumption is between 1.3 kg and 1.5 kg/per capita. Soluble coffee holds approximately 60 to 65 percent share of consumption, with ground coffee second. The MY 2020/21 Post consumption forecast is 2.7 million 60 kg/bags, lower than expected growth due to Covid-19 effects to the supply chain and the related economic downturn. Many international banks are predicting negative economic growth in 2020, with forecasts ranging from 6.6 to -9.6. With a large percentage of cafes and restaurants closed throughout the country -especially in Mexico City- coffee consumption outside of the home has decreased since stay at home orders were implemented in mid-March, but sales in grocery stores are expected to remain steady. Specialty coffee producers and retailers are adopting alternative sales strategies in order to help support domestic coffee producers during this period, with many offering home delivery service in order to keep supply chains open and ensure a fair wage to producers.

Before the Covid-19 pandemic, there interest within SADER in collaboration with the Specialty Coffee Association to increase domestic consumption through increased marketing campaigns and consumer education. Currently, more than 50 percent of consumption is imported. Contacts in the roasting sector indicate that interest in high quality, single-origin coffee is concentrated in urban areas, typically with high-income consumers. There is potential to increase the consumption throughout the country, but obstacles remain. For example, there is no market regulation according to quality, only for the process (organic or other certifications) and is not reflected in the final product. Additionally, capsule coffee has gained popularity in the country in recent years, with Nespresso stores and product offerings readily available in most large cities.

TRADE

The Post export forecast for MY 2020/21 is 3.03 million 60/kg bags. The United States continues to be the main international market for Mexican green coffee. Exports for MY 2019/20 are revised down on official information.

The Post import forecast for MY 2020/21 is 1.9 million 60kg/bags, on increased Robusta demand that cannot be fulfilled exclusively by domestic production. Imports for MY 2019/20 are revised upward from previous estimates at 1.8 million 60 kg/bags, on lower than expected production.

Estimation of coffee imports is difficult. The Secretariat of Economy manages a Sectorial Production Program (PROSEC) that allows for the importation of a product at a preferential tariff as long as the product is transformed into a different product, in order to increase competitiveness and supply chain efficiency. Coffee products under the following harmonized system (HS) are included: 0901.12, 0901.21, 0901.22, and 2101.11.01, 0901.21.01; 0901.22.0; and 0901.90.99. Coffee imported under this program is classified under HS number 9802.0022 –"Import of goods via special operations of the Industry of Coffee". However, all types of coffee (beans, roasted, and soluble) are classified together, masking the actual type of coffee imported. This regulation will remain in effect until at least December 31, 2020. Sixty percent of imports fall under this program, mostly Robusta from Vietnam.

STOCKS

The Post forecast for MY 2020/21 ending stocks is 145,000 60 kg/bags, higher than the previous MY due to higher production. However, producer associations report that stocks information is unofficial and often unreliable.

Mexico Coffee Production, Supply and Distribution

Coffee, Green	2018/2019		2019/2020		2020/2021	
Market Begin Year	Oct 2018		Oct 2019		Oct 2020	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total Tree Population	0	0	0	0	0	0
Beginning Stocks	183	183	93	25	0	40
Arabica Production	3600	3100	4350	3150	0	3300
Robusta Production	200	450	200	550	0	600
Other Production	0	0	0	0	0	0
Total Production	3800	3550	4550	3700	0	3900
Bean Imports	1350	1435	1300	1550	0	1600
Roast & Ground Imports	80	84	80	85	0	85
Soluble Imports	240	249	200	250	0	250
Total Imports	1670	1768	1580	1885	0	1935
Total Supply	5653	5501	6223	5610	0	5875
Bean Exports	1725	1731	2150	1740	0	1750

Rst-Grnd Exp.	180	222	190	230	0	230
Soluble Exports	1000	943	1000	1000	0	1050
Total Exports	2905	2896	3340	2970	0	3030
Rst,Ground Dom. Consumption	1020	970	1080	1000	0	1050
Soluble Dom. Cons.	1635	1610	1625	1600	0	1650
Domestic Consumption	2655	2580	2705	2600	0	2700
Ending Stocks	93	25	178	40	0	145
Total Distribution	5653	5501	6223	5610	0	5875
(1000 HA), (MILLION TREES), (1000 60 KG BAGS)						

Attachments:

No Attachments