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Report Name: Coffee Annual

Country: Ecuador

Post: Quito

Report Category: Coffee

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Report Highlights:

Planted area continues to decline, particularly in coastal regions. However, production per hectare continues to grow. The export of soluble coffee represents 95 percent of total exports. This soluble coffee is comprised of about 50 percent of imported raw material. Exports of specialty coffee beans continue to increase due to changes in crop management and marketing strategies. The current challenge, in the midst of the COVID-19 pandemic, is the ability to harvest the expected volumes.

Executive summary:

The production and export of coffee in Ecuador continues its drastic decline. Since 2013, coffee bean exports have decreased by 88 percent and soluble coffee exports have decreased by 50 percent. A low field productivity, 80 percent less than in other Latin American countries, and high processing costs have made Ecuador less competitive compared to neighboring countries.

Coffee production for marketing year (MY) 2020/21 (April / March) is forecast at 255,000 bags (60 kilograms each) of Green Bean Equivalent (GBE) basis, reducing the FAS Quito 2019/2020 estimate by five percent. Productivity per hectare is increasing, resulting in an average 16 percent increase in national production, due to government efforts to renew and rejuvenate plantations and improve field management. However, overall planted area continues to decrease. The increased production is made up of mainly Arabica coffee. The prices obtained by producers of both Arabica and Robusta continue to trend downward. The exception is specialty Arabica coffees for which prices have doubled by 100% (U.S. \$200 per 60 kilogram bag) compared to that sold in bulk.

Consumption in Ecuador is forecast at 240,000 GBE bags in MY 2020/21, down from the previous year estimate. This is due to the reduction in consumption caused by COVID-19. Prior to the COVID-19 outbreak, Ecuadorians had, in general, increased their consumption.

Ecuadorian coffee exports for MY 2020/21 are forecast at 500,000 GBE bags, up 10 percent from the MY 2019/20 estimate. Industrialized coffee exports are on the rise, and coffee beans now represent only 5% of total coffee exports.

The forecast for coffee imports during in MY 2020/21 is 300,000 bags, a reduction of 141,000 bags from the MY 2019/20 estimate of 441,000 bags. This reduction is due to the loss of competitiveness of the Ecuadorian industry to Brazil.

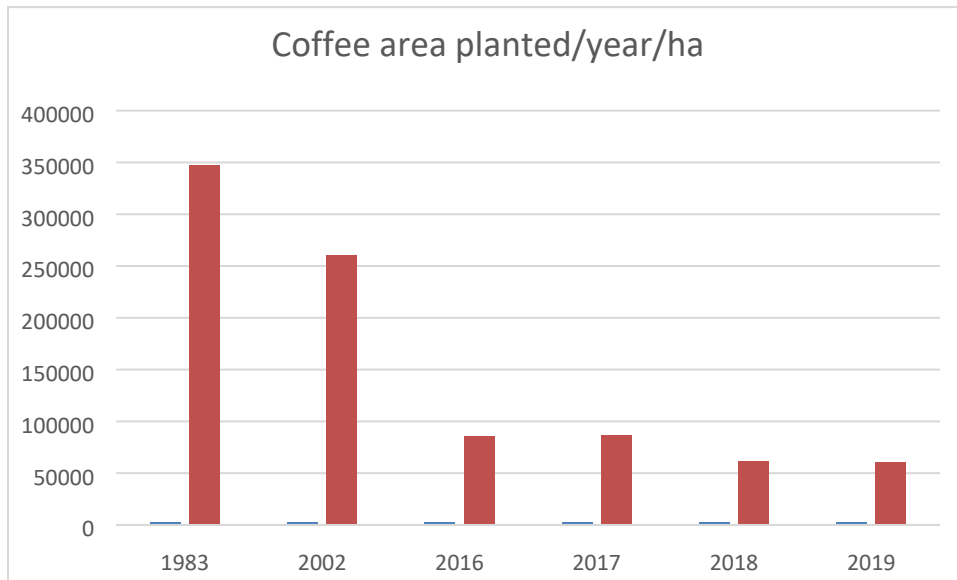
Coffee, Green	2018/2019		2019/2020		2020/2021	
Market Begin Year	Apr 2019		Apr 2019		Apr 2020	
Ecuador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	200	60	0	60	0	60
Area Harvested	137	34	0	34	0	34
Bearing Trees	93	125	0	132	0	102
Non-Bearing Trees	67	59	0	52	0	82
Total Tree Population	160	184	0	184	0	184
Beginning Stocks	213	213	198	198	0	209
Arabica Production	140	140	155	155	0	88
Robusta Production	115	115	120	120	0	167
Other Production	0	0	0	0	0	0
Total Production	255	255	275	275	0	255
Bean Imports	370	370	350	350	0	350
Roast & Ground Imports	1	1	1	1	0	1
Soluble Imports	85	85	90	90	0	90
Total Imports	456	456	441	441	0	441
Total Supply	924	924	914	914	0	905
Bean Exports	75	75	85	85	0	24
Rst-Grnd Exp.	1	1	1	1	0	1
Soluble Exports	410	410	370	370	0	475
Total Exports	486	486	456	456	0	500
Rst,Ground Dom. Consum	43	43	48	48	0	40
Soluble Dom. Cons.	197	197	200	201	0	200
Domestic Consumption	240	240	248	249	0	240
Ending Stocks	198	198	210	209	0	165
Total Distribution	924	924	914	914	0	905

*Units: (1,000 HA); (million trees); (1,000 / 60 KG bags).

Crop area:

Total area planted continues to decline. Due to figures received from the Ministry of Agriculture and ANECACAFE, FAS Quito is adjusting its estimates for marketing year (MY) 2018/2019 and MY 2019/2020 planted area to 60,000 hectares and area harvested to 34,000 hectares. They MY 2020/2021 forecast is the same. Productivity will continue to increase as new and pruned trees continue to come into production mainly in *C. canephora* (robusta) crops. A slight decrease will likely be seen in *C. arabica*, based on land conditions for mechanization and manual labor costs, most farmers rely on family labor for maintaining the crop and harvest. Intercropping and polyculture are still common,

occurring on at least 40 percent of total planted area, mainly in production units of less than five hectares.



Source: CGINA-MAG

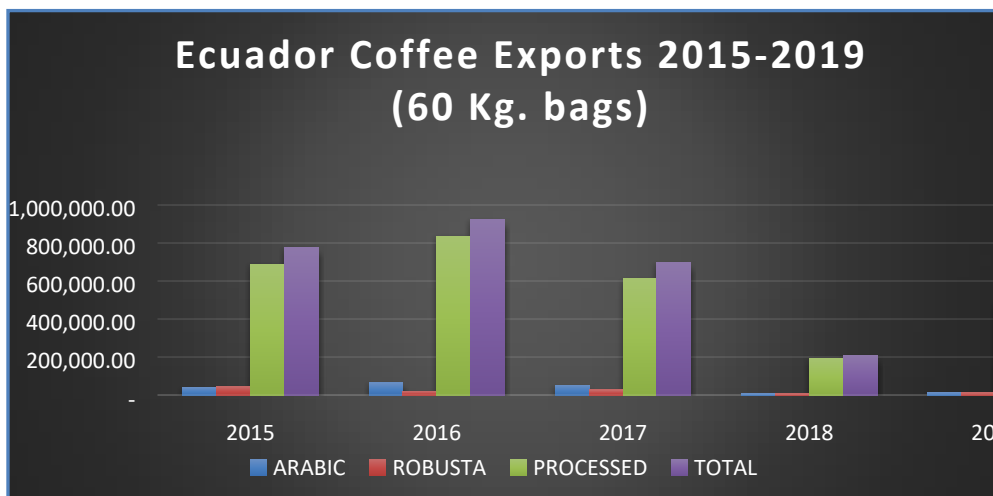
Production and Processing:

Ecuador’s coffee production in MY 2020/21 (April/March) is forecast at 255,000 bags (60-kilograms per bag) on a Green Bean Equivalent (GBE) basis, down 20,000 bags or seven percent from the MY 2019/20 estimate. This forecast is based on the reduction of planted area, the expected result of efforts to recover old plantations, and the replacement of old trees and cultivars with new ones in recent years. These renovation and rejuvenation efforts are part of an initiative by the Ecuadorian government to improve the coffee production. FAS Quito is maintaining its MY 2019/20 coffee production estimate at 275,000 bags. Production had been suffering for many years due to a lack of investment in rejuvenating plantations and the planting of new cultivars. Current cultivars in production are in need of complete renewals and a change of crops in the field is needed. In recent years, a government program to recover old plantation and replace old trees and cultivars with new ones has improved productivity and increased yields, preventing a steeper decline.

Ecuador has an installed capacity of 800,000 bags (60 kg) for the export of beans. At the beginning of CY 2020, farmers reported a low presence of pests and diseases, a reduction of around 20% compared with the previous year, and favorable weather conditions. As a result, producers expect to harvest over 265,000 bags (60 kilograms per bag) this harvest. However, this could change due to challenges arising from the COVID-19 pandemic, including those in the transportation sector. In some growing areas, coffee could be left in the field, as has happened in Central America, because farmers and workers along the value chain are staying home to avoid the possibility of becoming infected with the virus.

Ecuador has lost considerable competitiveness in the production of soluble coffee. Ecuador’s soluble coffee manufacturers have the capacity to process more than one million bags per year. This industry has state of the art “freeze dry” facilities. When Ecuador’s coffee growing sector lost competitiveness in

the 1990s, due to the entrance of new producing countries, domestic production was replaced with imported beans from Vietnam. In the last three to five years, Ecuador’s competitiveness in processing imported coffee has also vanished. The lack of competitiveness in the production of industrialized coffee is related to prohibitively high costs of electricity and water in Guayaquil, high transportation costs between Manta and Guayaquil, and overall high wages compared to neighboring countries (\$500 per month, including social benefits).



Inputs:

Overall, Ecuador’s coffee sector is a mix of domestic bean production and the processing of imported beans for the soluble industry. Coffee is largely handpicked. There is limited use of fertilizers. In 2019, just 22 percent of farmers implemented this practice, versus 36 percent the previous year. The reason for this was that good weather conditions in 2018 improved the orchards. The use of modern irrigation systems is limited as well. Lack of water is the second most important problem in coffee production.

Land tenure:

The majority of coffee in Ecuador is produced on smallholder farms, with 62 percent of farmers owning up to one hectare, 33 percent between one to five hectares, and five percent of farmers owning more than five hectares. Soluble coffee producers source the raw material they need, coffee beans, from major Robusta producing nations like Vietnam and Brazil to meet about 50% of their needs.

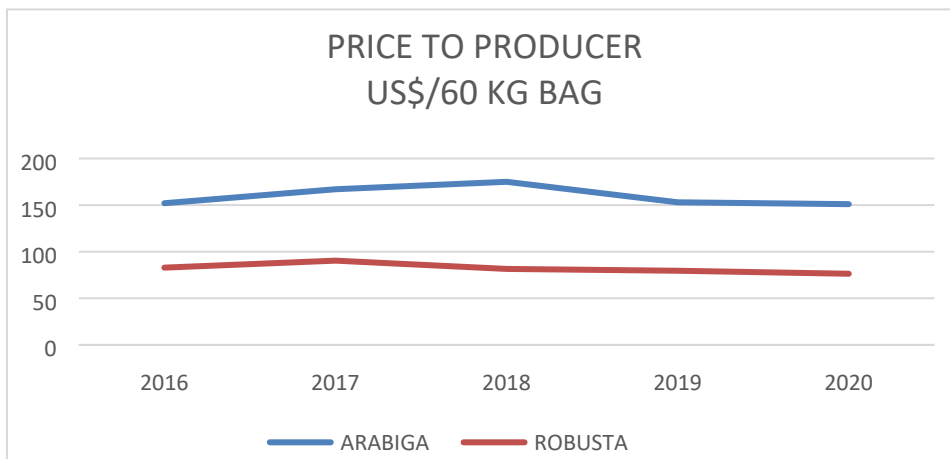
Yields:

Yields are increasing on average. Growers using modern agronomic practices often surpass 300 kilograms (kg) per hectare for Arabica and 500 kilograms per hectare for Robusta. The observed increase in yield per hectare is mainly the result of new and rejuvenated cultivars that are now coming into production. Robusta coffee is mainly produced in areas more suitable for mechanization and modern practices implementation. About 75% of coffee farmers are using certified seeds. FAS Quito forecasts an average (Robusta, Arabica) yield of 470 kilograms per hectare in MY 2020/21.

Prices:

Farmers in calendar year (CY) 2019 were paid on average \$220 per 60 kg bag of special quality Arabica coffee and \$118 for commercial quality. Robusta coffee prices averaged \$58.55 per 60 kg bag. Overall, prices for Robusta coffee are less volatile than Arabica, but the prices continue to decline.

Despite government efforts to support coffee growers, it is high international prices and unsatisfied global and domestic demand for specialty coffees from exotic destinations that have driven an increase in Ecuador's production of Arabica coffee. In recent years, specialty coffee growers, known to produce a high-quality bean, received much better prices than traditional, subsistence coffee growers. Prices for specialty coffees are negotiated with little or no consideration of international coffee prices.



Specialty coffees are primarily grown in the Ecuadorian provinces of Loja, Quito, Pichincha, Imbabura, and more recently in Cuenca and Azuay. Coffee for the bulk commodities market is produced in the coastal and rain forest regions of Ecuador.

Coffee varieties	Location Provinces
Washed Arabic	El Oro, Manabí, Loja, Guayas y <u>Zamora Chinchipe</u> .
Natural Arabic	Loja, Manabí, El Oro, Los Ríos, Guayas y Pichincha.
Robusta	Santa Elena, Guayas, Orellana y Sucumbíos. ⁴

Source: FAS research

Fifty percent of coffee production occurs in Ecuador's coastal provinces. The province of Manabí accounts for 25 percent of total production. The Amazon and the Sierra (highland) areas account for 30 percent each of Ecuador's total coffee production. Robusta coffee is planted in the Amazon, while Arabica coffee is cultivated along the coast and the high lands. There are about 60,000 coffee farmers nationwide.

Policy:

The Ministry of Agriculture and Livestock (MAG) centrally manages coffee policy and technical assistance programs for the country. No fees or export taxes are currently being levied on coffee exports. MAG continues to assess ways to promote coffee production through technical assistance, pruning campaigns, provision of inputs, and renovation of old cultivars. Ecuador's Foreign Commerce Committee is responsible for authorizing imports of foreign coffee beans for processing.

Consumption:

Ecuador's total domestic coffee consumption in MY 2020/21 is forecast at 240,000 bags GBE, down 9,000 bags from the previous year. Real growth in Gross Domestic Product (GDP), according to the IMF, is expected to be negative six percent in 2020 due to the COVID-19 crisis. Ecuador's population is 16.5 million and growing at a rate of 1.43 percent per year (Statista.com – May 2020 estimate). Post estimates per capita consumption of coffee on a GBE basis at around 0.78 kilogram per person, caused by the closure of coffee outlets and shops, during the period of quarantine established by the government. In general, total domestic consumption has increased in recent years.

Ecuadorians consume primarily soluble (instant) coffee. However, preferences are changing and the market is developing a taste for roasted ground coffee. The Ecuadorian Ministry of Trade, in partnership with specialty coffee roasters and producers, is working to increase local consumption of ground coffee.

Stocks:

Ecuador maintains coffee stocks of around 606,550 bags GBE of Arabica and Robusta coffees. These are beans used mainly to produce soluble coffee. The government does not manage or warehouse these stocks. Therefore, domestic soluble coffee manufacturers, and smaller bean exporters (that store beans until accumulating enough for a shipment), are the entities responsible for these coffee stocks.

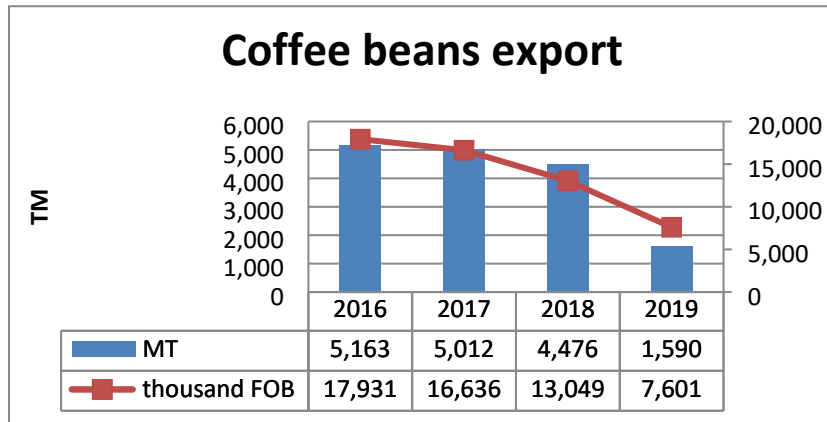
Trade:

Ecuador exports beans and soluble coffee. The harvest of domestically grown beans occurs between April and October. These beans are exported primarily between July and October. Imports of coffee beans for processing by the soluble industry and exports of soluble coffee, occur year-round. Ecuador's coffee exports in MY 2020/21 are forecast at 500,000 bags GBE, an increase of 44,000 bags or 10 percent from the MY 2019/20 revised estimate of 456,000 bags.

FAS Quito revised downward its MY 2019/20 coffee export estimate to 456,000 bags GBE. As described in the production section, Ecuador's soluble industry has lost competitiveness and continues to struggle to survive in an environment of increasingly higher production costs.

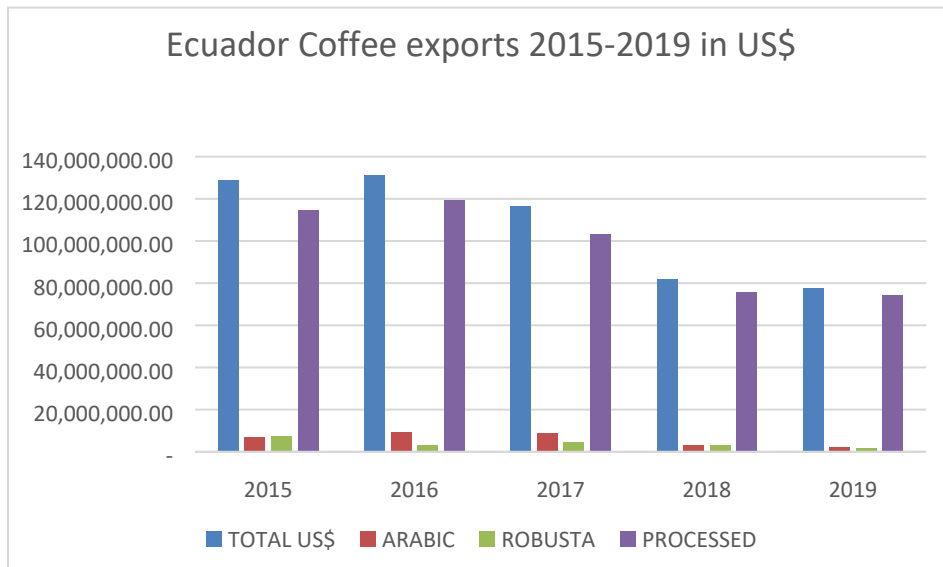
In MY 2019/20 Ecuador exported an estimated 24,000 bags of coffee beans (Arabica and Robusta), 480,000 bags of soluble coffee (about 95 percent of total exports), and less than 1,000 bags of roasted

ground coffee. Colombia, France, and the United States were Ecuador’s top three export markets in CY 2019.



Source: SENAE

Imports of soluble coffee in MY 2020/21 are forecast remain at 90,000 bags. Ecuador’s statistics do not report data for coffee beans temporarily imported for processing into soluble coffee and re-exported. FAS Quito estimates that this year Ecuador will temporarily import around 350,000 bags of coffee for processing and re-export. In monetary value, Ecuador exported over \$77 million in soluble coffee products in CY 2019, with over \$71 million alone in shipments to Germany, Russia, Peru, and Japan. Ecuador’s exports of green coffee totaled over \$6.2 million.



Attachments:

No Attachments