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GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 4/19/2011

GAIN Report Number: EC0005

Ecuador

Coffee Annual

Production, Consumption, Trade, and Coffee Policy in Ecuador

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Report Highlights:

Ecuador's coffee production is forecasted to remain steady in MY 2011/12. Exports of soluble coffee are expected to increase, and bean imports are also expected to increase. Ecuador is forecast to import between 750,000 bags of Robusta beans in MY 2011/12.

Executive Summary:

Coffee production for Marketing Year (MY) 2011/12 (April/March) will remain steady at 650,000 60-Kg. bags. This is the result of increasingly higher yields resulting from the adoption of better agricultural practices by young new entrepreneurial farmers, offset by overall decaying plantations that urgently need to be renovated. Since 2005, Ecuador has renovated or added almost 16,000 hectares (ha) dedicated to coffee but has switched production of at least 12,000 ha.

Ecuador's local consumption grows in accordance to population growth. Recently consumption has increased due to a notable presence of specialized coffee retail outlets and aggressive advertising to promote coffee consumption. Domestic consumption is forecast at 212,000 bags in MY 2011/12, 94 percent of which is consumed as soluble or instant coffee. Coffee exports for MY 2011/12 are forecast at 1,266,000 bags, 69 percent of which are soluble and instant coffee products. In order to meet the industry's demand of Robusta coffee beans, in calendar year MY 2010/11, Ecuador would have imported 700,000 bags of Robusta beans, most of which enter Ecuador under a regime for industrialization and re-export. Ecuador's imports of Robusta coffee in MY 2011/12 are expected to grow to 750,000 bags.

Commodities:

Coffee, Green

Production:

In general, production methods are traditional with most bean picking done by hand and there is usually no application of fertilizers. Eighty percent of Ecuador's coffee production is under this traditional and arguably inefficient system with average yields of 250 kg per ha. Only about 20 percent of coffee plantations are managed using technical or semi-technical approaches. These plantations have average yields about 800 kg per ha. Yields under traditional and inefficient systems have continued to decline. An added factor limiting productivity increase has to do with the absence of irrigation systems and reliance on rainfall.

Coffee production in Ecuador will remain stable at 650,000 60-kg bags green bean equivalent (GBE) on 179,000 harvested hectares (ha) in MY 2011/12. From 2002 to 2004 there was an average annual decrease of 4.8% in planted area. Starting in 2005, renovations (replacement of old plants) of old plantations as well as small additions of new planted areas have taken place. Thus, 689 ha were renovated or added in 2005, 1,736 in 2006, 1,910 in 2007, 2,830 in 2008, and 4,710 in 2009. It is estimated that 3,600 were renovated in 2010 and 346 ha were rehabilitated (severely pruned) in 2010. The effects of the increases in renovations are expected to result in production increases starting in MY 2011/12. Renovations and increases in produced area respond to Government of Ecuador (GoE) programs to promote coffee production in rural areas as a tool for economic development.

COFENAC has currently in stock 14,000,000 plants of Arabica to reforest 3,500 ha and 2,000,000 plants of Robusta to reforest 1,670 ha in 2011.

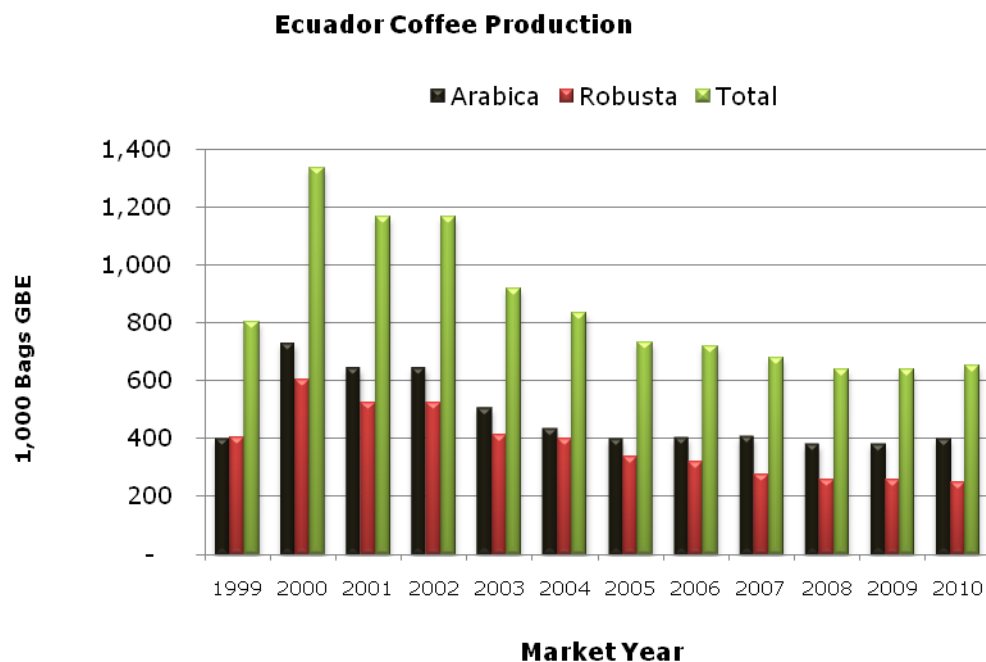
These programs have received significant support from international donors including the U.S. Department of Agriculture and U.S. Agency for International Development. Adoption by farmers has been a limitation to the success of these programs and low yields, due to a lack of technology, and old plantations have encouraged farmers to switch to more profitable crops. Young new coffee entrepreneurial farmers have been the most receptive to change.

Thus, area harvested continues to be lost which offsets yield increases resulting from better agricultural practices.

Indeed, despite efforts by GoE and foreign assistance, an estimated 15 -25 percent of existing plantations are past peak production and need to be replanted with new varieties. Volatile international prices in the past also created disincentives for investments in new trees. However, steady and climbing international prices in the past three years appear to be having an effect on farmers.

Ecuador has approximately 197,000 ha of area planted with 188,000 ha being harvested in MY 2010/11. A large portion (60 percent) of this area is also shared with other crops.

Arabica coffee represents 62 percent of the total production and will reach 425,000 bags in MY 2011/12. Robusta production represents 38 percent and MY 2011/12 production is forecast at 225,000 bags. The proportion of Arabica/Robusta has remained relatively stable in the last few years. However, productivity has increased in the case of Arabica as farmers improve agricultural practices in response to higher world prices. Between 2009 and 2010, average prices of Arabica in Ecuador increased 25 percent from \$159.70 to \$198.30 while Robusta prices only increased by 10 percent from \$87.90 percent to \$97.10. Since Ecuador's production, consumption and trade are relatively small in the global market, increase in prices is the result of overall higher world prices in calendar year 2010.



About 53 percent of coffee-planted areas located in Ecuador's coastal provinces (for example: Manabí, 33 percent), 23.5 percent in the Sierra (Loja, 14 percent), and 23.1 percent in the Amazon (Orellana, 9 percent; Sucumbios, 8 percent), and less than 1 percent in Galapagos. Most of the area planted with Robusta is located in the Amazonian provinces.

Consumption:

Domestic coffee use is forecast at 212,000 bags in MY 2011/12. The expected increase is the result of population growth. Ecuadorians consume more soluble coffee than roasted and ground coffee. This consumption pattern is explained by changes in consumer habits over the past 30 years towards savings and ease of use. Overall, there has been a lack of coffee drinking although this has started to change with the presence of Colombia's coffee franchise Juan Valdez. There are only two major coffee chains operating in Ecuador:

Sweet & Coffee which has been operating in Ecuador for about ten years, and Juan Valdez which began operations in 2008. In addition, local firm Cafe Velez is currently entering the roasted coffee niche market by using home delivery service and distribution through Ecuador's major deli and supermarket chains. Nevertheless, instant coffee has remained popular in Ecuador and several national and imported brands are represented in the market. A single Ecuadorian company, El Café (Grupo Noboa) has about 60 percent market share of the instant coffee market. This company is reportedly expanding its processing capacity due to increased demand in the international market.

The domestic industry produces large quantities of spray dry (instant coffee powder) and freeze dry (lyophilized or granulated) for both domestic consumption and for export. The local industry has an installed processing capacity of 1.2 million bags per year, and coffee imports are necessary to meet this demand. Ecuador imports, in small amounts, soluble and coffee essences from Colombia, Brazil and other countries.

Trade:

Exports of coffee and coffee products are forecast at 1,266,000 bags in MY 2011/12. Increase in exports will be driven by soluble and industrialized coffee and Robusta bean exports. Most of these exports are not recorded in official statistics as they correspond to imported coffee that is re-exported as soluble coffee. The increase in exports reflects the Government of Ecuador's decision through its Council of Foreign Trade and Investments (COMEXI) to allow more coffee imports into Ecuador for processing and re-exporting. It is estimated that 763,000 bags would enter Ecuador MY 2010/11. Exports of organic coffee beans have remained steady and would represent about 395,000 bags in MY 2010/11.

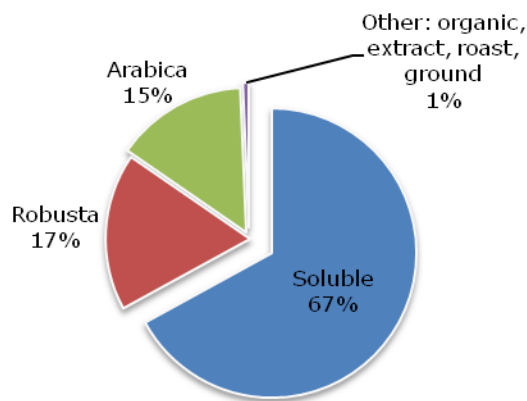
The prevalence of Robusta exports is an important issue. Despite lower world prices for Robusta in comparison to Arabica, Robusta receives a higher price in the Andean regional market where it is used to make instant coffee in neighboring countries. Ecuador primarily exports Robusta beans to Colombia. Since consumers pay a premium price for Colombian coffee, its industries are willing to pay higher prices for Robusta beans than the Ecuadorian industry would pay locally. For this reason, Ecuador chooses to export Robusta beans to be marketed as Colombian coffee. This is also why the local soluble industry imports large quantities of Robusta (forecast 875,000 bags in MY 2011/12), primarily from Vietnam, that enters Ecuador under a special import regime. These beans are converted in soluble coffee and exported. The local soluble coffee industry has gained local and international markets for soluble coffee products, especially spray and freeze dried. It is believed Ecuadorian companies have a comparative advantage with respect to their peers in other countries.

Export Trade Matrix

Country	Ecuador	
Commodity	Coffee, Green, in 60Kg Bags	
Destination	2009	2010
U.S.	66,084	71,372

Germany	187,835	263,888
Poland	135,850	165,292
Russia	159,849	165,100
U.K.	72,993	56,179
Colombia	348,745	295,086
Other countries	155,365	184,434
Total	1,126,72	1,201,351

2010 Coffee Exports by Category



Policy:

A non-profit private institution, Ecuador's National Coffee Council (COFENAC) has established Ecuador's coffee policy since 1995. Its existence is based on Ecuador's Special Law of the Coffee Sector, published in Official Record 756, on March 20, 1995, which provided a legal framework to promote and organize a modern coffee industry, deal with the fluctuations of international coffee prices, and provide loans to coffee producers at preferential interest rates for the rehabilitation, renovation, and maintenance of coffee plantations. COFENAC's operations are financed by coffee bean exporters (processed coffee exporters are exempt) who pay fee equivalent to 2 percent of the FOB value of exports.

COFENAC's actions have aimed at providing access to better coffee seedlings in order to improve quality and increase yields. COFENAC is currently implementing the second phase of a tree renovation project in several areas of Ecuador; the project involves the planting of 200,000 new trees nationwide. COFENAC is no longer channeling loans to coffee producers. Instead Ecuador's Agricultural Development Bank (BNF) has provided credit to farmers interested in establishing new coffee plantations or renovating old ones.

COFENAC also led a project aimed at identifying markets for organic and gourmet specialty coffee and encouraged consumption and production of these specialty coffees. Production and certification of organic and fair trade coffee are activities which are also being promoted. Ecuadorian coffee exporters to the United States and Europe usually have USDA organic certification as well as the European certification BCS Öko-Garantie. COFENAC reports that eight producers' organizations benefiting 2161 families received this type of services. In addition, the Association of Coffee Producers of Loja has successfully certified several of its members under Fair Trade.

Since the creation of COFENAC, its membership, which includes producers and government officials, has been responsible for approving temporary imports of coffee for transformation into soluble coffee which is re-exported after the process. COFENAC is also the authorized entity by The International Coffee Organization (ICO) to issue the certificates of origin required for exporting.

COFENAC's financing and existence has been questioned since Ecuador's adopted a new constitution in 2008. Ecuador's Constitution (article 2987) establishes that only public agencies can benefit from fees and special contributions established by public law. Since the year 2010, COFENAC no longer authorizes imports of coffee. This authority has been transferred to COMEXI. Nevertheless, exporters have continued to pay the 2 percent fees because despite limitations COFENAC's achievements are considered highly relevant to the sector. There are currently three coffee bills to be considered by Ecuador's National Assembly that will deal with the future of COFENAC in the next few months.

A salient policy issue for Ecuadorian producers and exporters is the definition of a position at the ICO. Until 1989 when country members decided to abolish the quota system, the ICO determined the amount of coffee that each country member was allowed to trade in the global market. To some extent both producers and exporters believe that the return to the quota system under ICO membership could ease the situation of variable world prices and will encourage farmers to make new investments in the sector. However, there are concerns at the same time regarding the allocation of the quota to domestic producers and exporters. When the quota was in place, small producers and exporters were not able to compete with larger peers. In addition, the soluble coffee industry fears that the return of the quota system will increase the prices of beans, making the Ecuadorian industry less competitive in the international market.

Production, Supply and Demand Data Statistics:

Coffee, Green Ecuador	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Apr 2009		Market Year Begin: Apr 2010		Market Year Begin: Apr 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	197	197	197	197		197
Area Harvested	179	179	184	188		179
Bearing Trees	160	160	170	174		165
Non-Bearing Trees	13	13	10	15		20
Total Tree Population	173	173	180	189		185
Beginning Stocks	7	7	15	56		50
Arabica Production	375	382	350	400		425
Robusta Production	260	255	240	250		225

Other Production	0	0	0	0		0
Total Production	635	637	590	650		650
Bean Imports	600	650	625	700		750
Roast & Ground Imports	3	3	5	3		2
Soluble Imports	79	79	80	60		65
Total Imports	682	732	710	763		817
Total Supply	1,324	1,376	1,315	1,469		1,517
Bean Exports	450	436	325	395		390
Rst-Grnd Exp.	10	10	20	1		1
Soluble Exports	680	691	750	825		875
Total Exports	1,140	1,137	1,095	1,221		1,266
Rst,Ground Dom. Consum	9	9	12	15		20
Soluble Dom. Cons.	160	174	190	183		192
Domestic Use	169	183	202	198		212
Ending Stocks	15	56	18	50		39
Total Distribution	1,324	1,376	1,315	1,469		1,517
1000 HA, MILLION TREES, 1000 60 KG BAGS						

Coffee Prices in Ecuador, US\$ per 60Kg

ARABICA	<i>green</i>			ROBUSTA	<i>husked beans</i>		
Year	2009	2010	% Change	2009	2010	% Change	
Jan	135.4	162.1	20%	96.6	84.5	-12%	
Feb	158.6	163.8	3%	94.2	85.4	-9%	
Mar	180.6	150.8	-17%	86.9	88.4	2%	
Apr	149.5	n/a	n/a	87.1	92.4	6%	
May	211.9	191.2	-10%	82.2	88.7	8%	
Jun	n/a	161.3	n/a	90.7	92.2	2%	
Jul	137.6	196.6	43%	84.1	103.4	23%	
Aug	152.1	209.9	38%	90.1	105.4	17%	
Sep	139.6	218.7	57%	91.6	99.9	9%	
Oct	160.2	228.7	43%	84.1	100.6	20%	
Nov	159.9	248.3	55%	82.3	112.2	36%	
Dec	170.8	250.4	47%	85.0	111.7	32%	
Average	159.7	198.3	24%	87.9	97.1	10%	