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**Country:** El Salvador

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**Report Highlights:**

El Salvador's coffee production is expected to reach a historic low of 505,000 sixty-kg bags in marketing year (MY) 2019/20. The Salvadoran coffee sector continues to struggle mainly due to low international prices and continued coffee leaf rust. The MY2020/21 crop is forecast to decline even further to 475,000 bags. The COVID-19 pandemic quarantine is making it hard for the sector to carry out much needed post-harvest practices.

## **Executive Summary:**

El Salvador's MY2019/20 harvest, which begins in October and ends in September, will decline mainly due to lack of financing for inputs and low international prices. FAS San Salvador's production estimate is approximately 23 percent lower than the previous year's crop of 505,000 sixty-Kg bags. Due to the added impact of the COVID-19 pandemic, the MY2020/21 harvest is expected to continue the downward trend to approximately 475,000 bags.

Exports in MY 2019/20 are expected to reach 451,000 bags, down 27 percent from the previous crop and in line with the lower production estimate. Export numbers for MY2020/21 are forecast to also decrease to 424,000 bags. The United States continues to be the main export destination for Salvadoran coffee, accounting for almost 48 percent of MY2019/20 exports through April 2020. Germany is the second largest destination market for Salvadoran coffee, followed by Belgium, Italy, Japan and England.

A tendency to look towards the export market and a lack of an overall strategy has led El Salvador to neglect its domestic market. This has led to continued increases in soluble coffee imports, mainly from Mexico, Brazil and Nicaragua. Starbucks, Juan Valdez, and the Salvadoran chains Four Monkeys and The Coffee Cup continue growing in the domestic retail market.

The Salvadoran Coffee Council (SCC) continues to monitor exports through export registration permits. In the past, the Government of El Salvador (GOES) has guaranteed loans to the coffee sector both through state and private banks; however this season, private banks are reluctant to lend to the coffee sector due to very low coffee prices. 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 lack of investment) has led to substantial job losses in the sector. Over the last six crop cycles, jobs have dropped from 46,250 to an estimated 36,250 for the 2019/20 crop. Coffee is no longer the major source of export revenues in El Salvador, replaced by non-traditional products such as processed ethnic foods, tropical fruits and sugar. At current prices, coffee exports in 2019/20 are only expected to generate \$75 million in foreign exchange.

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

**Commodities:**

Coffee, Green

**Production:**

FAS San Salvador estimates the 2019/20 coffee crop at 505,000 bags. This is a 23 percent decrease from the 2018/19 crop, mainly due to lack of fertilizer, continued damage by leaf rust throughout the growing season, and lack of profitability due to low production yields and low international prices. The 2020/21 production is forecast at a historic low of 475,000 bags.

The GOES continues to assist mainly small farmers with a plant and fungicide giveaway program as well as debt relief, but these have not yet led to a recovery of the coffee sector. Industry sources suggest that Salvadoran coffee production might be able to recover with better agricultural practices to counter coffee rust and an adequate renovation program that includes financing to maintain new plantings until they mature enough to enter production.

Value-added production such as gourmet, specialty and fair-trade coffees provide a more profitable niche to a small but growing number of coffee producers that are focusing on this type of high-quality 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.

In the 2019 El Salvador Cup of Excellence competition a Geisha and a Pacamara variety won first and second place with a 90-point score. In addition, the SCC has continued promoting reverse trade missions of European, Taiwanese and U.S. specialty coffee buyers to sample local coffee (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 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 coffees.

In MY2019/20 consumption is estimated to decrease to 270,000 bags due to the impact of COVID-19 on consumer spending. Most local consumption continues to be soluble coffee imported from Mexico, Brazil, Colombia and Nicaragua, as well as some locally produced brands. In MY2019/20, soluble domestic consumption is expected to reach 240,000 bags - Green Bean Equivalent (GBE), a four percent decrease from the previous year. Roasted and ground domestic consumption has also decreased, reaching 30,000 bags GBE in the same period. Local consumers continue to favor soluble coffee due to its ease of preparation and lower price.

Insufficient investment in marketing to boost consumption of local high-quality roasted beans and a market that tends to be price elastic are some of the factors that continue to favor soluble consumption. The SCC is trying to boost consumption of higher quality coffee by holding coffee promotion events, such as the 2020 Expocafe and barista training. This event was supported by USDA through a Food for Progress program being implemented by the SCC and geared to increase domestic consumption, strengthen the SCC's Coffee Training School (roasting, barista and beverage preparation methods) and promote Salvadoran coffee in new export markets such as the Middle East, Eastern Europe and Asia.

**Trade:**

Coffee exports for MY2019/20 are estimated at 451,000 bags, down 27 percent from the previous crop as a result of a drastic decrease in production. In MY2020/21 coffee exports are expected to continue declining to approximately 424,000 bags.

In MY2019/20 the United States is expected to be the main export destination for Salvadoran coffee, reaching approximately 214,000 bags, or about 47 percent of total exports. Germany continues to be the number two export destination accounting for approximately 10 percent of total exports. Other important destinations are Belgium, Italy, Japan and the United Kingdom. Canada is a new export destination, accounting for almost 4 percent of total exports.

Premium prices obtained by gourmet and specialty coffees create an incentive to increase exports of these types of coffees. The SCC has carried out various promotional events, including the Cup of Excellence events. The best quality coffees produced in El Salvador participate in global electronic auctions. Through these events, local coffee is sold to U.S., Japanese, Taiwanese, and European buyers with prices that have premiums that range from \$100 to \$300 per hundredweight over the spot market "Contract C" prices.

<b>Export Trade Matrix</b>			
<b>El Salvador</b>			
<b>Coffee, Green</b>			
<b>Time Period</b>	<b>MY</b>	<b>Units:</b>	<b>60 kg bags</b>
<b>Exports for:</b>	<b>2019</b>		<b>2020</b>
United States	213,965	United States	201,070
<b>Others</b>		<b>Others</b>	
Germany	46,495	Germany	43,695

Belgium	31,145	Belgium	29,275
Italy	30,695	Italy	28,850
Japan	26,180	Japan	24,600
England	16,700	England	15,700
Canada	14,900	Canada	14,000
Sweden	14,800	Sweden	13,900
Total for Others	180,915		170,020
Others not Listed	56,520		53,110
<b>Grand Total</b>	<b>451,400</b>		<b>424,200</b>

Source: SCC/Salvadoran Central Bank (BCR)

El Salvador has been active in promoting coffee through reverse trade missions composed of European, U.S., Taiwanese, and Japanese specialty coffee buyers. Many Salvadoran coffee exporters participated in the 2019 Specialty Coffee Association of America Fair.

The local non-government organization (NGO) Salvanatura continues its work 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 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 “Q” grade certification that ultimately 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 2019, Mexico is expected to supply 86,900 bags GBE of soluble coffee to the local market. Brazil is expected to supply 70,100 bags and Nicaragua 31,835 bags. Colombia is also present in the market with its soluble product brand Colcafe, as well as with its insignia “Juan Valdez” coffee retail outlets selling 9,465 bags of Colombian coffee. Imports from the United States are estimated at 4,300 bags of both roasted and soluble coffee. El Salvador also imported almost 2,400 bags of green bean coffee, mainly to supply local soluble coffee manufacturers with lower quality beans not available domestically.

<b>Import Trade Matrix</b>			
<b>El Salvador</b>			
<b>Coffee, Green</b>			
<b>Time Period</b>	<b>MY</b>	<b>Units:</b>	<b>60 kg bags</b>
<b>Imports for:</b>	<b>2019</b>		<b>2020</b>
United States	4,300	United States	4,445
<b>Others</b>		<b>Others</b>	
Mexico	86,900	Mexico	89,770
Brazil	70,100	Brazil	72,440
Nicaragua	31,835	Nicaragua	32,885
Colombia	9,465	Colombia	9,790
Honduras	3,875	Honduras	4,000
Guatemala	2,370	Guatemala	2,445
Chile	1,290	Chile	1,335
Total for Others	205,835		212,665
Others not Listed	4,965		5,090
<b>Grand Total</b>	<b>215,100</b>		<b>222,200</b>

Source: Salvadoran Central Bank (BCR)

**Stocks:**

FAS/San Salvador estimates stock numbers reaching 12,000 bags in MY2019/20. Stocks for MY2020/21 are forecast to drop to 10,000 bags.

**Policy:**

The Salvadoran coffee sector has not yet found an industry or government strategy that has been able to create sustainability and profit for coffee farmers.

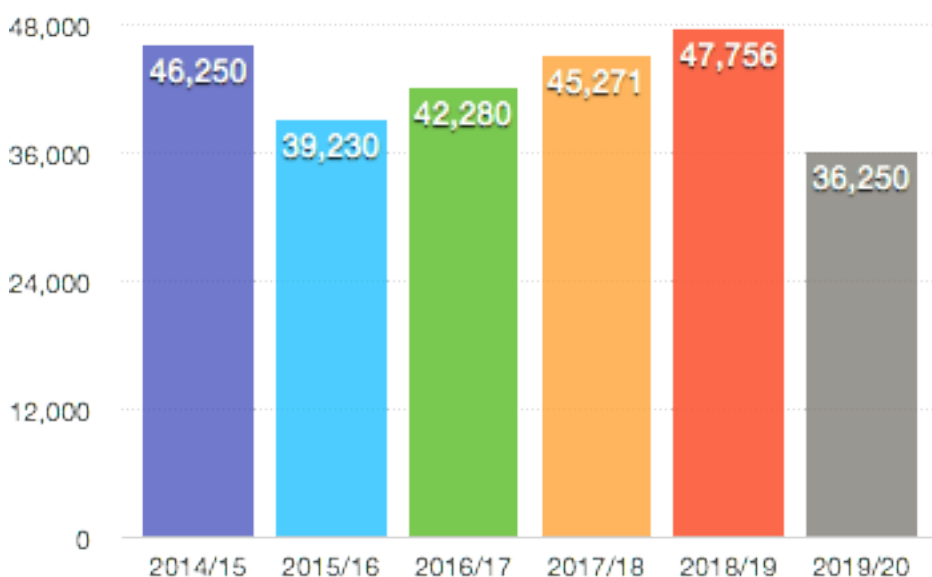
While there have been some efforts by past government administrations to implement assistance programs, they have not been very effective in helping producers recover from losses due to lack of profitability and rust affecting yields.

In 2014, the GOES created CENTA Cafe 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 2019, the GOES provided approximately 20 million rust-resistant plants through CENTA cafe. These government programs mainly target small farmers with less than 3 hectares, which only account for 10 percent of planted area. The main problems with the plant giveaway are that most seedlings are not certified and no funding is provided for the necessary 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).

Representatives from the sector say they would benefit from a major replanting program to renovate coffee production areas with new trees. In many areas, most 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 domestic coffee production areas.

Despite these efforts, 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 abandoned, depriving the country of a major source of forestation and water retention.

**Jobs Generated per Crop Year**



Source: Salvadoran Coffee Council/SCC

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 for an additional year through 2020.

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, private banking institutions are reluctant to provide loans to the sector due to the high-risk of default because of low prices and dwindling cherry yields.

In 2016, with the help of the Inter-American Institute for Agricultural Cooperation (IICA), the eight coffee associations began to work together to try to find a way out of the coffee rust crisis. They set up working groups to analyze research, financing, institutional strengthening, and marketing/branding. However, this effort was not backed by the GOES and the work has not yielded significant results.

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.

At the end of 2017, the government and the main opposition party signed a political pact to try to save the coffee sector. The pact proposes to create a new research institution, to extend the repayment period and lower interest rates on coffee debt (estimated at around \$240 million), to provide \$100 million to renovate 70,000 hectares with rust-resistant varieties over the next 8 years, and to create a single coffee organization to unite the eight current associations and the government. As part of this commitment, the National Assembly approved an \$80 million loan from the Central American Bank for Economic Integration. This funding is expected to help start the projected renovation of the entire coffee area. Approximately \$6 million are to be devoted to the creation of a research facility and the rest to renovation of old coffee trees and technical assistance.

The Ministry of Agriculture has expressed interest in creating a price band for the cost that coffee mills charge to farmers for the service to transform their coffee to export-ready green beans. Currently this cost is approximately \$50 per hundredweight GBE. In addition, the GOES is assessing the import duties currently



charged for roasted and soluble coffees and the impact of imports on 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 over 200,000 60 Kg. bags mainly of soluble low-quality coffee.

The future of El Salvador's coffee sector will depend upon the ability of both producers and government institutions to implement an effective strategy that could include debt re-structuring, repayment periods, and a unified coffee association that oversees research, technical assistance, 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) is expected to grow, deepening the labor, environmental and the economic crisis.

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 seen 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, a strategy divided the issues affecting the sector 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, this program has been put on hold by the GOES, and is not clear when it could begin. In the meantime, production continues to decline, and some are forecasting coffee to have the same fate as cotton in El Salvador, which completely disappeared.

#### Production, Supply and Demand Data Statistics:

<i>Coffee, Green</i>	2018/2019		2018/2020		2020/2021	
<i>Market Begin Year</i>	Oct 2018		Oct 2019		Oct 2020	
<i>El Salvador</i>	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)	323	323	323	324	0	324
Non-Bearing Trees (Million)	20	20	20	19	0	19
Total Tree Population (Million)	343	360	343	343	0	343
Beginning Stocks (Thousand 60 Kg. Bags)	33	28	18	13	0	12
Arabica Production (Thousand)	650	654	650	505	0	475
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production (Thousand 60 Kg. Bags)	650	654	650	505	0	475

Bean Imports (Thousand 60 Kg. Bags)	0	2	0	2	0	2
Roast & Ground Imports (Thousand 60 Kg. Bags)	10	11	10	8	0	10
Soluble Imports (Thousand 60 Kg. Bags)	210	213	210	205	0	210
Total Imports (Thousand 60 Kg. Bags)	220	226	220	215	0	222
Total Supply (Thousand 60 Kg. Bags)	903	913	888	733	0	709
Bean Exports (Thousand 60 Kg. Bags)	600	601	600	441	0	415
Rst-Grnd Exp. (Thousand 60 Kg. Bags)	0	0	0	0	0	0
Soluble Exports (Thousand 60 Kg. Bags)	0	14	0	10	0	9
Total Exports (Thousand 60 Kg. Bags)	600	615	600	451	0	424
Rst,Ground Dom. Consum (Thousand 60 Kg. Bags)	75	35	70	30	0	32
Soluble Dom. Cons. (Thousand 60 Kg. Bags)	210	250	210	240	0	243
Domestic Use (Thousand 60 Kg. Bags)	285	285	280	270	0	275
Ending Stocks (Thousand 60 Kg. Bags)	18	13	8	12	0	10
Total Distribution (Thousand 60 Kg. Bags)	903	913	888	733	0	709
Exportable Production (Thousand 60 Kg. Bags)	365	369	370	235	0	200

**Attachments:**

No Attachments