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**Report Highlights:**

The production forecast for marketing year (MY) 2020/21 is 6.1 million 60-kilogram (kg) bags, a nine percent increase from the previous year. The Government of Honduras is implementing a program to donate fertilizer to 91,462 small and medium coffee producers, who contribute 84 percent of Honduras's total coffee production.

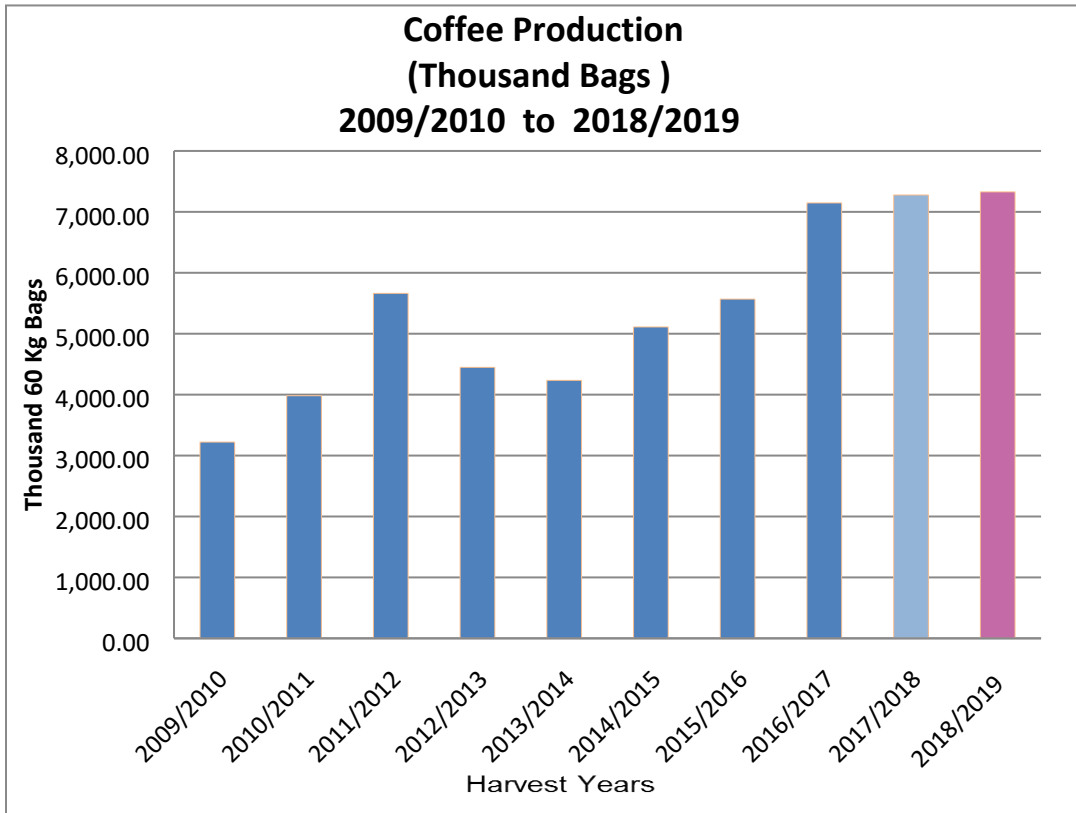
**Executive Summary:**

The coffee harvest for MY2020/21 is forecast at 6.1 million bags (60 kg each), a nine percent increase from the previous year. The increase assumes favorable weather conditions and takes into account fertilizers given by the Government of Honduras (GOH) to 91,462 small and medium coffee producers. These producers account for 87 percent of all Honduran producers and contribute 84 percent of Honduras’s total coffee production.

By providing fertilizer, the GOH aims to increase overall coffee production, which contributes five percent of the gross domestic product (GDP) and 30 percent of the agricultural GDP. The Honduran economy depends on coffee export revenue to generate foreign exchange.

COVID-19 did not impact coffee production in Honduras, since about 90 percent of the coffee was already harvested by mid-March, prior to the pandemic’s arrival to Honduras. However, it had a slight impact on trade. Honduras remains the largest coffee producer in Central America, third in Latin America, and fifth globally.

The export forecast for MY 2020/21 is 5.6 million bags. This estimate takes into account the forecasted increase in production. Exports of specialty and certified coffee have grown due to increased demand. The graph below shows Honduran coffee production over the last 10 years.



Source: IHCAFE

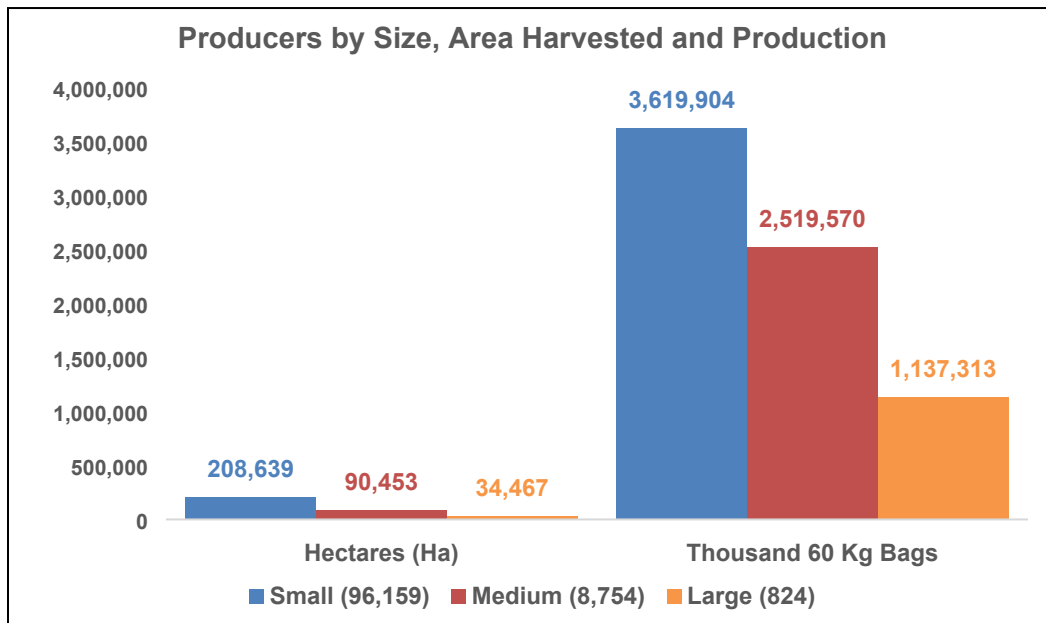
**Production:**

Honduran coffee is grown at high altitudes, with 61 percent of farms located between 3,900 and 5,200 feet above sea level. Coffee is grown in 15 of the 18 Honduran departments (similar to states). In MY2018/19, 105,737 coffee producers registered their production with the Honduran Institute of Coffee (IHCAFE). MY2019/20 IHCAFE data is currently being collected.

Coffee production for MY2020/21 is forecast to be 6.1 million bags, nice percent higher than the previous year. In April 2020, the GOH initiated a program called Coffee Bonus, through which the GOH will provide fertilizer to 91,462 small and medium sized coffee producers. The fertilizer will help to increase production and allow farmers to use money that is normally spent on fertilizer to perform maintenance. These producers represent 84 percent of Honduras’s total coffee production. Production is also expected to increase due to favorable winter conditions.

Coffee production for MY2019/20 is estimated to be 5.6 million bags and was not affected by the COVID-19 pandemic. The pandemic arrived in Honduras in mid-March, when about 90 percent of the coffee was already harvested. Coffee exporters report that they have already purchased most of the coffee they usually receive from producers by this point in the season, but faced some issues related to logistis.

About five percent of the MY2019/20 coffee still needs to be harvested. This coffee is grown by farms that are located at higher altitudes. In addition, producers have stored some coffee on their farms, hoping that the price of coffee will increase.



Source: IHCAFE

The majority of the small and medium sized producers do not have access to further credit to invest in farm management, or they are already in debt from previous loans. The lack of maintenance to the coffee farms represents a risk for the spread of coffee rust. In order to help prevent potential negative impacts from the current situation, including COVID-19 related

economic stress, the GOH is providing credits at low interest rates and guarantees for the coffee and agricultural sector producers. The GOH has also sought other forms of financial support through agricultural equipment and input distributors, and village banks.

The Lempira coffee variety, which was resistant to coffee leaf rust for two decades, was affected by rust in the 2016/17 harvest. In April 2019, studies done by IHCAFE identified 16 new coffee rust strains. The strains have different degrees of virulence and aggressiveness. Further research is being done. Producers are relying on good agricultural practices to control rust.

According to IHCAFE, the Parainema varieties that are being used by some farmers are still resistant to coffee rust.

Climate variability has also caused other existing pests like the Indian coffee cricket to become more prevalent in dry areas. This pest and others can quickly spread in coffee farms without proper management.

The following institutions work to help farmers prevent and control rust:

- The Early Warning System for Coffee Production (SAT) was established in 2012. SAT is comprised of IHCAFE, the Secretariat of Agriculture and Livestock, Food and Agriculture Organization of the United Nations (FAO), the National Service of Meteorology, and the International Regional Organization for Plant and Animal Health (OIRSA). The objective of the system is to inform the government, coffee producers, and institutions about the potential phytosanitary threats and their respective actions of intervention. The information is shared with other countries in the region. SAT issues monthly bulletins for IHCAFE and coffee producers to continue improving control measures and good agricultural practices in coffee production.
- IHCAFE's has six research and training centers in Honduras. The centers cover all production stages - coffee cultivation, harvesting, and processing. They provide the coffee farms with information, training, research, evaluation, and monitoring. IHCAFE promotes the use of a diverse range of varieties on farms.
- Honduran coffee associations, as well as regional and international institutions provide various kinds of support to the coffee sector. They implement projects with IHCAFE and NCC and in coordination with other GOH's institutions and international NGOs. The projects provide technical assistance in areas such as preventive measures for coffee leaf rust, borer and pests; productive supply chain strengthening; marketing, value added, quality improvement and coffee cupping training; water management and adaptation to changing climatic conditions; improving infrastructure; agroforestry integration; youth training and preventing child labor; gender inclusion; and monitoring and evaluation.

### **Consumption:**

According to the International Coffee Organization (ICO) annual consumption is estimated at 2.39 kilograms per capita. The increase in domestic consumption trends comes from the growing

presence of coffee bars in shopping malls, gas stations, retail areas, supermarkets, office buildings, and hospitals. A large percentage of the Honduran population is young and is consuming more and different types of coffee drinks. Coffee bars that provide customers with free internet attract students and young people.

## **Trade:**

### ***Exports***

FAS Honduras forecasts that the MY2020/21 production will increase from the previous year to 6.1 million bags, with 5.6 million bags exported.

MY 2019/20 exports are estimated to be 5.1 million bags. Exports were affected by a decrease in production due to a drought followed by 20 days of excess rain. These two situations affected coffee quality and limited the capacity to harvest. In addition, the GOH's measures to prevent the spread of COVID-19 have slowed the export process, as exporting plants are working with about 50 percent of their staff. Since mid-March exporting plants have been processing one container daily, about half the normal amount. The pandemic has also caused coffee producers to make changes, such as meeting exporters in alternative locations for the exporter to pick up the coffee harvest. Some exporters report that they have had their coffee sale contracts cancelled because businesses that sell the coffee were closed.

The export value in MY2018/19 was \$950 million, a 16 percent decrease from the previous year. That same year, IHCAFE reported an export volume of 6.8 million 60 kgs bags, 5.6 percent lower than the previous year. During MY 2018/19, Honduras exported to 60 countries at an average price of \$106.89 per bag. Honduras remains the 4<sup>th</sup> largest coffee exporter globally, with 5.2 percent of the world's coffee exports.

## Exports by Destination for Honduran Green Coffee

Units: 60 kg bags

Exports for:	2019		2020
United States	1,346	United States	1,102
<b>Others</b>		<b>Others</b>	
Germany	1,612	Germany	1,320
Belgium	994	Belgium	814
Italy	432	Italy	354
France	294	France	240
United Kingdom	238	United Kingdom	195
Mexico	223	Mexico	183
Sweden	190	Sweden	156
Canada	169	Canada	139
Japan	140	Japan	114
<b>Total for Others</b>	4,292		3,515
<b>Others not Listed</b>	1,185		964
<b>Grand Total</b>	6,823		5,581

Source: **MY 2019**: IHCAFE's Annual Report 2018/2019

Most of the coffee that was bought by coffee exporters is already under contract. A small amount of certified, specialty, and micro-lots coffee (about 7 percent of total coffee) has not yet been sold. This type of coffee is sold by large exporters and cooperatives that have their own marketing channels.

## ***Informal Exports***

According to IHCAFE, the flow of informal exports is around 300,000 bags. The data is based on observations made at border offices.

## ***Imports***

According to trade data from the Global Trade Atlas, Honduran imports of roasted coffee for domestic consumption in calendar year (CY) 2018 were negligible at under 100 bags and originated mainly from the United States, Costa Rica, Nicaragua, and El Salvador. Imports of soluble coffee in CY2018 were around 10,000 bags and came mainly from the Mexico, United States, Colombia, Mexico, and Chile. Juan Valdez Colombian coffee is now sold in supermarkets. Coffee shops at malls with local and regional chains are popular. International coffee companies sell their soluble coffee in machines located in malls and office buildings. Additionally, soluble coffee is now available in smaller containers at supermarkets, since the price of soluble imported coffee is higher than local coffee.

## **Stocks:**

Stocks are held by exporters and roasters from the private sector. Coffee beans are stored by exporters as inventory needed to meet future contracts and are not meant to influence price. Honduran roasters keep beans for domestic consumption throughout the year. Some stocks may be released to other Central American countries in the course of the year, depending on price and market opportunities.

## **Policy:**

IHCAFE was created as a semi-autonomous institution in 1970. In 2000, the GOH privatized IHCAFE as a non-profit institution to increase efficiency and improve research and development actions. At the same time, the National Council of Coffee (NCC) was created as a public – private organization, which is the highest regulatory authority in the Honduran coffee sector. NCC is a specialized institution that works to develop public policies and strategies for coffee production, climate change, labor, gender inclusion, quality control, promotion, and exporting. IHCAFE has the following strategic focus areas: a) production and productivity, b) quality of Honduran coffee, c) promotion, d) diversification, and e) financing for the coffee sector. It provides guidelines and regulations for the entire coffee value chain, and establishes commercialization procedures and controls for coffee production and exports. IHCAFE issues export permits to exporters, who must register both coffees bought from producers and coffee exported.

IHCAFE is made up of members from the different producer groups and associations. The board of directors includes the four largest coffee producer federations and associations: the Honduran Coffee Producers Association (AHPROCAFE), National Association of Coffee Producers of Honduras (ANACAFEH), Federation of Honduran Coffee Cooperatives (CCCH – La Central), and the Federation of Honduran Coffee Cooperatives (UNIOCOOP). The Board also includes coffee roasters, exporter associations, and representatives from the Secretariat of Agriculture and Secretariat of Economic Development.

On April 27, 2020, the GOH announced a new program called the “Coffee Bonus”. The GOH will distribute about \$12 million in fertilizer (more than 25,000 MT) to 91,462 small and medium sized coffee producers, which represent 87 percent of all national producers. Only those coffee producers registered at IHCAFE will benefit. They produce up to 6.8 metric tons (MT).

The GOH created the Law of Financial Reactivation of the Coffee Production Sector in 2003 in response to low coffee prices in order to prevent coffee producers from abandoning coffee production, avoid foreclosure on properties with high arrears, and assist producers with high levels of indebtedness. The law established a coffee producer savings fund. The collection mechanism is through a deduction of \$13.25 per quintal that the exporters pay when they purchase coffee from producers. The \$13.25 is comprised of three kinds of deductions, as follows:

1. Nine dollars go towards the coffee trust fund. This amount is used for: a) repayment of loans held by banks and financial institutions used by producers and, b) paying IHCAFE loans for fertilizers, inputs, financing, and seeds sold to coffee producers. IHCAFE returns either the full saved \$9 to producers that do not have outstanding loans, or a lesser amount depending on the loan repayment schedule.
2. One dollar is for payment of outstanding loans received by coffee producers in 1999, 2000 and 2001. IHCAFE returns this dollar annually to producers that did not receive loans in those years.
3. The remaining \$3.25 is divided as follows: \$0.50 is applied to the repayment of the outstanding \$20 million loan made in 2002. Thirty six percent goes to the operation of IHCAFE and 64 percent to the National Coffee Fund. The National Coffee Fund uses these resources to build and fix roads in coffee production areas and to buy equipment for coffee producers.

The National Coffee Fund (NCF) was also created to provide support to the coffee sector. NCF is an organization that receives funding from coffee producers. The NCF is responsible for the maintenance and construction of roads in coffee-producing areas reducing transportation costs for producers. Each municipality receives an allocation of funds for road construction in proportion to its production.

On September 5, 2018, the Honduran Congress authorized IHCAFE to contract with national or international banks to acquire financing for about \$77 million. The funds are assigned to provide credit to coffee producers due to low coffee prices, rust, or other pests that have caused a decline in income. The loans are for the amount of about \$25 per 100 pounds of coffee produced and are distributed in line with the amount of coffee that a producer registered the previous year. The amount of \$1.50 per 100 pounds is deducted from exports to pay the loan.

IHCAFE created the Superior School of Coffee, Centers of Research and Training, the National Center of Quality, the Coffee Quality Control Laboratory, and the School of Coffee Tasters. They have six research and training centers nationwide. In 2008, the National Quality Center opened to market coffee from Honduras internationally. In 2010, the center received ISO 17025-2005 accreditation. IHCAFE also has regional laboratories for coffee cupping to support coffee



producers in their product knowledge and technology.

The United States Department of Agriculture (USDA) has the largest coffee development project in Honduras, implemented by TechnoServe under the Food for Progress program. The budget for this 5-year (2017-2022) initiative is approximately \$12.9 million. The project focuses on all aspects of the coffee value chain in nine departments, representing about 70 percent of the coffee production regions in the country. The project provides assistance to enhance productivity and coffee quality, strengthen the coffee producers' organizations, increase production of specialty coffee, and increase small farmer linkages with favorable markets, which allows small farmers to sell their coffee at higher prices.

In addition, the project promoted development of a Cupping School focused on educating young women and men from coffee regions to become cuppers, which improves knowledge of coffee quality characteristics and helps with marketing to receive better prices. IHCAFE's agreement with the National University of Honduras (UNAH) has established the University Technician on Quality Control in Coffee and the Coffee Business Administration degrees. In coordination with IHCAFE, the USDA/TechnoServe project provides training for municipalities and key actors in the value chain to improve productivity and quality of coffee and help producers adopt new technologies. Support is also provided for research in coffee fermentation techniques and atmospheric control packaging for coffee storage to maintain coffee quality.

The USDA Food for Progress program also supports the coffee sector through the Maximizing Opportunities in Coffee and Cacao in the Americas (MOCCA) Project. This 5-year (2018-2023), approximately \$36.4 million initiative is also implemented by TechnoServe. Its goal is to build the key agricultural sectors of coffee and cocoa in Guatemala, El Salvador, Honduras, Nicaragua, Ecuador, and Peru, directly improving the livelihoods of over 120,000 farmers. It has three objectives: increasing productivity, improving trade, and strengthening farmer capacity to effectively rehabilitate and renovate their plants.

MOCCA's key activities include: 1) Farmer training, 2) Market linkages, 3) Augmenting research and dissemination, 4) Strengthening suppliers of genetic material for planting, 5) Facilitating access to finance, 6) Strengthening National Commodity Institutions (NCIs) as providers of services that support rehabilitation and renovation, and 7) supporting regional platforms that support rehabilitation and renovation.

About 27,000 small coffee that participate in the USDA/TechnoServe projects are also beneficiaries of the Honduran government "Coffee Bonus" program, and TechnoServe is assisting the GOH in the distribution of the bonus along with related trainings.

### **Marketing:**

Production of specialty coffee is increasing. Large areas of coffee production are above 3,000 feet, the minimum altitude required for specialty coffee. These specialty coffees fall under 22 different programs and certifications such as: UTZ Certified, Association 4C, Fair Trade/Organic (FLO/ORG), Rain Forest Alliance (RFA), Organic (ORG), Bird-friendly, Starbucks C.A.F.E., Rain-Forest Alliance, Fairtrade (FLO), Café Practices, Japanese Agriculture Standard (JAS), Cup

of Excellence, and others.

Honduras has grouped coffee production and quality specifications into six different regions according to differences in microclimates and soil composition. In 2004, Honduras began with the Cup of Excellence (COE). In 2005, Honduras obtained the first Geographical Indicator (GI) for the country: DO Marcala Coffee. The GI as Brand Collective “Honduran Western Coffees” (HWC) was born.

**International Marketing** -- The IHCAFE Cup of Excellence promotional event brings together the best Honduran coffees that are sold worldwide via electronic auction. Through this competition, Honduras finds niche markets for its coffee. About 1,200 producers are chosen in regional quality competitions, and at the end of the process about 50 to 60 producers participate in the Cup of Excellence final competition.

The 2020 regional competitions and national Cup of Excellent were postponed due to COVID-19. The national competition provides an important opportunity for coffee producers to improve the quality of their coffee. The national competition also promotes regional competitions. The Cup of Excellent 2020 is expected to take place later this year.

Honduras has a growing reputation as a specialty coffee power player, as it increases its participation in international fairs to promote Honduran coffee. As demand for high quality Arabica coffees increases, Honduras is positioned to take advantage of this opportunity.

### Production, Supply and Demand Data Statistics

Coffee, Green Market Year Begins Honduras	2018/2019		2019/2020		2020/2021	
	Oct 2018		Oct 2019		Oct 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	0	322	0	305	0	312
Area Harvested (1000 HA)	0	286	0	270	0	277
Bearing Trees (MILLION TREES)	0	1362	0	1290	0	1320
Non-Bearing Trees (MILLION TREES)	0	153	0	150	0	180
Total Tree Population (MILLION TREES)	0	1515	0	1440	0	1500
Beginning Stocks (1000 60 KG BAGS)	325	325	265	664	0	816
Arabica Production (1000 60 KG BAGS)	7200	7513	6500	5597	0	6133
Robusta Production (1000 60 KG BAGS)	0	0	0	0	0	0
Other Production (1000 60 KG BAGS)	0	0	0	0	0	0
Total Production (1000 60 KG BAGS)	7200	7513	6500	5597	0	6133

<b>Bean Imports</b> (1000 60 KG BAGS)	0	0	0	0	0	0
<b>Roast &amp; Ground Imports</b> (1000 60 KG BAGS)	0	0	0	0	0	0
<b>Soluble Imports</b> (1000 60 KG BAGS)	25	12	25	14	0	16
<b>Total Imports</b> (1000 60 KG BAGS)	25	12	25	14	0	16
<b>Total Supply</b> (1000 60 KG BAGS)	7550	7850	6790	6275	0	6965
<b>Bean Exports</b> (1000 60 KG BAGS)	6910	6823	6200	5093	0	5581
<b>Rst-Grnd Exp.</b> (1000 60 KG BAGS)	0	0	0	0	0	0
<b>Soluble Exports</b> (1000 60 KG BAGS)	0	0	0	0	0	0
<b>Total Exports</b> (1000 60 KG BAGS)	6910	6823	6200	5093	0	5581
<b>Rst,Ground Dom. Consum</b> (1000 60 KG BAGS)	350	344	350	346	0	348
<b>Soluble Dom. Cons.</b> (1000 60 KG BAGS)	25	19	25	20	0	21
<b>Domestic Consumption</b> (1000 60 KG BAGS)	375	363	375	366	0	369
<b>Ending Stocks</b> (1000 60 KG BAGS)	265	664	215	816	0	1015
<b>Total Distribution</b> (1000 60 KG BAGS)	7550	7850	6790	6275	0	6965
(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)						

**Attachments:**

No Attachments