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**Report Highlights:**

The production forecast for marketing year (MY) 2021/22 is 5.5 million 60-kilogram (kg) bags, a twelve percent reduction from the previous year. Favorable weather conditions for a higher incidence of leaf rust are forecast and are expected to impact production directly. COVID-19 incidence is expected to remain high in Honduras and post-hurricane road infrastructure rehabilitation efforts will still be underway. As a consequence, MY2021/22 export forecast is 5 million bags, down to MY 2019/2020 levels.

## **Executive Summary:**

The coffee harvest for MY2021/22 is forecast at 5.5 million bags (60 kg each), a twelve percent decrease from the previous year. The decrease assumes wet weather conditions that promote leaf rust incidence and accounts for fertilizers given by the Government of Honduras (GOH) to over 91,500 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.

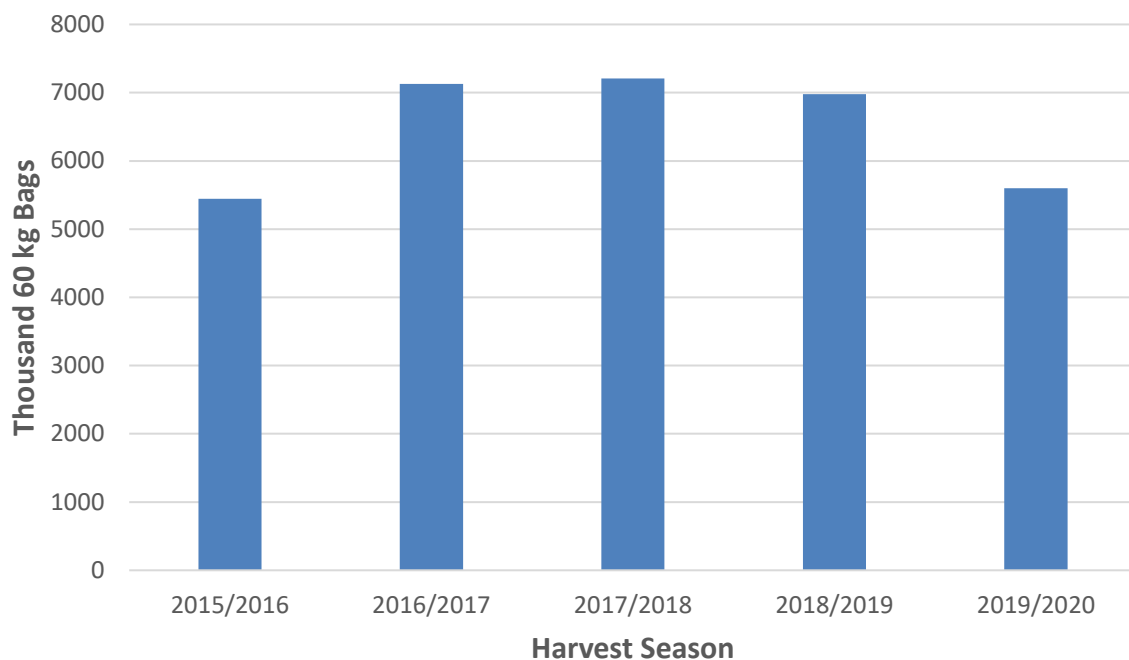
The COVID-19 pandemic and Hurricanes Eta and Iota did not significantly impact MY 2020/21 coffee production directly in Honduras. However, both phenomena had a significant impact on trade and are expected to also impact MY 2021/22 coffee exports. Honduras remains the largest coffee producer in Central America, third in Latin America, and fifth globally.

The export forecast for MY 2021/22 is 5 million bags. This estimate takes into account the forecasted decrease in production. Exports of specialty and certified coffee now amount to 54% of the total.

## **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) and in 210 (70%) of the 298 municipalities. During MY2019/20, 120,000 coffee producers registered their production with the Honduran Institute of Coffee (IHCAFE). MY2020/21 IHCAFE data is currently being collected.

Coffee production for MY2021/22 is forecast to be 5.5 million bags, twelve percent lower than the updated estimate for MY2020/21 and the lowest since MY 2015/16 (Figure 1). A higher incidence of leaf rust and other diseases is expected to reduce coffee production directly by reducing yields and indirectly by rendering more plants unable to produce. Weather conditions are forecast to remain favorable for leaf rust (neutral, with no significant La Nina or El Nino effect) during the rainy season (May-November) with moderately higher precipitations than the past two years. In addition, COVID-19 incidence is expected to remain high in Honduras during MY2021/22 due to low vaccination coverage. Therefore, biosafety protocols that include 6 ft distancing for plantation maintenance and harvest activities are expected to remain in place. Also, 2183 km of roads damaged by hurricanes Eta and Iota are still pending reconstruction or repairs. GOH has extended the Coffee Bonus program with additional US \$12.5 million until December 2021, in an effort to provide access to fertilizer for over 91,500 small and medium farmers (87% of total farmers).



**Figure 1. Coffee Production (Thousand Bags) 2015/2016 to 2019/2020**

Source: IHCAFE

The new coffee production estimate for MY2020/21 is 6.2 million bags, only 0.7% below the previous forecast. The impact of COVID-19 pandemic and Hurricanes Eta and Iota have not been significant so far. Leaf rust incidence only spiked in November-December (after the hurricanes) and harvest was delayed about one month, but not impacted, since October and November harvest represent about 1% of the total. About six percent of the MY2020/21 coffee still needs to be harvested.

**Table 1. Producers by Size, Area Harvested and Production.**

Farmer Type	Number of farmers registered with IHCAFE	Total Area Harvested (Ha)	Total Bags (Thousand 60kg bags) produced
Small	114,000	208,639	2,782
Medium	5,460	90,453	1,937
Large	540	34,467	873

Source: IHCAFE

The majority of the small and medium sized producers (Table 1) 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 5% interest rate 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. Immediate post Hurricane Eta and Iota weather conditions favored a 15-25% incidence of leaf rust in five departments of Honduras by the end of 2020. A stronger outbreak is expected during the 2021 rainy season (May-November) due to higher levels of humidity compared to the last two years.

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:**

Per capita apparent consumption places Honduras in the intermediate consumption regional group with Panama, Mexico and Guatemala. 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 MY2021/22 exports will be 5 million bags, an 11 percent drop from the updated MY2020/21 estimate (5.6 million bags) and a return to MY2019/20 export levels. A decrease in production due to forecasted favorable conditions for leaf rust is expected to be the main cause for the export reduction.

MY 2020/21 export estimate has been updated to 5.6 million bags. By August 2020 and based on a good rainy season, IHCAFE had forecast to export about 6 million bags by the end of MY 2020/21. However, the GOH's measures to prevent the spread of COVID-19 have slowed the export process, and demand from Germany and other European countries has decreased due to new confinement measures implemented during the first trimester of 2021. As of May 4<sup>th</sup>, 2021 Honduras export value had reached \$611 million, 2% higher than MY2019/20 at this point. The lower export volume has been so far offset by a 17% increase in average price per bag (\$145.90).

Germany, the United States, Belgium, France and Italy remain the top five destinations for Honduran coffee in MY 2020/21. Honduras has taken advantage of the Free Trade Agreement signed with the Republic of Korea in 2020, which has become the 7<sup>th</sup> largest export market (Table 2).

The export value in MY2019/20 was \$897 million, a 6 percent decrease from the previous year. That same year, IHCAFE reported an export volume of 5.1 million 60 kgs bags, 25 percent lower than the previous year. During MY 2019/20, Honduras exported to 55 countries at an average price of \$124.94 per bag. Honduras remains the 5th largest coffee exporter globally, with 4 percent of the world's coffee exports.

**Table 2. Exports by Destination for Honduran Green Coffee Units: Thousand 60 kg bags**

<b>Exports</b>	<b>2020</b>		<b>2021</b>
United States	1,110	United States	1,287
<b>Others</b>		<b>Others</b>	
Germany	1,543	Germany	1,483
Belgium	555	Belgium	549
Italy	373	France	333
France	315	Italy	272
United Kingdom	187	Canada	240
Mexico	172	Korea, Republic of	198
Sweden	169	United Kingdom	205
Canada	144	Japan	158
Japan	131	Sweden	153
<b>Total for Others</b>	3,589		3,591
<b>Others not Listed</b>	807		729
<b>Grand Total</b>	5,506		5,607

Source: MY 2020: IHCAFE's Annual Report 2019/2020, MY 2021: IHCAFE Statistical Bulletin 05/04/2021

As of May 4<sup>th</sup>, 2021 about 4.13 million bags of coffee (74%) of estimated MY 2020/21 harvest is already under contract. Exporter stocks amount to 2.6 million bags (50% of export estimate) and about 12,300 bags of certified, specialty, and micro-lots of coffee (about 0.2 percent of total coffee) that have not yet been sold.

### ***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 Mexico, the 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 70 exporters and roasters from the private sector. Ending stocks estimate for MY2020/21 has been adjusted to 1,113 million bags, following a decrease in demand from Europe. The MY2021/22 forecast for ending stocks is 1,264 million bags, a 14% increase compared to MY2020/21.

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 by Decree 145-2000 as a public – private organization and as 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. NCC Coffee Policy of 2003 is currently under revision.

The Gender Inclusion Policy will be published in La Gaceta in May 2021, after one and a half years of socialization. The policy focuses on promotion of equal opportunities for women in the coffee sub-sector. Also, the Coffee Climate Change policy is being drafted under the direction of the International Center for Tropical Agriculture (CIAT). The policy includes mitigation and adaptation components for resilient coffee production.

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 13, 2021, the GOH extended the Coffee Bonus Program via Presidential decree PCM 031-2021 with an additional \$12.5 million investment. In 2020, The GOH (via this program) distributed

about \$12million in fertilizer (25,188 MT) to 91,778 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 Coffee Bonus Program was created on April 9<sup>th</sup> of 2020 via PCM 030-2020.

The GOH created the Law of Financial Reactivation of the Coffee Production Sector in 2003 in response to low coffee prices, 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 were 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 were for the amount of about \$25 per 100 pounds of coffee produced and were 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. NCC is exploring the possibility of establishing a mutual guarantee fund with local banks.

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 (Project MAS), 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 854 organizations and over 20,900 farmers to enhance productivity and coffee quality, strengthen the coffee producers' organizations, increase production of specialty coffee, and increase small farmer linkages to 19 exporters with favorable markets. This allowed small farmers to sell their coffee at prices 37% higher during the 2019/2020 harvest season compared to 2018/2019 and to increase revenue by 57%.

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.

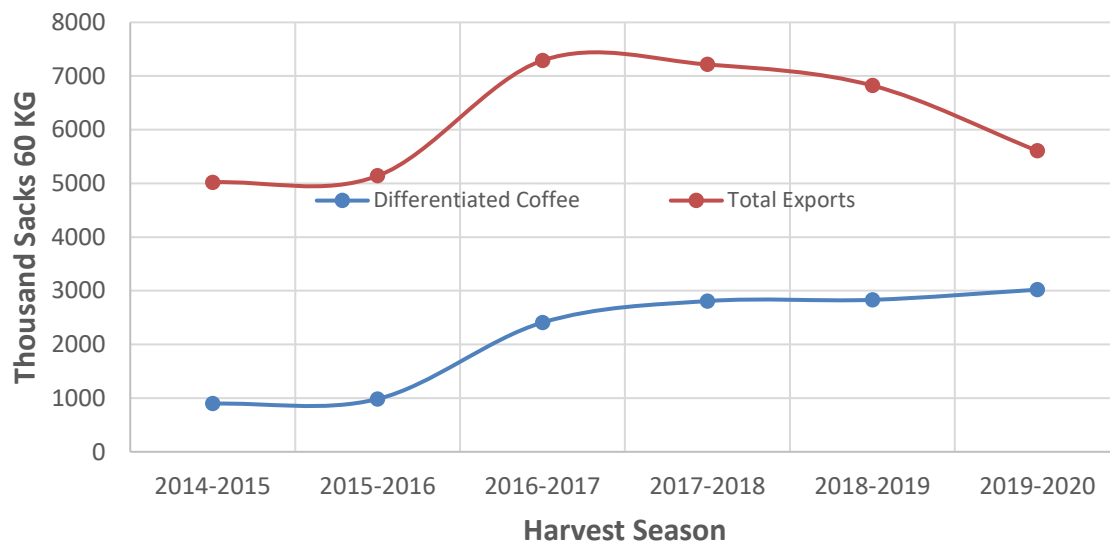
MOCCA's key activities include: 1) Farmer training, 2) Market linkages, 3) Augmenting research and dissemination, 4) Strengthening suppliers of genetic material for planting, 5) Facilitating access to finance, 6) Strengthening National Commodity Institutions (NCIs) as providers of services that support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

Registration of differentiated coffees started during the 2009-2010 harvest season. In the 2014-2015 harvest season, differentiated coffees accounted for only 12% of total 60 kg bag exports. Since then, differentiated coffee exports have grown steadily, reaching 54% of total exports by season 2019-2020.

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.



Source: IHCAFE 2019-2020 Statistical Report.

### Figure 2. Increase of Differentiated and Total Coffee Exports (Thousand Bags) 2014/2015 to 2019/2020.

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 and 2021 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.

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

Coffee, Green	2019/2020		2020/2021		2021/2022	
Market Begin Year	Oct 2019		Oct 2020		Oct 2021	
Honduras	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	0	305	0	307	0	290
Area Harvested (1000 HA)	0	270	0	272.7	0	258
Bearing Trees (MILLION TREES)	0	1290	0	1295	0	1228
Non-Bearing Trees (MILLION TREES)	0	150	0	163	0	144
Total Tree Population (MILLION TREES)	0	1440	0	1458	0	1372
Beginning Stocks (1000 60 KG BAGS)	265	664	215	830	0	1113
Arabica Production (1000 60 KG BAGS)	6500	5597	6281	6236	0	5500
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)	6500	5597	6281	6236	0	5500
Bean Imports (1000 60 KG BAGS)	0	0	0	0	0	0
Roast & Ground Imports (1000 60 KG BAGS)	0	0	0	0	0	0
Soluble Imports (1000 60 KG BAGS)	25	28	16	24	0	24
Total Imports (1000 60 KG BAGS)	25	28	16	24	0	24
Total Supply (1000 60 KG BAGS)	6790	6289	6512	7090	0	6637
Bean Exports (1000 60 KG BAGS)	6200	5093	5581	5607	0	5000
Rst-Grnd Exp. (1000 60 KG BAGS)	0	0	0	0	0	0
Soluble Exports (1000 60 KG BAGS)	0	0	0	0	0	0
Total Exports (1000 60 KG BAGS)	6200	5093	5581	5607	0	5000
Rst. Ground Dom. Consum (1000 60 KG BAGS)	350	346	348	349	0	351
Soluble Dom. Cons. (1000 60 KG BAGS)	25	20	21	21	0	22
Domestic Consumption (1000 60 KG BAGS)	375	366	369	370	0	373
Ending Stocks (1000 60 KG BAGS)	215	830	1015	1113	0	1264
Total Distribution (1000 60 KG BAGS)	6790	6289	6512	7090	0	6637
(1000 MT)						

#### Attachments:

No Attachments