



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Scheduled Report - For Public Distribution

Date: 11/15/1998

GAIN Report #ES8011

El Salvador

Coffee

El Salvador Coffee Report

1998

Prepared by:

Suzanne E. Heinen

U.S. Embassy

Drafted by:

Miguel F. Herrera

Report Highlights:

El Salvador's 1998/99 coffee production is expected to be approximately 10.0 percent lower than previously reported. Harvest is expected to reach 1.79 million bags. Most coffee growing regions were affected by Hurricane Mitch.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

El Salvador, ES

Executive Summary	2
PSD Table: Coffee, Green	3
Production	4
Consumption	4
Trade Matrix	
a) Exports	
b) Imports	5
Trade	6
Policy	6

Summary

El Salvador's 1998/99 coffee production is expected to be approximately 10.0 percent lower than previously reported. According to the Foundation for Coffee Research (PROCAFE), the 1998/99 harvest is expected to reach 1.79 million bags. Added to a drought situation caused by El Niño, most coffee growing regions were affected by Hurricane Mitch. PROCAFE's rain monitoring stations scattered throughout the country have released data that shows an average of 350 mm of rain during the 4 days that the storm lingered over El Salvador.

According to the Salvadoran Coffee Council (CSC), coffee exports in 1997/98 are expected to reach 1.83 million bags, down nearly 33 percent from 1996/97. The main reason for the sharp decrease in exports is the lower output obtained from the 1997/98 harvest and the depletion of retained stocks during the 1996/97 season. El Salvador along with other members of the Coffee Producers Association (APPC), continue to set forth an export quota system to offset price distortions in the international market. However, due to the plunge in coffee production, El Salvador has not been able to meet its export quota. As a result, ending stocks are expected to decrease to approximately 31,000 bags in 1997/98. Stocks are expected to decrease in 1998/99 reaching approximately 25,000 bags. The U.S. remains the number two importer of Salvadoran coffee. The European Union (EU), especially Germany, accounts for approximately 64.0 percent of total exports.

Due to low production for the second consecutive year, El Salvador has no restrictions from the APPC on exporting coffee. The CSC continues to monitor exports through the use of export registrations permits. It's too early to predict what sort of action the Government of El Salvador (GOES) will undertake to alleviate the damage caused by Hurricane Mitch to the coffee sector. The Salvadoran Banking Association (ABANSA) is proposing to increase the pay back term and also to lower interest rates on agricultural loans.

PSD Table

Country:

El Salvador

Commodity:

Coffee, Green

Market Year Begin	1997		1998		1999		UOM (MONTH/YEAR)
	Old	New 10/96	Old	New 10/97	Old	New 10/98	
Area Planted	178	178	178	178	178	177	(1000 HA)
Area Harvested	166	166	166	166	166	165	(1000 HA)
Bearing Trees	552000	552000	551000	551000	551000	548000	(1000 TREES)
Non-Bearing Trees	54000	54000	53000	53000	53000	52000	(1000 TREES)
TOTAL Tree Population	606000	606000	604000	604000	604000	600000	(1000 TREES)
Beginning Stocks	422	422	30	30	41	31	(1000 60 KG BAGS)
Arabica Production	2498	2498	2017	2040	1990	1790	(1000 60 KG BAGS)
Robusta Production	0	0	0	0	0	0	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Production	2498	2498	2017	2040	1990	1790	(1000 60 KG BAGS)
Bean Imports	75	75	35	35	32	25	(1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Soluble Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Imports	75	75	35	35	32	25	(1000 60 KG BAGS)
TOTAL SUPPLY	2995	2995	2082	2105	2063	1846	(1000 60 KG BAGS)
Bean Exports	2728	2728	1798	1831	1769	1572	(1000 60 KG BAGS)
Roast & Ground Exports	1	1	1	1	1	1	(1000 60 KG BAGS)
Soluble Exports	6	6	7	7	9	8	(1000 60 KG BAGS)
TOTAL Exports	2735	2735	1806	1839	1779	1581	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	201	201	207	207	210	211	(1000 60 KG BAGS)
Soluble Dom. Consum.	29	29	28	28	29	29	(1000 60 KG BAGS)
TOTAL Dom. Consumption	230	230	235	235	239	240	(1000 60 KG BAGS)
Ending Stocks	30	30	41	31	45	25	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	2995	2995	2082	2105	2063	1846	(1000 60 KG BAGS)

Product X conversion factor = green bean equivalent

Product conversion factor

soluble coffee	2.6
roasted coffee	1.19

Production

General

Based on new information reported by the CSC, El Salvador's coffee production estimate for the 1997/98 crop was increased from the last report to 2.04 million bags. In addition, Post's production forecast for the 1998/99 crop has been decreased from the last report to 1.79 million bags. This forecast represents a 12 percent decrease compared to the 97/98 production. According to PROCAFE, this lower production is mainly due to a drought attributed to the El Niño effect during the flowering stage. In addition, excessive rain from Hurricane Mitch has caused cherry fall-off mainly in lower altitude production areas.

Local meteorologist are predicting a delay in the transition from winter to summer. If this forecast holds true and rain persists throughout the harvest, El Salvador's coffee production could decrease even further than the current forecast.

The number of planted trees continues to gradually decrease. Rising production costs, fluctuating prices and no incentive from the GOES are the main reasons for this trend. In addition, urban development continues to diminish total planted area.

The rate of investment on the part of local producers continues to diminish. Lower prices, a drought due to El Nino and rains from Hurricane Mitch are the main reasons for the sluggish performance of the coffee sector. Local prices paid by coffee exporters for strictly high grown (SHG) coffee for the first half of October 1998 averaged 590.00 colones per cwt (\$67.43), compared to \$97.14 on October 1997.

Consumption

General

Based on new consumption information gathered by the CSC the forecast for local coffee consumption for 1998/99 has been increased to 240,000 bags. A stronger performance posted by the Salvadoran economy since the last quarter of 1997 has boosted coffee consumption. High internal prices allow for competition from other neighboring countries, especially Guatemala and Nicaragua. In addition, U.S. ground and roasted coffee has managed to reach up-scale supermarkets. Soluble and roasted coffee imports could increase in the near future due to a decrease in import tariffs which started in July 1997. According to a new tariff reduction schedule, duties for final products are expected to decrease at a rate of 1 percent per semester until they reach 15 percent in December 1999.

Export Trade Matrix

Country:	El Salvador	Units:	60 K Bags
Commodity:	Coffee, Green		
Time period:			
Exports for	1997	1998	
U.S.	526,051	U.S.	487,253
Others		Others	
Germany	1,291,312	Germany	663,635
Belgium	376,842	Belgium	140,567
Holland	167,622	England	88,950
England	143,060	Holland	87,150
France	78,190	France	60,050
Japan	60,103	Japan	58,870
Spain	50,433	Italy	27,075
Canada	46,996	Canada	20,250
Italy	43,413	Nicaragua	20,228
Denmark	18,688		
Total for Others	2276659		1166775
Others not listed	44,167		12,449
Grand Total	2846877		1666477

Import Trade Matrix

Country:	El Salvador	Units:	60 K Bags
Commodity:	Coffee, Green		
Time period:			
Imports for	1997	1998	
U.S.		U.S.	
Others		Others	
Honduras	35,000		25,000
Total for Others	35000		25000
Others not listed			
Grand Total	35000		25000

Trade

General

In 1997/98, coffee exports are expected to reach approximately 1.83 million bags. This number is higher than previously reported mainly due to a slightly larger crop and lower ending stocks. Coffee exports for 1998/99 are estimated at 1.55 million bags. However, the export number for 98/99 could vary depending on the duration of the winter season and a final assessment of damage to coffee groves from Hurricane Mitch.

Exports to the U.S. fell 7.4 percent in 1998 compared to 1997. The U.S. share of Salvadoran coffee exports represented 29.2 percent of total exports in 1997/98. Germany continues to be the main market for Salvadoran coffee, accounting for 49.8 percent of total exports in 1997/98. In 1998/99 coffee exports to the U.S. could be much lower due to the damage by Hurricane Mitch to lower altitude plantations, where most of the Central Standard (CSA) quality coffee is harvested. The U.S. is a large importer of CSA coffee which is used by roasters for mixing.

Ending stocks in 1997/98 are expected to fall to 31,000 bags. This stock number is much lower than what it used to be back in the years of the retention program. El Salvador has released for export much of its retained coffee due to a change in coffee export policy by the APPC. Stocks are expected to remain similar in 1998/99 reaching approximately 25,000 bags.

In 1998/99 approximately 25,000 bags are expected to be illegally imported from Honduras. This low quality roasted coffee has found a niche market in the Northeastern region of El Salvador where, due to poor infrastructure, Salvador coffee distributors have a hard time getting their product to the region. Uncontrolled border crossing in this area of the country make it easy for contraband trade between Honduras and El Salvador. This illegal import number could be considerably increased if the Honduran government delays the repair of badly damaged roads and bridges caused by the torrential rains that came along with Hurricane Mitch.

Policy

General

After two bad crops in a row, local coffee producers find themselves in a very difficult financial situation. As a primary measure, they are asking the GOES to forgive payment of the Emergency Fund granted in 1992. In addition, the Salvadoran Coffee Producer's Association is seeking a renegotiation of loans at lower rates and longer terms. The GOES is currently assessing what measures it plans to take to resolve this crisis. Post will report on new policies towards the coffee sector as soon as new information becomes available.