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Coffee

Coffee Semi-Annual

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Report Highlights:

This report contains updated PSD numbers for coffee in El Salvador. MY 1998-1999 export and import trade matrix are also included in this report.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Semi-Annual Report
El Salvador [ES]

TABLE OF CONTENTS

Executive Summary	2
PSD Table Commodity Coffee, Green	3
Production	4
Consumption	4
Trade	4
Export Trade Matrix	5
Import Trade Matrix	6
Stocks	6
Policy	7

Executive Summary

El Salvador's 1999/00 coffee production is expected to be approximately 2.3 percent lower than previously reported. According to the Foundation for Coffee Research (PROCAFE), the 1999/00 harvest is expected to reach 2.22 million bags. This production number is almost 20.0 percent higher than the severely reduced 1998/99 crop. Abundant rains throughout the season in most coffee growing regions has positively affected flowering and cherry development. In addition, a return to a normal production cycle is also a favorable factor for the 1999/00 crop.

According to the Salvadoran Coffee Council (CSC), coffee exports in 1998/99 are expected to reach 1.65 million bags, down nearly 10 percent from 1997/98. The main reason for the sharp decrease in exports is the lower output obtained from the 1998/99 harvest. El Salvador along with other members of the Coffee Producers Association (APPC), continues 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 30,000 bags in 1998/99. Stocks are expected to remain at the same level for 1999/00. The U.S. remains the number two export destination for Salvadoran coffee. Germany continues to be the main importer of Salvadoran coffee accounting for 38.0 percent of total exports in MY 1999.

To avoid defaults on the part of local producers, coffee exporters are only allowing producers to sell 40.0 percent of the upcoming 1999/00 crop. In the past, some producers have sold off more than they produced, creating a very uncomfortable situation for the exporter. The CSC continues to monitor exports through the use of export registrations permits. The Government of El Salvador (GOES) through the Multi sectoral Investment Bank (BMI), has allocated approximately 75.0 million dollars to alleviate the debt caused by El Niño and Hurricane Mitch to the agricultural sector. Coffee producers have taken advantage of this government program to try to resolve their already chaotic financial situation.

PSD Table						
Country	El Salvador					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Planted	178	178	177	177	177	177
Area Harvested	166	166	165	165	165	165
Bearing Trees	551	551000	548	548000	548	548000
Non-Bearing Trees	53	53000	51	51000	51	51000
TOTAL Tree Population	604	604000	599	599000	599	599000
Beginning Stocks	30	30	31	31	38	30
Arabica Production	2040	2040	1777	1860	2272	2221
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	2040	2040	1777	1860	2272	2221
Bean Imports	35	35	25	25	25	25
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	35	35	25	25	25	25
TOTAL SUPPLY	2105	2105	1833	1916	2335	2276
Bean Exports	1831	1831	1559	1650	2063	2007
Roast & Ground Exports	1	1	1	1	1	1
Soluble Exports	7	7	8	8	8	8
TOTAL Exports	1839	1839	1568	1659	2072	2016
Rst,Ground Dom. Consum	207	207	198	198	198	198
Soluble Dom. Consum.	28	28	29	29	30	29
TOTAL Dom. Consumption	235	235	227	227	228	227
Ending Stocks	31	31	38	30	35	33
TOTAL DISTRIBUTION	2105	2105	1833	1916	2335	2276

Production

Based on new information reported by the CSC, El Salvador's coffee production estimate for the 1998/99 crop was increased from the last report to 1.86 million bags. In addition, post's production forecast for the 1999/00 crop has been decreased from the last report to 2.22 million bags. Nevertheless, This forecast represents a 19.4 percent increase compared to 98/99 production. According to PROCAFE, this higher production is mainly due to a return to a normal production cycle and favorable weather. Local meteorologist are forecasting an increase of 25.0 percent in precipitation compared to a normal rainy season. This added moisture has been created by a weather phenomenon called La Niña. In contrast with El Niño, this new phenomenon has brought excessive rain throughout the Central American region.

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

Consumption

Based on new consumption information gathered by the CSC, the forecast for local coffee consumption for 1999/00 has been decreased to 227,000 bags. A weaker performance posted by the Salvadoran economy since the last quarter of 1998 has affected 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. The CSC is planning a campaign to bolster local per capita consumption, which is very low compared to other countries in the region. Specialty coffee shops have started to penetrate the market. Cappuccino and latté coffees are now available at various retail businesses. Growth in the supermarket industry has also increased the sales of this type of coffee. El Salvador currently has 105 supermarket stores and this number continues to grow. Coffee vending machines are also a new merchandising strategy being used at the HRI level.

Trade

In 1998/99 coffee exports are expected to reach approximately 1.65 million bags. This number is higher than previously reported mainly due to a slightly larger crop and lower ending stocks. Coffee exports for 1999/00 are estimated at 2.01 million bags. However, the export number for 99/00 could vary depending on the final production number.

The rate of investment on the part of local producers continues to decline. Lower prices,

a drought due to El Niño 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 1999 averaged 350.00 colones per cwt (\$40.00), compared to \$67.43 in October 1998.

Exports to the U.S. increased 13 percent in 1999 compared to 1998. The U.S. share of Salvadoran coffee exports represents 30.7 percent of total exports in 1998/99. Germany continues to be the main export market for Salvadoran coffee, accounting for 38.0 percent of total exports in 1997/98. In 1999/00 coffee exports to the U.S. could be much higher due to higher production. The U.S. is a large importer of low altitude (CSA) coffee which is used by roasters for mixing.

Export Trade Matrix			
Country	El Salvador		
Commodity	Coffee, Green		
Time period	MY	Units:	60 Kg. Bags
Exports for:	1998		1999
U.S.	487253	U.S.	618495
Others		Others	
Germany	663635	Germany	764418
Belgium	140567	Belgium	135821
England	88950	England	130209
Netherlands	87150	France	85309
France	60050	Japan	74085
Japan	58870	Canada	72962
Italy	27075	Netherlands	43776
Canada	20250	Nicaragua	32300
Nicaragua	20228	Italy	24695
Total for Others	1166775		1363575
Others not Listed	5449		33675
Grand Total	1659477		2015745

Import Trade Matrix			
Country	El Salvador		
Commodity	Coffee, Green		
Time period	MY	Units:	60 Kg. Bags
Imports for:	1998		1999
U.S.	0	U.S.	0
Others		Others	
Honduras	25000	Honduras	25000
Total for Others	25000		25000
Others not Listed	0		0
Grand Total	25000		25000

Stocks

Ending stocks in 1998/99 are expected to fall to 30,000 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 APCC. Stocks are expected to remain similar in 1999/00 reaching approximately 33,000 bags.

In 1999/00 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, Salvadoran coffee distributors have a hard time getting their product to the region. Uncontrolled border crossings 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

The only new policy for the coffee sector is an increase in government funding for a loan program called FISAGRO. This is a GOES run program created to cover the financial losses caused by Mitch and El Niño. Under this program, needy (coffee) farmers have access to a 10 year, 10.4 percent loan. So far, the coffee sector has used up approximately 54 percent of the resources dedicated by the GOES to this program. The rest of the program has been distributed as follows: sugarcane 31 percent, cereals 8 percent and other agricultural sub-sectors (i.e. livestock) 7 percent. A U.S. NGO called Rainforest Alliance in conjunction with a local NGO (Salvanatura) is trying to implement a support program to protect El Salvador's biodiversity. Under this pilot program certain coffee regions which meet the regulations to protect the environment, are going to be certified with the "Eco-O.K." seal. This certification implies a higher price for coffee which is exported as environment-friendly to various markets throughout the world. Post will report on new policies towards the coffee sector as soon as new information becomes available.