



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 11/15/2001

GAIN Report #GT1029

Guatemala

Coffee

Semi-Annual

2001

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Report Highlights:

Guatemala's economy is being dragged down because of a steady decline in coffee prices in the past few years. The repercussions of a falling coffee sector are far reaching. This report describes the decrease of foreign exchange earnings; the increase in unemployment; bankruptcy of productive units; the decrease of economic activities in coffee regions; reported land invasions; and the unwanted internal and external migration resulting.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

According to the information gathered from the National Coffee Association (ANACAFE) the coffee sector is in horrible shape. The drag on the national economy can be quantified as follows. The failed coffee market in 2002 is expected to earn only \$200 million in foreign exchange which is \$75 million less than in the previous year. This level of earnings contrasts with 1998 foreign exchange earnings of \$600 million. In addition, employment of farm labor for the current coffee harvest will be only one half of the normal requirements. This will severely impact the poor rural population who depend upon coffee harvest employment as one of their few sources of cash income.

ANACAFE has been declaring the coffee crisis as a national crisis. Their efforts to extract financial assistance from the government has yielded some results. To alleviate the problem in the short term, the Government has established a trust fund of \$150 million. This is considerably less than the \$400 million required by the industry to support coffee farmers throughout the year. In addition, ANACAFE is preparing an integrated strategy for the medium and long term. From all that is reported, it appears that the medium sized farmers who hire casual labor and face liquidity problems, are the most severely affected.

PSD Table						
Country	Guatemala					

Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/1999		10/2000		10/2001
Area Planted	265	265	272	272	275	272
Area Harvested	260	260	265	265	270	230
Bearing Trees	748	748	749	749	750	750
Non-Bearing Trees	89	89	90	90	91	91
TOTAL Tree Population	837	837	839	839	841	841
Beginning Stocks	45	45	50	50	75	75
Arabica Production	4337	4337	4467	4467	4949	3800
Robusta Production	27	27	27	27	27	27
Other Production	0	0	0	0	0	0
TOTAL Production	4364	4364	4494	4494	4976	3827
Bean Imports	275	275	300	300	300	150
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	275	275	300	300	300	150
TOTAL SUPPLY	4684	4684	4844	4844	5351	4052
Bean Exports	4234	4234	4344	4344	4901	3627
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	4234	4234	4344	4344	4901	3627
Rst,Ground Dom. Consum	375	375	400	400	400	400
Soluble Dom. Consum.	25	25	25	25	25	20
TOTAL Dom. Consumption	400	400	425	425	425	420
Ending Stocks	50	50	75	75	25	5
TOTAL DISTRIBUTION	4684	4684	4844	4844	5351	4052

Production

Guatemalan coffee production from the harvest starting in October 2001 is expected to be significantly lower

than in past years. Based upon contracts ANACAFE reports that the harvest will yield only 3.8 million bags. This is the smallest output since 1995 and is around 16 percent less than the previous crop. This year we understand that many coffee farms are closing or laying off labor to reduce production costs.

In the current harvest period the coffee industry is experiencing the lowest prices in the last forty years. In a regular harvest season the coffee industry employs around 40 percent of the agricultural farm labor and supports around 62,500 farm owners throughout the country. For the current harvest season it is expected to be reduced. Currently, 230,000 hectares are expected to be harvested the lowest area since 1977.

Large and medium sized farms represent around 70 percent of Guatemala's coffee production. Increases in wages costs and decreases in coffee income, have forced some of these farmers to either stop coffee production or diversify to other crops. This has been the case especially in the coastal areas where alternatives exist for the land. During the past marketing year the cost of wages in coffee were \$431.05 million, while total income from export sales represented \$218.8 million (95% of total production is exported) leaving coffee farmers with a \$212 million loss. In addition, during the harvest season coffee farms employ around 500,000 people for different labor activities. This year employed labor is expected to be reduced to 250,000 people.

Another factor causing the dramatic drop in Guatemala's total coffee supply is a significant reduction of smuggled coffee from Honduras. Local production numbers do not differentiate between local production and illegal imports since local producers usually claim such coffee as their own for commercial purposes. Current PS&D registers smuggled coffee from Honduras as imports showing a difference between this report and local production numbers.

Coffee produced in Guatemala can be classified as prime washed, extra prime washed, hard bean, and strictly hard bean. Strictly hard bean is produced in higher and mountain areas, while prime and extra prime are being produced in the lower altitude coastal areas. Hard bean coffee is produced in the lower altitude mountain areas and in the higher altitude coastal areas. Due to low world coffee prices there is an existing shift in coffee production, with more areas of strictly hard bean being produced and less areas of prime and extra prime being produced. This is due to the fact that strictly hard bean has a higher value in comparison to prime and extra prime. Among regions producing strictly hard bean in Guatemala are Antigua, Atitlán, Huehuetenango, Cobán and Fraijanes. Some coffee farmers located in the south part of the country as we previously mentioned are either abandoning their farms or shifting to other crops such as bananas, rubber, and palm. in response to the substantial decrease in world prices, discouraging investment in coffee production.

Many coffee farmers realize that changes are needed. Some will diversify into other crops, other will grow organic coffee and sell to niche markets. The interest in farming organic coffee is increasing in Guatemala. International markets give a bonus above the regular price for organically farmed coffee. For 2002, Guatemala's registered organic coffee production is expected to still accounts for 5 percent of total production, because of the time lapse needed to be registered and the time lapse needed for new organic plants to start bearing fruits. Results are expected to be seen in about 5 to 10 years.

Export Trade Matrix			
Country	Guatemala		

Commodity	Coffee, Green		
Time period	Jan-Dec	Units:	Metric Tons
Exports for:	2000		2001
U.S.	1,779,000	U.S.	1,901,000
Others		Others	
Germany	550,000		600,000
Japan	300,000		350,000
Belgium	255,000		300,000
Netherlands	220,000		250,000
Italy	170,000		200,000
Canada	170,000		200,000
Sweden	170,000		200,000
France	130,000		150,000
Finland	100,000		150,000
Total for Others	2065000		2400000
Others not Listed	500,000		600,000
Grand Total	4344000		4901000

Import Trade Matrix			
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Country	Guatemala		
Commodity	Coffee, Green		
Time period	Jan-Dec	Units:	Metric Tons
Imports for:	2000		2001
U.S.		U.S.	
Others		Others	
Honduras	317,500	Honduras	317,500
Total for Others	317500		317500
Others not Listed			
Grand Total	317500		317500

Trade

Exports for the 2001-02 crop are expected to decrease dramatically to 3.6 million bags. If this forecast is achieved, it will be the lowest exports since 1995.

Imported contraband coffee from Honduras is estimated at 150,000 bags for 2002. About one half of last year's level. The reduction in contraband is due to local incentives from the Honduran Government to have their farmers deliver the crop within Honduras.

Again the United States is Guatemala's most important customer, accounting for almost half of total Guatemalan coffee exports. Germany, Japan, Belgium, Netherlands and Sweden are normally the next top five export destinations. Most exports are during the months from December to May.

Policy

Recently the Government of Guatemala increased taxes and performed reforms in some of the taxation laws, which according to ANACAFE will raise costs and depress the industry even further. ANACAFE argues that such Governmental decisions will increase unemployment, land invasions and migration. In addition encourage bankruptcy of productive units and decrease the economic activities in coffee producing regions. Nevertheless the government is raising taxes to balance the budget as required in the country constitution.

ANACAFE also expects political instability due to farm invasions and a strong migration to the city and the northern countries. In addition, the Government of Guatemala increased taxes recently and implemented reforms in some taxation laws. As a result production costs have been increased and several coffee farms have faced liquidity problems.

Economic

The coffee crisis is having grave consequences in the Guatemalan economy, some of the effects are as follow:

1. Decrease of foreign exchange earnings: As mentioned earlier, export earnings from coffee are expected to be \$200 million, the previous year export earnings reached \$275 million, yet in 1998 export earnings were over \$600 million.
2. Unemployment: The coffee industry is a major source of employment in Guatemala. During harvest the season the industry normally employs around 500,000 labor workers, but this year will only employ 250,000 labor workers. There is no alternative employment or employment benefits for these poor seasonal workers.
3. Bankruptcy of productive units: A farm owner costs of harvesting a bag of uva coffee (before it is process into green coffee) is Q33.41 (\$4.18). The selling price of one 60 kg bag of uva coffee is Q21.95 (\$2.75). The loss is \$1.43. To that you add raw material costs, crop handling costs and labor benefits and social security costs which easily adds up to \$11.63. In total the loss of producing one 60 kg bag of uva coffee adds up to around \$13.06. This factor has driven farm owners to abandonment or only farm maintance. In addition, several medium and large farm owners owe banks considerable amounts of mortgage money that they have not been able to pay due to low prices. Banks are taking farms to cancelled debt.
4. Land invasions: Due to the significant reduction of employment in the coffee industry, ANACAFE is

expecting foreclosed farms to be illegally occupied by local people. This could lead to social problems and conflicts.

5. Decrease of economic activities in coffee producing regions: The coffee crisis will affect other industries and economic activities due to reduction of employment, less purchasing power and less people in coffee producing areas.

6. Migration: Most of the seasonal workers employed by the coffee industry are subsistence farmers who now face the option of leaving the region for better opportunities in Mexico the United States and Canada.