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Date: 5/7/2010
GAIN Report Number: MX0033

Mexico

Coffee Annual

Mexico Corners the Market on Organic Coffee Production

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Report Highlights:
MY 2010/11 (Oct-Sept) coffee production is forecast at 4.6 million 60-kilogram bags, 9.5 percent higher than the last year's final production figure, despite indications that production in main producing areas could be affected from adverse weather conditions caused by climate change. Mexico continues to produce more organic coffee than any other country, approximately 500,000 60-kilogram bags. Meanwhile, MY 2010/11 exports are forecast to maintain similar levels as in MY 2009/10 since Mexico's coffee has lost competitiveness in international markets due to lower quality. However, Mexico is managing to overcome this stagnate phase from monetary support programs from the Government of Mexico (GOM).

Commodities:
Coffee, Green
Select

Production:
MY 2010/11 (Oct-Sept) coffee production is forecast at 4.6 million 60-kilogram bags, 9.5 percent higher than the last year's final production figure. Official forecasts indicate that the climate change issue, undoubtedly, will play an important role that could slightly alter those expectations. Nevertheless, the coffee sector is confident that favorable weather and ample moisture for plantations will fuel younger trees to come into full bearing. Also, the continued timely release of the GOM's monetary support for producers could help offset any negative weather problems. Moreover, in early 2010 the GOM established an agreement with international research organizations that will entitle the coffee sector to receive technical and scientific support. These supports would contribute to elevate the productivity in the sector through the development of "environmental friendly" varieties that demand less water consumption and deliver higher yields. The Chiapas coffee sector — the main production state — continues to implement a project, currently in its third year of a six-year term, to stimulate production through the renewal of coffee plantations, the recovery of affected areas, and the promotion of support schemes to encourage the certification of organic plantations.

The MY 2009/10 production figure was revised downward from the preliminary estimate, mainly due to harsh weather conditions (low temperatures in some of the main producing areas in early 2010), which altered the flowering stage and prevented production to spur. Again, climate change will play an important role in coffee yields, but government support will be a valuable aid that could help cope with this situation.

MY 2008/09 production estimates were revised upwards due to the latest official information.

As previously reported, 35 percent of the area devoted to coffee production is located at an altitude of 900 meters above sea level, which typically produces the best coffee while 43.5 percent of the best quality coffee, produced grows between 600 and 900 meters above sea level. Meanwhile, the berry borer pest continues to impact land under 600 meters altitude and is just now impacting higher altitudes, something that was never seen before. Experts are also considering conducting extensive research to assess the potential effects on plantations caused by climate change, which continues to be at the root of various disease and pest problems.

Mexico is ideally suited for coffee production due to its geographical location and climatic conditions. Recent reports indicate that about 98 percent of the coffee produced in Mexico is of the *Arabica* variety

(85 percent produced through the wet milling process and 12 percent from the natural sun dried process) while 2 percent is of the *Robusta* variety. This production ratio will likely not change in the short term.

Currently, Mexico is the world's largest producer of organic coffee, producing around 500,000 60-kilogram bags, which is mainly exported to European markets. Within Mexico, the state of Chiapas is the largest organic coffee producer followed by Oaxaca, Queretaro, Guerrero, Tabasco, Sinaloa, Michoacán and Jalisco. According to official data, coffee is considered among the most valuated organic products produced in Mexico. Moreover, this official data indicates that 85 percent of the organic production is intended for the export market while Chiapas accounts for 24 percent of production.

A number of factors have led to an overall stagnation in production in recent years, including the absence of good agricultural practices, the age of plantations, poor fertilization and higher production costs. In recent years, the cost of production has increased due to the lack of labor in the fields, which was primarily caused by migration to the United States. Labor costs represent about 90 percent of the total cost. However, recently there has been an ongoing increase in productivity and quality, thanks to coffee plantations applying better cultivation practices and adequate fertilization.

CROP AREA

MY 2010/11 planted and harvested areas are expected to remain at similar levels as in MY 2009/10. As stated earlier, the coffee sector's current strategy is to stimulate production through the replanting of coffee plantations, the recovery of affected areas, and the promotion of support schemes to encourage the certification of organic plantations while increasing domestic consumption. Over the next few years, planted and harvested areas are expected to increase at a moderate pace, driven by the development of new coffee nurseries, younger trees coming into production and attractive international prices. The planted area figure for MY 2009/10 was revised slightly upward to reflect the latest official data. MY 2008/09 remains unchanged.

YIELDS

Yields continue to vary widely in Mexico due to variations in crop care and weather. MY 2010/11 yields are expected to be similar to MY 2009/10 levels, assuming favorable weather conditions in recovered and non-affected areas and expected improvements in cultural practices. Yield figures for MY 2008/09 remain unchanged. The average yield in Mexico is roughly 5 quintals (46 kg. bag) per hectare. Currently, Chiapas boasts yields of 8 quintals per hectare while in the past it was nearly 12 quintals per hectare.

Consumption:

MY 2010/11 domestic coffee consumption of both roasted ground and soluble coffee is forecast to be slightly above the MY 2009/10 figure since the consumption of coffee, despite the lost of customer's power purchase, is one of a few products which its consumption is maintained. A recent marketing survey has confirmed that Mexico's domestic consumption is largely of soluble coffee, but the consumption of roasted coffee is on the upswing. The survey showed that 57 percent consume soluble coffee while 23 percent consume roasted coffee and 15 percent a combination of both. The per capita consumption of coffee in Mexico is still relatively low. However, the Mexican coffee industry is working hard to increase domestic consumption by promoting the health benefits of high quality Mexican blends. The objective is to eventually reverse the popular belief that there are negative health effects from consuming coffee. Official figures indicate that from the total production, 62 percent is destined for export while the remaining 38 percent is marketed domestically.

Consumers with relatively greater purchasing power have been targeted by the specialty coffee sector for years. However, the consumption of soluble coffee has been fueled by disposable income constraints. The rapid growth in cafes has now become a more mature venture that has attracted foreign and domestic investment, especially since the consumption of coffee in fast-food chains (McDonalds) has developed a new market niche — women with children, students or employees using the internet. This trend is expected to contribute to an increase in coffee consumption in the short-medium term.

Domestic consumption estimates for soluble coffee and roasted ground coffee during MY 2009/10 were revised downward due to a decrease in purchasing power in the medium and lower income households. MY 2008/09 figures were kept unchanged to reflect industry data. Current official data indicates that per capita consumption is still low at 1.0-1.2 kilograms per year/per capita.

Trade:

The international coffee trade volume has risen in recent years, but Mexico's coffee exports have remained relatively flat. MY 2010/11 exports are forecast to be above the observed MY 2009/10 levels due to attractive international prices. Recently, Mexico signed a Memorandum of Understanding with the Coffee Quality Institute (CQI) that will allow, in the near future, the Q Coffee and Q Grade certification of high-quality coffee lots in Mexico. Thus, it is expected that Mexico will continue to gain market share in foreign markets as an important green bean exporting country. Mexico is a net exporter of coffee in the green stage. The United States continues to be the main international market for Mexican green beans. Industry sources have stated that countries like the United States and Germany buy Mexican coffee, add value to it (i.e., sort, roast, and package), and then re-export back to Mexico. Mexico has been unable to take advantage of and capture the value-added feature in the production chain because the country lacks the infrastructure and distribution system to do so efficiently.

The MY 2009/10 and MY 2008/09 export figures were revised upward to reflect recently updated industry data.

MY 2010/11 import levels are forecast to return to historic levels due to an expected spur in production. The import estimates for MY 2009/10 were revised upward. This boost is attributed to the increased demand of middle-income consumers, who are in search of other options different from what the domestic soluble brands offer, and high-income consumers who are in search of fashionable value-added imported coffee and, a decreased production. MY 2008/09 figures were revised upward to reflect the latest industry data.

In recent years, about 70 percent of the Mexican coffee has been directed to the export market while only 30 percent is consumed domestically. This focus on exports has historically been fueled by the expectation of higher international prices and a relatively stable domestic demand. However, the

Mexican coffee industry is working to increase domestic consumption, and has established a 10-year goal of selling 70 percent of Mexican coffee domestically while exporting only 30 percent.

Stocks:
MY 2010/11 ending stocks are forecast to maintain similar or slightly above levels from the previous year's revised estimate, mainly due to sustained domestic consumption, exports enticed by attractive foreign prices and a stable production level. Ending stock estimates for MY 2009/10 were revised downward due to a slight increase in exports and reduced production. MY 2008/09 figures were revised downward due to availability of final official increased export figures.

Authorities from the National Coffee System (NCS) report that Mexico has never had a reliable system to register final stock numbers, and thus data is largely anecdotal. Current stock estimates reflect information obtained from industry sources since no official government statistics are available.

Policy:
Currently, the "Sustainable and Integral Coffee Development Law" is on hold while Congress analyzes and debates its merits. This law will obligate the Government of Mexico to establish a long term policy based on a strategy of production of high quality coffee and the establishment of a Mexican Coffee Council responsible for promoting and coordinating actions pertaining to the coffee sector. The Lower House has passed the proposed law, but the Senate has yet to ratify it. At this point, it is uncertain if the law will be voted on during the ordinary session of Congress in 2010.

Marketing:
Historically, Mexico's coffee blends have not reached top prices in foreign markets due to the use of inappropriate processing techniques, such as mixing coffee grains from different altitudes and maturity stages, and mishandling grains during the wet milling process. Through the continued enforcement of SAGARPA's, "Productive Development and Quality Improvement of Mexican Coffee" program, coffee producers are being taught appropriate processing and marketing techniques.

Production, Supply and Demand Data Statistics:

Coffee, Green Mexico	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	683	683	683	700	700	813	0	0	810
Area Harvested	600	600	600	600	600	766	0	0	750
Bearing Trees	700	700	700	710	710	710	0	0	710
Non-Bearing Trees	200	200	200	210	210	210	0	0	210
Total Tree Population	900	900	900	920	920	920	0	0	920
Beginning Stocks	270	270	270	136	133	56	0	0	46
Arabica Production	4,200	4,200	4,350	4,250	4,250	4,000	0	0	4,350
Robusta Production	250	247	250	250	250	200	0	0	250
Other Production	0	0	0	0	0	0	0	0	0
Total Production	4,450	4,447	4,600	4,500	4,500	4,200	0	0	4,600
Bean Imports	15	15	25	20	20	30	0	0	20
Roast & Ground Imports	15	15	25	20	20	50	0	0	20
Soluble Imports	106	106	110	100	100	150	0	0	100
Total Imports	136	136	160	140	140	230	0	0	140
Total Supply	4,856	4,853	5,030	4,776	4,773	4,486	0	0	4,786
Bean Exports	2,400	2,400	2,500	2,400	2,400	2,400	0	0	2,400
Rst-Grnd Exp.	20	20	20	20	20	20	0	0	50
Soluble Exports	100	100	254	100	100	120	0	0	249

Total Exports	2,520	2,520	2,774	2,520	2,520	2,540	0	0	2,699
Rst,Ground Dom. Consum	1,000	1,000	1,000	1,000	1,000	900	0	0	1,000
Soluble Dom. Cons.	1,200	1,200	1,200	1,200	1,200	1,000	0	0	1,030
Domestic Use	2,200	2,200	2,200	2,200	2,200	1,900	0	0	2,030
Ending Stocks	136	133	56	56	53	46	0	0	57
Total Distribution	4,856	4,853	5,030	4,776	4,773	4,486	0	0	4,786

Trade Matrices

Table 2. Mexico Coffee, exports (GBE)	UNITS: Metric Tons	
Exports to:		
Destination	**CY 2008**	**CY 2009**
U.S.	71,073	85,618
Belgium	13,130	10,572
Germany	8,135	11,287
Japan	3,581	2,935
Other not listed	14,220	21,699
Grand Total	110,139	132,111

Table 3. Mexico Coffee, imports (GBE)	UNITS: Metric Tons	
Imports from:		
Destination	**CY 2008**	**CY 2009**
U.S.	1,406	905
Colombia	418	462
Other not listed	472	638
Grand Total	2,296	2,005

Table 4. Mexico Soluble Coffee, exports (GBE)	UNITS: Metric Tons	
Exports to:		
Destination	**CY 2008**	**CY 2009**
U.S.	29,312	29,474
Other not listed	10,710	6,281
Grand Total	40,022	35,755

Table 5. Mexico Soluble Coffee, imports (GBE)	UNITS: Metric Tons	
Exports to:		
Destination	**CY 2008**	**CY 2009**
U.S.	1,455	1,785
Colombia	549	1,415
Other not listed	25	8
Grand Total	2,029	3,208

Source: Global Trade Atlas

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