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Global Agricultural Information Network

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El Salvador

Coffee Annual

Coffee sector hurting from low prices and lack of strategy

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Report Highlights:

El Salvador's coffee production is expected to increase to 675,000 sixty-kg bags in Marketing Year (MY) 2018/19. Even though production increased slightly compared to the previous cycle, the Salvadoran coffee sector continues to struggle mainly due to low international prices, continued coffee leaf rust and a lack of financing. The MY2019/20 crop is expected to reach 680,000 bags. However, the Salvadoran Ministry of Environment forecasts the appearance of El Niño that could bring drought conditions unfavorable to coffee tree flowering and bean development.

Executive Summary:

El Salvador's Marketing Year (MY) 2018/19 (Oct-Sept) harvest will increase mainly due to new plants coming into production. Post's production estimate is approximately two percent higher than the previous year's crop at 675,000 sixty kilogram bags. The MY2019/20 harvest is expected to increase slightly reaching approximately 680,000 bags.

Exports in MY 2018/19 are expected to reach 600,000 bags, up three percent from the previous crop and in line with the increased production estimate. Export numbers for MY2018/19 are expected to increase to 605,000 bags. The United States continues to be the main export destination for Salvadoran coffee, accounting for almost 43 percent of MY2018/19 exports through April 2019. Germany is the second destination for Salvadoran coffee, followed by Belgium, Japan, Italy and England.

A tendency to look towards the export market and a lack of strategy overall has led El Salvador to neglect its domestic market. This has led to continued increases in soluble coffee imports, mainly from Mexico, Brazil and Nicaragua. Starbucks, Juan Valdez and Salvadoran chain The Coffee Cup continue growing in the retail market. There is an increasing trend of new coffee shops in major commercial areas, offering premium quality local Bourbon and Pacamara coffee varieties, but they are still a small niche.

The Salvadoran Coffee Council (SCC) continues to monitor exports through export registration permits. In the past, the Government of El Salvador has guaranteed loans to the coffee sector both through state and private banks; however, this season due to very low coffee prices, private banks are reluctant to lend to the coffee sector. Coffee is still an important source of employment in rural areas. However, the drastic decline in production (as a result of coffee rust and lack of investment) has led to big job losses in the sector. Over last six years, jobs have dropped from 86,500 to an estimated 44,600 for the 2018/19 crop. Coffee is no longer the major source of export revenues in El Salvador, replaced by non-traditional products such as processed ethnic foods and tropical fruits and sugar. At current prices, coffee exports in 2019/20 are only expected to generate US\$85 million in foreign exchange.

El Salvador continues to promote its coffee through trade expos and buyer missions, focusing mainly on specialty and gourmet qualities (See Trade Section, below).

Commodities:

Coffee, Green

Production:

New production numbers compiled by Post estimate the 2018/19 coffee harvest at 675,000 bags. This is a two percent increase from the 2017/18 crop, mainly due to less damage than expected by leaf rust throughout the growing season and more new plants coming into production. The 2019/20 production is forecast slightly up at 680,000 bags.

The GOES continues to assist mainly small farmers with plant and fungicide giveaway programs that have had minimal positive impact on recovery of the coffee sector. Continued good agricultural practices to counter coffee rust and an adequate renovation program that includes financing to maintain plants until they reach production are two key factors that can help in the recovery of Salvadoran coffee production. Value-added production such as gourmet, specialty and fair-trade coffees continue to provide additional revenue to a growing number of coffee producers that are focusing on this type of market. More farmers are now focusing on micro (5-100 bags) and nano (less than 5 bags) coffee lot sales to specialty retailers in the United States, Europe, and Asia.

In the 2019 El Salvador Cup of Excellence competition two Pacamara varieties won first and second place with a 90-point score. In addition, the SCC continues to promote reverse trade missions of European, Taiwanese and American specialty coffee buyers to sample local coffee (see Trade Section, below).

Consumption:

Consumption in coffee bars continues to grow in El Salvador. The number of establishments is expanding – now opening in strip malls and major shopping centers, which is the case with Juan Valdez, Starbucks and local competitors Viva Espresso, Four Monkeys and The Coffee Cup. Also, new coffee brands at the retail level are stimulating demand for local Bourbon, Pacas and Pacamara variety coffee.

In MY2018/19, consumption is estimated to reach 300,000 bags. However, most local consumption continues to be soluble coffee imported from Mexico, Brazil, Colombia and Nicaragua; as well as locally produced brands. In MY2018/19, soluble domestic consumption is expected to reach 260,000 bags - Green Bean Equivalent (GBE), a two percent increase compared to the previous year. Roasted and ground domestic consumption has also increased reaching 40,000 bags GBE in the same period. However, local consumers continue to favor soluble coffee due to ease of preparation and a lower price.

Insufficient investment in marketing to boost consumption of local high-quality roasted beans and a market that tends to be price elastic are some of the factors that continue to favor soluble consumption. The CSC is trying to boost consumption of higher quality coffee promotion events, such as the 2019 Expocafe and barista training.

Trade:

Coffee exports for MY2018/19 are estimated at 600,000 bags, up three percent from the previous crop as a result of increase in production. In MY2019/20, coffee exports are expected to reach approximately 590,000 bags.

In MY2018/19, the United States is expected to be the main export destination for Salvadoran coffee reaching approximately 256,800 bags, about 43 percent of total exports. Germany continues to be the number two export destination accounting for approximately 15 percent of total exports. Other important destinations are Belgium, Japan and the UK. South Korea has become a new export destination accounting for 2.1 percent of total exports. This number is expected to grow in future crops due to a recent free trade agreement with South Korea that provides duty free access for Salvadoran coffee.

Premium prices obtained by gourmet and specialty coffees create an incentive to increase exports of these types of coffees. The SCC has carried out various promotional events, including the Cup of Excellence events. The best quality coffees produced in El Salvador participate in global electronic auctions. Through these events, local coffee is sold to U.S., Japanese, Taiwanese and European buyers with prices that have premiums that range from \$100 to \$300 per hundredweight over the spot market "Contract C" prices.

Export Trade Matrix El Salvador Coffee, Green			
Time Period	MY	Units:	60 kg bags
Exports for:	2018		2019
U.S.	256,800	U.S.	252,520
Others		Others	
Germany	89,400	Germany	87,910
Belgium	47,400	Belgium	46,610
Japan	43,800	Japan	43,070
Italy	41,400	Italy	40,710
England	30,000	England	29,500
Canada	13,200	Canada	12,980
South Korea	12,600	South Korea	12,390
Total for Others	277,800		273,170
Others not Listed	65,577		64,510
Grand Total	600,177		590,200

Source: CSC

El Salvador is active in promoting coffee through reverse trade missions composed of European, American, Taiwanese and Japanese specialty coffee buyers. Many Salvadoran coffee exporters participated in the 2019 Specialty Coffee Association of America (SCAA) fair.

Local NGO Salvanatura continues to expand the number of producers that are participating in environmental and social responsibility certifications such as the Rainforest Alliance certification. Currently, over 230 farms and 34 mills have been Rainforest Alliance certified. Other certification efforts such as Fair Trade, UTZ, Starbucks and coffee-related Geographical Indications (GI's) are also being expanded in El Salvador. The CSC, working with the six coffee regions in El Salvador, have established Geographic Indications (GI's) for the coffee produced in those regions.

Coffee with these certifications commands a higher price on the market. The CSC is also training local cuppers to obtain “Q” grade certification that ultimately helps to position Salvadoran coffee as a reliable source of quality beans. Starbucks is also present in the country with its Cafe Practices program. Farmers under this program are selling their coffee at prices about \$80 above international Contract C prices.

In calendar year 2018, Mexico supplied 89,531 bags GBE of soluble coffee to the local market. Brazil exported 69,063 bags and Nicaragua 26,183 bags. Colombia is also present in the market with soluble product brand Colcafe, as well as with its insignia “Juan Valdez” coffee retail outlets selling 7,914 bags of Colombian coffee. U.S. imports totaled 3,362 bags of both roasted and soluble coffee. El Salvador also imported 3,075 bags of green bean coffee, mainly to supply local soluble coffee manufacturer with lower quality beans for that process and lack domestic availability.

Import Trade Matrix El Salvador Coffee, Green			
Time Period	CY	Units:	60 kg bags
Imports for:	2018		2019
U.S.	3,362	U.S.	3,500
Others		Others	
Mexico	89,531	Mexico	91,000
Brazil	69,063	Brazil	70,000
Nicaragua	26,183	Nicaragua	28,500
Colombia	7,914	Colombia	8,300
Honduras	3,075	Honduras	3,600
Chile	2,817	Chile	2,900
Guatemala	2,729	Guatemala	2,900
Total for Others	201,312		207,200
Others not Listed	9,167		6,150
Grand Total	213,841		216,850

Source: Salvadoran Central Bank (BCR)

Stocks:

New data compiled by FAS/San Salvador estimates stock numbers reaching 12,000 bags in MY2018/19. Stocks for MY2019/20 are forecast to increase to 14,000 bags.

Policy:

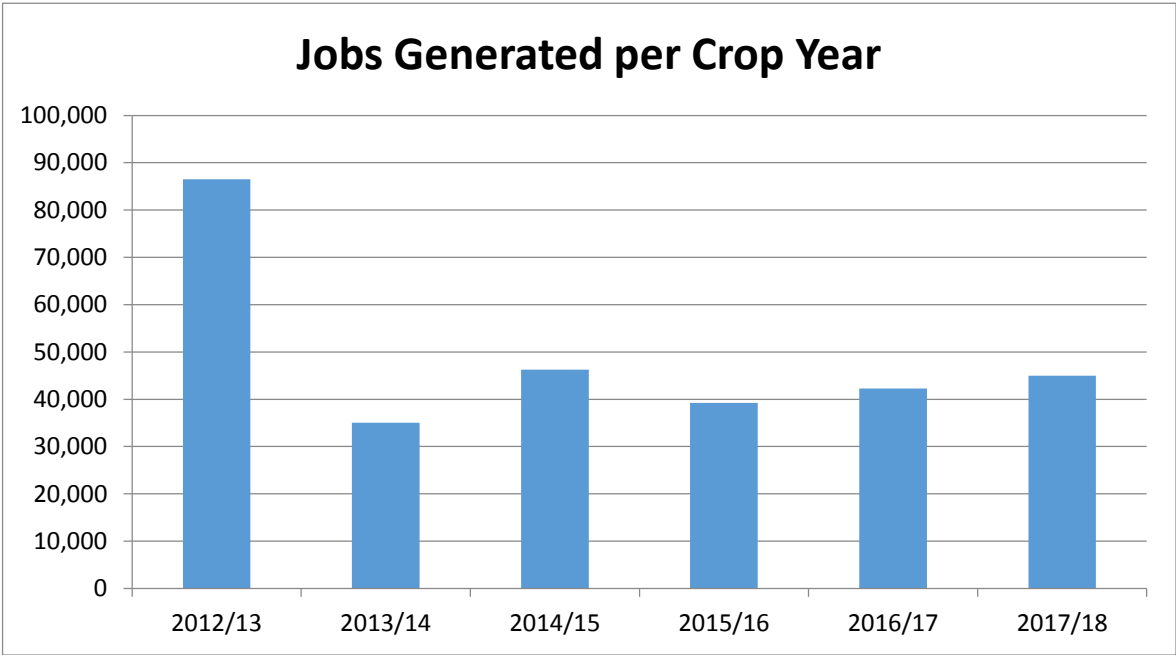
The main problem faced by the Salvadoran coffee sector continues to be a lack of strategy to create sustainability and profit for coffee farmers.

While there are some efforts by the government to implement assistance programs, they have not been effective in helping producers recover from losses due to rust.

In 2014, the GOES through the Ministry of Agriculture (MAG) created CENTA café. This new institution oversees extension services for coffee farmers. In addition, in 2016, MAG started a new fungicide and plant giveaway program for small farmers. According to MAG, approximately 20 million rust-resistant plants will be provided through CENTA café in CY2019. These government programs are mainly targeted to small farmers (less than 3 hectares) that only account for 10% of planted area. The main problems with the plant give-away are that most seedlings are not certified and there is no funding made available to provide the necessary upkeep until the plants reach production age (approximately 3 years), thus most of the time farmers must sell the plants or they die due to a lack of inputs (i.e. fertilizer, insecticides, fungicides).

The Government’s political program is insufficient. The sector needs a major replanting program to renovate coffee production areas with new trees. In many areas, most trees have surpassed their productive age (over 25 years). Every year over seven million plants need to be planted just to replace those that die naturally. According to the Salvadoran Coffee Association, approximately 30 million good quality rust-resistant plants are needed per year for a period of ten years to completely renovate the national coffee area.

As a result, jobs continue to disappear in coffee producing areas resulting in migration to urban areas. Approximately 10,000 jobs are lost for every 100,000-quintal drop in production – approximately every 45,000 tons. In addition, the abandonment of coffee farms has increased, depriving the country of its main source of forestation and water retention, a much needed benefit of coffee production.



Source: Salvadoran Coffee Council

Coffee farmers continue paying back the Coffee Trust (FICAFE) program, which was established in 2001 to defer accumulated debt. As part of the GOES program to assist the coffee sector, the capital

payments to FICAFE were deferred in 2014 for a grace period of three years so that those funds could be used to plant new coffee trees, to improve agricultural practices to fight coffee leaf rust, and to increase productivity at the farm level. The GOES has extended this grace period for an additional year through 2019.

The GOES, only through state banks, has guaranteed a \$70 per hundredweight GBE loan to carry out production activities and harvest collection for the upcoming production cycle. The GOES is also providing fungicides and liquid fertilizers to small farmers to alleviate the coffee rust outbreak. However, given the continued damage by rust, this loan ceiling and input provision once again will not be sufficient.

In 2016, with the help of the Inter-American Institute for Agricultural Cooperation (IICA), the eight coffee associations began to work together to try to find a way out of the coffee rust crisis. They set up working groups to analyze research, financing, institutional strengthening and marketing/branding. However, this effort was not backed by the GOES and the work done was set aside.

USDA through the Food for Progress program continues working with the National Cooperative of Business Associations (NCBA) on a project to assist approximately 7,500 coffee farmers with new production technologies, extension work, access to high-quality, rust-resistant varieties, assistance with loan requests and a crop diversification program to improve food security and additional income. This program serves as a model of what the coffee sector could do to overcome the challenges posed by coffee rust.

At the end of 2017, the government and the main opposition party signed a political pact to try to save the coffee sector. The pact proposes the following: to create a new research institution, to extend the repayment period and lower interest rates on coffee debt (estimated at around \$240 million), to provide \$100 million to renovate 70,000 hectares with rust-resistant varieties over the next eight years, and to create a single coffee organization to unite the eight current associations and the government. As part of this commitment, the National Assembly approved an \$80 million loan from the Central American Bank for Economic Integration. This funding will help to start the projected renovation of the entire coffee area. Approximately \$6 million are to be devoted to the creation of a research facility and the rest to renovation of old coffee trees and technical assistance.

The Ministry of Agriculture has expressed interest in creating a price band for the cost that coffee mills charge to farmers for the service to transform their coffee to export-ready green beans. Currently this cost is approximately \$50 per hundredweight GBE. Also, the GOES is doing an assessment of the import duties currently charged for roasted and soluble coffees and the impact that imports generate on local farmers. According to the Ministry of Economy, current duties are too low and there needs to be a revision made to alleviate the impact on local coffee consumption. Every year over 200,000 60 kg. Bags are imported, mainly of soluble low quality coffee affecting market opportunities for local coffee.

The future of El Salvador's coffee sector will depend upon the ability of both producers and government institutions to implement a strategy to get out of the crisis that includes debt re-structuring, repayment periods, and a unified coffee association that oversees research, technical assistance, quality control, labor, food security, and crop diversification. If these issues are not addressed, the number of farmers

that have already abandoned their farms (currently 30%), will continue to grow, deepening a crisis in labor, the environment and the economy. With a new GOES administration taking office on June 1, there is an opportunity to get the coffee associations together to come up with a unified strategy that could help farmers become sustainable in the near future.

Production, Supply and Demand Data Statistics:

<i>Coffee, Green</i>	2017/2018		2018/2019		2019/2020	
<i>Market Begin Year</i>	Oct 2017		Oct 2018		Oct 2019	
<i>El Salvador</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (Has.)	141	141	137	137	0	137
Area Harvested (Has.)	134	134	130	130	0	130
Bearing Trees (Million)	335	335	323	323	0	324
Non-Bearing Trees (Million)	25	25	20	20	0	19
Total Tree Population (Million)	360	360	343	343	0	343
Beginning Stocks (Thousand 60 Kg. Bags)	28	28	23	23	0	12
Arabica Production (Thousand)	650	660	650	675	0	680
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production (Thousand 60 Kg. Bags)	650	660	650	675	0	680
Bean Imports (Thousand 60 Kg. Bags)	0	0	0	3	0	4
Roast & Ground Imports (Thousand 60 Kg. Bags)	10	9	10	9	0	10
Soluble Imports (Thousand 60 Kg. Bags)	190	199	190	202	0	203
Total Imports (Thousand 60 Kg. Bags)	200	208	200	214	0	217
Total Supply (Thousand 60 Kg. Bags)	878	896	873	912	0	909
Bean Exports (Thousand 60 Kg. Bags)	590	570	600	584	0	574
Rst-Grnd Exp. (Thousand 60 Kg. Bags)	0	1	0	1	0	1
Soluble Exports (Thousand 60 Kg. Bags)	0	12	0	15	0	15
Total Exports (Thousand 60 Kg. Bags)	590	583	600	600	0	590
Rst,Ground Dom. Consum (Thousand 60 Kg. Bags)	75	36	75	40	0	42
Soluble Dom. Cons. (Thousand 60 Kg. Bags)	190	254	190	260	0	263
Domestic Use (Thousand 60 Kg. Bags)	265	290	265	300	0	305
Ending Stocks (Thousand 60 Kg. Bags)	23	23	8	12	0	14
Total Distribution (Thousand 60 Kg. Bags)	878	896	873	912	0	909
Exportable Production (Thousand 60 Kg. Bags)	385	370	385	375	0	375