Required Report - public distribution

Date: 5/4/2017
GAIN Report Number: ES1702

El Salvador

Coffee Annual

Salvadoran Coffee: Trying to Rise above the Crisis

Approved By:
Todd Drennan

Prepared By:
Miguel Herrera

Report Highlights:
El Salvador's coffee production is expected to increase to 599,000 sixty-kg bags in 2016/17 (October-September). Even though production increased by approximately seven percent compared to the previous cycle, the Salvadoran coffee sector continues to struggle mainly due to continued coffee leaf rust, irregular weather and low international prices that affect investment capacity of local farmers. The MY2017/18 crop is expected to reach 575,000 bags, however this will ultimately depend on how the rainy season continues to unfold since it already has affected coffee flowering due to delays in normal rain levels.

Executive Summary:

El Salvador's MY2016/17 coffee harvest will increase mainly due to on-year production cycle. Post's production estimate is approximately seven percent higher than the previous year's crop reaching 599,000 sixty-kg bags (bags), which is also a four percent increase from the last year's estimate. The MY2017/18 harvest is expected to decrease to approximately 575,000 bags.

Exports in MY 2016/17 are expected to reach 490,550 bags, down 11 percent from the previous estimate. Export numbers for MY2017/18 are expected to increase to 528,100 bags. Local financial institutions continue to require farmers to have a planned coffee-sales program in order to access loans; farmers must submit future coffee contract sales to avoid speculation. The United States continues to be the main export destination for Salvadoran coffee, accounting for 53 percent of MY 2016/17 exports through April 2017. Germany is the second largest destination for Salvadoran coffee, followed by Italy, Japan, Belgium, Taiwan and England.

Lack of incentives for value-added coffee processing and a reduced local crop continues to favor imports. This has led to increases in soluble imports, mainly from Mexico, Brazil and Nicaragua. Colombian Juan Valdez and U.S. Starbucks coffee shops continue gaining market share in the retail market.

The Salvadoran Coffee Council (SCC) continues to monitor exports with the use of export registration permits. The Government of El Salvador (GOES), through government-owned financial institutions, has guaranteed a loan of US$80 per hundredweight (cwt) to cover routine maintenance and harvesting during the 2016/17 crop season (Please refer to Policy Section, below, for further information). Coffee is still an important source of employment in rural areas. However, the drastic production reduction (caused by coffee rust) has deeply impacted jobs on coffee farms (both the number of jobs and the number of work hours have dropped). The number of jobs has decreased during the last five seasons from 130,000 to an estimated 41,000 for the 2016/17 crop. Also coffee is no longer the major source of export revenues in El Salvador, having been replaced by non-traditional products such as processed ethnic foods and tropical fruits. At current prices, coffee exports in 2017/18 are only expected to generate approximately US$65 million in foreign exchange.

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

Commodities:

Coffee, Green

Production:

New production numbers compiled by Post reveal that the 2016/17 coffee harvest is expected to reach 599,000 bags, up four percent from previous estimates. This is a seven percent increase from the 2015/16 crop; mainly due to less damage than expected by coffee leaf rust throughout the growing season. The 2017/18 production is estimated at 575,000 bags.

The GOES continues to guarantee loans to the coffee sector. Continued good agricultural practices to counter the attack of coffee rust is one of the key factors in the recovery of Salvadoran coffee production. Value-added production such as gourmet, specialty and fair-trade coffees continue to provide additional revenue to coffee producers. Some farmers are focusing on micro-lot sales to specialty retailers in the United States, Europe, and Asia.

In 2016, El Salvador was dropped from the "Cup of Excellence" (COE) coffee competition due to lack of funding. COE is an international competition for high quality coffees. In response the SCC organized a similar activity to increase exposure of fine Salvadoran coffees in the specialty market. Although El Salvador participated in the "Cup of Excellence" in 2017, the SCC held its event again this year. 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 cafes continues gaining popularity in El Salvador. The number of establishments is expanding – now opening in strip malls and major shopping malls which is the case with Colombian Juan Valdez stores. Also, new coffee brands at the retail level continue to increase demand and stimulating.

In MY 2016/17 consumption reached 286,000 bags. However, most local consumption continues to be soluble coffee imported from Mexico, Brazil and Nicaragua. In MY2016/17, soluble domestic consumption is expected to reach 252,000 bags - Green Bean Equivalent (GBE), a 4 percent increase compared to the previous year. Roasted and ground domestic consumption has also increased reaching 34,000 bags GBE in the same period.

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 favor soluble consumption.

Trade:

Coffee exports for MY2016/17 are estimated at 490,550 bags, down 10 percent from the previous estimate. In MY2017/18 coffee exports are expected to reach approximately 528,000 bags.

In MY2016/17 the United States is expected to be the main export destination for Salvadoran coffee reaching approximately 259,992 bags, about 53 percent of total exports. Germany continues to be the number two export destination accounting for approximately 12 percent of total exports. Other important destinations are Italy, Japan, England, Taiwan and Belgium.

Premium prices obtained by gourmet and specialty coffees are an incentive to increase exports of these types of coffees. The SCC has carried out various promotional events to replace the "Cup of Excellence." The best quality coffees produced in El Salvador were selected by a group of local and international coffee judges to participate in global electronic auctions. Through these events, local coffee was successfully sold to U.S., Japanese, Taiwanese and European buyers with prices that were higher than the spot market "Contract C" prices.

Export Trade Matrix El Salvador Coffee, Green			
Time Period	**MY**	**Units:**	**60 kg bags**
Exports for:	**2016**		**2017**
U.S.	259,992	U.S.	279,893
Others		**Others**	
Germany	57,394	Germany	61,788
Italy	34,829	Italy	37,495
Japan	27,471	Japan	29,574
Belgium	25,018	Belgium	26,331
Taiwan	15,207	Taiwan	16,371
England	14,226	England	15,315
Jordan	13,735	Jordan	14,787
Total for Others	187,880		201,661
Others not Listed	46,678		46,456
Grand Total	**490,550**		**528,100**
Source: CSC			

El Salvador is active in promoting coffee through reverse trade missions composed of European, American, Taiwanese and Japanese specialty coffee buyers introducing them to the unique qualities that Salvadoran coffee offers. Many Salvadoran coffee exporters participated in the 2017 Specialty Coffee Association of America (SCAA) fair. This year the SCC and the Salvadoran Ministry of Foreign Affairs also invited the Berlin Barista Association to participate in an informational and seller-buyer event to increase sales of local coffee to the German market.

Local NGO Salvanatura is expanding 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 are also being expanded in El Salvador. Coffee with these certifications commands a higher price on the market.

In Calendar Year 2016, Mexico supplied 74,868 bags GBE of soluble coffee to the local market. Brazil exported 70,766 bags and Nicaragua 33,716 bags, and are also important suppliers. Colombia is also present in the market with soluble product brand Colcafe, as well as with its insignia “Juan Valdez” coffee retail outlets selling 8,568 bags of Colombian coffee.

Import Trade Matrix El Salvador Coffee, Green			
Time Period	**CY**	**Units:**	**60 kg bags**
Imports for:	**2016**		**2017**
U.S.	2,887	U.S.	3,050
Others		**Others**	
Mexico	74,868	Mexico	75,200
Brazil	70,766	Brazil	71,000
Nicaragua	33,716	Nicaragua	34,000
Honduras	20,239	Honduras	20,500
Colombia	8,568	Colombia	8,700
Chile	3,513	Chile	3,600
Guatemala	1,582	Guatemala	1,600
Panama	1,269	Panama	1,300
Total for Others	214,521		215,900
Others not Listed	5,142		4,800
Grand Total	**222,550**		**223,750**
Source: Salvadoran Central Bank (BCR)			

Stocks:
New data compiled by FAS/San Salvador shows stock numbers reaching 54,000 bags in MY2016/17. Stocks for MY2017/18 are expected to drop to 36,000 bags.

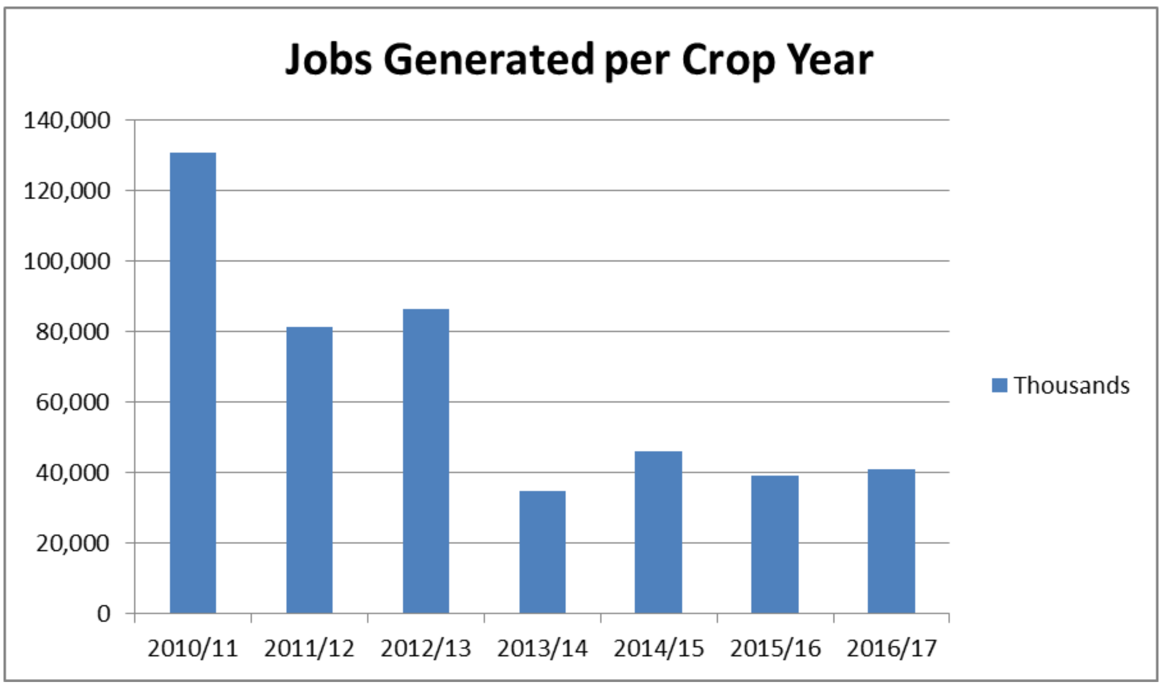
Policy:
The main problem faced by the Salvadoran coffee sector continues to be the lack of strategy that incorporates both private sector (producers, cooperatives, millers) and also the public sector as the regulatory setting body, to save the sector and set a path to sustainability and profitability for coffee farmers in the long run.

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 the fourth quarter of 2014, the GOES through the Ministry of Agriculture (MAG) created CENTA café. This new institution oversees extension services for coffee farmers. In addition, in the second quarter of 2016, MAG started a new fungicide and plant giveaway program for small farmers. According to MAG, approximately 8 million rust-resistant plants will be provided through CENTA café in CY2017. These government programs are mainly targeted to small farmers (less than 3 hectares) that only account for 10% of planted area. The main problem with the plant give-away is that there is no funding made available to provide the necessary care until the plants reach production age (approximately 3 years), thus most of the time famers must sell the plants or they die due to a lack of inputs (i.e. fertilizer, insecticides, fungicides).

The Government's political program is not enough because the sector needs a major replanting program to renovate the coffee area 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 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 in search of opportunities. Approximately 10,000 jobs are lost for every 100,000 hundred-weight 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, 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 can 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, through its state banks, has guaranteed an $80 per hundredweight GBE loan to carry out regular cultural practices 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 severity of the coffee rust damage, this loan ceiling and input provision will not be sufficient.

In the fourth quarter of 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. In addition, they have organized the first global coffee research summit that is scheduled to take place in El Salvador from May 30t1st to June 2nd, 2017. Some of the top names in coffee research have already confirmed their participation as speakers in this event. The USDA funded National Cooperative of Business Associations (NCBA) project is a sponsor of this event as well as Texas A&M World Coffee Research.

USDA through the Food for Progress program continues working with the 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 to with loan requests and a crop diversification program to provide 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. In addition, NCBA has signed Memorandums of Understanding with local government banks Banco Hipotecario and Banco de Fomento Agropecuario, coffee exporters, coffee coops and Ministry of Agriculture (CENTA Café program and Salvadoran Coffee Council); that outline different assistance activities that will be provided by the program.

Recently the government and the main opposition party signed a political pact to try to save the coffee sector. The unfunded 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. However, the currently unfunded pact is seen by many as another political scheme with little chance of becoming a reality.

In the end, 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. There are a number of different issues that need to be offered: debt re-structuring, repayment periods, and a unified coffee association that oversees research, technical assistance, quality promotion, 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.

Production, Supply and Demand Data Statistics:

Coffee, Green	2015/2016		2016/2017		2017/2018	
Market Begin Year	Oct 2015		Oct 2016		Oct 2017	
El Salvador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (Has.)	0	141	0	141	0	141
Area Harvested (Has.)	0	134	0	134	0	134

Bearing Trees (Million)	0	335	0	335	0	335
Non-Bearing Trees (Million)	0	25	0	25	0	25
Total Tree Population (Million)	0	360	0	360	0	360
Beginning Stocks (Thousand 60 Kg. Bags))	18	18	23	16	0	54
Arabica Production (Thousand)	540	560	575	599	0	575
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production (Thousand 60 Kg. Bags)	540	560	575	599	0	575
Bean Imports (Thousand 60 Kg. Bags)	0	8	0	19	0	19
Roast & Ground Imports (Thousand 60 Kg. Bags)	10	11	10	9	0	9
Soluble Imports (Thousand 60 Kg. Bags)	190	174	175	195	0	196
Total Imports (Thousand 60 Kg. Bags)	200	193	185	223	0	224
Total Supply (Thousand 60 Kg. Bags)	758	771	783	831	0	853
Bean Exports (Thousand 60 Kg. Bags)	490	484	550	488	0	525
Rst-Grnd Exp. (Thousand 60 Kg. Bags)	0	1	0	1	0	1
Soluble Exports (Thousand 60 Kg. Bags)	0	1	0	2	0	2
Total Exports (Thousand 60 Kg. Bags)	490	486	550	491	0	528
Rst,Ground Dom. Consum (Thousand 60 Kg. Bags)	80	31	75	34	0	35
Soluble Dom. Cons. (Thousand 60 Kg. Bags)	165	245	150	252	0	254
Domestic Use (Thousand 60 Kg. Bags)	245	276	225	286	0	289
Ending Stocks (Thousand 60 Kg. Bags)	23	9	8	54	0	36
Total Distribution (Thousand 60 Kg. Bags)	758	771	783	831	0	853
Exportable Production (Thousand 60 Kg. Bags)	295	284	350	313	0	286