

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 5/15/2014

GAIN Report Number: ES1402

El Salvador

Coffee Annual 2014

Coffee Leaf Rust causes Production Plunge

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Report Highlights:

El Salvador's coffee production is expected to drop to 507,000 sixty-kg bags in 2013/14 (October 2013 - September 2014), a 59 percent decrease from 2012/2013. Primarily caused by a severe coffee leaf rust outbreak, this is the lowest production for the past 80 years. The Salvadoran government is trying to provide some relief, but the government's assistance (providing fungicides and an incentive program to replace old trees) has not been enough to offset the damage. El Salvador continues to promote specialty coffee; which is approximately 30% of total exports. Post estimates the 2014/2015 crop at 675,000 sixty-kg bags. However, this estimate could drop due to the ongoing coffee rust outbreak and an El Niño weather phenomenon could cause a dry spell.

Executive Summary:

El Salvador's 2013/14 marketing year (October 1, 2013 - September 30, 2014) coffee harvest is expected to be much lower than previously reported; Post estimates production will only reach about 507,000 sixty-kg bags. According to the Salvadoran Coffee Council (CSC), the coffee leaf rust outbreak affecting the Central American region is the main reason behind this significant drop in production. The 2014/15 harvest is expected to rebound mainly due to the bi-annual on-year production cycle.

Exports in MY 2013/14 are expected to reach 417,450 sixty-kg bags. Export numbers for 2014/15 are expected to increase due to both an on-year production cycle and to lesser damage by coffee leaf rust during this production cycle. Local financial institutions continue to require farmers to have a planned coffee-sales program in order to have access to loans; farmers must forward contract their coffee sales and avoid speculation. The United States is the main export destination for Salvadoran coffee, accounting for almost 45 percent of MY 2013/14 exports through April 2014. Germany is the second destination for Salvadoran coffee, followed by Japan, Canada, Sweden, England and Belgium.

Lack of local ground coffee processing facilities continues to favor imports for soluble coffee. This has led to a continued increase in soluble imports, mainly from Brazil, Mexico and Nicaragua. With a recent incursion of its Juan Valdez coffee shops, Colombia is also gaining market share in the retail market.

The CSC continues to monitor exports with the use of export registration permits. The Government of El Salvador (GOES) through the government-owned financial institutions has guaranteed a loan of US\$70.00 per hundredweight (cwt) to cover routine maintenance and harvesting during the 2014/15 crop season (Please refer to Policy Section, below, for further information). Coffee is still the most important source of employment in rural areas, with the coffee harvest alone providing approximately 130,000 jobs. However, the drastic production reduction (caused by coffee rust) has deeply impacted the jobs on coffee farms (both the number of jobs and the time-hired have dropped). 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. Coffee exports in 2014/15 are expected to generate approximately US\$110 million in foreign exchange if the current higher international prices are locked-in.

El Salvador continues to promote its coffee focusing mainly on specialty and gourmet qualities (See Trade Section, below). The agricultural sector has continued growing assisted by higher prices for traditional exports (coffee and sugar), as well as increased market access for non-traditional exports under the Central America-Dominican Republic (CAFTA-DR) free trade agreement with the United States.

Commodities:

Coffee, Green

Production:

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador reveal that the 2013/14 coffee harvest is expected to drop to a historic low of 507,000 sixty-kg bags. This is a much lower number than previously reported; lower production is due to the harsh damage that a coffee leaf rust outbreak caused throughout the growing season. The 2014/15 production is estimated at 675,000 sixty-kg bags. However, this number could be lower since there is a possibility of a drought due to the El Niño weather pattern and also a new coffee leaf rust attack during the upcoming production cycle.

The GOES continues to guarantee loans to the coffee sector. Developing new cultural practices to counter the attack of coffee rust will be a key factor in the recovery of Salvadoran coffee production. Value-added production such as gourmet, specialty, fair trade and organic coffees continue to provide additional revenue to coffee producers. Specialty coffee production has steadily increased, reaching approximately 30 percent of total production in MY 2013/14. Recently, the CSC successfully organized the twelfth edition of the “Cup of Excellence” promotional event to increase exposure of fine Salvadoran coffees in the specialty market. In addition, the CSC continues to promote trade missions of European and American specialty coffee bars to sample local coffee (Refer to Trade Section, below, for further information).

Consumption:

Recent data compiled by the CSC shows an increase in coffee consumption in El Salvador. New coffee brands at the retail level continue stimulating consumption. In addition, the number of coffee bars continues to expand – now popping-up in strip malls as well as in major shopping malls as is the case of newly opened Colombian Juan Valdez stores.

In MY 2013/14 consumption reached 275,000 sixty-kg bags. Most local consumption is soluble coffee mainly imported from Brazil, Mexico and Nicaragua. In MY 2013/14, soluble domestic consumption is expected to reach 244,000 bags - Green Bean Equivalent (GBE). Roasted and ground domestic consumption remains at similar levels reaching 31,000 bags GBE in the same period.

Trade:

Coffee exports for MY 2013/14 are estimated at 417,450 sixty-kg bags. This number is lower than previously reported mainly due to damage by coffee rust. In MY 2014/15 coffee exports are forecast at 583,300 sixty-kg bags.

In MY 2013/14 the United States is expected to be the main export destination for Salvadoran coffee reaching approximately 190,000 sixty-kg bags, about 45 percent of total exports. Germany is the number two export destination accounting for approximately 15 percent of total exports. Other important destinations are Japan, Italy, Canada, Belgium, Taiwan and Sweden.

Premium prices obtained by gourmet and specialty coffees are an incentive to increase exports of these types of coffees. Recently the CSC carried out the twelfth edition of the “Cup of Excellence” promotional event. The best quality coffees produced in El Salvador were selected by a group of local and international coffee judges to participate in a global electronic auction. Through this event, local coffee has been successfully sold in the past to U.S., Japanese and European buyers with prices that are much higher than the spot market "Contract C" prices.

Export Trade Matrix			
El Salvador			
Coffee, Green			
Time Period	MY	Units:	60 kg bags
Exports for:	2013/14		2014/15
U.S.	189,940	U.S.	265,402
Others		Others	
Germany	63,452	Germany	88,662
Japan	42,164	Japan	58,913
Canada	23,795	Canada	33,248
Sweden	22,960	Sweden	32,082
England	16,281	England	22,749
Belgium	14,611	Belgium	20,416
Italy	10,854	Italy	15,166
Taiwan	7,932	Taiwan	11,083
Total for Others	202,049		282,319
Others not Listed	25,461		35,579
Grand Total	417,450		583,300
Source: CSC			

El Salvador has been active in promoting coffee through reverse trade missions composed of European, American, Taiwanese and Japanese specialty coffee bar owners that visit coffee production sites, as well as coffee mills, to get acquainted with the unique qualities that Salvadoran coffee can provide to coffee blends. In the 2014 Specialty Coffee Association of America (SCAA) fair, many Salvadoran coffee exporters participated to continue their promotional activities and search for new buyers of gourmet coffee (at a good price).

Labelling (certification, quality seal) programs such as the Rainforest Alliance Certification are also being extended to include more coffee producers. Currently, over 230 farms and 34 mills have been Rainforest Alliance certified. Farmers that join this certification program have to improve the quality of life for their workers as well as the surrounding communities, must preserve the ecosystem, protect wild life and conserve water resources in order to get a premium price for their coffee. Other certification efforts such as UTZ, Starbucks and Geographical Indicators (“GI’s) are also being expanded in El Salvador.

In Calendar Year 2013, Brazil supplied 69,596 sixty-kg bags GBE of soluble coffee to the local market. Mexico with 60,696 bags and Nicaragua with 37,542 bags are also important suppliers. Colombia is also entering the market with soluble product brands Colcafe, as well as with its insignia “Juan Valdez” coffee retail outlets.

Import Trade Matrix El Salvador Coffee, Green			
Time Period	CY	Units:	60 kg bags
Exports for:	2013		2014
U.S.	4,254	U.S.	4,500
Others		Others	
Brazil	69,596	Brazil	70,000
Mexico	60,696	Mexico	61,000
Nicaragua	37,542	Nicaragua	38,000
Colombia	4,386	Colombia	5,500
Chile	2,504	Chile	2,550
Honduras	2,452	Honduras	2,450
Guatemala	1,329	Guatemala	1,400
Panama	981	Panama	1,000
Total for Others	179,486		181,900
Others not Listed	688		900
Grand Total	184,428		187,300
Source: Salvadoran Central Bank (BCR)			

Stocks:

New data compiled by FAS/San Salvador shows stock numbers reaching 14,000 sixty-kg bags in MY 2013/14.

Stocks for MY 2014/15 are expected to continue at similar levels, mainly due to farmers holding on to inventory to wait for a continued increase in international prices.

Policy:

To comply with World Trade Organization (WTO) obligations, the Government of El Salvador (GOES) has phased-out a six percent drawback program for non-traditional exports including soluble and roasted coffee. This drawback scheme was used by the GOES as an incentive for exporters to trade their

products outside the Central American region. The GOES is working on an export promotion program that would replace the drawback program, since it was an export subsidy – not consistent with WTO agreements. However, problems in reaching an agreement with the private sector have delayed the application of the new Export Promotion Program.

Coffee farmers continue paying back the Coffee Trust (FICAFE) program, which was established in 2001 to defer accumulated debt with the banking system to a longer term that would allow farmers to cover their debt. As part of the GOES program to assist the coffee sector, the capital payments to FICAFE have been deferred for a grace period of 3 years so that those funds can be used in plant renovation, 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 a \$70.00 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 alleviate the coffee rust attack. However, given the severity of the coffee rust damage, this loan ceiling and input provision will not be sufficient to cover the expenses of rust protection needed by coffee farmers to recover their plantations.

The main problem faced by the Salvadoran coffee sector is the lack of an institutional framework that incorporates all the actors in the private side (i.e. producers, cooperatives, millers) and also includes the public sector as the regulatory setting body, so that a clear strategy can be designed and carried forward not only to rescue the sector but also to set out a path to reach sustainability and profitability for coffee farmers.

Even though there have been some efforts made by the government to carry out assistance programs to bring some relief to the sector, these have often been late and ill-designed to have any positive impact on the recovery of coffee producers. With a new government administration taking office on June 1, 2014 it is too early to tell if there will be change in the way the governmental activities are implemented.

El Salvador, through the CSC, continues to actively participate in International Coffee Organization (ICO) meetings.

Production, Supply and Demand Data Statistics:

Coffee, Green El Salvador	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Area Planted	176	176	176	175		175
Area Harvested	164	164	164	163		163
Bearing Trees	541	541	541	540		540
Non-Bearing Trees	54	54	54	53		53
Total Tree Population	595	595	595	593		593
Beginning Stocks	18	18	33	15		14
Arabica Production	1,250	1,250	1,000	507		675
Robusta Production	0	0	0	0		0
Other Production	0	0	0	0		0
Total Production	1,250	1,250	1,000	507		675
Bean Imports	0	0	0	0		0
Roast & Ground Imports	15	12	15	10		12
Soluble Imports	160	162	175	174		175
Total Imports	175	174	190	184		187
Total Supply	1,443	1,442	1,223	706		876
Bean Exports	1,150	1,149	950	415		581
Rst-Grnd Exp.	0	1	0	1		1
Soluble Exports	0	3	0	1		1
Total Exports	1,150	1,153	950	417		583
Rst,Ground Dom. Consum	30	31	30	31		32
Soluble Dom. Cons.	230	243	210	244		245
Domestic Use	260	274	240	275		277
Ending Stocks	33	15	33	14		16
Total Distribution	1,443	1,442	1,223	706		876
Exportable Production	990	976	760	232		398