

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 6/15/2015

GAIN Report Number: HO1502

Honduras

Coffee Annual

2015

Approved By:

Lashonda V. McLeod, Regional Agricultural Attaché

Prepared By:

Ana Gomez, Agricultural Specialist

Report Highlights:

Honduras ranks first in Central America, third in Latin America, and sixth globally in coffee exports by volume. Honduran coffee production in marketing year (MY) 2015/16 (Oct 2015-Sept 2016) is forecast at 5.9 million 60-kilogram bags. Honduras was affected by the coffee leaf rust in MY 2012/2013; however, the impact was lessened due to producers using rust resistant coffee varieties. There has also been renovation of trees and new coffee areas, which provides a volume increase of the coffee to be harvested in the forecasted year.

Executive Summary:

Sixty-one percent of Honduran coffee production is grown in the mountains between 3,900 and 5,200 feet above sea level, 23 percent in areas from 2,900 to 3,900 feet above sea level, and 16 percent in areas 1,600 to 2,900 feet above sea level. Coffee is grown in 15 of the 18 Honduran departments and in 210 out of the 298 municipalities. During the previous harvest more than 97,000 producers registered their production with the Honduran Coffee Institute (IHCAFE). However, the historical coffee registry had up to 113,000 producers in MY 2011/2012. Out of all the producers, more than 92,000 are smallholder producers, which collectively grow 62 percent of all coffee produced in Honduras.

The coffee sector provides employment to 30 percent of the population and generates much needed foreign exchange. Two million people are involved in coffee-related activities such as harvesting, fertilizer application, shade control, cleaning, drying, commercialization, transportation and other services such as banks. Roughly US\$263 million were distributed over a four month basis to 1.2 million people who directly participated in the previous coffee harvests. According to the Central Bank of Honduras, coffee is the first agricultural product exported from Honduras, which provides a large contribution to the foreign exchange reserves.

Marketing year 2015/2016 harvest is forecast at 5.9 million 60-kilogram (kg) bags. The estimate takes into account that even though Honduras was affected by a coffee rust outbreak, the impact was lessened. The damage was reduced because Honduras has been carrying out research and produced leaf rust resistant coffee varieties, which producers have been using for about two decades. The increase is based also on the re-planting of trees and new areas planted, which began three years ago, and those trees are starting to produce. The implementation of those practices provides a volume increase of the coffee to be harvested in the forecasted year.

The Specialized Technical Committee of Coffee Leaf Rust Early Warning System established in 2014, continues its monthly national monitoring. The institutions that are part of the Committee comply each with their role to lookout the incidence of coffee rust, temperatures and climate. Particularly, with the effects that the El Niño weather conditions could bring. The Committee issues bulletins for IHCAFE and coffee producers to continue improving control measures and to implement good agricultural practices in coffee production.

The export forecast for MY 2015/2016 is 5.4 million 60-kg bags. The estimated amount is based on an increase in demand and the opening of new markets. Exports of specialty coffee have been growing as a result of increased demand for specific flavor profiles. More producers are receiving technical assistance, and consumers in export markets have increased the value they place on the credence attributes of coffee.

Commodity:

Coffee

Production:

Marketing year (MY) 2015/2016 coffee production is estimated at 5.9 million 60-kg bags. The forecast takes into account that even though 80,000 hectares (ha) were affected by the coffee leaf rust previously, the impact was lessened. The reduction of further harmful effects is contributed to Honduras development of coffee varieties resistant to the coffee leaf rust. The varieties developed were the IHCAFE 90, Lempira, and Parainema. Honduran coffee farmers have been using those rust resistant varieties for more than two decades. The re-planting of new trees to replace the old ones; and increase of areas planted began three years ago. Those trees are starting to produce; and provide an increase in volume of the coffee harvest in the forecasted year.

The producers that did not have coffee leaf rust resistant varieties have not recuperated. The restoration of areas affected by the rust would depend of the availability of credit of the producer to start the process to renovate or establish a new plantation. About 22,000 hectares (10,000 families) had a total loss of their farms; 58,000 ha. (20,000 families) saw a decrease of their coffee production by 50 percent.

Coffee producers associations and international organizations have implemented short, medium, and long-term strategies to fight the coffee leaf rust. These strategies have been focused on producer training, educational campaigns to control coffee leaf rust, technical assistance to increase coffee quality and farm productivity in areas not affected by the rust. The approach has also been to strengthen the producers affected by coffee rust with capacities for the renovation and rehabilitation of plantations.

The Ministry of Agriculture and Livestock's Agricultural Information System (INFOAGRO), IHCAFE, the National Service of Meteorology, and the International Regional Organization for Plant and Animal Health (OIRSA) integrated a Specialized Technical Committee of Coffee Leaf Rust Early Warning System for Honduras. The Committee's gathers information about the rust, climate and phenology among other variables to communicate levels of warning, recommend preventive and control measures against a threat, or during the development of the epidemic.

The objective of the system is to promptly inform the government, coffee producers and specialized institutions about the potential phytosanitary threat and their respective actions of intervention.

Areas of coffee planted and harvested in MY 2015/2016 are forecast to increase due to the process of renovation and new coffee areas. Additionally, the numbers of bearing trees will growth due to the process of renovation of plantations and expansion of new coffee areas. The non-bearing trees will have the opportunity to grow if preventive controls are taken and good agricultural practices are implemented.

Production of "value-added" coffee is also increasing. Large areas of coffee plantations are grown about 1,000 meters above sea level. These plantations have the minimum altitude required to be Specialty Coffee. The major production was under programs such as: Association 4C, Fairtrade/Organic (FLO/ORG), Rain Forest Alliance (RFA), UTZ Certified, Organic (ORG), Fairtrade (FLO), Café Practices-Certification Starbucks, FLO/Café Practices and others. As part of IHCAFE's efforts to market Honduran specialty coffees, six distinct coffee regions defined by unique flavors have been established. The types of varieties that specialty coffees use are not resistant to coffee rust. The producers need to continue planting it, because of the high quality expected by the customers for coffee

cupping. Producers growing specialty coffees are learning to run their farms with good agricultural practices to control the coffee rust.

The United States Department of Agriculture (USDA) has the largest project working in coffee in Honduras with TechnoServe (2012-2015). The project focuses on all of the coffee value chain: production, processing, post-harvest and marketing of coffee in five departments which represent 60 percent of the total coffee production areas in the country. The project’s activities aim to enhance agricultural productivity, produce high quality coffee through improvements in cultivation and processing requirements, increase market linkages and trade of coffee, strengthen coffee producer’s organizations and provide access to adequate financing. The goal is to increase incomes for small and medium scale coffee farmers by providing better opportunities to sell their product.

Consumption:

The increase in domestic consumption trends can be tied to the growing presence of coffee bars located in gas stations, shopping malls, main business streets, supermarkets, and hospitals. A large percentage of the Honduran population is young and is consuming more and different types of coffee drinks, e.g., "frozen" coffee drinks. Coffee bars that provide customers with free wireless internet service are attracting high school and university students as customers.

Trade:

Exports

Honduras ranks first in Central America, third in Latin America, and sixth globally in coffee exports by volume. Post estimates the MY 2015/2016 harvest will reach 5.9 million 60-kg bags, with 5.4 million bags exported.

Trade matrix with the main exports by destination:

Export Trade Matrix			
Country	Honduras		
Commodity	Coffee, Green		
Time Period	MY	Units:	60 Kg Bags
Exports for:	2014		2015
U.S.	756	U.S.	980
Others		Others	
Germany	1,465	Germany	1,905
Belgium	304	Belgium	381
France	236	France	327
Italy	227	Italy	272
S. Korea	156	S. Korea	218
Japan	129	Japan	163
Sweden	113	Sweden	163
United Kingdom	111	United Kingdom	163
Canada	84	Canada	109

Total for Others	595		762
Others not Listed	0		0
Grand Total	4,176		5,443

Source: MY 2014: IHCAFE's Preliminary Annual Report 2013/2014
MY 2015: Post estimates

Informal Exports

The flow of contraband coffee going to Guatemala is of high quality, stimulated by higher prices. The unregistered movement to Nicaragua is of lower quality to be used by local roasters. The amount is estimated at 153,000 60-kg bags. Another reason for this unregistered trade is the existence of an illegal market. Coffee buyers do not provide purchasing documents, since they buy coffee for the contraband. Intermediaries are registered with IHCAFE as a requirement of the Coffee Commercialization Regulation, which provides instructions to all the coffee value chain.

Imports

According to data from the Honduran Central Bank, imports of roasted coffee for domestic consumption originate mainly from United States and Costa Rica. Imports of soluble coffee come mostly from Mexico, United States, Chile, Guatemala, El Salvador, and Costa Rica. Post expects that competition to U.S.-supplied roasted and soluble coffee will grow. The Colombian "Juan Valdez" coffee has started to be sold in supermarkets. Coffee shops at malls with local and regional chains are highly visited. International coffee companies sell their soluble coffee in machines located at commercial centers and office buildings. In addition, they are selling soluble coffee to costumers in supermarkets in smaller containers for easier sale, since the price of soluble imported coffee is higher than local coffee.

Stocks:

Stocks are held by exporters and roasters from the private sector. Coffee beans are stored by the exporters to comply with future contracts. Honduran roasters keep the beans for domestic consumption, and those are being toasted according to the market needs. The coffee might also be sold to other Central American countries throughout the year.

Policy:

In 2000, the Government of Honduras (GOH) privatized IHCAFE, as a non-profit institution. The privatization was done in order to have an organization that responded quickly and efficiently to the needs of the coffee sector. At the same time, the National Council of Coffee (NCC) was created, which is the highest authority of the Honduran coffee sector. The NCC has IHCAFE as the specialized institution that works with all aspects of coffee production, harvesting, and exporting. IHCAFE has the following as strategic axis: a) production and productivity, b) quality of Honduran coffee, c) promotion, d) diversification, and e) financing of the coffee sector. It provides guidelines, regulations for all of the coffee value chain in order that the strategies also improve the integral development of the coffee producing families. It establishes commercialization procedures and controls coffee production and exports. IHCAFE issues the export permits to exporters, whom must register both; the coffee bought from producers, and the coffee exported.

IHCAFE is an institution of gremial character, subsequently; its Board of Directors includes the four largest coffee producer's federations and associations such as: Honduran Coffee Producers Association (AHPROCAFE), National Association of Coffee Producers of Honduras (ANACAFEH), Federation of Honduran Coffee Cooperatives (CCCH – La Central) and the Federation of Honduran Coffee Cooperatives (UNIOCOOP). The Board also has as members; coffee roasters and exporters associations, and representatives from the Secretariat of Agriculture and Secretariat of Economic Development.

The National Coffee Fund (NCF) is an organization that receives funding from coffee producers. The contribution mechanism is described in the Policy section of this report. The NCF is responsible for the maintenance and construction of roads in coffee producing areas which help producers transport coffee from the mountains to markets. Each municipality receives an allocation of funds for road construction in proportion to the production of coffee coming out of their municipality.

Due to the high level of indebtedness of many producers, the GOH created the Law of Financial Reactivation of the Coffee Sector in 2003. This law facilitated the creation of the coffee trust fund in 2004, which receives the financial contributions of coffee producers. The producer's contribution is obtained through the deduction of US\$ 13.25 per quintal (100 pounds), that the exporter or intermediary make when they buy the grower's coffee.

The US\$ 13.25 are distributed in blocks of US\$ 9.00, US\$ 1.00 and US\$ 3.25 as follows: The US\$ 9.00 per quintal is a contribution from the producer to capitalize the coffee trust fund. This amount is transferred to IHCAFE, which in turn transfers it to the trustee banks. When the producer delivers the original invoice for the sale of coffee and the exporter provides a copy of the invoice for the purchase of coffee, IHCAFE returns US\$ 9.00 to the producer in about 15 days after reviewing the documents. The contributions of US\$ 9.00 are used to grant new loans and serve as a payment source of annual dues. To exemplify some of the benefits of the trust fund, IHCAFE also provides financial assistance to purchase equipment and seeds, as well as offering technical assistance through education programs on crop diversification and irrigation methods.

US\$ 1 is used to repay loans from 1999, 2000 and 2001 that were granted to producers due to the damages of Hurricane Mitch and low coffee prices. The producers that do not have loans, the US\$1 is returned annually.

US\$ 3.25 is divided as follows: US\$ 0.50 is applied to the repayment of the US\$ 20 million loan, and the balance is distributed with 36 percent going to the operation of IHCAFE and 64 percent to the National Coffee Fund. The National Coffee Fund uses those resources to build and fix roads in coffee production areas, and to buy equipment for coffee producers.

IHCAFE maintains a credit line for 370 million Lempiras (about US\$ 17 million) to buy fertilizer used by coffee producers. The fertilizer is sold at cost price and with a credit payment due in a year, interest-free. This program supports an increase in production throughout the year, and lessens the impact of fertilizer prices on coffee producers.

IHCAFE has the following specific programs that reach smaller coffee producers:

The Program to Support Small Producers (PAPP) offers funding to small producers for renewal of 0.71 of a hectare (a “manzana”). This Program supports about 23,000 small producers, to whom is provided technology, seed varieties and technical assistance. The Program aims to increase production from 5 to 45 quintals per “manzana”. The funds are provided by IHCAFE and the National Coffee Fund. No interests are charged.

The Emergency Program to Small Producer (PEEPP) is implemented through the National Bank for Agricultural Development (BANADESA). This program has the same objectives of the PAPP Program and no interest is charged to the producer. The interests are absorbed by IHCAFE and the National Coffee Fund.

The following projects are also implemented: Innovative Coffee Producer, Coffee Regionalization, Coffee Rehabilitation and Productive Diversification. In addition, other programs to assist small coffee producers are: Land Title, Solar Dryers, Agroforestry and Community Forestry.

IHCAFE has also created the Superior School of Coffee, Centers of Research and Training, the National Center of Quality, the Coffee Quality Control Laboratory and the School of Coffee Tasters. They have six research and training centers nationwide. It created in 2008 the National Quality Center to differentiate the coffee from Honduras and to open international markets. In 2010, the center received ISO 17025-2005 accreditation. IHCAFE also has regional laboratories for coffee cupping to support coffee producers in their product knowledge and technology, as well as for the identification of quality specialty niches.

In addition, there is the Cupping School focused on educating young Hondurans to improve long-term knowledge of coffee quality. IHCAFE has implemented the agreement with the National University of Honduras (UNAH) and has been established the University Technician on Quality Control in Coffee. Through the USDA/TechnoServe project, services of coffee cupping with IHCAFE are being provided free to producers so that they can identify the quality of the coffee they produce.

Marketing:

Honduras has single out and group coffee production and quality into six different regions according to differences in microclimates and soil composition. In 2004, Honduras began with the Cup of Excellence (COE). In 2005, Honduras obtained the first Origin Denomination of the country: DO Marcala Coffee. The Geographic Indication (GI) as Brand Collective “Honduran Western Coffees” (HWC) was born.

International Marketing -- The IHCAFE "Cup of Excellence" promotional event brings together the best Honduran coffees that are sold worldwide via electronic auction. Through this competition, Honduras finds niche markets for its coffee. Honduras held its “XII Cup of Excellence”. Regional competitions for quality are also taking place. This program encourages and maintains consistent quality coffee, promotes good practices of production and processing, taking care of the environment and complying with the conditions required by international markets.

Honduras has a growing reputation as a specialty coffee power player. As demand for high quality Arabic coffees continues to rise, the commitment of Honduras represents an opportunity to build the supply chain for U.S. coffee roasters.

Production, Supply and Demand Data Statistics:

<i>Coffee, Green</i>	2013/2014		2014/2015		2015/2016	
<i>Market Begin Year</i>	Oct 2013		Oct 2014		Oct 2015	
<i>Honduras</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	263	0	284	0	312
Area Harvested	0	213	0	256	0	284
Bearing Trees	0	900	0	1,080	0	1,200
Non-Bearing Trees	0	210	0	120	0	120
Beginning Stocks	140	140	300	89	0	192
Arabica Production	4,400	4,450	5,000	5,370	0	5,900
Robusta Production	0	0	0	0	0	0

Other Production	0	0	0	0	0	0
Total Production	4,400	4,450	5,000	5,370	0	5,900
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	15	15	15	15	0	15
Total Imports	15	15	15	15	0	15
Total Supply	4,555	4,605	5,315	5,474	0	6,107
Bean Exports	3,940	4,176	4,800	4,937	0	5,443
Rst-Grnd Exp.	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
Total Exports	3,940	4,176	4,800	4,937	0	5,443
Rst,Ground Dom. Consum	300	325	300	330	0	330
Soluble Dom. Cons.	15	15	15	15	0	15
Domestic Use	315	340	315	345	0	345
Ending Stocks	300	89	200	192	0	319
Total Distribution	4,555	4,605	5,315	5,474	0	6,107
Exportable Production	4,085	4,110	4,685	5,025	0	5,555
1000 HA, MILLION TREES, 1000 60 KG BAGS						