

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Peru

## Coffee Annual

## Annual

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**Report Highlights:**

Coffee production for Marketing Year 2013 (April/March) is forecast at 4.8 million 60-kilogram bags, a 7 percent decrease from the all time record crop of 5.15 60-kilogram bags in MY 2012. Peru's coffee exports in CY 2011 were 296,299 MT, increasing 29 percent compared to the previous year. However, in terms of value, coffee exports grew 79 percent, reaching \$1.6 billion.

## Executive Summary:

Coffee production for Marketing Year 2013 (April/March) is forecast at 4.8 million 60-kilogram bags, a 7 percent decrease from the all time record crop of 5.15 million 60-kilogram bags in MY 2012. Average yields in MY 2012 were 932 kilograms per hectare but can reach 2,300 kilograms per hectare among the most efficient producers.

Peru's coffee exports in CY 2011 were 296,299 MT, increasing 29 percent compared to the previous year. However, in terms of value, coffee exports grew 79 percent, reaching \$1.6 billion. Since 2009, the value of Peruvian coffee exports, has increased by 275 percent (in terms of volume, it increased 154 percent). Colombia continues to be an important market for Peruvian coffee. Peruvian coffee shipments to Colombia increased significantly in CY 2011, reaching over 25,000 MT compared to 14,000 MT in CY 2010.

## Commodities:

Select

## Production:

| Coffee, Green Peru     | 2010/2011                   |          | 2011/2012                   |          | 2012/2013                   |          |
|------------------------|-----------------------------|----------|-----------------------------|----------|-----------------------------|----------|
|                        | Market Year Begin: Apr 2010 |          | Market Year Begin: Apr 2011 |          | Market Year Begin: Apr 2012 |          |
|                        | USDA Official               | New Post | USDA Official               | New Post | USDA Official               | New Post |
| Area Planted           | 0                           | 328      | 0                           | 347      |                             | 350      |
| Area Harvested         | 0                           | 307      | 0                           | 312      |                             | 315      |
| Bearing Trees          | 0                           | 507      | 0                           | 512      |                             | 520      |
| Non-Bearing Trees      | 0                           | 22       | 0                           | 24       |                             | 25       |
| Total Tree Population  | 0                           | 529      | 0                           | 536      |                             | 545      |
| Beginning Stocks       | 74                          | 180      | 124                         | 139      |                             | 93       |
| Arabica Production     | 4,100                       | 4,417    | 3,800                       | 5,150    |                             | 4,800    |
| Robusta Production     | 0                           | 0        | 0                           | 0        |                             | 0        |
| Other Production       | 0                           | 0        | 0                           | 0        |                             | 0        |
| Total Production       | 4,100                       | 4,417    | 3,800                       | 5,150    |                             | 4,800    |
| Bean Imports           | 0                           | 0        | 0                           | 0        |                             | 0        |
| Roast & Ground Imports | 0                           | 0        | 0                           | 0        |                             | 0        |
| Soluble Imports        | 0                           | 0        | 0                           | 0        |                             | 0        |
| Total Imports          | 0                           | 0        | 0                           | 0        |                             | 0        |
| Total Supply           | 4,174                       | 4,597    | 3,924                       | 5,289    |                             | 4,893    |
| Bean Exports           | 3,880                       | 4,288    | 3,700                       | 5,015    |                             | 4,630    |
| Rst-Grnd Exp.          | 0                           | 0        | 0                           | 0        |                             | 0        |
| Soluble Exports        | 0                           | 0        | 0                           | 0        |                             | 0        |
| Total Exports          | 3,880                       | 4,288    | 3,700                       | 5,015    |                             | 4,630    |
| Rst,Ground Dom. Consum | 10                          | 10       | 10                          | 11       |                             | 11       |
| Soluble Dom. Cons.     | 160                         | 160      | 160                         | 170      |                             | 170      |
| Domestic Use           | 170                         | 170      | 170                         | 181      |                             | 181      |
| Ending Stocks          | 124                         | 139      | 54                          | 93       |                             | 82       |
| Total Distribution     | 4,174                       | 4,597    | 3,924                       | 5,289    |                             | 4,893    |
|                        |                             |          |                             |          |                             |          |

1000 HA, MILLION TREES, 1000 60 KG BAGS

Coffee production for Marketing Year 2013 (April/March) is forecast at 4.8 million 60-kilogram bags, a 7 percent decrease from the all time record crop of 5.15 million 60-kilogram bags in MY 2012. This forecasted decrease is the result of the normal cycle of coffee which happens every three or four years. Peru's coffee production has been increasing in the years as the result of high international prices that have encouraged producers to plant more land and improve their yields.

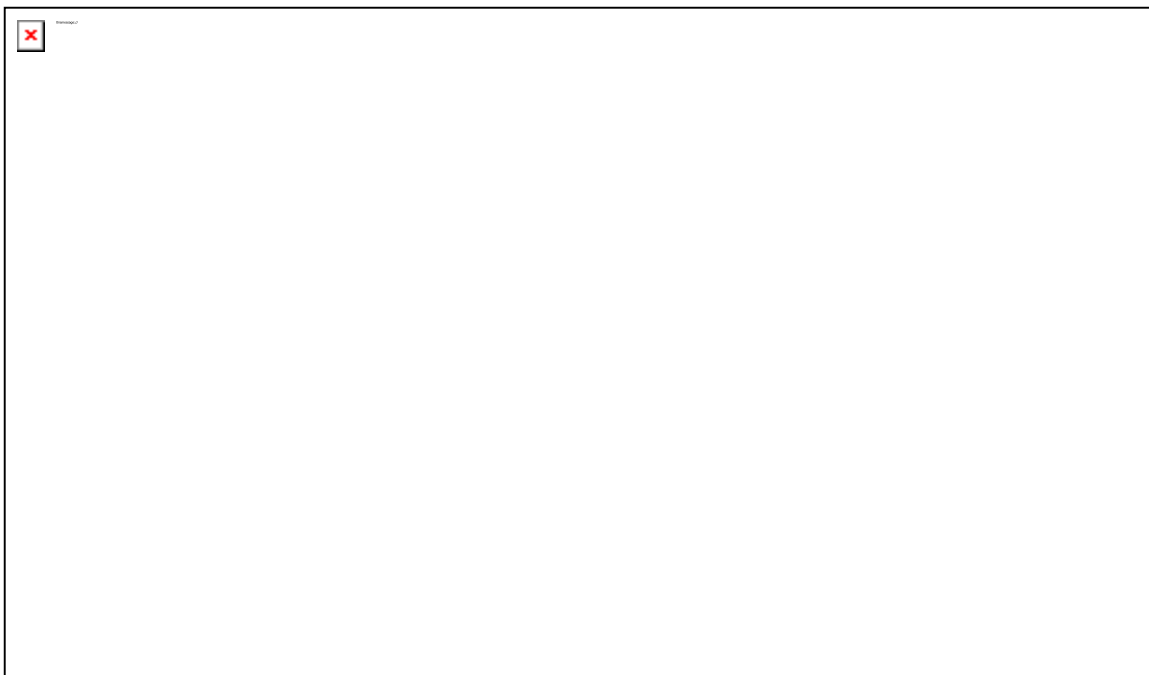
Coffee in Peru is grown throughout the eastern slopes of the Andes but is concentrated in three principal growing areas.

Coffee production has gradually moved from the central highlands of the Chanchamayo area (34 percent of total production) to the northern highlands in the Amazonas and San Martin regions (43 percent of total production). The southern highlands account for 23 percent of coffee production. The Peru grows Arabica coffee almost exclusively, of which 70 percent is *typica* variety, about 20 percent *caturra*, and 10 percent other varieties.

Roughly 75 percent of the coffee grown in Peru is produced between 1,000 and 1,800 meters above sea level. Coffee grows under shade with an average plant density of 2,000 plants per hectare. It is handpicked and sundried, giving it great potential for targeting high quality markets.

Most Peruvian coffee producers are small farmers; the average farm has three hectares under production. These types of producers, as opposed to the larger ones, are grouped in associations or cooperatives that allow them to negotiate better prices, improve post-harvest handling of production, and develop marketing strategies. The larger associations have up to 2,000 members and over 7,000 hectares. The most sophisticated associations can even have a financial branch that provides loans to producers to purchase inputs, partially pay for costs of production to increase yields and improving crop quality. Some of these associations also provide technical assistance to farmers. These service cooperatives market their product directly or have a long term relationship with a coffee trader that does it for them.

Average yields in MY 2012 were 932 kilograms per hectare but can reach 2,300 kilograms per hectare among the most efficient producers. Low yields are due to poor cultivation practices, especially the lack of fertilization. Due to the high cost of plant replacement, around \$3,000 per hectare, coffee growers may only replant every twenty or thirty years. Plant maintenance costs around \$800 per hectare annually. The average cost of production is about \$1.41 per kilogram, of which about 80 percent is labor. Harvesting season begins in April and reaches its peak in June-September. About 85 percent of the crop is harvested between April and July.



Limited credit continues to be an important constraint for coffee producers. Private banks still do not accept the farmers' often-untitled land as loan collateral. Most farmers obtain their loans from coffee buyers or informal lenders, with high interest rates and a sales contract on the coffee price. Another constraint is the small size of an average farm which difficult to efficiently manage coffee production, harvesting and processing.

### **Consumption:**

Though Peru's per capita consumption has double in the last five years, consumption remains relatively low. Coffee consumption in Peru is estimated at 600 grams per capita while consumption in Colombia is 2 kilograms per capita and Brazil is up to 4 kilograms per capita. Coffee consumption is rapidly increasing, especially in the young urban population where it can reach up to 1 kilogram per year. Peruvians consume mostly instant coffee, comprising about 75 percent of total consumption. With more cafes and restaurants opening, coffee consumption habits in Peru are slowly beginning to change. However, domestic consumption only accounts for less than 10 percent of demand. Small corner stores and supermarkets are still the main domestic vendors of coffee, accounting for 60 and 30 percent of total demand, respectively.

### **Trade:**

Peru's coffee exports in CY 2011 were 296,299 MT, increasing 29 percent compared to the previous year. However, in terms of value, coffee exports grew 79 percent, reaching \$1.6 billion. Since 2009, the value of Peruvian coffee exports, has increased by 275 percent (in terms of volume, it increased 154 percent). Favorable market conditions, particularly high international prices, are encouraging coffee producers in Peru to increase yields by implementing fertilization practices and improving harvesting.

Coffee is Peru's number one agricultural export and will probably remain as such in the foreseeable future. The main markets for Peruvian coffee in CY 2011 were Germany with 29 percent and (down from 35 percent in CY 2010) the United States with 23 percent of the total exports in terms of volume. Colombia continues to be an important market for Peruvian coffee. Peruvian coffee shipments to Colombia increased significantly in CY 2011, reaching over 25,000 MT compared to 14,000 MT in CY 2010. Some Colombian companies have even established permanent offices in Peru. Peruvian coffee is repacked and labeled in Colombia and re-exported. Average export price for Peruvian coffee in CY 2011 was \$5,366 per MT, 40 percent higher than the previous year.

With about 85,000 hectares certified, Peru is the world's leading exporter of organic coffee. Much of Peru's coffee exports are organic because cultivators cannot afford chemical fertilizers and pesticides. There has been rapid growth in production of other specialty coffees as well. Various certifications yield premiums, which even small farmers are beginning to access.

- Fair Trade: certified by Fair Trade Labeling Organizations International (FLO).
- Organic: certified by several agencies such as the USDA's National Organic Program (NOP), Japanese Agricultural Standards (JAS), Natureland and the Organic Crop Improvement Association (OCIA).
- Sustainable Coffee: certified by the Rainforest Alliance.
- Café Practice: certified by Starbucks.
- Other certifications include bat friendly and bird friendly.

| <b>Export Trade Matrix</b> |               |
|----------------------------|---------------|
| <b>Country</b>             | Peru          |
| <b>Commodity</b>           | Coffee, Green |
| <b>Time Period</b>         | CY 2011       |
| <b>Exports for:</b>        |               |
| U.S.                       | 65,712        |

|             |         |
|-------------|---------|
| Others      |         |
| Germany     | 84,665  |
| Belgium     | 48,511  |
| Colombia    | 25,103  |
| South Korea | 9,075   |
| Others      | 63,233  |
|             |         |
| Grand Total | 296,299 |

Units: Metric Tons

### **Policy:**

Due to the successful results in the 2010 Specialty Coffee Association of America, where Peru's "Tunki" coffee won the first place in the specialty coffee category, the government has begun promoting Peruvian coffee through its commercial offices and Promperu, Peru's export promotion agency.

The coffee industry in Peru generates 855,000 jobs in very poor and remote areas where transportation can be extremely difficult. The Government of Peru, through DEVIDA, the umbrella agency for counter-narcotic affairs, has encouraged coffee production as an alternative crop to coca leaf production. The U.S. Agency for International Development (USAID), through its Poverty Reduction and Alleviation (PRA) program, has been assisting a portion of Peru's coffee farmers in a program aimed at increasing farmers' licit incomes in coca areas. USAID mainly works in the Cusco and Puno areas assisting small farmers in obtaining their organic certification. Currently AID is in the second tranche of the PRA project which is scheduled to end in FY 2014.