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Mexico

Coffee Annual

Production Flat with Quality Exports and Robusta Bean Imports Both Rising

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Report Highlights:
The Post/New marketing year (MY)2012/13 (October to September) coffee production forecast is 4.3 million 60/kilogram bags. The MY2011/12 estimate is unchanged at 4.3 million 60/kilogram bags, despite weather problems. MY 2011/12 and MY 2012/13 imports are raised due to slow but steadily increasing domestic demand. Exports are also forecast to grow slightly in MY 2011/12 and MY 2012/13 despite declining international prices.

Commodities:
Coffee, Green

Production

The Post/New MY 2012/13 coffee production (October/ September) forecast is 4.3 million 60/kg bags, equal to last year's production. This forecast is preliminary as climate change/weather events could affect planted and harvested areas as well as crop yields during the year. Producers are following appropriate agricultural practices for organic coffee as well as good fertilizer practices for other coffees. As such, the coffee sector is optimistic that good practices will offset any potential adverse weather conditions. Preliminary reports from different producing states this year indicate that weather conditions have been ideal for a strong flowering phase. The Post/New MY 2011/12 total production estimate is unchanged at 4.3 million 60/kg bags, a production increase of eight percent over the previous year. Chiapas, the main coffee producing state, saw excellent production in MY 2011/12, despite the fact that climate change has impacted production in some areas. The state of Veracruz, the number two producer, has also been affected by climate change and some regions saw lower yields than expected. MY 2010/11 coffee production is unchanged.

A number of factors have led to the relatively flat production levels witnessed in Mexico in recent years. These factors include: good agricultural practices still not being followed by all producers; significant number of plantations are old and in need of tree renovation; and increasing costs of production. There are efforts from state governments to support coffee production through tree renewal to stimulate production. To this end, the government of Chiapas is in the last year of a six-year program to renew coffee plantations with trees resistant to pests like leaf rust and coffee borer. Other goals of the program include recovery of planted areas and the promotion of support methods for various types of premium price certifications (e.g. organic, fair trade, etc). The state of Veracruz, based on a new local law, will enforce and develop production, trade, and coffee consumption in the state.

Production techniques and challenges continue to evolve. Some producers have been able to increase plant density from 2,600 plants per hectare to 5,000 or more. Also, some indigenous communities have begun to interplant amongst their coffee trees like limes and avocado to diversify production and provide shade that helps coffee quality and enhances eligibility for value added certifications like Rainforest Alliance and Shade Grown (See photo 1). In recent years, the cost of production has increased due to a lack of field labor. To that end there is a migrant labor agreement with Guatemala to bring workers to Chiapas for 6 weeks at the peak of the harvest, after which time, the workers return home. Field labor represents more than 80 percent of total productions costs. The Secretariat of Agriculture (SAGARPA) manages a program entitled Coffee Productive Chain that integrates all the actors in the coffee chain to help develop and support the sector by providing access to technology, training, access to industrialization, and promote trade channels.

Photo 1--Large plantation in southwest Chiapas. Coffee trees can be seen in rows with other trees interplanted to provide shade. The buildings pictured are worker housing and coffee cherry processing facilities.

Around 35 percent of Mexico's coffee production area is top quality high grown coffee, located at an altitude of 900 meters or more above sea level and 43.5 percent grows between 600 and 900 meters above sea level. The coffee berry borer pest (Hypothenemus hampei) continues to infest plantations under 600 meters altitude and is now affecting coffee plants at higher altitudes. The Mexican Association of the Coffee Production Chain (AMECAFE) operates a "Program Against the Coffee Borer," describing it as one of the most important tools to improve the quality of Mexican coffee. The coffee borer is a small bug that damages the development of the coffee bean. This program is helping Mexico to gain recognition as a quality coffee producer and to gain foreign market share as an important exporter of quality conventional and organic green beans.

In general, Mexico is suited for coffee production due to its geographic location and climatic conditions. Recent reports indicate that about 96 percent of the coffee produced in Mexico is of the Arabica variety while 4 percent is of the Robusta variety. Although this production ratio has been maintained for some time, SAGARPA is now supporting the planting of 20,000 ha of Robusta coffee to try to substitute imports of this variety that the processing industry is bringing in to produce soluble coffee. To date (March 2012) there are 1,600 ha in Chiapas and about 2,000 ha in Veracruz for that have turned to Robusta for this purpose. Larger amounts of Robusta are needed to support Mexico's goal of becoming a major producer of soluble coffee. The large Nestle plant in the city of Toluca, just outside Mexico City, has been increasing its capacity of soluble coffee production.

Planted and harvested acres in Mexico have been on a slow downward trend for a number of years due to adverse weather such as freezing temperatures and atypical rainfall. Volatile prices have also had an impact. The Post/New MY 2012/13 planted area is forecast to remain flat compared to MY 2011/12, as better weather is expected. In addition, some new plantings of Robusta are expected to offset losses in the areas affected by bad weather. MY 2012/13 harvested area is expected to drop slightly and prices are expected to remain below their 2011 highs. That said, over the next few years, assuming good weather, planted and harvested areas are expected to increase at a moderate pace, driven by the development of new coffee nurseries (see photo 2 below), younger trees coming into production, and

attractive international prices. Post/New MY 2011/12 planted area is revised downward as the overall trend of decreasing acreage continues, while harvested area was revised upward as new areas came into production. Area planted for MY 2010/11 is revised downward and area harvested was revised upward based on official data.

Photo 2--Coffee tree nursery at a private farm. Tree seedlings may be used to expand planted area or to renovate existing areas with old plantings or disease-prone cultivars. Nurseries can also be an important source of jobs.

Approximately, 98 percent of the Arabica varieties planted in Mexico are Bourbon, Caturra, Catimor, Catuai, Maragogipe, Mundo Novo, Garnica and Typica. Coffee is produced in 15 states where the main producer is the state of Chiapas with 41 percent of production, Veracruz with 28 percent of production, and Oaxaca with 11 percent of production. Harvesting usually begins in September and ends by the month of March, depending on the area.

Yields continue to differ widely in Mexico due to variations in crop care and weather. Yields for MY 2012/13 are forecast to be slightly higher compared to MY 2011/12 due to expected good weather and improvements in cultivation practices driven by capacity building and elevated prices. Overall, average yield in Mexico is roughly 5 quintals/ha (230 Kg approximately). For yield calculations, one quintal is approximately 46 kilograms. Yields in Chiapas are higher—8 to 10 quintals/ha, however, in some years, yields have reached 12 quintals/ha. Veracruz yields are about 7 to 8 quintals/ha and all other states fluctuate between 5 and 7 quintals/ha.

Consumption

Domestic coffee use (both roasted and soluble coffee) for MY 2012/13 is forecast at 2.1 million 60kg/bags, same as in MY 2011/12, assuming domestic prices continue to be affordable. Although per capita consumption of coffee in Mexico remains relatively low (about 1.2 kg), total consumption is slowly growing as more Mexicans are consuming coffee. Soluble domestic consumption remains the largest share of domestic use, but consumption of ground coffee is rising. Post/New MY 2011/12 use of coffee is revised upward to 2.1 million 60kg/bags, an increase of 2.3 percent over MY 2010/11 use as soluble coffee consumption increased. Post/New MY 2010/11 domestic coffee use remains unchanged.

According to AMECAFE, about 40 percent of domestic coffee production is marketed for local consumption and the remaining 60 percent is for export purposes. Official sources confirm that Mexico lacks a reliable consumption monitoring system.

Trade

Mexico is importing large quantities of coffee beans—mainly Robusta variety—as the Nestle plant in the city of Toluca in the State of Mexico, has increased its production capacity of soluble coffee. Therefore, the Post/New MY 2012/13 forecast for total imported coffee is raised three per cent to 444,000 60/kg bags. The import estimate for MY 2011/12 is revised upward reflecting this tendency of increasing Robusta coffee bean imports for soluble consumption. Increasing imports of coffee in general is attributed to increased demand by middle-income consumers who are reportedly searching for different options from domestic soluble brands as well as by high-income consumers who are in search of fashionable value-added imported coffee. Post/New MY 2010/11 coffee imports are revised upward based on trade data.

Roasted ground coffee imports are expected to gradually increase, as on March 14, 2011, the Secretariat of Economy (SE) announced a duty-free import of roasted ground coffee classified under Harmonized Tariff System codes (HTS) 0901.21.01, 0901.22.01 and 0901.90.99, packaged in 40-gram containers. These products may be imported duty-free until December 31, 2014. The Government of Mexico stated that the purpose of these cupos (duty-free import permits) is to encourage the domestic coffee industry to diversify its coffee products offerings in the market, allow the sector to access new market niches, and to promote the consumption of coffee in Mexican households. According to the announcement, the market segment of domestic consumption of roasted and ground coffee represents only 8 percent of total consumption in households. The announcement establishes the necessary requirements for the duty-free import of roasted and ground coffee in 40-gram containers. Undoubtedly, prices will play a key role in the volume to be imported.

The Post/New coffee export forecast for MY 2012/13 is 2.6 million 60/Kg bags, or a 1.3 percent increase from MY 2011/12 exports. This amount, however, will depend on production levels and international prices in the coming year. Producers are reportedly trying to keep inventories in search of high international prices. The United States continues to be the main international market for Mexican green coffee beans. The MY 2011/12 export estimate is 2.5 million 60/Kg bags, lower than expected due to lower international prices, but still reflecting growth compared to MY 2010/11 revised exports.

In recent years, the majority of Mexican produced coffee has been directed to the export market. The focus on exports has been fueled by the expectation of higher international prices and relatively flat domestic demand (See photo 3 below). However, the Mexican coffee industry is working to increase domestic consumption, and has established a 10-year goal of selling 70 percent of Mexico's coffee domestically while exporting only 30 percent.

Photo 3--Green coffee ready for export via Veracruz. Various certifications are visible: USDA Organic, Fairtrade, and JAS (Japanese organic certification). These certs generate for the coop $10 to $50/bag or more above quoted New York price.

Stocks

The Post/New MY 2012/13 ending stocks forecast is higher compared to the MY 2011/12 revised estimate due to producers' decisions to hold some inventories in search of attractive international prices. Ending stock estimates for MY 2011/12 were revised downwards due to larger exports of roasted ground coffee. MY 2010/11 stocks were revised downward based on available data.

AMECAFE reports that Mexico has never had a reliable system to record ending stocks, and, as such, data are largely anecdotal. Current stock estimates reflect information obtained from industry sources, as no official government statistics are available.

Marketing

In order to offset low per capita consumption levels and to counter the belief that there are negative health effects associated with consuming coffee, the Mexican coffee industry is promoting the health benefits of high-quality Mexican blends. Consumers with relatively greater purchasing power have been targeted by the specialty coffee sector for years. Soluble coffee consumption, however, is based on disposable income constraints.

Recently, a large U.S.-headquartered retail store specializing in coffee sales reported that it opened its 300th store in Mexico. They have also begun offering Mexican sub-origin labeled coffee such as "Chiapas." These coffees are often bought by intermediaries who purchase directly from private farmers or cooperatives (see Photo 4 below). The rapid growth in coffee shops has attracted foreign and domestic investment, especially since the consumption of coffee in fast-food chains has developed into a new market as well. As a result of successful negotiations with powerful retailers, many small local

brands are reaching supermarket and hypermarket shelves. Some of the companies behind this gradual change in distribution are specialty coffee shops.

Photo 4--Coffee quintales (parchment stage) at warehouse of a coffee cooperative in central Chipapas. Each bag is tagged with farmer's code and harvest date. These bags will be taken to a central processing facility for parchment removal and grading.

Production, Supply and Demand Data Statistics

Table 1. Mexico.- Coffee Production, Supply and Demand

Coffee, Green Mexico	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	800	775	780	770		770
Area Harvested	729	732	730	732		732
Bearing Trees	0	0	0	0		0
Non-Bearing Trees	0	0	0	0		0
Total Tree Population	0	0	0	0		0
Beginning Stocks	124	124	89	48		94
Arabica Production	3,800	3,800	4,100	4,100		4,100
Robusta Production	200	200	200	200		200
Other Production	0	0	0	0		0
Total Production	**4,000**	**4,000**	**4,300**	**4,300**		**4,300**
Bean Imports	245	245	200	250		255
Roast & Ground Imports	20	37	20	40		44
Soluble Imports	135	135	150	140		145
Total Imports	**400**	**417**	**370**	**430**		**444**
Total Supply	4,524	4,541	4,759	4,778		4,838
Bean Exports	1,710	1,735	1,800	1,780		1,800
Rst-Grnd Exp.	0	102	0	104		108
Soluble Exports	725	656	800	700		710
Total Exports	**2,435**	**2,493**	**2,600**	**2,584**		**2,618**
Rst,Ground Dom. Consum	1,000	1,000	1,000	1,000		1,000
Soluble Dom. Cons.	1,000	1,000	1,000	1,100		1,100
Domestic Use	2,000	2,000	2,000	2,100		2,100
Ending Stocks	89	48	159	94		120
Total Distribution	4,524	4,541	4,759	4,778		4,838
1000 HA, MILLION TREES, 1000 60 KG BAGS						

Table 2. Mexico: Green Coffee Imports in Metric Tons (MY Oct/Sep) (HTS: 090111 and 090112)

Origin	MY 2009/10	Origin	MY 2010/11
U.S.	4,569	U.S.	4,701
Colombia	259	Vietnam	4,857
		Brazil	4,253
Other not listed	625	Other not listed	799
Grand Total	**5,456**	**Grand Total**	**14,610**

Table 3. Mexico: Green Coffee Exports in Metric Tons (MY Oct/Sep) (HTS: 090111 and 090112)			
Destination	**MY 2009/10**	**Destination**	**MY 2010/11**
U.S.	63,310	U.S.	58,353
Belgium	7,119	Belgium	6,969
Germany	6,852	Japan	3,270
Canada	3,811	Germany	3,260
Other not listed	26,162	Other not listed	32,271
Grand Total	**107,254**	**Grand Total**	**104,123**

Table 4. Mexico: Roasted Coffee Imports in Metric Tons on a Green Bean Equivalent Basis (HTS: 090121 and 090122) (MY Oct/Sep)			
Origin	**MY 2009/10**	**Origin**	**MY 2010/11**
U.S.	1,155	U.S.	1,311
United Kingdom	295	United Kingdom	356
Other not listed	424	Other not listed	534
Grand Total	**1,874**	**Grand Total**	**2,201**

Table 5. Mexico: Roasted Coffee Exports in Metric Tons on a Green Bean Equivalent Basis (HTS: 090121 and 090122) (MY Oct/Sep)			
Destination	**MY 2009/10**	**Destination**	**MY 2010/11**
U.S.	6,945	U.S.	6,079
Other not listed	14	Other not listed	45
Grand Total	**6,959**	**Grand Total**	**6,124**

Table 6. Mexico: Soluble Coffee Imports in Metric Tons on a Green Bean Equivalent Basis (HTS: 21011101, and 210112) (MY Oct/Sep)			
Origin	**MY 2009/10**	**Origin**	**MY 2010/11**
U.S.	5,413	U.S.	5,333
Colombia	1,344	Colombia	1,425
Other not listed	1,071	Other not listed	1,388
Grand Total	**7,828**	**Grand Total**	**8,146**

Table 7. Mexico: Soluble Coffee Exports in Metric Tons on a Green Bean Equivalent Basis (HTS: 21011101, and 210112) (MY Oct/Sep)			
Destination	**MY 2009/10**	**Destination**	**MY 2010/11**
U.S.	32,185	U.S.	29,370
Other not listed	7,551	Other not listed	9,971
Grand Total	**39,736**	**Grand Total**	**39,341**

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Useful Mexican Web Sites: Mexico's equivalent of the U.S. Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx, the equivalent of the U.S. Department of Commerce (SE) can be found at www.economia.gob.mx, and the equivalent of the U.S. Food and Drug Administration (SALUD) can be found at www.salud.gob.mx. These web sites are mentioned for the reader's convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.