

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Peru

Coffee Annual

Peruvian Coffee Production Bouncing Back

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Report Highlights:

After years of struggling with coffee leaf rust outbreaks, Peruvian coffee production is forecast at 4.5 million bags (60-kilograms per bag) during marketing year 2017/18 (MY 2017/18), an increase of 7 percent compared to the previous year. Coffee producers benefited from higher international prices in 2016. Peru's exports of coffee in MY 2017/18 are forecast at 4.3 million bags, up 8 percent from last year. Exports are forecast to continue increasing as coffee leaf rust outbreaks abate and planted area expands as a result of the government's program to renew 80,000 hectares of coffee land.

Executive Summary:

Coffee production in marketing year (MY) 2017/18 (April/March) is forecast at 4.5 million bags (60-kilograms per bag), an increase of 7 percent compared to the previous year. Peru's coffee production is bouncing back from the coffee leaf rust (*Hemileia vastatrix*) outbreak that affected almost 50 percent of the crop in MY2013/2014.

Domestic consumption in MY 2017/18 is estimated at 180,000 bags, increasing 10,000 bags compared to MY 2016/17. While overall coffee consumption remains low, it has nonetheless doubled in the past five years. Peru, with a population of 30 million, has an annual per capita consumption of 650 grams.

Peru's exports of coffee in MY 2017/18 are forecast at 4.3 million bags, up 8 percent compared to our MY 2016/17 estimate. Export volumes are forecast to continue increasing as the coffee leaf rust outbreak abates and planted area expands as a result of the government's program to renew 80,000 hectares of coffee land.

Peru's total calendar year (CY) 2016 exports reached 4 million bags (240,220 MT). The United States was the lead market for Peruvian coffee, accounting for 27 percent of total exports. Germany and Belgium were also important export markets with 25 and 10 percent of exports respectively. Export prices for Peruvian coffee averaged \$3,164 per metric ton in CY 2016, five percent lower than CY 2015.

Commodities:

Select

Production:

Coffee, Green Market Begin Year	2015/2016		2016/2017		2017/2018	
	Apr 2015		Apr 2016		Apr 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Peru						
Area Planted	0	380	0	380	0	385
Area Harvested	0	355	0	355	0	360
Bearing Trees	0	610	0	610	0	613
Non-Bearing Trees	0	35	0	35	0	38
Total Tree Population	0	645	0	645	0	651
Beginning Stocks	4	4	44	8	0	38
Arabica Production	3500	3050	3800	4200	0	4500
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	3500	3050	3800	4200	0	4500
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	3504	3054	3844	4208	0	4538
Bean Exports	3300	2876	3600	4000	0	4315
Rst-Grnd Exp.	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0

Total Exports	3300	2876	3600	4000	0	4315
Rst,Ground Dom. Consum	10	10	9	10	0	10
Soluble Dom. Cons.	150	160	160	160	0	170
Domestic Consumption	160	170	169	170	0	180
Ending Stocks	44	8	75	38	0	43
Total Distribution	3504	3054	3844	4208	0	4538
(1000 HA), (MILLION TREES), (1000 60 KG BAGS)						

Coffee production in marketing year (MY) 2017/18 (April/March) is forecast at 4.5 million bags (60-kilograms per bag), increasing seven percent compared to the previous year. Peru's coffee production is bouncing back from the coffee leaf rust (*Hemileia vastatrix*) outbreak that affected almost 50 percent of the crop in MY2013/2014.

Harvested area in MY 2017/18 is forecast at 360,000 hectares, a slight increase compared to the previous year. As part of the Ministry of Agriculture's program to recover from coffee rust, producers received plants and fertilizer to replant and cultivate new areas. Harvesting commences in April and peaks in the June-September period; about 85 percent of the crop is brought in between April and July.

Peru continues combating the rust outbreak that first affected plantations in MY2013/14. Coffee rust arrived from Central America and entered Peru through the northern border of the country, spreading quickly to the south. Along with the presence of moisture, *Hemileia vastatrix* requires temperatures of between 10 and 35 degree Celsius. Reduced moisture after the fungus spore germination begins will inhibit the infection process. Under extreme conditions, the disease will kill a tree. Normally, the loss in leaf foliage diminishes the plant's ability to photosynthesize and store energy for fruit production, resulting in vastly lower yields.

While coffee production occurs throughout the eastern slope of the Andes, production is concentrated in three main growing areas. Coffee production is gradually shifting from Chanchamayo (i.e., one of the nine provinces of the Junín region) in Peru's central highlands to the northern highlands of the Amazonas and San Martín regions. Although Chanchamayo still accounts for 16 percent of overall production, Amazonas and San Martín combined now account for 47 percent of national production.

Peru produces almost exclusively Arabica coffee, of which over seventy percent is of the *typica* variety followed by *caturra* (20 percent), and others (10 percent). Roughly 75 percent of Peruvian coffee cultivation occurs between 1,000 and 1,800 meters above sea level. Most coffee is shade grown and plant density on farms averages 2,000 plants per hectare. Coffee in Peru remains largely hand-picked and sun dried.

The majority of Peru's coffee producers are small farmers. These producers cultivate coffee on plots of land averaging three hectares. Poor access to credit places constraints on many of the smaller coffee producers. Peru's private banks reportedly refuse to accept untitled land as loan collateral, forcing most producers to obtain credit either from coffee buyers or informal lenders. The result of which is that small producers are burdened with fixed-price sales contracts and or high repayment interest rates.

Small producers often form associations or cooperatives to obtain better prices, improve post-harvest production handling, and cooperate on more effective marketing strategies. Some of the larger of these associations have membership numbers of over 2,000 producers. The more sophisticated of these associations have financial institutions that provide producer loans, which partially subsidize production costs through technical assistance aimed at improving crop quality and yields. Cooperatives will market production directly or through coffee traders.

Under more normal circumstances, yields can reach upwards of 2,500 kilograms per hectare (42, 60-kg bags) on well managed plantations. On the less well managed coffee farms, yields drop to around 800 kilograms per hectare (13, 60-kg bags) due to poor cultivation practices and limited fertilizer use. Average yields in MY 2016/17 are estimated at 710 kilograms per hectare and is expected at 750 kilograms per hectare in MY 2017/18.

High plant replacement costs remain a concern. Sources indicate it costs \$3,000 per hectare to replace old, less productive and or diseased plants. This forces many producers to replant on average every twenty to thirty years instead of every ten years as in other coffee producing countries. Annual plant maintenance costs on average about \$1,200 per hectare. Based on these and other factors, FAS Lima calculates the average cost of production at about \$1.75 per kilogram, 49 percent of which is labor.

Though coffee rust infestation has been reduced to 20 percent of the area, many coffee producers in the central highlands of Peru are still facing financial challenges. While all producers are affected, organic coffee producers are the most impacted. Organic fields yield twelve to fifteen 100 pound bags per hectare compared to forty-five to fifty 100 pound bags per hectare of conventional fields. The premium paid for organic coffee, no more than \$40 per 100-pound bag, does not compensate for the low productivity. Moreover, organic producers have to face total destruction of their fields since fungicides cannot be used to control rust. Peru's organic producers are mostly poorer, small-scale farmers.

Consumption:

Domestic consumption in MY 2017/18 is estimated at 180,000 bags, increasing 10,000 bags compared to MY 2016/17. While overall coffee consumption remains low, it has nonetheless doubled in the past five years. Peru, with a population of 30 million, has an annual per capita consumption of 650 grams. This contrasts with neighboring Colombia where per capita consumption reaches two kilograms, or Brazil where it exceeds four kilograms.

Peruvians are primarily consumers of soluble (instant) coffee. Instant coffee accounts for 75 percent of total domestic coffee consumption. Nonetheless, consumption patterns are changing and a roasted, ground coffee drinking culture is taking root. Coffee consumption among young, urban consumers is growing; consumption levels are now reaching the one kilogram per capita threshold. Domestic coffee consumption still only accounts for about 10 percent of total production. Small corner stores (60 percent) and supermarkets (30 percent) account for the bulk of domestic coffee sales.

Trade:

Peru's exports of coffee in MY 2017/18 are forecast at 4.3 million bags, up eight percent compared to our MY 2016/17 estimate of 4 million bags. We foresee export volumes increasing as the coffee leaf rust outbreak abates and planted area expands as a result of the government's program to renew 80,000 hectares of coffee land.

Export Trade Matrix	
Country	Peru
Commodity	Coffee, Green
Time Period	CY 2016
Exports for:	
U.S.	65,172
Others	
Germany	59,303
Belgium	23,612
Sweden	11,413
Canada	9,430
South Korea	9,030
Others	62,260
Grand Total	240,220

Source: SUNAT, Peruvian Customs

Peru's total calendar year (CY) 2016 exports reached 4 million bags (240,220 MT). The United States was the lead market for Peruvian coffee, accounting for 27 percent of total exports. Germany and Belgium were also important export markets with 25 and 10 percent of exports respectively. Export prices for Peruvian coffee averaged \$3,164 per metric ton in CY 2016, five percent lower than CY 2015.

Coffee prices had a significant recovery, from \$130 per hwt in May 2016 to a peak of \$180 per hwt in November 2016. Since that time prices have fallen again reaching \$129 per hwt in April 2017.

Peru, with some 90,000 certified organic hectares, is the world's leading exporter of organic coffee. A significant portion of Peru's coffee exports are organic, attributed in large part to the smaller growers' inability to pay for costly chemical fertilizers and pesticides. Foreign demand for specialty coffee motivates some smaller growers to seek out specialized certification. Current certifications, accessible even to smaller coffee farmers include:

- Fair Trade: Certified by Fair Trade Labeling Organizations International (FLO)
- Organic: Certified by several agencies such as 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

Peru Export Statistics
Commodity: 0901, Coffee, Whether Or Not Roasted Or Decaffeinated; Coffee Husks And Skins; Coffee Substitutes Containing Coffee
Monthly Series: 04/2016 - 02/2017

Partner Country	Unit	Unit Value (United States Dollars)										
		04/20 16	05/20 16	06/20 16	07/20 16	08/20 16	09/20 16	10/20 16	11/20 16	12/20 16	01/20 17	02/20 17
World	T	2,426	2,602	3,017	3,184	3,120	3,236	3,308	3,326	3,315	3,086	2,647
Denmark	T	4,189	3,316	-	-	-	3,777	3,020	3,423	3,481	-	4,189
Japan	T	2,829	2,810	3,133	3,574	3,587	3,840	3,738	3,644	4,048	4,251	4,013
Canada	T	2,679	4,189	3,557	3,785	3,424	3,621	3,769	3,969	4,083	3,841	3,987
Ireland	T	-	-	3,527	4,429	4,222	3,940	4,252	4,764	4,570	-	3,943
Sweden	T	-	3,054	3,090	3,270	3,544	3,652	3,490	3,856	3,796	3,746	3,753
Germany	T	2,875	3,109	3,067	3,206	3,141	3,275	3,381	3,414	3,573	3,359	3,551
Australia	T	3,522	2,976	3,851	3,631	3,728	3,423	3,861	3,915	4,442	3,804	3,521
Belgium	T	2,844	3,842	3,329	3,410	3,255	3,412	3,459	3,455	3,425	3,433	3,451
United Kingdom	T	-	3,279	3,348	3,673	3,513	3,625	3,739	3,763	3,866	3,975	3,387
France	T	2,980	3,337	3,267	3,072	3,271	3,575	3,415	3,189	3,000	4,453	3,272
Israel	T	-	-	-	-	2,830	3,103	2,880	2,890	2,854	-	3,120
United States	T	2,690	2,971	3,013	3,273	3,302	3,489	3,497	3,454	3,382	3,290	3,066
Argentina	T	-	-	-	-	3,190	3,190	-	3,190	-	-	2,994
Netherlands	T	4,203	-	3,343	3,523	3,387	3,429	3,447	3,566	3,534	3,570	2,961
Italy	T	2,728	2,987	2,775	3,005	3,001	3,178	3,127	3,170	2,873	2,773	2,265

Policy:

In 2013, the Ministry of Agriculture and Irrigation established a program to renew 80,000 hectares of coffee land over the next four years. Some \$70 million has been budgeted for this program, and funds will be channeled through the country's AgroBanco (i.e., agricultural development bank). These loans are to be repaid in eight years at a ten percent interest rate. While some farmers are questioning the credit terms, these are understood to be better than what the country's private banking sector is currently offering.

The Peruvian Government has made international coffee promotion a national priority. PromPeru (i.e., Peru's export promotion agency) and its commercial offices overseas actively promote Peruvian coffee. At the same time, some local government agencies and non-governmental organizations are promoting organic coffee production as a means for increasing farmers' income.

Peru's coffee sector generates 855,000 jobs in otherwise remote, impoverished areas of the country. The government, through DEVIDA, encourages coffee production as an alternative crop to coca leaf cultivation.

The Peruvian government does not keep coffee stocks, all inventories are kept by the private sector.