

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Peru

Coffee Annual

Peru's Coffee Production Continues Recovering

Approved By:

Casey Bean

Prepared By:

Gaspar E. Nolte

Report Highlights:

Peru continues recovering from the rust infestation of 2014 that affected nearly half of the country's coffee plantations. Coffee production in marketing year (MY) 2018/19 (April/March) is forecast at 4.3 million bags (60-kilograms per bag), increasing five percent compared to the previous year. Peru's exports of coffee in MY 2018/19 are forecast at 4.1 million bags, up five percent compared to the previous year.

Executive Summary:

Coffee production in marketing year (MY) 2018/19 (April/March) is forecast at 4.3 million bags (60-kilograms per bag), increasing five percent compared to the previous year. Harvested area in MY 2018/19 is forecast at 360,000 hectares. Peru's exports of coffee in MY 2018/19 are forecast at 4.1 million bags, up five percent compared to the previous year. The United States was the top market for Peruvian coffee, accounting for 24 percent of total exports. Export prices of Peruvian coffee in CY 2017 averaged \$2.89 per Kilogram, falling 9 percent compared to CY 2016.

Commodities:

Select

Production:

Coffee, Green Market Begin Year Peru	2016/2017		2017/2018		2018/2019	
	Apr 2016		Apr 2017		Apr 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	380	380	385	385	0	388
Area Harvested	355	355	360	360	0	360
Bearing Trees	610	610	615	613	0	613
Non-Bearing Trees	35	35	35	38	0	38
Total Tree Population	645	645	650	651	0	651
Beginning Stocks	44	44	75	34	0	44
Arabica Production	4225	4200	3800	4100	0	4300
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	4225	4200	3800	4100	0	4300
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	4269	4244	3875	4134	0	4344
Bean Exports	4025	4040	3600	3910	0	4115
Rst-Grnd Exp.	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
Total Exports	4025	4040	3600	3910	0	4115
Rst,Ground Dom. Consum	9	10	10	10	0	10
Soluble Dom. Cons.	160	160	170	170	0	170
Domestic Consumption	169	170	180	180	0	180
Ending Stocks	75	34	95	44	0	49
Total Distribution	4269	4244	3875	4134	0	4344

(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)

Coffee production in marketing year (MY) 2018/19 (April/March) is forecast at 4.3 million bags (60-kilograms per bag), increasing five percent compared to the previous year. Peru's coffee production is recovering back from the coffee leaf rust (*Hemileia vastatrix*) outbreak that affected 50 percent of the crop in MY2013/2014.

Harvested area in MY 2018/19 is forecast at 360,000 hectares, remaining at the same levels as the previous year. As part of the Ministry of Agriculture's program to recover from coffee rust, producers continue receiving 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. Average yields in MY 2017/18 are estimated at 683 kilograms per hectare and is expected at 716 kilograms per hectare in MY 2018/19.

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 less than 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 2018/19 is estimated at 180,000 bags. While overall coffee consumption remains low, it has nonetheless increase over one hundred percent in the last six years. Peru, with a population of 32 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 2018/19 are forecast at 4.1 million bags, up five percent compared to the previous year. 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 2017
Exports for:	
U.S.	58,635
Others	
Germany	54,567
Belgium	22,828
Colombia	16,253
Sweden	14,086
Canada	11,478
Others	67,779
Grand Total	245,626

Source: SUNAT, Peruvian Customs

Peru's total calendar year (CY) 2017 exports were 3.9 million bags (234,600 MT). The United States was the top market for Peruvian coffee, accounting for 24 percent of total exports. Germany and Belgium were also important export markets with 22 and 9 percent of exports respectively. Export prices of Peruvian coffee in CY 2017 averaged \$2.89 per kilogram, considerably lower than \$3.16 in CY 2016, \$3.32 in CY 2015 and \$4.03 in CY 2014.

Peru, with some 90,000 certified organic hectares, is the world's leading exporter of organic coffee. An important 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

In May 2018, a small coffee producer from the Sandia province in the Puno region, won the Best Specialty Coffee award at the Global Specialty Coffee Expo held in Seattle. This producer is a member of the coffee cooperative that also won this award in 2017.

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.

