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POLICY

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Mexico

Coffee Annual

Coffee Plan on Track to Achieve Goals

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Report Highlights:

The Post/New marketing year (MY) 2018/19 forecast for coffee production is 4.5 million 60/kg bags. The Post/New MY 2017/18 total production estimate is revised upward to 4.0 million 60/kg bags due to improved conditions and replanting of production areas. Coffee exports for MY 2017/18 and MY 2018/19 are expected to increase due to expected recovery of production and good demand. Coffee imports for MY 2018/19 are forecast to be similar to MY 2017/18 as domestic supplies are expected to cover demand.

Executive Summary:

Coffee production in Mexico had been on a slow downward trend for a number of years due to adverse weather; however, the coffee rust fungus was the most critical factor. The coffee sector as well as the Mexican government designed and implemented the Integrated Program for Coffee (PIAC) with the overall objective to increase production and competitiveness. This program aims to develop certified nurseries to supply producers with quality disease-resistant plants, to renovate coffee plantations, and to provide maintenance and rehabilitation to the ones that are viable, and provide technological packages that guarantee sustainability of natural resources. The implementation of PIAC in 2016 helped increase production from a low of 2.2 million 60/kg bags in marketing year (MY) 2015/16 to 4.0 million bags in MY 2017/18.

As a result of implementation of the PIAC program, it is expected that for MY 2018/19 Mexico will reach the goal of producing 4.5 million 60/kg bags and be able to export 3.2 million 60/kg bags.

Commodities:

Coffee, Green

CROP AREA

Coffee production, planted and harvested hectares in Mexico had been on a slow downward trend for a number of years due to adverse weather, such as freezing temperatures, and atypical rainfall and coffee rust (known locally as roya del café). Coffee rust is a fungal disease that can lead to plant defoliation. In moderate cases, leaf defoliation reduces plants' ability to produce fruit (the seeds of which are the actual coffee bean) in the next cycle. In serious cases, plant mortality occurs. Planted area for MY 2017/18 is estimated at 717,526 hectares (Ha) down from 722,261 Ha reported in MY 2016/17. The coffee sector as well as the Mexican government has taken actions to fight against coffee rust. The MY 2018/19 planted area is forecast to be similar to MY 2017/18 as the industry as well as the government will keep working to fight coffee rust and plant renovation on almost the same area. Around 35 percent of Mexico's coffee production area is top-quality high altitude coffee, located at an altitude of 900 meters or more above sea level. Another 43.5 percent grows between 600 and 900 meters above sea level. New planted density is between 3,330 and 3,500 plants per hectare.

Producer states have implemented public and private programs to increase productivity through the establishment of certified nurseries to renovate area planted. According to the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) for 2018, \$13.6 million USD will be applied towards actions to control coffee rust, increase nurseries to supply producers with quality disease-resistant plants, funding to buy agrochemicals for producers, and the hiring of technicians for technical support and training. According to information from the Integrated Program for Coffee (PIAC), in 2017 there were 80 tons of certified seed distributed for renovation of plantings, 166,000 hectares were renovated, 282 nurseries were certified to work with producers, and 150 million coffee rust resistant plants planted. The Mexican Government is working to update the agriculture

census; however, latest data show the number of coffee producers at 515,000 of which 310,000 work on one hectare. According to this information some 85 percent of the producers are indigenous. The government is collaborating with private institutes as well as with the Regional Technological Program with Central America (PROMECAFE) to improve coffee plants to reach the goal of controlling coffee rust and increasing productivity. During Post field travel, it was observed the work by nurseries and cloning process by private institutions to provide certified plants for coffee growers.

PRODUCTION

Coffee production in Mexico decreased mainly due to coffee rust problems, but since 2016 government policies (the [PIAC](#)) have helped increase production. Volatile prices have also had an impact. In fact, producers indicated that during the first months of 2018 coffee average producer prices were \$120 dollars 45/kg bag, while cost of production were about \$180 dollars 45/kg bag. Due to investments destined to renovate coffee plantings in 2016 and specialized technical assistance, coffee production increased from a low of 2.2 million 60/kg bags in marketing year (MY) 2015/16 to 4.0 million bags in MY 2017/18.

Although there is no official forecast for coffee production for MY 2018/19, the projected production is based on the PIAC plan. Government officials expressed that they expect coffee production in the country to recover to past production levels by MY 2018/19. Therefore, the Post/New production forecast (October/September) is 4.5 million 60/kg bags, an increase compared to last year's production. New planted areas are expected to be producing more coffee. This forecast is preliminary as weather and disease events could still affect planted and harvested areas.

Reports indicate that about 96 percent of the coffee produced in Mexico is of the Arabica variety while 3 to 4 percent is of the Robusta variety and the current tendency is to increase production of Robusta to take advantage of increasing consumption of this variety. Mexico produces excellent organic coffee, a trend which is increasing. However, output of organic coffee decreased by a greater amount than conventional coffee in the areas affected by coffee rust. According to SAGARPA, about 7 to 8 percent of growers are cultivating organic coffee, mainly for export purposes.

The Post/New MY 2017/18 total production estimates are revised upward from previous estimates to 4.0 million 60/kg bags. Producers are estimating production somewhat higher than expected from government expectations of 3.8 million 60/kg bags. Private industry efforts, the government implementation of the PIAC and other supports improving conditions of production, and the wide exertions to replant areas in different states in Mexico are behind the improved estimates. Some new areas are already producing coffee. Coffee production for MY 2016/17 grew slower than expected but within the PIAC projections. Therefore, Post/New estimates are revised slightly downwards from previous estimates.

SAGARPA, National Service of Health, Food Safety, and Food Quality (SENASICA), the Integrated Coffee Production Chain (Sistema Producto Café), the Mexican Coffee Association (AMECAFE), and the National Institute of Research for Forestry, Agriculture, and Livestock (INIFAP) are all working to prevent and control coffee rust and other pest and diseases. SENASICA reports regularly through a Coffee Plant Phytosanitary Epidemiological [Surveillance Program](#) on the phytosanitary conditions of coffee. The most recent bulletin is from March 2018. There are also efforts from state governments to

support coffee production through tree renewal with pest-resistant plants, equipment, and training. Other state initiatives include recovery of planted areas and support for various types of price-enhancing certifications (e.g. organic, fair trade, Shade Grown, Rainforest Alliance, etc.). Another specific objective of the PIAC program is to promote the implementation of the Coverage Fund and interest amortization in coordination with the second floor Development Bank (FIRA- Central Bank Trust Fund).

Although there are several Arabica varieties planted in Mexico, new planted areas have changed to more pest-resistant varieties like Oro Azteca, Marsellesa, Costa Rica 95, Sarchimor, and other resistant varieties from Nicaragua and Guatemala.

Table 1.- Mexico - Coffee Production Selected States – MT not Processed			
STATE	Production MY 2015/16	Production MY 2016/17	% Change 2016/2015
Chiapas	361,850	339,361	-6.21
Veracruz	191,017	192,545	0.79
Oaxaca	66,053	66,089	0.05
Puebla	121,433	128,995	-29.11
Others	94,659	106,502	6.22
TOTAL	835,012	833,492	-0.18
Source: SAGARPA/SIAP			

Coffee is produced in 15 states. In a typical year, the main producer is the state of Chiapas with 41 percent of production, followed by 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.

INPUTS

The PIAC includes technological packages that provide nutritional inputs, fungicides, and tools for work in plantations. In 2017, SAGARPA through PIAC distributed more than 150,000 technological packages. In search for better plants resistant to rust, there has been work towards improvement of coffee plants by grafting and cloning. In recent years, the cost of production has increased due to a lack of field laborers. Field labor represents more than 80 percent of total production costs.

YIELDS

Coffee yields are beginning to increase as a result of replanting of new varieties and better management of fields. Yields differ widely in Mexico due to variations in management and weather. Yields for MY 2018/19 are forecast to recover compared to MY 2017/18 assuming that better management is achieved to control and prevent coffee rust. Yields for MY 2017/18 are estimated at 1.35 MT/Ha, slightly higher to yields of 1.30 MT/Ha during MY 2016/17.

POLICY

SAGARPA developed a new agricultural development model “Planeacion Agricola Nacional [2017-2030](#)” for different products based in main productive regions of the country and considering production cycles. To increase domestic production, competitiveness, and develop international markets, 38 strategic products were considered and coffee is one of them. Producers are expecting to maximize production based on this model and the PIAC plan.

The federal government designed and is implementing the [PIAC](#) program, where the overall objective is to increase production and competitiveness to reach 4.5 million 60/kg bags by MY 2018/19. Among other goals, PIAC aims to develop certified nurseries to supply producers with quality disease-resistant plants, to renovate coffee plantations, and to provide maintenance and rehabilitation to the ones that are viable. Also, the PIAC help producers by providing technological packages that guarantee sustainability of natural resources. Work is coordinated at different government levels to implement actions to increase production.

SAGARPA, in coordination with the National Institute of Forestry, Agriculture and Livestock Research (INIFAP) is working to obtain coffee seed of different varieties resistant to coffee rust to distribute among coffee producers and renovate coffee plantations. INIFAP developed a plant variety that is resistant to coffee rust (Oro Azteca) which is being used in several places. Other seeds have been imported from Costa Rica, Guatemala, Nicaragua, and some from Brazil. These seeds are grown in nurseries to be distributed among coffee plantations. According to PIAC, small producers have access to a package that provides 1,000 plants per hectare at a cost of \$6 pesos/plant (USD \$0.31/plant) and a technological package of \$2,500 per hectare to \$15,000 pesos (USD \$138 to \$833). The government has also destined federal funds through SENASICA to fight coffee rust. The coffee sector has also been trying to arrange for the creation of a Sustainable Coffee Institute that would help regulate the domestic market, this body will make it possible to give greater sustainability and transcend the six years federal administration to have viability to public policies aimed at boosting aromatic production. The sector is also aiming to have a Law of Sustainable Rural Development for Coffee.

SAGARPA manages also a program entitled [Integrated Coffee Productive Chain](#) that includes all the actors in the coffee supply chain to help develop and support the sector by providing access to technology, training, industrialization, and trade channels. AMECAFE, SAGARPA, and the coffee sector typically hold the [Cup of Excellence](#) competition annually in Mexico. The competition aims to promote quality Mexican coffee in international markets.

CONSUMPTION

According to sources, average annual consumption is typically between 1.3 kg/per capita to 1.5 kg/per capita. Ground coffee consumption has increased and is the second largest share of domestic use. Soluble coffee is still very important and has about 60 to 65 percent share of consumption. For MY 2017/18 there has been more domestic product to cover demand and by MY 2018/19 the situation will be better. Consumption of roasted coffee is strong as consumers now have more options for freshly-made coffee via the increasing number of specialty coffee shops in the country. It seems that despite higher coffee prices in the domestic market and a high inflation rate of 6.7 percent in 2017, consumption increased. Since inflation rates for 2018 are expected to be lower, consumption demand might increase.

Consumers with relatively greater purchasing power have been targeted by the specialty coffee sector for years, while soluble coffee consumption is more popular among consumers with lower incomes.

Post/New domestic coffee consumption (both roasted and soluble coffee) for MY 2018/19 is forecast at 2.8 million 60kg/bags, assuming relatively stable domestic prices and increasing production. Coffee producers believe that coffee domestic consumption had been higher than previously indicated, and is the reason why domestic consumption data is updated. (The coffee producers association commissioned a market study where coffee consumption since 2016 was considered to be 2.8 million 60 kg/bags.) Domestic consumption of coffee is revised upward for MY 2017/18 to 2.5 million 60 kg/bags, an increase from previous estimates due to the increase of coffee shops and coffee preparations offered at restaurants and other shops. Post/New MY 2016/17 domestic coffee consumption is also revised upward from previous estimates due to increase of domestic demand. Consumption demand has been met by imported coffee due to lower supplies from domestic production.

TRADE

Estimation of coffee imports is difficult. There is a [Sectorial Promotion Program \(PROSEC\)](#) managed by the Secretariat of Economy that allows the importation of a product at a preferential tariff as long as the product is transformed into a different product. The stated goal of the program is to increase competitiveness and supply chain efficiency in certain sectors and thus provides preferential access regardless of whether finished products are for domestic users or for export. In the case of coffee, products under the following harmonized system (HS) numbers are included: 0901.12, 0901.21, 0901.22, and 2101.11.01. Coffee imported under this program is classified under HS number 9802.0022 –“Import of goods via special operations of the Industry of Coffee”. However, all types of coffee (beans, roasted, and soluble) are classified together, masking the actual type of coffee imported. Most coffee under this special tariff is imported from Vietnam and Brazil. According to official data, about 785,000 60/kg bags were imported for MY 2016/17 or 20 percent less than MY 2015/16 due to lower imports from Brazil who had a shorter harvest. But the highest imports come from Vietnam. The tendency shows an increase in imports under this program for MY 2017/18.

Increasing imports of coffee are attributed in part to increased demand by middle-income consumers who are searching for different options from domestic soluble brands, as well as by high-income consumers who want fashionable value-added imported coffee. However, since 2014, coffee imports have increased to cover demand due to lower domestic production.

Coffee imports for MY 2016/17 are revised upward from previous estimates as needs were slightly higher than expected to cover domestic demand. Import estimates for MY 2017/18 are also revised upward from previous estimates due to a higher demand. The coffee import forecast for MY 2018/19 is almost the same as in the previous marketing year, but this estimate is still tentative and depends if producers reach its production goal and if international prices are convenient.

On April 1, 2014, the Secretariat of Economy (SE) published a regulation modifying a previous announcement of a duty free import quota for roasted and ground coffee in the *Diario Oficial* (Federal Register). This continues a policy of promoting the packaging of coffee in 40-gram containers for household consumption. The impacted HS tariff lines are 0901.21.01; 0901.22.0; and 0901.90.99. (See GAIN Report [MX 4031](#) *Modifications to Duty Free Imports of Coffee in 40 Gram Containers*.) The regulation will remain in effect until December 31, 2018. Undoubtedly, prices will play a key role in the volume to be imported.

Coffee exports for MY 2018/19 are expected to grow as Mexico achieves its production goal, therefore the Post/New export forecast is 3.2 million 60/kg bags. However, this number is still tentative and will tend to change depending on final production and international prices. The United States continues to be the main international market for Mexican green coffee. Exports for MY 2017/18 are revised slightly upward from previous estimates as demand is strong and the sector is recuperating. Coffee exports for MY 2016/17 are revised upwards from previous estimates due to the efforts of growers to recuperate from coffee rust and a good international demand. The coffee sector believes exports were higher.

STOCKS

Post expects MY 2018/19 ending stocks to be slightly higher than MY 2017/18 estimates due to higher production expectations. However, the producers’ association reports that it has been difficult to have a reliable system to record ending stocks, therefore, data is largely anecdotal from the sector. Producers believe most of the stock was used to cover domestic demand; therefore, ending stocks estimates for MY 2016/17 and MY 2017/18 are revised downward.

Production, Supply and Demand Data Statistics:

Table 2. Mexico - Coffee Production, Supply and Demand

Coffee, Green Market Begin Year	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0

Total Tree Population	0	0	0	0	0	0
Beginning Stocks	210	210	260	13	0	103
Arabica Production	3100	3050	3600	3800	0	4300
Robusta Production	200	200	200	200	0	200
Other Production	0	0	0	0	0	0
Total Production	3300	3250	3800	4000	0	4500
Bean Imports	1250	1266	1300	1360	0	1360
Roast & Ground Imports	80	80	75	80	0	80
Soluble Imports	229	229	200	210	0	210
Total Imports	1559	1575	1575	1650	0	1650
Total Supply	5069	5035	5635	5663	0	6253
Bean Exports	1627	1742	1900	1900	0	2050
Rst-Grnd Exp.	140	155	200	160	0	170
Soluble Exports	950	965	950	1000	0	1020
Total Exports	2717	2862	3050	3060	0	3240
Rst,Ground Dom. Consum	825	864	825	1000	0	1120
Soluble Dom. Cons.	1267	1296	1575	1500	0	1680
Domestic Consumption	2092	2160	2400	2500	0	2800
Ending Stocks	260	13	185	103	0	213
Total Distribution	5069	5035	5635	5663	0	6253

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

Table 3. Mexico Trade Matrixes

Mexico: Green Coffee Imports in Metric Tons (MY Oct/Sep) (HTS: 090111 and 090112)			
Origin	MY 2016/17	Origin	MY 2017/18*
United States	4,846	United States	3,247
Vietnam	15,838	Vietnam	7,259
Brazil	3,196	Brazil	570
Other not listed	5,016	Other not listed	3,040
Grand Total	28,896	Grand Total	14,116

Mexico: Green Coffee Exports in Metric Tons (MY Oct/Sep) (HTS: 090111 and 090112)			
Destination	MY 2016/17	Destination	MY 2017/18*
United States	57,287	United States	17,398
Belgium	12,584	Belgium	9,942
Japan	1,655	Japan	153
Germany	3,329	Germany	388
Other not listed	29,651	Other not listed	6,849
Grand Total	104,506	Grand Total	34,730

Mexico: Roasted Coffee Imports in Metric Tons on a Green Bean Equivalent Basis (HTS: 090121 and 090122) (MY Oct/Sep)			
Origin	MY 2016/17	Origin	MY 2017/18*
United States	2,595	United States	968
United Kingdom	803	United Kingdom	226
Other not listed	1,386	Other not listed	478
Grand Total	4,784	Grand Total	1,673

Mexico: Roasted Coffee Exports in Metric Tons on a Green Bean Equivalent Basis (HTS: 090121 and 090122) (MY Oct/Sep)			
Destination	MY 2016/17	Destination	MY 2017/18*
United States	1,341	United States	441
Other not listed	7,978	Other not listed	2,763
Grand Total	9,320	Grand Total	3,204

Mexico: Soluble Coffee Imports in Metric Tons on a Green Bean Equivalent Basis (HTS: 2101101, and 210112) (MY Oct/Sep)			
Origin	MY 2016/17	Origin	MY 2017/18*
United States	6,359	United States	2,704
Colombia	2,917	Colombia	0
Other not listed	3,185	Other not listed	1,466
Grand Total	12,461	Grand Total	4,170

Mexico: Soluble Coffee Exports in Metric Tons on a Green Bean Equivalent Basis (HTS: 2101101, and 210112) (MY Oct/Sep)			
Destination	MY 2016/17	Destination	MY 2017/18*
United States	32,364	United States	11,694
Other not listed	25,550	Other not listed	8,720
Grand Total	57,915	Grand Total	20,415

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, January 2018. * As of January 2018

Table 4. Mexico: Monthly Exchange Rate Averages for 2015-2018 MX Pesos per U.S. \$1.00				
Month	2015	2016	2017	2018
January	14.68	18.02	21.37	18.95
February	14.92	18.47	18.47	18.63
March	15.21	17.69	17.69	18.66
April	15.22	17.49	18.77	18.20*
May	15.26	18.09	18.76	
June	15.46	18.12	18.16	
July	15.92	18.58	17.83	
August	16.50	18.47	17.80	
September	16.85	19.16	17.81	
October	16.58	18.91	18.77	
November	16.63	20.03	18.94	

December	17.03	20.51	19.12	
Annual Avg	15.85	18.62	18.91	
*As of 3 rd week of April, 2018				
Source: Mexican Federal Register Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico				