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Mexico

Coffee Annual

Tight Coffee Situation in Mexico

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Report Highlights:

The Post/New marketing year (MY) 2015/16 coffee production forecast is 3.3 million 60/kg bags. The Post/New MY 2014/15 total production estimate was revised downward to 3.3 million 60/kg bags due to coffee rust outbreaks affecting plantations. Coffee exports for MY 2014/15 and 2015/16 are expected to be lower compared to MY 2013/14, due to rust-related declines in production. Coffee imports for MY 2014/15 and 2015/16 are expected to increase to meet domestic demand.

Commodities:

Coffee, Green

PRODUCTION

Coffee production in Mexico has been affected by adverse weather conditions –frosts, untimely rainfall, excess humidity—which have been ideal for the expansion of coffee rust (known locally as roya del café) in many production areas. Coffee rust outbreaks are affecting plantations in Mexico mainly in the states of Chiapas, Veracruz, Guerrero, Oaxaca, and Puebla, all representing about a 93 percent of total production. 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. The advance of rust through Central America, Honduras, Panama, and Guatemala, began about four years ago before it reached the area of Chiapas in southern Mexico, spreading northward.

Producers in Mexico indicate that coffee production for the next crop MY 2015/16 (October/September) is expected to be similar to MY 2014/15 production, as area affected with coffee rust will take more time to recover. In fact, government officials expressed that coffee production in the country will not rebound until 2019. The coffee plants varieties resistant to rust that are being planted in 2015 will need about 4 years to come into production. The Secretariat of Agriculture (SAGARPA) has installed about 35 nurseries in most states impacted by coffee rust, which should be ready with trees to renovate plantations in June 2015. SAGARPA, the National Service of Health, Food Safety, and Food Quality (SENASICA), the Integrated Coffee Production Chain (Sistema Producto Café), and the Mexican Coffee Association (AMECAFE) are all working to prevent and control coffee rust in Mexico.

Although there is no official Mexican forecast for coffee production for MY 2015/16, the Post/New forecast (October/September) is 3.3 million 60/kg bags, similar to last year’s production. This forecast is preliminary as weather and disease events could affect planted and harvested areas as well as crop yields during the year. The National Coffee policy, announced in April 30, 2014, includes phytosanitary activities, a center for research, innovation and technological development, a more extensive hedging program, and other incentives (see [Gain Report MX 3071 Mexico Announces Coffee Hedging Mechanism](#)). Within its Program of Promotion to Agriculture, SAGARPA has a specific component called “**PROCAFE**” that is geared towards increasing coffee production and the productivity of rural agricultural units, by providing infrastructure and coffee plants to producers to renovate plantations. Resources for this program for 2015 are about \$44.3 million dollars. This budget is geared towards 13 producing states—Chiapas, Colima, Guerrero, Hidalgo, Jalisco, Nayarit, Oaxaca, Puebla, Querétaro, San Luis Potosí, the State of Mexico, Tabasco and Veracruz, representing all about 99 percent of the total production. [The 2015 Program](#) will continue to serve the same target population that is registered

in the Program. The supports include \$83 dollars per producer as incentive, technical assistance packages of up to \$140 dollars per hectare, and 500 coffee plants to renovate coffee plantations.

According to SAGARPA, the PROCAFE program is trying to reorganize coffee production by designing policies where effective incentives are made for a better agricultural management of coffee, as currently, 80 percent of the plants are old and less productive. Part of the new policy is establishing a program of certified nurseries with plants resistant to coffee rust to replant the existing ones. However, according to the media, coffee organizations indicate that resources are not reaching the affected areas on a timely basis and that programs have been very slow as there are only local actions being performed instead of a country strategy.

The Post/New MY 2014/15 total production estimate was revised downward from previous estimates to 3.3 million 60/kg bags according to the private industry. As stated by different sources, about 40 percent of the coffee planted area nationwide has been affected somewhat by coffee rust. Most affected areas are in Veracruz with about 70 percent of the area affected and Chiapas with about 60 percent of the area affected. Some growers indicate that coffee rust has advanced due to untimely response by the government and the need of better organization of coffee producers. Coffee production for MY 2013/14 was revised upward based on official data to 3.9 million 60/kg bags. However, coffee rust affected this year reducing production from historical outputs of 4 to 5 million bags.

A number of factors have led to the relatively flat/downward production levels witnessed in Mexico in recent years besides coffee rust. Good agricultural practices are still not followed by all producers, many coffee plantations are old and in need of tree renovation, the prevalence of poor fertilization practices, and increasing costs of production. There are efforts from state governments to support coffee production through tree renewal with trees resistant to pests. Other goals include recovery of planted areas and support for various types of price-enhancing certifications (e.g. organic, fair trade, etc.). The state of Veracruz, based on a new local law, is encouraging 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 other species like lime 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. In recent years, the cost of production has increased due to a lack of field labor. Field labor represents more than 80 percent of total productions costs. SAGARPA manages a program entitled [Integrated Coffee Productive Chain](#) that includes all the actors in the coffee chain to help develop and support the sector by providing access to technology, training, access to industrialization, and trade channels. 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.

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 3 to 4 percent is of the Robusta variety. Although this production ratio has been maintained for some time, SAGARPA is now supporting the planting of Robusta coffee to try to substitute imports of this variety that the processing industry is bringing in to produce soluble coffee.

There were 1,600 ha in Chiapas and about 2,000 ha in Veracruz that 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 Nestlé plant in the city of Toluca, just outside Mexico City, has been increasing its output of soluble coffee.

Mexico is also producing excellent organic coffee, a trend which is increasing amongst producers. However, the areas affected by coffee rust have decreased output in organic more so than in conventional plantations. According to SAGARPA, about 7 to 8 percent of growers were cultivating organic coffee, mainly for export purposes.

Planted and harvested hectares 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. But currently, the coffee rust that is affecting the country is the most important factor on the coffee production decrease. All these events, some believe, are increasing in frequency due to climate change. Volatile prices have also had an impact. The planted area for MY 2014/15 is estimated at 727,385 hectares, compared to 737,295 hectares of MY 2013/14 or a 1.3 percent decrease. The MY 2015/16 planted area is forecast to continue to be similar to MY 2014/15 as the industry as well as the government are fighting coffee rust and working towards increasing coffee production and productivity. However, the effects of climate and coffee rust are still present. The government of Mexico has indicated that they do not expect production recovery until 2019.

Table 1.- Mexico - Coffee Production Selected States – MT not Processed			
STATE	Production 2012/13	Production 2013/14	% Change 2013/2012
Chiapas	499,105	402,154	-19
Veracruz	365,333	338,337	-7.3
Oaxaca	129,756	129,402	-0.2
Puebla	136,864	188,212	37.5
Others	126,925	130,766	3.0
TOTAL	1,257,983	1,188,871	-5.4

Source: SIAP/SAGARPA

Table 2.-Mexico – Coffee Production 2014/15 (Oct/Sept) Estimates until March 2015 Selected States		
STATE	Area Planted (Has)	Production (MT) not processed
Chiapas	259,705	309,253

Veracruz	141,237	262,744
Oaxaca	139,637	81,247
Puebla	73,316	181,313
Others	113,490	108,482
TOTAL	727,385	943,039
Source: SIAP/SAGARPA		

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, in a typical year, is the state of Chiapas with 41 percent of production, Veracruz with 28 percent of production, and Oaxaca with 11 percent of production. Table 2 above, with production data up to March 2015, shows the disproportionate impact of rust on Chiapas 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 management and weather. Yields for MY 2015/16 are forecast to be similar to MY 2014/15 if care and better management is achieved to control and prevent coffee rust issues. Yields for MY 2014/15 are expected at about 1.4 MT/Ha, lower compared to yields of 1.7 MT/Ha during MY 2013/14. Yields in Veracruz for MY 2014/15 are expected at 2.1 MT/Ha, lower compared to MY 2013/14 yields of 2.4 MT/Ha. Chiapas' yields also are expected to be lower for MY 2014/15 or 1.2 MT/Ha from 1.5 MT/Ha in MY 2013/14. Puebla is expected to have yields of 3.0 MT/Ha for MY 2014/15, from yields of 3.3 MT/Ha during MY 2013/14.

SENASICA, along with the coffee sector organizations, are deeply involved in the establishment of strategies to control the coffee rust. SENASICA keeps reporting the [phytosanitary conditions](#) of coffee with respect to coffee rust developments, and the most recent bulletin is from March 2015. The states of Oaxaca, Guerrero, and San Luis Potosi, were added in 2015 to the monitoring phytosanitary program.

CONSUMPTION

Domestic coffee use (both roasted and soluble coffee) for MY 2015/16 is forecast at 2.6 million 60kg/bags, assuming relatively stable domestic prices. Per capita consumption of coffee in Mexico has been increasing; however, sources differ on data for coffee consumption. The range goes from 1.3 kg/per capita to 1.5 kg/per capita or more. Consumption has been driven by promotions and the growing number of coffee shops in Mexico. Ground coffee consumption has increased and is the second largest share of domestic use. Soluble coffee is still very important and has about 67 to 69 percent share of consumption. Post/New MY 2013/14 and MY 2014/15 use of coffee estimates were revised upward from previous estimates to 2.6 million 60kg/bags, based on current information from the government. 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

There is a [Sectorial Promotion Program](#) managed by the Secretariat of Economy ([PROSEC](#)) 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, the products under the following HTS numbers are included: 0901.12, 0901.21, 0901.22, and 2101.11.01. Coffee imported under this program is classified under HTS number 98.020022 –“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. According to this data, for MY 2013/14, about 956,000- 60/Kg bags were imported. Most coffee under this special tariff is imported from Vietnam, Brazil and Indonesia. Imports for MY 2014/15 are expected to be similar and imports for MY 2015/16 are forecast to be slightly higher to cover domestic demand.

Increasing imports of coffee are attributed 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. Coffee imports for MY 2014/15 increased due to low domestic production. Imports for MY 2015/16 are expected to follow similar patterns to satisfy consumption demand. Imports of roasted coffee increased as consumers now have more options for freshly-made coffee via the increasing number of specialty coffee shops in the country. 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 soluble coffee production capacity. However, this company has also increased the use of Arabica coffee in its products.

Although there is no official Mexican forecast for coffee imports, Post/New MY 2015/16 forecast for total imported coffee is 1.4 million 60/kg bags which is a slight increase over MY 2014/15 estimated imports. The larger volume of imported coffee is the result of lower coffee production and increasing demand. Imported coffee for MY 2013/14 was revised upward from previous estimates based on U.S. trade data.

On April 1, 2014, the Secretariat of Economy (SE) published an agreement modifying a previous announcement of a duty free import quota for roasted and ground coffee in the *Diario Oficial* (Federal Register). This agreement will continue promoting the packaging of coffee in 40-gram containers for household consumption. The HTS numbers 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*). This agreement will remain in effect until December 31, 2018. Undoubtedly, prices will play a key role in the volume to be imported.

Although there is no official Mexican forecast for coffee exports for MY 2015/16, the Post/New forecast is 2.1 million 60/Kg bags, lower than the previous marketing year due to low domestic production; 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. The MY 2014/15 export estimate was revised downward from previous estimates as exports were influenced by low international prices, and lower domestic production volumes due to coffee rust. The MY 2013/14 export estimate was revised upward based on U.S. trade data.

STOCKS

The Post/New MY 2015/16 ending stocks forecast is expected to be lower compared to MY 2014/15 revised estimate due to lower production. Ending stock estimates for MY 2014/15 were revised

downward from previous estimates due to lower production estimates. MY 2013/14 stocks estimates were also revised downward from previous estimates 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 relatively 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 while soluble coffee consumption is more popular among consumers with lower incomes.

A large U.S.-headquartered retail store specializing in coffee sales reported that it opened more than 300 stores 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. 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.

Also, in order to help individual and organized producers gain international price certainty, SAGARPA, through the Supports and Services Agricultural Marketing Agency (ASERCA), launched a basic hedging mechanism for coffee in 2013 (See [Gain Report MX 3071 Mexico Announces Coffee Hedging Mechanism](#)), which has been ongoing to help coffee producers.

The program involves futures and options types of contracting to boost marketing of Arabica coffee and support coffee growers in the lead up to harvest season. Prices for Mexican coffee are based on trading in New York and follow international price trends. In Mexico, like in many international markets, coffee prices have dropped around 30 percent since early 2015.

To support domestic marketing for coffee, in 2014 SAGARPA launched a strategy called “Consume Mexican Coffee” where 12 producer states promoted their coffee within SAGARPA offices, the Lower Chamber of congress, the Secretariat of Treasury, the International Airport and other federal buildings, by selling their coffee products. Each state participated for a week in each place covering a total of 12 months. Producers were pleased by sales and promotion of their coffee widely. The program has contributed to the marketing of 23 Mexican coffee brands from the states of Chiapas, Colima, Guerrero, Jalisco, and Nayarit, with sales of 13.5 million pesos (\$1.0 million dollars). In addition, producers established business contacts with the National Association of Supermarkets and Department Stores (ANTAD) and commercial chains like Wal-Mart in order to promote retail sales of Mexican coffee.

Opportunities for Coffee Producers

AMECAFE, SAGARPA, and the coffee sector will continue holding the [Cup of Excellence](#) Competition in Mexico. The competition aims to promote the marketing of quality Mexican coffee in

international markets. The April 2015 competition, which took place in Chiapas, yielded good results, where the first and second prize corresponded to the State of Veracruz and the third prize to Oaxaca. This competition has been positive for Mexican producers, as the world is starting to see Mexico as a potential producer of specialty coffees.

Production, Supply and Demand Data Statistics:

Table 3. Mexico - Coffee Production, Supply and Demand

Coffee, Green Market Begin Year Mexico	2013/2014		2014/2015		2015/2016	
	Oct 2013		Oct 2014		Oct 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
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	61	61	169	133	0	48
Arabica Production	3,600	3,750	3,700	3,100	0	3,100
Robusta Production	200	200	200	200	0	200
Other Production	0	0	0	0	0	0
Total Production	3,800	3,950	3,900	3,300	0	3,300
Bean Imports	870	1,200	880	1,200	0	1,220
Roast & Ground Imports	64	64	70	70	0	75
Soluble Imports	230	175	240	175	0	175
Total Imports	1,164	1,439	1,190	1,445	0	1,470
Total Supply	5,025	5,450	5,259	4,878	0	4,818
Bean Exports	1,690	1,680	2,000	1,350	0	1,270
Rst-Grnd Exp.	126	105	126	90	0	60
Soluble Exports	790	932	790	790	0	830
Total Exports	2,606	2,717	2,916	2,230	0	2,160
Rst,Ground Dom. Consum	800	860	750	860	0	865
Soluble Dom. Cons.	1,450	1,740	1,470	1,740	0	1,755
Domestic Use	2,250	2,600	2,220	2,600	0	2,620
Ending Stocks	169	133	123	48	0	38
Total Distribution	5,025	5,450	5,259	4,878	0	4,818

1000 HA, MILLION TREES, 1000 60 KG BAGS

Trade Matrixes

Mexico: Green Coffee Imports in Metric Tons (MY Oct/Sep) (HTS: 090111 and 090112)			
Origin	MY 2012/13	Origin	MY 2013/14
U.S.	6	U.S.	1,450
Vietnam	4,982	Vietnam	2,129
Brazil	1,183	Brazil	12,316
Other not listed	2,565	Other not listed	8,424
Grand Total	8,736	Grand Total	24,319

Mexico: Green Coffee Exports in Metric Tons (MY Oct/Sep)	
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(HTS: 090111 and 090112)			
Destination	MY 2012/13	Destination	MY 2013/14
U.S.	101,339	U.S.	70,753
Belgium	15,179	Belgium	4,713
Japan	2,602	Japan	1,310
Germany	4,823	Germany	3,147
Other not listed	12,031	Other not listed	20,928
Grand Total	135,974	Grand Total	100,851

Mexico: Roasted Coffee Imports in Metric Tons on a Green Bean Equivalent Basis (HTS: 090121 and 090122) (MY Oct/Sep)			
Origin	MY 2012/13	Origin	MY 2013/14
U.S.	1,656	U.S.	1,794
United Kingdom	550	United Kingdom	831
Other not listed	886	Other not listed	1009
Grand Total	3,092	Grand Total	3,634

Mexico: Roasted Coffee Exports in Metric Tons on a Green Bean Equivalent Basis (HTS: 090121 and 090122) (MY Oct/Sep)			
Destination	MY 2012/13	Destination	MY 2013/14
U.S.	2,084	U.S.	1,201
Other not listed	5,482	Other not listed	5,116
Grand Total	7,566	Grand Total	6,317

Mexico: Soluble Coffee Imports in Metric Tons on a Green Bean Equivalent Basis (HTS: 2101101, and 210112) (MY Oct/Sep)			
Origin	MY 2012/13	Origin	MY 2013/14
U.S.	7,272	U.S.	7,644
Colombia	1,201	Colombia	660
Other not listed	4,423	Other not listed	2,207
Grand Total	12,896	Grand Total	10,511

Mexico: Soluble Coffee Exports in Metric Tons on a Green Bean Equivalent Basis (HTS: 2101101, and 210112) (MY Oct/Sep)			
Destination	MY 2012/13	Destination	MY 2013/14
U.S.	37,291	U.S.	38,126
Other not listed	16,851	Other not listed	17,844
Grand Total	54,142	Grand Total	55,970

SOURCE: World Trade Atlas, Mexico Edition, March 2015.

**Table 4. Mexico: Monthly Exchange Rate
Averages for 2012-2015
MX Pesos per U.S. \$1.00**

	2012	2013	2014	2015
January	13.46	12.71	13.20	14.68
February	12.79	12.69	13.28	14.92
March	12.75	12.54	13.22	15.21
April	13.05	12.21	13.29	15.21
May	13.60	12.95	12.93	15.32*
June	13.94	12.94	12.99	
July	13.37	12.77	12.97	
August	13.18	12.89	13.14	
September	12.95	13.08	13.21	
October	12.88	13.00	13.47	
November	13.08	13.07	13.59	
December	12.86	13.00	14.44	
Annual Avg	13.15	12.76	13.29	

*As of May 11, 2015
Source: Mexican Federal Register
Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Subject	Date Submitted
MX 4038	Coffee Annual Report	05/13/2014
MX 4031	Modifications to Duty Free Imports of Coffee in 40 Gram Containers	04/10/2014

FAS/Mexico Web Site: We are available at www.mexico-usda.com.mx or visit the FAS headquarters' home page at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

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.

