

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Ecuador**

### **Coffee Annual**

#### **2012 Ecuador Coffee Production Consumption Trade Arabica Robusta**

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**Report Highlights:**

Ecuador's coffee production is expected to decrease slightly in MY 2012/13 and reach 605,000 bags (60 kg per bag) of green beans. Exports of soluble coffee are expected to increase significantly, and bean imports are also expected to increase. Ecuador is expected to import as much as 1,400,000 bags of Robusta beans in MY 2012/13 and export the equivalent of about 1,800,000 bags.

## **Executive Summary**

Coffee production for Marketing Year (MY) 2012/13 (April/March) will remain around 605,000 60-Kg. bags. This is the result of increasingly higher yields resulting from the adoption of better agricultural practices by young new entrepreneurial farmers. Since 2005, Ecuador has renovated or added almost 21,000 hectares (ha) of coffee but has switched production of at least 20,000 ha. Thus in practical terms, harvested area has remained the same with older plantations decreasing productivity.

Recently consumption of roasted coffee has increased due to a notable presence of specialized coffee retail outlets and aggressive advertising to promote coffee. Domestic consumption is forecast at 223,000 bags in MY 2012/13, 87 percent of which is consumed as soluble or instant coffee. Coffee exports for MY 2012/13 are forecast at a record 1,800,000 bags, 67 percent of which are soluble and instant coffee products. In order to meet the industry's demand of Robusta coffee beans, in MY 2012/13, Ecuador will import 1.4 million bags of Robusta beans, most of which be used for industrialization and re-export.

PSD Table

Coffee, Green Ecuador	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Apr 2010		Market Year Begin: Apr 2011		Market Year Begin: Apr 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	197	197	0	199		199
Area Harvested	184	188	0	169		149
Bearing Trees	170	170	0	156		137
Non-Bearing Trees	10	10	0	29		25
Total Tree Population	180	180	0	185		162
Beginning Stocks	65	65	23	143		137
Arabica Production	400	400	425	400		415
Robusta Production	250	250	225	200		190
Other Production	0	0	0	0		0
Total Production	650	650	650	600		605
Bean Imports	700	820	750	1,150		1,400
Roast & Ground Imports	3	3	2	0		1
Soluble Imports	60	60	65	3		2
Total Imports	763	883	817	1,153		1,403
Total Supply	1,478	1,598	1,490	1,896		2,145
Bean Exports	425	425	425	596		600
Rst-Grnd Exp.	0	0	0	0		0
Soluble Exports	825	825	850	946		1,200
Total Exports	1,250	1,250	1,275	1,542		1,800
Rst,Ground Dom. Consum	15	15	20	25		30
Soluble Dom. Cons.	190	190	190	192		193
Domestic Use	205	205	210	217		223
Ending Stocks	23	143	5	137		122
Total Distribution	1,478	1,598	1,490	1,896		2,145
1000 HA, MILLION TREES, 1000 60 KG BAGS						

Coffee Prices in Ecuador, US\$ per 60Kg (Green Coffee)

ARABICA	<i>green</i>			ROBUSTA	<i>husked beans</i>		
	Year	2010	2011		% Change	2010	2011
Jan	162.1	244.7	51.0%	84.5	109.9	30.1%	
Feb	163.8	251.3	53.4%	85.4	111.5	30.6%	
Mar	150.8	264.6	75.4%	88.4	116.0	31.2%	
Apr	160.0	264.6	65.3%	92.4	125.4	35.7%	
May	191.2	317.5	66.0%	88.7	139.9	57.8%	
Jun	161.3	330.7	105.0%	92.2	124.1	34.6%	
Jul	196.6	330.7	68.2%	103.4	123.9	19.9%	
Aug	209.9	330.7	57.5%	105.4	123.4	17.1%	
Sep	218.7	330.7	51.2%	99.9	136.6	36.8%	
Oct	228.7	330.7	44.6%	100.6	137.4	36.6%	
Nov	248.3	330.7	33.2%	112.2	143.3	27.7%	
Dec	250.4	330.7	32.1%	111.7	141.8	26.9%	
Average	195.2	304.8	56.2%	97.1	127.8	32.1%	

## Production

In general, production methods are traditional with most bean picking done by hand and there is usually no fertilizer use. Eighty percent of Ecuador's coffee production is under this traditional and arguably inefficient system with average yields of 250 kg per ha. Only about 20 percent of coffee plantations are managed using technical or semi-technical approaches. These plantations have average yields of about 700 kg per ha. Yields under traditional and inefficient systems have continued to decline. An added factor limiting productivity increase has to do with the absence of irrigation systems and a reliance on rainfall.

Coffee production in Ecuador will remain about 605,000 60-kg bags green bean equivalent (GBE) on 149,000 harvested hectares (ha) in MY 2012/13. From 2002 to 2004 there was an average annual decrease of 4.8 percent in planted area. Starting in 2005, renovations (replacement of old plants) of old plantations as well as small additions of new planted areas have taken place. Thus, 689 ha were renovated or added in 2005, 1,736 in 2006, 1,910 in 2007, 2,830 in 2008, and 4,710 in 2009. It is estimated that 3,600 ha were renovated in and 346 ha rehabilitated (severely pruned) in 2010; an additional 5,000 ha were renovated in 2011. Just fewer than 6,000 will be added for technical agricultural practices in 2012. The effects of the increases in renovations, however, have not resulted in aggregate production increases. The Government of Ecuador (GoE) programs to promote coffee production in rural areas as a tool for economic development are small compared to the needs of the farmers.

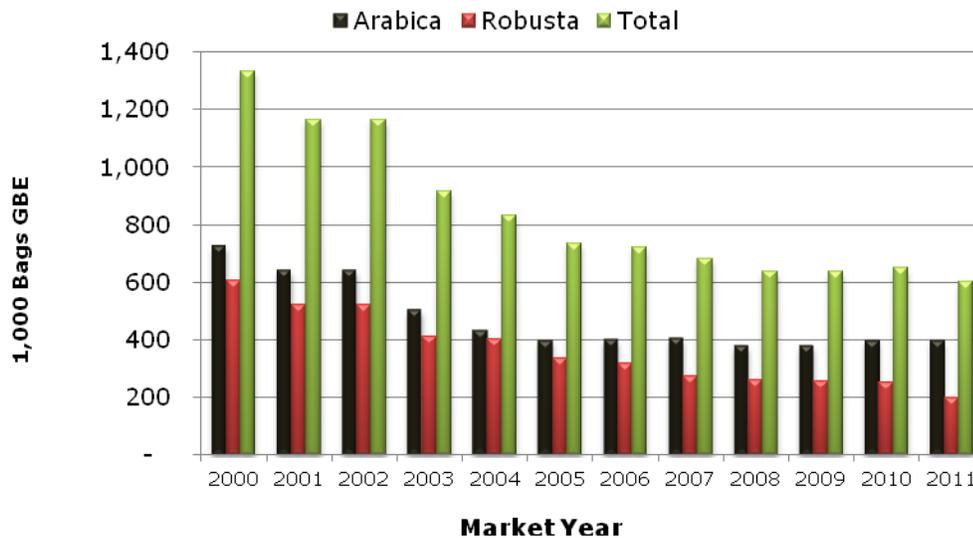
Ecuador's National Coffee Council (COFENAC) currently has 10.7 million plants of Arabica in stock to reforest 4,344 ha and 2,700,000 plants of Robusta to reforest 1,540 ha in 2012. The production of plants is part of the GoE's mandate to renovate 50,000 ha of coffee. The COFENAC's renovation programs have received significant support from international donors including the U.S. Department of Agriculture and U.S. Agency for International Development. Other major donors have discontinued support to Ecuadorian coffee farmers. Adoption The lack of farmer's willingness to invest and become part of the COFENAC's programs has been a limitation to the success of these initiatives and low yields, due to a lack of technology, and old plantations have encouraged farmers to switch to more profitable crops.

Thus, the harvested area continues to be lost which offsets yield increases resulting from better agricultural practices.

Despite efforts by the GoE and foreign assistance, an estimated 35 percent or more of existing plantations are past peak production and need to be replanted with new varieties. Volatile international prices in the past have also created disincentives for investments in new trees. However, steady and climbing international prices in the past seven years appear to be having a small effect on farmers. There is an urgent need to increase nursing facilities that can provide high-quality plants to farmers and credit so that farmers can invest.

Ecuador has approximately 199,000 ha planted with 149,000 ha expected to be harvested in MY 2012/13. A large portion (60 percent) of this area is also shared with other crops. Arabica coffee represents 69 percent of the total production and will reach 415,000 bags in MY 2012/13. Robusta production represents 31 percent and MY 2012/13 production is forecast at 190,000 bags. The proportion of Arabica/Robusta has started to decrease in the last couple of years as existing crops continue to deteriorate and adverse weather conditions, including floods, have affected plantations. Arabica productivity has increased as farmers improve practices in response to higher world prices. Between 2010 and 2011, the average price of Arabica in Ecuador increased 56 percent from \$195 to \$305 per 60-kg bag while Robusta prices increased by 32 percent from \$97 to \$128 per 60-kg bag. Since Ecuador's production and consumption are relatively small in the global market, high domestic prices respond mainly to unsatisfied supply for the local instant coffee industry.

## Ecuador Coffee Production



About 53 percent of coffee-producing areas located in Ecuador's coastal provinces (for example: Manabí, 33 percent), 24 percent in the Sierra (Loja, 14 percent), and 22 percent in the Amazon (Orellana, 9 percent; Sucumbios, 8 percent), and less than 1 percent in Galapagos. Most of the area planted with Robusta is located in the Amazonian provinces.

## Consumption

Domestic coffee use is forecast at 223,000 bags in MY 2012/13. The expected increase is the result of population and income growth. Ecuadorians consume more soluble coffee than roasted and ground coffee. This consumption pattern is explained by changes in consumer saving and ease-of-use habits over the past 30 years. Overall, there has been a lack of coffee drinking although this has started to change with the presence of Colombia's coffee franchise Juan Valdez and several other local outlets including Coffee Tree, Sweet & Coffee. Sweet & Coffee has been operating in Ecuador for over ten years while Juan Valdez began operations in 2008. Coffee Tree is the latest entrant to the market. In addition, local firm Cafe Velez is currently entering the roasted coffee niche market by using home delivery service and distribution through Ecuador's major deli and supermarket chains. Nevertheless, instant coffee has remained popular in Ecuador and several national and imported brands are represented in the market. A single Ecuadorian company, El Café (Grupo Noboa) has about 50 percent of the instant coffee market. This company is reportedly expanding its processing capacity due to increased demand in the international market.

The domestic industry produces large quantities of spray dry (instant coffee powder) and freeze dry (lyophilized) and agglomerated for both domestic consumption and for export. The local

industry has an installed processing capacity of 1.3 million bags per year, and coffee imports are necessary to meet this demand. Ecuador imports, in small amounts, soluble and coffee essences from Colombia, Brazil and other countries.

## Trade

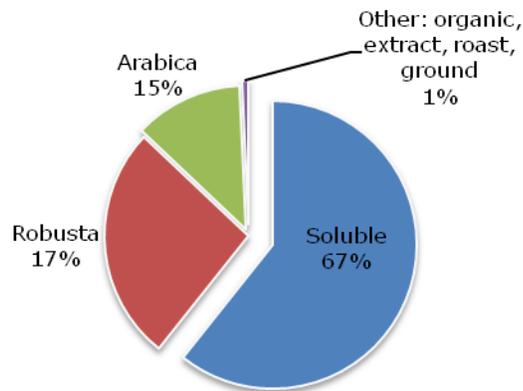
Exports of coffee and coffee products are forecast at a record 1.8 million bags in MY 2012/13. Increase in exports will be driven by soluble and industrialized coffee. Most of these trade imports/exports are not recorded in official statistics as they correspond to imported coffee that is re-exported as soluble coffee. The increase in exports reflects the Government of Ecuador's decision through its Committee on Foreign Trade (COMEX) to allow more coffee imports into Ecuador for processing and re-exporting. It is estimated that 1.15 million bags entered Ecuador in MY 2011/12 and that 1.4 million bags will enter in MY 2012/13. Exports of Arabica coffee beans have remained steady and represented about 200,000 bags in MY 2011/12.

The prevalence of Robusta exports (395,000 bags in MY 2011/12) is an important issue. Despite lower world prices for Robusta in comparison to Arabica, Robusta receives a higher price than the international price in the Andean regional market, where it is used to make instant coffee in neighboring countries. Ecuador primarily exports Robusta beans to Colombia. Since consumers pay a premium price for Colombian coffee, its industries are willing to pay higher prices for Robusta beans than the Ecuadorian industry would pay locally. For this reason, Ecuador chooses to export Robusta beans to be marketed as Colombian coffee. This is also one of the reasons why the local soluble industry imports large quantities of Robusta, primarily from Vietnam, that enters Ecuador under a special import regime. These beans are converted into soluble coffee and exported. The local soluble coffee industry has gained local and international markets for soluble coffee products, especially spray and freeze dried. It is believed Ecuadorian companies have a comparative advantage with respect to their peers in other countries.

Imports of soluble coffee decreased in MY 2011/12 as companies that used to import it traditionally from Colombia, started replacing imports with locally industrialized coffee in an effort to reduce their costs.

<b>Export Trade Matrix</b>		
<b>Country</b>	Ecuador	
<b>Commodity</b>	Coffee, Green, in 60Kg Bags	
<b>Destination</b>	<b>2010</b>	<b>2011</b>
U.S.	71,372	78,157
Germany	263,888	301,002
Poland	165,292	216,928
Russia	165,100	219,811
U.K.	56,179	36,646
Colombia	295,086	499,513
Other countries	184,434	194,281
<b>Total</b>	<b>1,201,351</b>	<b>1,546,338</b>

## 2011 Coffee Exports by Category



## Policy

A non-profit private institution, Ecuador's National Coffee Council (COFENAC) has established Ecuador's coffee policy since 1995. Its existence is based on Ecuador's Special Law for the Coffee Sector, Official Record 756, on March 20, 1995, which provided a legal framework to promote and organize a modern coffee industry, deal with the fluctuations of international coffee prices, and provide loans to coffee producers at preferential interest rates for the rehabilitation, renovation, and maintenance of coffee plantations. COFENAC's operations are financed by coffee bean exporters (processed coffee exporters are exempt) who pay fee equivalent to 2 percent of the FOB value of exports.

COFENAC's financing and existence has been questioned since Ecuador's adopted a new constitution in 2008. Ecuador's Constitution (article 2987) establishes that only public agencies can benefit from fees and special contributions established by public law. The fees that COFENAC collects can be interpreted as a tax on exports of coffee. Since 2010, COFENAC no longer authorizes imports of coffee. This authority has been transferred to COMEX. Nevertheless, exporters have continued to pay the 2 percent fees because despite limitations COFENAC's achievements are considered highly relevant to the sector. The short-term future of COFENAC's existence is less uncertain at this time. A coffee exporter challenged in court COFENAC's suitability to collect fees from the public. The latest court's verdict is that COFENAC is allowed to collect fees and will start receiving unpaid past fees from the exporter. COFENAC continues to operate in coordination with Ecuador's Ministry of Agriculture while its long-term legal situation is clarified.

COFENAC's actions have aimed at providing access to better coffee seedlings in order to improve quality and increase yields. COFENAC is currently implementing the second phase of a tree renovation project in several areas of Ecuador; the project involves the planting of 200,000 new trees nationwide. COFENAC is no longer channeling loans to coffee producers. Instead Ecuador's Agricultural Development Bank (BNF) has in the past provided credit to farmers interested in establishing new coffee plantations or renovating old ones. No loans were made in 2011.

COFENAC also led a project aimed at identifying markets for organic and gourmet specialty coffee and encouraged consumption and production of these specialty coffees. Production and certification of organic and fair trade coffee are activities which are also being promoted.

Since the creation of COFENAC, its membership, which includes producers and government officials, was responsible for approving temporary imports of coffee for transformation into soluble coffee which is re-exported after the process. Although this is no longer the case, COFENAC is still the authorized entity by The International Coffee Organization (ICO) to issue the certificates of origin required for exporting.