

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 5/4/2017

GAIN Report Number:

Coffee Annual

Ecuador's Coffee Sector Bounces Back, But Domestic Bean Production Cannot Meet Total Demand

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Report Highlights:

During Market Year (MY) 2016/17 (April/March), domestic bean production continued declining. We forecast production to increase in MY 2017/18 as a result of public expenditures to revitalize the coffee sector. Coffee exports in MY 2016/17 did not decline as much as previously anticipated. Germany and Russia were Ecuador's top two markets for its exports of soluble coffee products. Trade is expected to decline in MY 2017/18.

Executive Summary:

Ecuador's coffee production in marketing year (MY) 2017/18 (April/March) is forecast at 195,000 bags (60-kilograms per bag) on a Green Bean Equivalent (GBE) basis, up 25,000 bags or 15 percent higher than the MY 2016/17 estimate. FAS Quito is revising downward its MY 2016/17 coffee production estimate to 170,000 bags, reflecting a production decline of 24 percent compared to MY 2015/16 levels. Production fell due to lower yields as a result of a lack of investment in rejuvenating plantations. This situation could start to change in MY 2017/18 if productivity increases, as announced by the Government of Ecuador.

Ecuador's total domestic coffee consumption in MY 2017/18 is forecast at 183,000 bags GBE, down 24,000 bags or 11 percent lower than the MY 2016/17 (revised) estimate of 207,000 bags. Total domestic consumption is decreasing as a result of the slowdown in the Ecuadorian economy.

FAS Quito understands that Ecuador maintains coffee stocks of about 70,000 to 90,000 bags GBE. The government however does not manage or warehouse these stocks. Local soluble coffee manufacturers are the entities responsible for these coffee stocks.

Ecuador's coffee exports in MY 2017/18 are forecast at 511,000 bags GBE, down 63,000 bags or 11 percent lower compared to the MY 2016/17 (revised) estimate of 574,000 bags. FAS Quito is revising downward its MY 2016/17 coffee export estimate to 271,000 bags GBE or 32 percent lower than MY 2015/16 levels. In MY 2016/17 Ecuador exported an estimated 89,000 bags of coffee (Arabica and Robusta) beans, 484,000 bags of soluble coffee (about 84 percent of total exports), and some 1,000 bags of roasted-ground coffee. Germany and Russia were Ecuador's top two markets for its exports of coffee products in CY 2016.

Imports in MY 2017/18 are forecast at 508,000 bags, down 115,000 bags or 18 percent lower compared to the MY 2016/17 (revised) estimate of 623,000 bags. The relevance of Ecuador's coffee sector remains tied to its soluble-coffee processing capabilities. Thus, it continues to import nearly as much coffee as it then converts it into soluble coffee to be delivered to foreign markets.

Commodity - Coffee, Green

Coffee, Green	2015/2016	2016/2017	2017/2018
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Market Begin Year	Apr 2015		Apr 2016		Apr 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Ecuador						
Area Planted	199	199	200	200	0	200
Area Harvested	108	108	110	97	0	87
Bearing Trees	87	87	85	78	0	75
Non-Bearing Trees	75	75	75	75	0	75
Total Tree Population	162	162	160	153	0	150
Beginning Stocks	255	255	70	70	0	82
Arabica Production	100	100	85	70	0	85
Robusta Production	125	125	115	100	0	110
Other Production	0	0	0	0	0	0
Total Production	225	225	200	170	0	195
Bean Imports	625	625	575	575	0	460
Roast & Ground Imports	5	5	5	3	0	3
Soluble Imports	70	70	60	45	0	45
Total Imports	700	700	640	623	0	508
Total Supply	1180	1180	910	863	0	785
Bean Exports	100	100	90	89	0	100
Rst-Grnd Exp.	5	5	5	1	0	1
Soluble Exports	740	740	500	484	0	410
Total Exports	845	845	595	574	0	511
Rst,Ground Dom. Consum	40	40	40	37	0	33
Soluble Dom. Cons.	225	225	200	170	0	150
Domestic Consumption	265	265	240	207	0	183
Ending Stocks	70	70	75	82	0	91
Total Distribution	1180	1180	910	863	0	785

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

Crop Area

Total area planted has remained constant at about 200,000 hectares. Area harvested at 87,000 hectares in MY 2017/18 is forecast downward from the previous marketing year due to decreasing incentives for farmers to continue cropping and caring for their fields. Most of the coffee-cultivated area is in the hands of smallholders who rely on family labor for maintaining the crops and harvesting. As the younger generations migrate to urban centers and rural labor costs continue to increase, often farmers prefer not to harvest when coffee prices are not high enough to cover costs. Intercropping is common, occurring on at least 60 percent of total planted area.

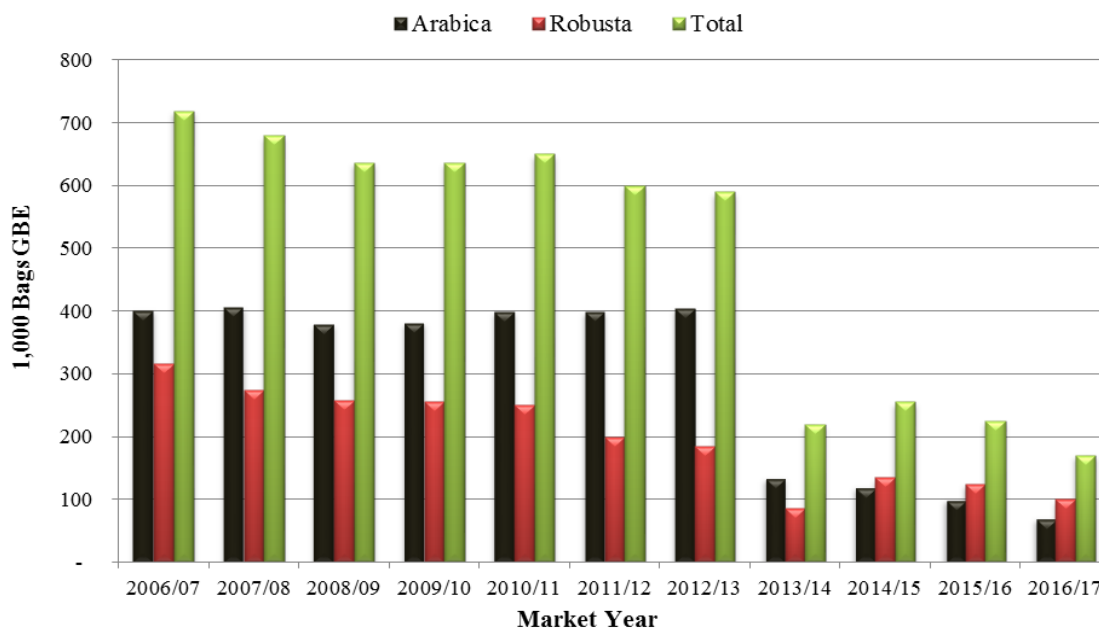
Production

Ecuador's coffee production in marketing year (MY) 2017/18 (April/March) is forecast at 195,000 bags (60-kilograms per bag) on a Green Bean Equivalent (GBE) basis, up 25,000 bags or 15 percent higher from the MY 2015/16 (revised) estimate. FAS Quito is revising downward its MY 2016/17 coffee production estimate to 170,000 bags; we are estimating production down 24 percent compared to MY 2015/16 levels. Production has been suffering for many years due to a lack of investment in rejuvenating plantations with new cultivars. Often, current cultivars are in need of complete renewals. In a visit with farmers, Post has confirmed that with the exception of farmers who are members of a cooperative, most farmers have foregone investment in new cultivars due to several considerations including price uncertainty and financial costs. The Ministry of Agriculture, Livestock, Aquaculture and Fisheries (MAGAP) has continued to promote production through technical assistance, pruning campaigns, provision of inputs and complete renewal of old cultivars. The expectation is for production

improvements becoming evident in MY 2017/18. Such improvements will be the result of new cultivars being harvested.

Coffee is largely hand-picked in Ecuador; there is limited use of fertilizer and modern irrigation systems. Traditional cultivation accounts for 80 percent of the crop; yields seldom surpass 200 kilograms (kg) (or five, 60-kg bags) per hectare. Yields in MY 2016/17 average 112 kilograms per hectare, down from the MY 2015/16 estimate yield of 121 kilograms per hectare, which are down 21 kilograms per hectare from the MY 2014/15 yield of 142 kilograms per hectare. At the beginning of CY 2017, farmers reported low presence of pests and diseases and favorable weather conditions. The observed drop in productivity from MY 2013/14 per hectare is mainly the result of replacing old cultivars with new ones.

Ecuador's Historical Coffee Production



Prices

Farmers in calendar year (CY) 2016 were paid on average \$243 per 60-kg bag of Arabica coffee, \$39 or 19 percent more than in 2015. Robusta coffee prices averaged \$91.07 per 60-kg bag in 2016. Farmers benefited from better prices in CY 2016 mainly due to production issues in neighboring Colombia and Peru.

Price Table Ecuador, Wholesale Coffee Prices (\$/60 Kg Bag, Green Coffee)

Month	Arabica (green)			Robusta (husked beans)		
	2015	2016	% Change	2015	2016	% Change

Jan	220.65	192.60	-12.7%	97.70	92.86	-5.0%
Feb	221.34	192.60	-13.0%	104.40	86.91	-16.8%
Mar	222.10	252.91	13.9%	94.43	84.53	-10.5%
Apr	222.82	247.62	11.1%	88.18	82.14	-6.8%
May	183.66	261.38	42.3%	83.33	82.14	-1.4%
Jun	215.06	261.38	21.5%	88.89	80.95	-8.9%
Jul	203.33	258.21	27.0%	88.49	84.53	-4.5%
Aug	193.22	258.21	33.6%	84.80	89.29	5.3%
Sep	191.65	248.68	29.8%	88.54	97.62	10.3%
Oct	178.20	247.62	39.0%	88.99	103.57	16.4%
Nov	201.19	248.68	23.6%	89.44	105.95	18.5%
Dec	196.35	245.51	25.0%	88.80	102.38	15.3%
Average	204.13	242.95	19.0%	90.50	91.07	0.6%

Source: FAS Quito Office Research

Fifty percent of coffee production occurs in the coastal provinces. The province of Manabí accounts for 30 percent of total production. The Amazon and the Sierra (mountain) areas account for 30 and 25 percent of the Ecuador's coffee production, respectively. Robusta coffee is mainly planted in the Amazon, while Arabica coffee is cultivated along the coast. There are about 75,000 coffee farmers.

Inputs

Ecuador's coffee sector is a mix of domestic bean production and processing of imported beans. Domestic bean production is in the hands of subsistence landholders who do not use fertilizers, pesticides, irrigation or contracted labor. The country's soluble coffee producers, on the other hand, source raw material coffee beans from major Robusta producers such as Vietnam. The technology used by the soluble industry has been developed mainly in Switzerland.

Yields

Average yields have been on decline in the last decades. FAS Quito estimated an average yield of 2.09 metric tons per hectare harvested in MY 2015/16, 1.75 in MY 2016/17 and is forecasting an average yield of 2.24 metric tons per hectare in MY 2017/18. The lack of investment by smallholders is reflected in the declining yields. The of Ecuador's Coffee Cultivation Project that started full scale MY 2014/2015 included activities such as replacing old cultivars with new ones. The increase in MY 2017/18 is expected as government-led efforts to rejuvenate old plantations might start bearing fruit.

Policy

Ecuador's 2008 constitution stipulates that only public agencies can benefit from fees and special contributions set forth by public law. As a result, no organization other than a government entity could collect fees. Prior to this, Ecuador's Coffee Council (COFENAC), a public-private organization handling coffee policy and trade, was responsible of assistance to Ecuador's coffee sector, but it was fully disbanded in February 2015. The Ministry of Agriculture in 2015 assumed control over coffee policies and technical assistance programs. No fees or export taxes are currently being levied on coffee exports.

Ecuador's Foreign Commerce Committee is responsible for authorizing imports of foreign coffee beans. The Ministry of Agriculture's \$75 million "Reactivation of Ecuador's Coffee Cultivation Project," aims to renovate 135,000 hectares of old coffee lands. Due to the reticence of farmers to convert old plantations to new ones, the Project needs to be understood as a long-term one. Farmers will

only adapt a new technology when they feel confident that their assets are not at financial risk and that future yields and prices will compensate temporary income shortages and additional investments.

Consumption

Ecuador’s total domestic coffee consumption in MY 2017/18 is forecast at 183,000 bags GBE, down 24,000 bags or 11.6 percent lower than the MY 2016/17 revised estimate of 207,000 bags. Total domestic consumption is decreasing as a result of the slowdown in the Ecuadorian economy. Gross Domestic Product (GDP), according to the IMF, is expected to contract 1.6 percent in 2017 and further 0.3 percent in 2018. Ecuador’s population is 16 million, growing at a rate of 1.3 percent per annum (U.S. Census Bureau – July 2016 estimate). Post estimates per capita consumption of coffee at around 0.77 kilogram per person. Ecuadorians consume primarily soluble (instant or powder) coffee, preferences are, however, changing. El Café (Grupo Noboa) dominates the soluble coffee market. The market is developing a taste for roasted-ground coffee. This is driven by a growing coffee culture accompanied by the opening of specialty coffee outlets such as Café Vélez, Coffee Tree, Sweet & Coffee, Isveglio, and with Colombia’s Juan Valdez.

Stocks

Ecuador maintains coffee stocks of around 70,000 to 90,000 bags GBE. The government does not manage or warehouse these stocks as these are beans used mainly to produce soluble coffee. Therefore, the domestic soluble coffee manufacturers are the entities responsible for these coffee stocks, mainly of imported coffee beans.

Trade

Ecuador exports beans and soluble coffee. The harvest of domestically-grown beans occurs between April and October. These beans are exported mainly from July to October. Imports of coffee beans for processing by the soluble industry, and exports of soluble coffee, on the other hand, occur year round. Ecuador’s coffee exports in MY 2017/18 are forecast at 511,000 bags GBE, down 63,000 bags or 11 percent lower compared to the MY 2016/17 (revised) estimate of 574,000 bags.

Ecuador’s soluble industry has been suffering from increased global competition in addition to increasingly higher domestic production costs. FAS Quito is revising downward its MY 2016/17 coffee export estimate by 271,000 bags GBE or 32 percent lower compared to MY 2015/16 levels. Ecuador exported in MY 2016/17 an estimated 89,000 bags of coffee (Arabica and Robusta) beans, 484,000 bags of soluble coffee (about 84 percent of total exports), and some 1,000 bags of roasted-ground coffee. Germany and Russian were Ecuador’s top two markets for its exports of coffee products in CY 2016.

Export Trade Matrix Calendar Year 2015 and 2016

Country	Ecuador	
Commodity	Coffee, Green, in 60Kg Bags	
Destination	2015	2016
Germany	321,518	313,575
Russia	73,114	259,189
Poland	174,526	79,271
United States	69,077	53,086

Mexico	10,281	51,231
Ukraine	15,968	31,211
Colombia	60,363	26,499
Japan	18,161	19,266
Other countries	126,963	87,845
Total	869,970	921,174

Source: Ecuadorian Association of Coffee Exporters ANECAFE

Imports in MY 2017/18 are forecast at 508,000 bags, down 115,000 bags or 18 percent lower compared to the MY 2016/17 (revised) estimate of 623,000 bags. Ecuador's soluble coffee industry has become less competitive in recent years, reportedly due to higher production costs. Imports of soluble coffee in MY 2017/18 are forecast at 45,000 bags, about the same level as the previous marketing year.

Ecuador's statistics do not report data for coffee beans temporarily imported for processing into soluble coffee and subsequently re-exported. Ecuador exported almost \$130 million in coffee products classified under Harmonized Tariff System – HS Code 2101.11 (i.e., coffee extracts, essences, and concentrates) to the world in CY 2016, with some \$85 million alone in shipments to Germany and Russia. Ecuador's exported of green coffee were destined mainly to the United States, \$12.7 million out of a total of 19 million in CY 2016.