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Coffee Annual 2016

Ecuador Coffee Sector Losing its Kick

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Report Highlights:

Ecuador's coffee production in MY 2016/17 (April/March) is forecast at 201,000 bags (60-kg per bag) on a Green Bean Equivalent (GBE) basis, down 16,000 bags or seven percent lower from the MY 2015/16 (revised) estimate. FAS Quito is revising downward its MY 2015/16 production estimate to 217,000 bags; we are estimating production down 15 percent compared to MY 2014/15. Production is suffering due to lower yields as a result of a lack of investment in rejuvenating plantations. Coffee exports in MY 2016/17 are forecast at 595,000 bags GBE, down a whopping 246,000 bags or 29 percent compared to the MY 2015/16 (revised) estimate of 841,000 bags. Post is revising downward its MY 2015/16 coffee export estimate by 49,000 bags GBE or six percent lower compared to MY 2014/15 levels. Imports in MY 2016/17 are forecast at 638,000 bags, down 60,000 bags or nine percent lower compared to the MY 2015/16 (revised) estimate of 698,000 bags.

Executive Summary:

Ecuador's coffee production in marketing year (MY) 2016/17 (April/March) is forecast at 201,000 bags (60-kilograms per bag) on a Green Bean Equivalent (GBE) basis, down 16,000 bags or seven percent lower from the MY 2015/16 (revised) estimate. FAS Quito is revising downward its MY 2015/16 coffee production estimate to 217,000 bags; we are estimating production down 15 percent compared to MY 2014/15 levels. Production is suffering due to lower yields as a result of a lack of investment in rejuvenating plantations.

Ecuador's total domestic coffee consumption in MY 2016/17 is forecast at 243,000 bags GBE, down 24,000 bags or nine percent lower than the MY 2015/16 estimate of 267,000 bags. Total domestic consumption is seen as slipping as a result of slower Ecuadorian economic growth.

FAS Quito understands that Ecuador maintains coffee stocks of around 60,000 bags GBE. The government however does not manage or warehouse these stocks. Rather the local soluble coffee manufacturers are the entities responsible for these coffee stocks.

Ecuador's coffee exports in MY 2016/17 are forecast at 595,000 bags GBE, down a whopping 246,000 bags or 29 percent lower compared to the MY 2015/16 (revised) estimate of 841,000 bags. FAS Quito is revising downward its MY 2015/16 coffee export estimate by 49,000 bags GBE or six percent lower compared to MY 2014/15 levels. Ecuador exported in MY 2015/16 an estimated 100,000 bags of coffee (Arabica and Robusta) beans, 739,000 bags of soluble coffee (about 88 percent of total exports), and some 2,000 bags of roasted-ground coffee. Arabica bean exports account for about seven percent of total exports, while Robusta represent five percent.

Imports in MY 2016/17 are forecast at 638,000 bags, down 60,000 bags or nine percent lower compared to the MY 2015/16 (revised) estimate of 698,000 bags.

Commodity - Coffee, Green

Ecuador, PSD Table, Coffee, Green Bean Equivalent (GBE)

Coffee, Green Market Begin Year Ecuador	2014/2015		2015/2016		2016/2017	
	Apr 2014		Apr 2015		Apr 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	199	199	199	199	0	199
Area Harvested	108	108	108	108	0	108
Bearing Trees	85	85	87	87	0	85
Non-Bearing Trees	77	77	75	75	0	77
Total Tree Population	162	162	162	162	0	162
Beginning Stocks	255	255	255	255	0	62
Arabica Production	120	120	135	92	0	85
Robusta Production	135	135	175	125	0	116
Other Production	0	0	0	0	0	0
Total Production	255	255	310	217	0	201
Bean Imports	825	825	770	625	0	575
Roast & Ground Imports	5	5	5	3	0	3
Soluble Imports	70	70	70	70	0	60
Total Imports	900	900	845	698	0	638
Total Supply	1410	1410	1410	1170	0	901
Bean Exports	125	125	165	100	0	93
Rst-Grnd Exp.	5	5	5	2	0	2
Soluble Exports	760	760	725	739	0	500
Total Exports	890	890	895	841	0	595
Rst,Ground Dom. Consum	40	40	40	42	0	43
Soluble Dom. Cons.	225	225	225	225	0	200
Domestic Consumption	265	265	265	267	0	243
Ending Stocks	255	255	250	62	0	63
Total Distribution	1410	1410	1410	1170	0	901
(1000 HA), (MILLION TREES), (1000 60 KG BAGS)						

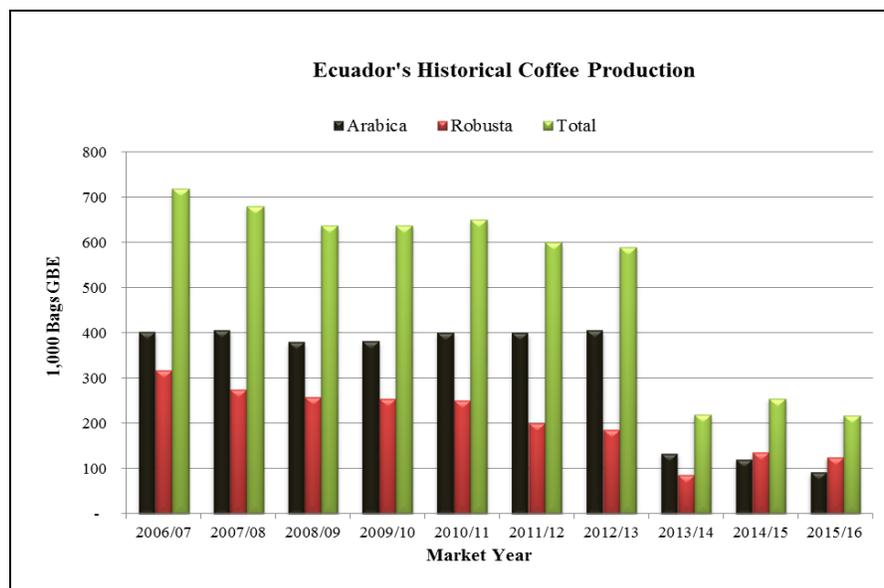
Production

Ecuador's coffee production in marketing year (MY) 2016/17 (April/March) is forecast at 201,000 bags (60-kilograms per bag) on a Green Bean Equivalent (GBE) basis, down 16,000 bags or seven percent lower from the MY 2015/16 (revised) estimate. FAS Quito is revising downward its MY 2015/16 coffee production estimate to 217,000 bags; we are estimating production down 15 percent compared to MY 2014/15 levels. Production is suffering due to lower yields as a result of a lack of investment in rejuvenating plantations with new cultivars. Farmers are foregoing investment in new varieties due to coffee's international price volatility.

Farmers in calendar year (CY) 2015 were paid on average \$204 per 60-kg bag (Arabica), down \$24 or 10 percent less than in 2014. Robusta coffee prices averaged nearly \$91 per 60-kg bag in 2015. Prices in 2016 prices will remain largely unchanged. Farmers are consequently turning to more profitable crops. Some traditional coffee farmers, especially in the Province of Manabí, are abandoning coffee cultivation due to old age. The Ministry of Agriculture, Livestock, Aquaculture and Fisheries (MAGAP) continues to promote production through incentives and financing. Total area harvested at 108,000 hectares in MY 2015/16 remains unchanged from the previous marketing year. Intercropping is common, occurring on 60 percent of total planted area.

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. Robusta coffee is mainly planted in the Amazon, while Arabica coffee is cultivated along the coast. There are 95,000 coffee farmers.

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 surpassing 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.



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

Month	Arabica (green)			Robusta (husked beans)		
	2014	2015	% Change	2014	2015	% Change
Jan	185.19	220.65	19.1%	70.11	97.70	39.4%
Feb	178.57	221.34	24.0%	71.43	104.40	46.2%
Mar	191.80	222.10	15.8%	76.72	94.43	23.1%
Apr	203.71	222.82	9.4%	76.72	88.18	14.9%
May	219.58	183.66	-16.4%	91.27	83.33	-8.7%
Jun	207.68	215.06	3.6%	93.92	88.89	-5.35%
Jul	234.13	203.33	-13.2%	96.56	88.49	-8.4%
Aug	234.13	193.22	-17.5%	97.89	84.80	-13.4%
Sep	242.07	191.65	-20.8%	101.85	88.54	-13.1%
Oct	271.17	178.20	-34.3%	101.85	88.99	-12.6%
Nov	277.78	201.19	-27.6%	97.89	89.44	-8.6%
Dec	288.36	196.35	-31.9%	95.24	88.80	-6.8%
Average	227.85	204.13	-10.4%	89.29	90.5	1.4%

Source: Ministry of Agriculture/ National Information System (SINAGAP).

Consumption

Ecuador's total domestic coffee consumption in MY 2016/17 is forecast at 243,000 bags GBE, down 24,000 bags or nine percent lower than the MY 2015/16 estimate of 267,000 bags. Total domestic consumption is seen as slipping as a result of slower Ecuadorian economic growth. Gross Domestic Product (GDP) was weak (0.3 percent) in 2015, and will contract 1.5 percent in 2016 before resuming in 2017-20 but will remain below the levels of the past decade. Post estimates per capita consumption of coffee at around 1.0 kilogram per person based on a population of 15.8 million (Central Intelligence Agency – July 2015, estimate).

Ecuadorians still consume mainly soluble (instant or powder) coffee, preferences are however changing. The market is developing a taste for roasted-ground coffee. It counts with the presence of specialty coffee outlets such as Café Vélez, Coffee Tree, Sweet & Coffee, Isveglío as well as with Colombia's Juan Valdez. El Café (Grupo Noboa) dominates the soluble coffee market.

Stocks

Ecuador maintains coffee stocks of around 60,000 bags GBE. The government however does not manage or warehouse these stocks. Rather the local soluble coffee manufacturers are the entities responsible for these coffee stocks. Soluble coffee represents 80 percent of the coffee sector.

Trade

Ecuador's coffee exports in MY 2016/17 are forecast at 595,000 bags GBE, down a whopping 246,000 bags or 29 percent lower compared to the MY 2015/16 (revised) estimate of 841,000 bags. FAS Quito is revising downward its MY 2015/16 coffee export estimate by 49,000 bags GBE or six percent lower compared to MY 2014/15 levels. Ecuador exported in MY 2015/16 an estimated 100,000 bags of coffee (Arabica and Robusta) beans, 739,000 bags of soluble coffee (about 88 percent of total exports), and some 2,000 bags of roasted-ground coffee. Arabica bean exports account for about seven percent of total exports, while Robusta represent five percent.

Export Trade Matrix

Country	Ecuador	
Commodity	Coffee, Green, in 60 Kg Bags	
Destination	2014	2015
United States	100,485	69,077
Germany	316,590	321,518
Poland	261,809	174,526
Russia	121,692	73,114
Colombia	97,019	60,363
United Kingdom	73,161	38,101
Other Countries	160,882	133,272
Total	1,131,638	869,970

The country's soluble coffee producers are competing for export markets with Vietnam. With markets drying up, and with previously subsidized electricity and diesel fuel, water and bunkering costs

increasing, producers such as Grupo Noboa are scaling back capacity. Overall processing capacity has dropped 25-35 percent; previously 1.6 million bags GBE could be processed annually. Ecuador's coffee imports are subsequently suffering from this lower processing capacity. Imports in MY 2016/17 are forecast at 638,000 bags, down 60,000 bags or nine percent lower compared to the MY 2015/16 (revised) estimate of 698,000 bags. Imports of soluble coffee in MY 2016/17 are forecasted at 60,000 bags, down 10,000 bags from the previous marketing year.

Imported beans enter as temporary imports, are processed and then re-exported as spray and freeze-dried coffee products to European markets. Ecuador's statistics do not report data for coffee beans temporarily imported for processing into soluble coffee and subsequent re-export. Ecuador exported \$127 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 2015, with some \$84 million alone in shipments to Germany and Poland.

Policy

Ecuador's constitution (2008) establishes that only public agencies can benefit from fees and special contributions set forth by public law. Ecuador's Coffee Council (COFENAC), a public-private organization handling coffee policy and trade, was disbanded in February 2015. No fees or export taxes are currently being levied on coffee exports. The Ministry of Agriculture in 2015 assumed control over coffee policies and technical assistance programs. Ecuador's Foreign Commerce Committee is responsible for authorizing imports of foreign coffee beans.

In September 2015, Minister of Agriculture Javier Ponce declared Ecuador's coffee sector in a state of phyto-sanitary emergency. The Ministry of Agriculture's \$70 million "Reactivation of Ecuador's Coffee Cultivation Project," aims to renovate 135,000 hectares of old coffee lands. The Ministry to date renovated over 18,500 hectares; new results will be announced in early 2017.