

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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El Salvador

Coffee Annual

2011

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Report Highlights:

After a historically low production cycle, El Salvador's coffee production is expected to rebound in 2010/11 and reach 1.7 million 60 Kg. bags. Favorable international coffee prices are providing relief to El Salvador's depressed coffee sector. Continued efforts to promote specialty coffee are paying off as exports of higher quality coffee are increasing, and now account for approximately 30 % of total exports. El Salvador continues to use activities such as the Cup of Excellence to promote coffee abroad. In addition, El Salvador once again had a stand at the 2011 Specialty Coffee Expo, where various coffee brands were exposed to quality coffee buyers. The Coffee Trust (Fonserva) created by the Government of El Salvador (GOES) to sell ecological bonds and cover 30 percent of the coffee sector debt of approximately \$175 million provided some financial relief to coffee farmers. However, the new government administration has halted this program for the 2010/11 crop.

Executive Summary:

El Salvador's Marketing Year (MY/October-September basis) 2010/2011 coffee harvest is expected to be approximately 7 percent higher than previously reported. New data provided by the Salvadoran Coffee Council (CSC) revealed that the 2010/11 harvest is expected to reach 1.7 million 60 Kg. bags due to the on-year production cycle. A good rainy season so far; and some increase in fertilizer use and improved agricultural practices due to a rebound in international prices are expected to diminish the drop in production in the off-cycle for the 2011/12 harvest.

Coffee exports in 2010/11 are expected to reach 1,624,000 sixty Kg. bags. Export numbers for 2011/12 are expected to decrease due to a decrease in production. Local financial institutions continue to require farmers to have a planned coffee-sales program in order to have access to loans. This requirement is forcing farmers to forward contract their coffee and avoid speculation. Germany is the main export destination for Salvadoran coffee, accounting for 36 percent of MY 2010/11 exports through April 2011. In MY 2010/11, exports to the U.S. are expected to account for approximately 32 percent of total exports. Other important markets are Canada, Japan, Sweden, and England.

Lack of local ground coffee processing facilities has favored the market for soluble coffee. This has led to a continued increase in soluble imports, mainly from Brazil and Nicaragua. Guatemalan, Honduran and Mexican coffees are also gaining market share in the retail and institutional market.

The CSC continues to monitor exports through the use of export registrations permits. The Government of El Salvador (GOES) has guaranteed through the Multi-Sectoral Investment Bank (BMI) a loan of US\$ 72.00 per hundredweight (cwt) to cover routine maintenance and harvesting during the 2011/12 crop season (Please refer to Policy for further information). Coffee is still the most important source of employment in rural areas, with the coffee harvest alone providing approximately 130,000 jobs. However, coffee is no longer the major source of export revenues in El Salvador, having been replaced by non-traditional products such as processed ethnic food products and tropical fruits. Coffee exports in 2011/12 are expected to generate approximately US\$500 million in foreign exchange.

The coffee sector continues to honor an outstanding debt of approximately US\$180 million that has been deferred to long term debt through the GOES "FICAFE" (Coffee Trust) program that began in 2001. Under FICAFE, the debt burden was negotiated with the private banking sector so that the coffee producers would have 23 years and a 3 year grace period to cover their debt.

El Salvador continues to promote Salvadoran coffee, focusing mainly on specialty and gourmet qualities (See Trade). The agricultural sector is the fastest growing sector in the economy assisted by higher prices for coffee and sugar, as well as increased market access for sugar and growing processed food exports under the Central America – Dominican Republic (CAFTA-DR) free trade agreement.

Commodities:

Coffee, Green

Production:

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador reveal that the 2010/11 coffee harvest is expected to reach 1.7 million 60 Kg. bags. This is a major rebound from the historical reduction in production in 2009/10 due to adverse weather conditions that severely affected the coffee plants during the blossoming season. So far, favorable weather conditions for coffee flowering, and increased investment in labor and inputs due to improved coffee prices are expected to reduce the possibility of a major drop in production in 2011/12. Total production is estimated at 1.5 million 60 Kg. bags.

The GOES continues to guarantee loans to the coffee sector. Cultural practices have improved due to fresh capital from higher prices. Value-added production such as gourmet, specialty, fair trade and organic coffees continue to provide additional revenue to coffee producers. Specialty coffee production has steadily increased, reaching approximately 30 percent of total production in MY 2010/11. Recently, the CSC successfully organized the ninth edition of the "Cup of Excellence" promotional event to increase exposure of fine Salvadoran coffees in the specialty market. In addition, the CSC is promoting trade missions composed of European and American specialty coffee bars to sample Salvadoran coffee. (Refer to Trade for further information).

Consumption:

New data compiled by the CSC show an increase in domestic coffee consumption. Increased availability of coffee brands at the retail level is stimulating consumption. In addition, the trend for coffee bars located in major shopping malls continues. In MY2010/11, consumption reached 230,000 sixty Kg. bags. Most local consumption has shifted to soluble coffee which is mainly imported from Brazil, Nicaragua and Mexico. In MY2010/11, soluble domestic consumption is expected to reach 199,000 sixty Kg. bags Green Bean Equivalent (GBE). Roasted/ground domestic consumption remains at similar levels reaching 31,000 sixty Kg. bags in the same period. Guatemala and Colombia are new players in the retail market for this type of coffee.

El Salvador only consumes approximately 4 percent of local production. Accordingly, there is room to grow local consumption as well as to promote the unique characteristics of Salvadoran coffee in the export market.

Trade:

Coffee exports for MY2010/11 are estimated at 1,624,000 sixty Kg. bags. This number is higher than previously reported mainly due to a larger crop. In MY2011/12 coffee exports are forecast at 1.43 million 60 Kg. bags.

Exports to the U.S. in MY 2010/11 accounted for approximately 32 percent of total exports, reaching 519,680 sixty Kg. bags. Germany is the main export destination for Salvadoran coffee accounting for approximately 36 percent of total exports. Other active buyers in this market are England, Sweden, Canada and Japan.

Premium prices obtained by gourmet and specialty coffees have increased the amount of exports of this type of coffee. The CSC sponsored the ninth successive year the promotional event called the "Cup of Excellence". The best coffees produced in El Salvador are selected by local and international coffee connoisseurs to participate in a global electronic auction. Local coffee is successfully sold to U.S., Japanese and European buyers with prices higher than spot Contract C prices.

Export Trade Matrix			
El Salvador			
Coffee, Green			
Time Period	MY	Units:	60 Kg. Bags
Exports for:	2010		2011
U.S.	519,680	U.S.	458,240
Others		Others	
Germany	584,640	Germany	515,520
Japan	155,904	Japan	137,472
Canada	102,312	Canada	90,216
Sweden	63,336	Sweden	55,848
England	51,968	England	45,824
Total for Others	958,160		844,880
Others not Listed	146,160		128,880
Grand Total	1,624,000		1,432,000

The CSC also continues to actively promote coffee through trade missions composed of European, American and Japanese specialty coffee bar owners that visit the country's best coffee production sites and get to acquaint themselves with the unique qualities that Salvadoran coffee provides to coffee blends.

Also programs such as the Rainforest Alliance Certification are being extended to include more coffee producers in this ecological seal program. Up to now, 231 farms and 34 mills have been certified. Farmers that join this certification program have to improve the quality of life of workers as well as surrounding communities, must preserve the ecosystem, protect wild life and conserve water resources in order to have access to a premium for their coffee production.

Nestlé has become a major importer and distributor of mainly Brazilian and Mexican origin coffee. In Calendar Year 2010, Brazil supplied 72,186 sixty Kg. bags GBE of soluble coffee to the market. Nicaragua is also very aggressive in the soluble coffee market and accounted in the same period for 21 percent of total imports.

Import Trade Matrix			
El Salvador			
Coffee, Green			
Time Period	CY	Units:	60 Kg. Bags
Imports for:	2010		2011
U.S.	2,501	U.S.	2,700
Others		Others	
Brazil	72,186	Brazil	75,000
Nicaragua	30,215	Nicaragua	31,300
Mexico	19,978	Mexico	20,900
Honduras	9,968	Honduras	10,200
Guatemala	8,134	Guatemala	8,800
Total for Others	140,481		146,200
Others not Listed	4,965		3,300
Grand Total	147,947		152,200

Stocks:

New data provided by the CSC substantiate a decrease in the MY2010/11 stock number to 2,000 sixty Kg. bags. Most of this coffee is previous crop unsold product retained by coffee farmers looking for better prices. In MY2011/12, stocks are expected to increase slightly to 6,000 bags.

Policy:

To comply with World Trade Organization (WTO) regulations, the GOES has faded off the six percent drawback program for non-traditional exports. This drawback was used by the GOES as an incentive for exporters that trade their products outside of the Central American region. The GOES through the Ministry of Economy returned back to the exporters six percent of the taxes incurred in the export transaction. Soluble and roasted coffees were eligible to apply for this program. The GOES is currently working on an Export Promotion Program that would substitute this non-WTO binding subsidy.

The GOES has decided to halt the Environmental Services Fund (Fonserva) that sells environmental (CO2) bonds to cover 30 percent of the FICAFE debt. By the end of 2010, the FICAFE accumulated debt stood at approximately US\$165 million. As part of a government program to revamp coffee production, the GOES has deferred the capital payments to

FICAFE for a grace period of 3 years so that those funds can be invested in plant renovation and increased agricultural practices to increase productivity.

Last year, the Ministry of Agriculture through the Salvadoran Coffee Council carried out a pilot coffee recovery program that supplied bearing trees to coffee farmers in areas affected by Hurricane Ida. Due to the positive results posted by this program, the GOES is working with the Inter-American Institute for Agriculture (IICA) to expand this program to a national level. The idea is to rejuvenate coffee plantations, increase yields as well as generate much needed jobs in the rural area.

El Salvador continues to actively participate in International Coffee Organization (OIC) meetings.

Production, Supply and Demand Data Statistics:

Coffee, Green El Salvador	2009/2010		2010/2011		2011/2012		
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	176	176	0	176		176	(1000 HA)
Area Harvested	164	164	0	164		164	(1000 HA)
Bearing Trees	541	541	0	541		541	(MILLION TREES)
Non-Bearing Trees	53	53	0	53		54	(MILLION TREES)
Total Tree Population	594	594	0	594		595	(MILLION TREES)
Beginning Stocks	42	42	29	2		6	(1000 60 KG BAGS)
Arabica Production	1,300	1,065	1,600	1,710		1,515	(1000 60 KG BAGS)
Robusta Production	0		0	0		0	(1000 60 KG BAGS)
Other Production	0		0	0		0	(1000 60 KG BAGS)
Total Production	1,300	1,065	1,600	1,710		1,515	(1000 60 KG BAGS)
Bean Imports	0		0	11		10	(1000 60 KG BAGS)
Roast & Ground Imports	11	11	13	12		12	(1000 60 KG BAGS)
Soluble Imports	150	112	130	125		130	(1000 60 KG BAGS)
Total Imports	161	123	143	148		152	(1000 60 KG BAGS)
Total Supply	1,503	1,230	1,772	1,860		1,673	(1000 60 KG BAGS)
Bean Exports	1,300	996	1,575	1,621		1,429	(1000 60 KG BAGS)
Rst-Grnd Exp.	2	1	2	2		2	(1000 60 KG BAGS)
Soluble Exports	2	1	2	1		1	(1000 60 KG BAGS)
Total Exports	1,304	998	1,579	1,624		1,432	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	30	31	30	31		31	(1000 60 KG BAGS)
Soluble Dom. Cons.	140	199	140	199		200	(1000 60 KG BAGS)
Domestic Use	170	230	170	230		231	(1000 60 KG BAGS)
Ending Stocks	29	2	23	6		10	(1000 60 KG)

Total Distribution	1,503	1,230	1,772	1,860		1,673
Exportable Production	1,130	835	1,430	1,480		1,284

BAGS)
(1000 60 KG
BAGS)
(1000 60 KG
BAGS)