

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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El Salvador

Coffee Annual 2015

Lack of Coffee strategy weakens production outlook; or is Salvadoran coffee an endangered species (?)

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Report Highlights:

El Salvador's coffee production is expected to rebound to 624,000 sixty-kg bags in 2014/15 (October 2014 - September 2015), a 24 percent increase from the historically low 2013/2014 harvest. However, this production increase is mainly due to the bi-annual nature of the crop and production is estimated to decline further in 2015/16 marking a new historical low of 351,000 sixty-kg-bags. Primarily caused by the continued effects of a severe Coffee Leaf Rust (CLR) outbreak, this will be the lowest production in the past 80 years. In addition, El Niño weather phenomenon is already causing erratic rain patterns that could include a lengthened dry spell which would add to the damage. The Salvadoran

government continues trying to provide some relief, but the government's assistance (providing fungicides and rust resistant plants to replace old trees to small farmers with less than 3 hectares of coffee) has not been enough to offset the damage.

Executive Summary:

El Salvador's 2014/15 marketing year (October 1, 2014 - September 30, 2015) coffee harvest will increase mainly due to the bi-annual on-year production cycle. However, Post production estimate is lower than previously reported and will reach about 624,000 sixty-kg bags. The CLR outbreak affecting the Central American region continues to affect production. The 2015/16 harvest is expected to fall to unprecedented lows.

Exports in MY 2014/15 are expected to reach 542,000 sixty-kg bags. Export numbers for 2015/16 are expected to decrease due to both an off-year production cycle, to continued damage by CLR and reduction of rain due to El Niño during this production cycle. Local financial institutions continue to require farmers to have a planned coffee-sales program in order to have access to loans; farmers must submit future coffee contract sales to avoid speculation. The United States continues to be the main export destination for Salvadoran coffee, accounting for 47 percent of MY 2014/15 exports through April 2015. Germany is the second destination for Salvadoran coffee, followed by Japan, Canada, Sweden, England and Belgium.

Lack of incentives for value-added coffee processing and a reduced local crop continues to favor imports. This has led to increases in soluble imports, mainly from Brazil, Mexico and Nicaragua. Colombian Juan Valdez coffee shops are also gaining market share in the retail market.

The Salvadoran Coffee Council (SCC) continues to monitor exports with the use of export registration permits. The Government of El Salvador (GOES) through the government-owned financial institutions has guaranteed a loan of US\$70.00 per hundredweight (cwt) to cover routine maintenance and harvesting during the 2015/16 crop season (Please refer to Policy Section, below, 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, the drastic production reduction (caused by coffee rust) has deeply impacted jobs on coffee farms (both the number of jobs and the time-hired have dropped). Also coffee is no longer the major source of export revenues in El Salvador, having been replaced by non-traditional products such as processed ethnic foods and tropical fruits. At current prices, coffee exports in 2015/16 are only expected to generate approximately US\$55 million in foreign exchange.

El Salvador continues to promote its coffee focusing mainly on specialty and gourmet qualities (See Trade Section, below).

Commodities:

Coffee, Green

Production:

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador reveal that the 2014/15 coffee harvest is expected to reach 624,000 sixty-kg bags. This is a lower number than previously reported; mainly due to continued damage by CLR throughout the growing season. The 2015/16 production is estimated at a new historical low of 351,000 sixty-kg bags.

The GOES continues to guarantee loans to the coffee sector. Continued cultural practices to counter the attack of coffee rust is one of the key factors in the recovery of Salvadoran coffee production. Value-added production such as gourmet, specialty and fair trade coffees continue to provide additional revenue to coffee producers. Some farmers are focusing on micro-lot sales to specialty retailers in Europe, the U.S. and Asia.

Recently, the SCC successfully organized the 13th edition of the “Cup of Excellence” promotional event to increase exposure of fine Salvadoran coffees in the specialty market. In addition, the SCC continues to promote trade missions of European; Taiwanese and American specialty coffee bars to sample local coffee (Refer to Trade Section, below, for further information).

Consumption:

Consumption in coffee bars is gaining popularity in El Salvador. The number of coffee bars continues to expand – now popping-up in strip malls as well as in major shopping malls as is the case of Colombian Juan Valdez stores. Also, new coffee brands at the retail level continue stimulating consumption.

In MY 2014/15 consumption reached 275,000 sixty-kg bags. However, most local consumption continues to be soluble coffee mainly imported from Brazil, Mexico and Nicaragua. In MY 2014/15, soluble domestic consumption is expected to reach 244,000 bags - Green Bean Equivalent (GBE). Roasted and ground domestic consumption remains at similar levels reaching 31,000 bags GBE in the same period.

Lack of an aggressive marketing campaign to boost consumption of local higher quality beans and a market that tends to be price elastic are some of the factors that favor soluble consumption.

Trade:

Coffee exports for MY 2014/15 are estimated at 542,000 sixty-kg bags. This number is lower than previously reported mainly due to damage by coffee rust. In MY 2015/16 coffee exports are heading to a drastically low forecast at 301,000 sixty-kg bags.

In MY 2014/15 the United States is expected to be the main export destination for Salvadoran coffee reaching approximately 256,000 sixty-kg bags, about 47 percent of total exports. Germany is the number two export destination accounting for approximately 13 percent of total exports. Other important destinations are Japan, Italy, Canada, Belgium, Taiwan and Sweden.

Premium prices obtained by gourmet and specialty coffees are an incentive to increase exports of these types of coffees. Recently the CSC carried out the 13th edition of the “Cup of Excellence” promotional event. The best quality coffees produced in El Salvador were selected by a group of local and international coffee judges to participate in a global electronic auction. Through this event, local coffee has been successfully sold in the past to U.S., Japanese and European buyers with prices that are 5 to 10 times higher (on average) than the spot market "Contract C" prices.

Export Trade Matrix			
El Salvador			
Coffee, Green			
Time Period	MY	Units:	60 kg bags
Exports for:	2014		2015
U.S.	256,532	U.S.	142,562
Others		Others	
Germany	72,133	Germany	40,086
Japan	65,082	Japan	36,168
Canada	28,202	Canada	15,673
Sweden	26,575	Sweden	14,769
England	22,236	England	12,357
Belgium	22,236	Belgium	12,357
Italy	21,152	Italy	11,755
Taiwan	5,424	Taiwan	3,014
Total for Others	263,040		146,179
Others not Listed	22,778		12,659
Grand Total	542,350		301,400
Source: CSC			

El Salvador continues to be active in promoting coffee through reverse trade missions composed of European, American, Taiwanese and Japanese specialty coffee bar owners that visit coffee production sites, as well as coffee mills, to get acquainted with the unique qualities that Salvadoran coffee can provide to coffee blends. In the 2015 Specialty Coffee Association of America (SCAA) fair, many Salvadoran coffee exporters participated to continue their promotional activities and search for new buyers of gourmet coffee (at a profitable price).

Certification of environmental practices and social responsibilities programs such as the Rainforest Alliance Certification are also being extended by local NGO Salvanatura to include more coffee producers. Currently, over 230 farms and 34 mills have been Rainforest Alliance certified. Farmers that join this certification program have to improve the quality of life for their workers as well as the

surrounding communities, must preserve the ecosystem, protect wild life and conserve water resources in order to get a premium price for their coffee. Other certification efforts such as UTZ, Starbucks and coffee-related Geographical Indicators (“GI’s) are also being expanded in El Salvador.

In Calendar Year 2014, Brazil supplied 78,458 sixty-kg bags GBE of soluble coffee to the local market. Mexico with 64,112 bags and Nicaragua with 35,696 bags are also important suppliers. Colombia is also present in the market with soluble product brands Colcafe, as well as with its insignia “Juan Valdez” coffee retail outlets reaching 6,272 bags.

Import Trade Matrix			
El Salvador			
Coffee, Green			
Time Period	CY	Units:	60 kg bags
Exports for:	2014		2015
U.S.	3,497	U.S.	3,850
Others		Others	
Brazil	78,458	Brazil	89,500
Mexico	64,112	Mexico	68,500
Nicaragua	35,696	Nicaragua	38,500
Colombia	6,272	Colombia	8,200
Chile	3,360	Chile	4,200
Honduras	1,733	Honduras	2,000
Guatemala	1,399	Guatemala	1,600
Peru	579	Peru	750
Total for Others	191,609		213,250
Others not Listed	2,694		2,500
Grand Total	197,800		219,600
Source: Salvadoran Central Bank (BCR)			

Stocks:

New data compiled by FAS/San Salvador shows stock numbers reaching 10,000 sixty-kg bags in MY 2014/15. Stocks for MY 2015/16 are expected to drop to 5,000 bags mainly due to the reduced crop.

Policy:

The main problem faced by the Salvadoran coffee sector continues to be the lack of an institutional framework that incorporates all the actors in the private side (i.e. producers, cooperatives, millers) and also includes the public sector as the regulatory setting body, so that a clear strategy can be designed and carried forward not only to rescue the sector but also to set out a path to reach sustainability and profitability for coffee farmers in the long run.

Even though there have been some efforts made by the government to carry out assistance programs to bring some relief to the sector, these have often been late and ill-designed to have any positive impact on the recovery of coffee producers.

In the fourth quarter of 2014, the GOES through the Ministry of Agriculture (MAG) created CENTA café. This new institution is in charge of providing extension assistance to coffee farmers. In addition, in the second quarter of 2015 MAG started a new fungicide and plant giveaway program for small farmers. According to MAG, approximately 7 million rust resistant plants will be provided through CENTA café. These government programs are mainly targeted to small farmers (less than 3 hectares) that only account for 10% of planted area.

The Salvadoran Coffee Association (SCA) believes that this is not enough since the sector needs a massive replanting program to renovate the coffee area that in most cases has trees that have surpassed their productive stage (over 25 years). Every year over 7 million plants need to be planted just to replace those that die naturally. According to the Association, approximately 30 million rust resistant plants are needed per year for a period of ten years to completely renovate the national coffee area.

As a result, jobs in coffee areas continue to decline causing a stream of migration to the urban areas in search of employment opportunities. Approximately 10,000 jobs are lost for every 100,000 hundred-weight drop in production. That means that in the 2015/16 cycle an estimated 40,000 jobs would be lost. In addition, the abandonment of coffee farms has increased causing a heavy impact in the main source of forestation in the country in detriment of an already damaged local environment.

Coffee farmers continue paying back the Coffee Trust (FICAFE) program, which was established in 2001 to defer accumulated debt with the banking system to a longer term that would allow farmers to cover their debt. As part of the GOES program to assist the coffee sector, the capital payments to FICAFE were deferred in 2014 for a grace period of 3 years so that those funds can be used in plant renovation, to improve agricultural practices to fight coffee leaf rust and to increase productivity at the farm level.

The GOES through its state banks has guaranteed a \$70.00 per hundredweight GBE loan to carry out regular cultural practices and harvest collection for the upcoming production cycle. The GOES is also providing fungicides and liquid fertilizers to small farmers (less than 3 hectares) to alleviate the coffee rust attack. However, given the severity of the coffee rust damage, this loan ceiling and input provision will not be sufficient to cover the expenses of rust protection needed by coffee farmers to recover their plantations.

USDA through the Food for Progress program is working with the National Cooperative of Business Associations (NCBA) on a project to assist approximately 7,500 coffee farmers, regardless of their farm size, with new production technologies, extension work, access to good cup quality rust resistant varieties, assistance to submit loan requests to financial institutions and an activity that would help coffee farmers diversify with vegetables grown under greenhouses with drip irrigation to provide food security and additional income.

Production, Supply and Demand Data Statistics:

<i>Coffee, Green</i>	2013/2014		2014/2015		2015/2016	
<i>Market Begin Year</i>	Oct 2013		Oct 2014		Oct 2015	
<i>El Salvador</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	176	152	0	152	0	152
Area Harvested	164	145	0	145	0	145
Bearing Trees	541	304	0	304	0	304
Non-Bearing Trees	54	21	0	21	0	21
Total Tree Population	595	325	0	325	0	325
Beginning Stocks	18	18	13	5	0	10
Arabica Production	550	505	675	624	0	351
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	550	505	675	624	0	351
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	15	10	15	10	0	10
Soluble Imports	190	205	175	188	0	210
Total Imports	205	215	190	198	0	220
Total Supply	773	738	878	827	0	581
Bean Exports	500	462	600	540	0	299
Rst-Grnd Exp.	0	1	0	1	0	1
Soluble Exports	0	0	0	1	0	1
Total Exports	500	463	600	542	0	301
Rst,Ground Dom. Consum	30	30	30	31	0	31
Soluble Dom. Cons.	230	240	230	244	0	244
Domestic Use	260	270	260	275	0	275
Ending Stocks	13	5	18	10	0	5
Total Distribution	773	738	878	827	0	581
Exportable Production	290	235	415	349	0	76