

USDA Foreign Agricultural Service

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El Salvador

Coffee Annual

Rust, climate change and low prices are major causes of Salvadoran coffee crisis.

Approved By:

Todd Drennan

Prepared By:

Miguel Herrera

Report Highlights:

El Salvador's coffee production is expected to decrease to 501,000 sixty-kg bags in 2015/16 (October 2015 - September 2016), the second lowest harvest on record in the past two years. This production downturn is mainly due to a continued attack of Coffee Leaf Rust (CLR), a drought caused by El Niño weather phenomenon and low international prices that affect investment capacity of local farmers. The 2016/17 crop is expected to reach 608,000 sixty-kg bags, however this will ultimately depend on how the rainy season unfolds since El Niño has already caused a delay in normal rain levels.

Executive Summary:

El Salvador's 2015/16 marketing year (October 1, 2015 - September 30, 2016) coffee harvest will decrease mainly due to continued damage by Coffee Leaf Rust (CLR) and a severe drought caused by El Niño during calendar year 2015. However, Post production estimate is higher than previously reported and will reach about 501,000 sixty-kg bags. The 2016/17 harvest is expected to rebound reaching approximately 608,000 sixty-kg bags.

Exports in MY 2015/16 are expected to reach 424,000 sixty-kg bags. Export numbers for 2016/17 are expected to increase further due to both an on-year production cycle and an expected somewhat less severe CLR attack. 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 37 percent of MY 2015/16 exports through April 2016. Germany is the second destination for Salvadoran coffee, followed by Japan, England, Canada 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 and U.S. Starbucks coffee shops continue 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 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 an important source of employment in rural areas. However, the drastic production reduction (caused by coffee rust) has deeply impacted jobs on coffee farms (both the number of jobs and the number of work hours have dropped). The number of jobs has decreased during the last five seasons from 130,000 to an estimated 37,000 for the 2015/16 crop. 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 2016/17 are only expected to generate approximately US\$90 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 Post reveal that the 2015/16 coffee harvest is expected to reach 501,000 sixty-kg bags. This is a higher number than previously reported; mainly due to less than

expected damage by CLR throughout the growing season. The 2016/17 production is estimated at 608,000 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.

Given that El Salvador was dropped from the “Cup of Excellence” promotional event, the SCC successfully organized a similar activity to increase exposure of fine Salvadoran coffees in the specialty market. USDA funded NCBA Coffee rehabilitation project participated as a sponsor of this event. In addition, the SCC continues to promote reverse 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 continues gaining popularity in El Salvador. The number of coffee bars is expanding – 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 2015/16 consumption reached 276,000 sixty-kg bags. However, most local consumption continues to be soluble coffee mainly imported from Brazil, Mexico and Nicaragua. In MY 2015/16, soluble domestic consumption is expected to reach 245,000 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 roasted beans and a market that tends to be price elastic are some of the factors that favor soluble consumption.

Trade:

Coffee exports for MY 2015/16 are estimated at 424,000 sixty-kg bags. In MY 2016/17 coffee exports are expected to rebound due to an on-year production cycle reaching approximately 528,000 sixty-kg bags.

In MY 2015/16 the United States is expected to be the main export destination for Salvadoran coffee reaching approximately 156,900 sixty-kg bags, about 37 percent of total exports. Germany is the number two export destination accounting for approximately 13 percent of total exports. Other important destinations are Japan, England, Canada, Belgium and Italy.

Premium prices obtained by gourmet and specialty coffees are an incentive to increase exports of these types of coffees. Recently the SCC carried out a promotional event to replace the “Cup of Excellence”. 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 was successfully sold to U.S., Japanese and European buyers with prices that were higher than the spot market "Contract C" prices.

Export Trade Matrix El Salvador Coffee, Green			
Time Period	MY	Units:	60 kg bags
Exports for:	2015		2016
U.S.	156,973	U.S.	195,397
Others		Others	
Germany	56,425	Germany	70,237
Japan	52,183	Japan	64,956
England	28,202	Canada	39,608
Canada	26,575	Sweden	34,327
Belgium	22,236	England	32,214
Italy	22,236	Belgium	29,046
Jordan	11,031	Italy	13,731
Taiwan	5,519	Taiwan	6,865
Total for Others	233,766		290,984
Others not Listed	33,511		41,719
Grand Total	424,250		528,100
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 2016 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 Salvatura 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 Fair Trade, UTZ, Starbucks and coffee-related Geographical Indicators (“GI”s) are also being expanded in El Salvador.

In Calendar Year 2015, Brazil supplied 64,049 sixty-kg bags GBE of soluble coffee to the local market. Mexico with 61,168 bags and Nicaragua with 39,071 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 6,818 bags.

<p>Import Trade Matrix El Salvador</p>

Coffee, Green			
Time Period	CY	Units:	60 kg bags
Imports for:	2015		2016
U.S.	3,617	U.S.	3,950
Others		Others	
Brazil	64,049	Brazil	67,500
Mexico	61,168	Mexico	63,000
Nicaragua	39,071	Nicaragua	40,250
Guatemala	9,618	Guatemala	9,700
Colombia	6,818	Colombia	7,500
Chile	2,321	Chile	2,500
Honduras	1,743	Honduras	1,800
Panama	1,042	Panama	1,100
Total for Others	185,830		193,350
Others not Listed	3,273		2,900
Grand Total	192,720		200,200
Source: Salvadoran Central Bank (BCR)			

Stocks:

New data compiled by FAS/San Salvador shows stock numbers reaching 10,000 sixty-kg bags in MY 2015/16. Stocks for MY 2016/17 are expected to drop to remain at the same level.

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.

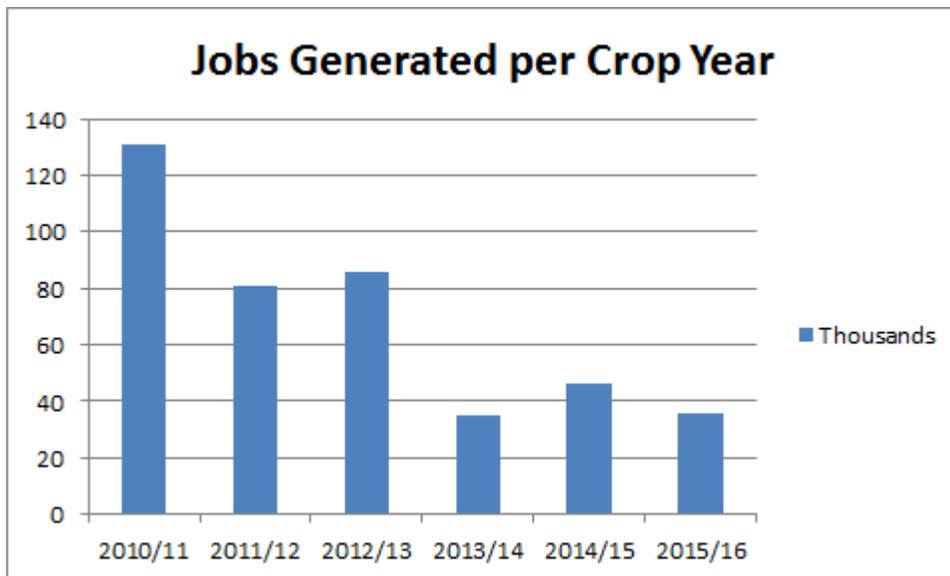
Even though there have been some efforts made by the government to carry out assistance programs to bring some relief to the sector, these have often been late and ill-designed to have any positive impact on the recovery of coffee producers.

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 2016 MAG started a new fungicide and plant giveaway program for small farmers. According to MAG, approximately 8 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. It is estimated that approximately 10,000 jobs are lost for every 100,000 hundred-weight drop in production – approximately every 45,000 tons. 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.



Source: El Diario de Hoy/Salvadoran Coffee Council

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. To date, the program has started working on setting up CLR resistant nurseries, providing technical assistance on low cost coffee renovation practices, training farmers on organic input production, identification of crop diversification alternatives, access to financial services, coffee quality promotion, among other activities. In addition, NCBA has signed Memorandums of Understanding with local government bank Banco Hipotecario, coffee exporters, coffee coops and Ministry of Agriculture (CENTA Café program and Salvadoran Coffee Council); that outline different assistance activities that will be provided by the program.

The future of El Salvador's coffee sector will ultimately depend on the ability of both producers and government institutions to work on defining a much needed strategy for the sector that provides short, medium and long term measures to get out of the crisis. This strategy should focus on debt restructuring, fresh resources at low interest rates and longer payback periods to renovate outdated plantations, creation of a unified coffee association or institute similar to others in the region with responsibility for research, technical assistance, quality promotion, farm worker food security and crop diversification. If the situation does not improve, more farmers on top of the estimated 30 % that have abandoned their farms will stop working their farms, deepening the crisis that not only affects employment generation and foreign exchange; but also impacts the environment.

Production, Supply and Demand Data Statistics:

<i>Coffee, Green</i>	2014/2015		2015/2016		2016/2017	
<i>Market Begin Year</i>	Oct 2015		Oct 2015		Oct 2016	
<i>El Salvador</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (Has.)	176	152	0	141	0	141
Area Harvested (Has.)	164	145	0	134	0	134
Bearing Trees (Million)	541	304	0	335	0	335
Non-Bearing Trees (Million)	54	21	0	25	0	25
Total Tree Population (Million)	595	325	0	360	0	360
Beginning Stocks (Thousand 60 Kg. Bags)	13	13	18	16	0	10
Arabica Production (Thousand)	700	665	700	501	0	608
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production (Thousand 60 Kg. Bags)	700	665	700	501	0	608
Bean Imports (Thousand 60 Kg. Bags)	0	0	0	8	0	8
Roast & Ground Imports (Thousand 60 Kg. Bags)	10	10	10	11	0	12
Soluble Imports (Thousand 60 Kg. Bags)	175	188	175	174	0	180
Total Imports (Thousand 60 Kg. Bags)	185	198	185	193	0	200
Total Supply (Thousand 60 Kg. Bags)	898	876	903	710	0	818
Bean Exports (Thousand 60 Kg. Bags)	600	583	625	422	0	526
Rst-Grnd Exp. (Thousand 60 Kg. Bags)	0	1	0	1	0	1
Soluble Exports (Thousand 60 Kg. Bags)	0	1	0	1	0	1
Total Exports (Thousand 60 Kg. Bags)	600	585	625	424	0	528
Rst,Ground Dom. Consum (Thousand 60 Kg. Bags)	105	30	80	31	0	33
Soluble Dom. Cons. (Thousand 60 Kg. Bags)	175	245	175	245	0	247
Domestic Use (Thousand 60 Kg. Bags)	280	275	255	276	0	280
Ending Stocks (Thousand 60 Kg. Bags)	18	16	23	10	0	10
Total Distribution (Thousand 60 Kg. Bags)	898	876	903	710	0	818
Exportable Production (Thousand 60 Kg. Bags)	420	390	445	225	0	328