

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## El Salvador

### Coffee Annual

**2010**

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**Report Highlights:**

El Salvador's coffee production is expected to reach a historically low 1.075 million 60 Kg. bags in 2009/10. Even though production was affected by climatic conditions, 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 almost 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 2010 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 has provided some financial relief to coffee farmers. However, the new government administration has halted this program.



## **Executive Summary:**

El Salvador's Marketing Year (MY/October-September basis) 2009/2010 coffee harvest is expected to be approximately 29 percent lower than previously reported. New data provided by the Salvadoran Coffee Council (CSC) reveal that the 2009/10 harvest is expected to reach 1.075 million 60 Kg. bags due to adverse weather conditions. Lack of sufficient financing to carry out necessary agricultural practices due to carried-over debt burden in the coffee sector continues to negatively affect a sustained production turn-around. 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 increase production for the 2010/11 2010/11 harvest. However, property sales to honor overdue debt continue as well as urban encroachment.

Coffee exports in 2009/10 are expected to reach 982,000 sixty Kg. bags. Export numbers for 2010/11 are expected to increase due to a rebound 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 almost 42 percent of MY 2009/10 exports through April 2010. In MY 2009/10, exports to the U.S. are expected to reach 242,554 sixty Kg. bags accounting for approximately 25 percent of total exports. Other important markets are Canada, Japan, Belgium, 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 present 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\$ 42.00 per hundredweight (cwt) to cover routine maintenance and harvesting during the 2010/11 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 2010/11 are expected to generate approximately US\$240 million in foreign exchange.

The coffee sector continues to struggle due to 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 2009/10 coffee harvest is expected to reach 1.075 million 60 Kg. bags. This is a historical reduction in production 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 increase production in 2010/11. 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. However, farmers will definitely feel the financial effect of historically low production in the past season.

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 2009/10. Recently, the CSC successfully organized the eighth 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 MY2009/10, 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 MY2009/10, 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 3 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 MY2009/10 are estimated at 982,000 sixty Kg. bags. This number is lower than previously reported mainly due to a smaller crop. In MY2010/11 coffee exports are forecast at 1.42 million 60 Kg. bags.

Exports to the U.S. in MY 2009/10 accounted for approximately 25 percent of total exports, reaching 242,554 sixty Kg. bags. Germany is the main export destination for Salvadoran coffee accounting for approximately 42 percent of total exports. Other active buyers in this market are England, Belgium, 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 eighth 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.

<b>Export Trade Matrix</b>			
<b>El Salvador</b>			
<b>Coffee, Green</b>			
<b>Time Period</b>	<b>MY</b>	<b>Units:</b>	<b>60 Kg. Bags</b>
<b>Exports for:</b>	<b>2009</b>		<b>2010</b>
U.S.	242,554	U.S.	351,234
<b>Others</b>		<b>Others</b>	
Germany	408,512	Germany	591,552

Japan	73,650	Japan	106,650
Canada	60,884	Canada	88,164
England	34,370	England	49,770
Belgium	25,532	Belgium	36,972
<b>Total for Others</b>	602,951		873,108
<b>Others not Listed</b>	136,500		197,778
<b>Grand Total</b>	982,005		1,422,120

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 2009, Brazil supplied 66,741 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 24 percent of total imports.

<b>Import Trade Matrix</b>			
<b>El Salvador</b>			
<b>Coffee, Green</b>			
<b>Time Period</b>	<b>CY</b>	<b>Units:</b>	<b>60 Kg. Bags</b>
<b>Imports for:</b>	<b>2009</b>		<b>2010</b>
U.S.	1,513	U.S.	2,500
<b>Others</b>		<b>Others</b>	
Brazil	66,741	Brazil	90,000
Nicaragua	29,158	Nicaragua	30,300
Mexico	15,854	Mexico	15,900
Guatemala	4,109	Guatemala	4,200
Honduras	1,976	Honduras	2,000
<b>Total for Others</b>	117,838		142,400
<b>Others not Listed</b>	3,931		8,400
<b>Grand Total</b>	123,282		153,300

#### **Stocks:**

New data provided by the CSC substantiate a decrease in the MY2009/10 stock number to 24,000 sixty Kg. bags. Most of this coffee is previous crop unsold product retained by coffee farmers looking for better prices. In MY2010/11, stocks are expected to increase slightly to 25,000 bags.

## Policy:

To comply with World Trade Organization (WTO) regulations, the GOES has started a fade off of the six percent drawback program for non-traditional exports. This drawback is 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 returns back to the exporters six percent of the taxes incurred in the export transaction. Soluble and roasted coffees are eligible to apply for this program.

The GOES is providing a loan guarantee of US\$42 per hundredweight (cwt) to cover coffee maintenance and harvesting costs. Farmers contract the loan with a local bank and the GOES guarantees up to US\$15 per cwt if there is a default.

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 2009, the FICAFE accumulated debt stood at approximately US\$170 million.

Currently, the Ministry of Agriculture is working on a pilot coffee recovery program that would supply bearing trees to coffee farmers in areas affected by Hurricane Ida. Depending on the results, this program could be expanded to a national level. The idea is to rejuvenate coffee plantations, increase yields and 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 Salvador	EI	2008/2009			2009/2010			2010/2011			
		Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010			
		USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	
Area Planted		176	176	176	176		176			176	(1000 HA)
Area Harvested		164	164	164	164		164			164	(1000 HA)
Bearing Trees		541	541	541	541		541			541	(MILLION TREES)
Non-Bearing Trees		53	53	53	53		53			53	(MILLION TREES)
Total Tree Population		594	594	594	594		594			594	(MILLION TREES)
Beginning Stocks		26	44	26	49		38			24	(1000 60 KG BAGS)
Arabica Production		1,650	1,400	1,450	1,520		1,075			1,500	(1000 60 KG BAGS)
Robusta Production		0	0	0	0		0			0	(1000 60 KG BAGS)
Other Production		0	0	0	0		0			0	(1000 60 KG BAGS)
Total Production		1,650	1,400	1,450	1,520		1,075			1,500	(1000 60 KG BAGS)
Bean Imports		3	30	3	2		0			0	(1000 60 KG BAGS)
Roast & Ground Imports		14	15	14	14		11			13	(1000 60 KG BAGS)
Soluble Imports		150	80	150	146		112			140	(1000 60 KG BAGS)

