

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 5/30/2014

GAIN Report Number: HO1402

Honduras

Coffee Annual

Rust-related 2013/14 production decline erased in 2014/15

Approved By:

Lashonda McLeod, Agricultural Attaché

Prepared By:

Ana Gomez, Agricultural Specialist

Report Highlights:

Honduras ranks first in Central America, third in Latin America, and sixth globally in coffee exports by volume. Honduran coffee production in marketing year (MY) 2014/15 (Oct 2014-Sept 2015) is forecast at 5.0 million 60-kilogram bags -- up from 4.6 million bags in 2013/2014. Honduras was affected by the coffee leaf rust in about 25 percent of the cultivated coffee acreage (71,000 hectares) in MY 2012/2013; however, the impact was lessened due to the rapid expansion in coffee area planted. Over the last two decades (since the last rust outbreak), Honduras sponsored research to develop rust resistant coffee varieties. The renovation and re-planting of new trees started five years ago and continues to rehabilitate the farms damaged by the current coffee leaf rust outbreak.

Executive Summary:

Sixty-one percent of Honduran coffee production is grown in the mountains between 2,700 and 3,600 feet above sea level, 23 percent in areas from 3,600 to 4,800 feet above sea level, and 16 percent in areas 1,500 to 2,700 feet above sea level. Coffee is grown in 15 of the 18 Honduran departments and in 213 out of the 298 municipalities. During the previous harvest, more than 103,000 producers registered as producers with the Honduran Coffee Institute (IHCAFE). Out of all producers, about 91,000 are small producers, each farmer selling less than 77 bags, collectively grew 85 percent of all coffee produced in Honduras.

The coffee sector provides employment to 30 percent of the population and generates much needed foreign exchange. Two million people are involved in the coffee sector in activities such as coffee harvesting, fertilizer application, shade control, cleaning, drying, commercialization, transportation and other services such as banks. Roughly US\$115 million were distributed over a four month basis to 1.2 million people who directly participated in the previous coffee harvests. According to the Central Bank of Honduras, coffee is the second largest contributor (19 percent) to the foreign exchange reserves for Honduras.

Marketing year (MY) 2014/2015 harvest is forecast at 5.0 million 60-kilogram (kg) bags. The estimate takes into account that even though Honduras was affected by the coffee rust outbreak in about 25 percent of the cultivated coffee acreage, the impact was lessened. According to IHCAFE, the damage was reduced because Honduras has been carrying out research and produced leaf rust resistant coffee varieties, which producers have been using for about two decades. The increase is based also on the high growth of coffee production during the last years. The renovation and re-planting of new trees to replace old ones began five years ago, and the implementation of those practices provides a volume increase of the coffee to be harvested in the forecasted year.

The Specialized Technical Committee of Coffee Leaf Rust Early Warning System's survey of April 2014 showed a low national average incidence of coffee rust with 12 percent and an average of severely affected coffee farms of one percent. Coffee plantations affected by the leaf rust are being renovated and rehabilitated. The challenges producers face are: to continue improving control measures, and to implement Good Agricultural Practices in coffee production.

The export forecast for 2014/2015 is 4.7 million 60-kg bags. The estimated amount is based on the percentage trend of exports from harvested years and the previous harvest inventories. During 2012/2013 exports of specialty, certified, and organic coffee were 1.1 million 60-kg bags, representing 25 percent of the total exports with an increase of 28 percent over the previous year. Exports of specialty coffee have been growing as a result of increased demand for specific flavor profiles. More producers are receiving technical assistance, and consumers in export markets have increased the value they place on the credence attributes of coffee.

Production:

Production for the 2014/2015 harvest is estimated at 5.0 million 60-kg bags, recovering from the current year harvest. The forecast takes into account that even though 71,000 hectares (ha) were

affected by the coffee leaf rust in MY 2012/2013, the impact was lessened. The reduction of further harmful effects is contributed to Honduras development of coffee varieties resistant to the coffee leaf rust. The varieties developed were the IHCAFE 90, Lempira, and Parainema which IHCAFE currently produces. Honduran coffee farmers have been using those rust resistant varieties since close to two decades. The increase is also based on IHCAFE's monitoring of the high growth of coffee production during the last years. The renovation and re-planting of new trees to replace the old ones began five years ago. The implementation of those practices provides an increase in volume of the coffee to be harvested in the forecasted year.

The Ministry of Agriculture and Livestock's Agricultural Information System (INFOAGRO), IHCAFE, the National Service of Meteorology, and the International Regional Organization for Plant and Animal Health (OIRSA) integrated a Specialized Technical Committee of Coffee Leaf Rust Early Warning System for Honduras. The Committee's first national survey on the status of the coffee rust in Honduras was done in April 2014, which indicated a low national average incidence of coffee rust with 12 percent. The average of severely affected coffee farms with the leaf rust was one percent. The Committee issued a Yellow Alert, which means that the risk of coffee leaf rust is moderated. The assessment of the Committee observed that the number of coffee producers, growing coffee rust resistant varieties, is moving up to 60 percent and 40 percent of them are still using non-resistant types. Further information can be found in their Technical Bulletin No.1 at: www.ihcafe.hn or [www.oirsa.org-royacafeoirsa@oirsa.org](mailto:royacafeoirsa@oirsa.org).

A United States Department of Agriculture project with TechnoServe, made a base line study in five Departments in Honduras. The five Departments represent 60 percent of the total coffee production area in the country. The study showed that 62 percent of the coffee farms had resistant varieties to coffee leaf rust and 38 percent had varieties susceptible to such fungus.

This inter-year recovery is expected given the efforts of IHCAFE, coffee producers associations, and international organizations to implement short, medium, and long-term strategies to combat coffee leaf rust. These strategies have been focused on producer training, educational campaigns to control coffee leaf rust, technical assistance to increase coffee quality and farm productivity in areas not affected by the rust. The approach has also been to strengthen the producers affected by coffee rust with capacities for the renovation and rehabilitation of plantations.

Forecasts for 2014/2015 and 2013/2014 are: Areas of coffee planted and harvested will be increasing due to the process of renovation and rehabilitation of plantations and a continuous growth of coffee areas. Additionally, the number of bearing trees will have a minimum growth due to the impact of the coffee leaf rust and the process of renovation, rehabilitation of plantations and expansion of coffee areas. The non-bearing trees will have the opportunity to grow if preventive controls are taken and good agricultural practices are implemented.

The 2012/2013 harvest was 4.7 million bags. According to IHCAFE 103,000 coffee producers registered their production with them. IHCAFE's current register includes 91,000 small producers, with each farmer selling less than 77 bags, who are responsible for 85 percent of all production in Honduras.

Production of "value-added" coffee is also increasing. Large areas of coffee plantations are grown about 1,000 meters above sea level. These plantations have the minimum altitude required to be

Specialty Coffee. During the 2012/2013 harvest 1,105,541 60-kg bags of specialty, certified, and organic coffee were produced. This represents 25 percent of the total exports with an increase of 28 percent over the previous year. The major production was under programs such as: UTZ Certified, Association 4C, FLO/Organic, Rain Forest Alliance, Organic, Fairtrade, Café Practices-Certification Starbucks, FLO/Café Practices and others. As part of IHCAFE's efforts to market Honduran specialty coffees, six distinct coffee regions defined by unique flavors have been established.

The types of varieties that specialty coffees use are not resistant to coffee rust. The producers need to continue planting it, because of the high quality expected by the customers for coffee cupping. Producers growing specialty coffees are learning to run their farms with good agricultural practices to control the coffee rust.

USDA has the largest project working in coffee in Honduras with TechnoServe (2012-2015). The project focuses on all of the value chains: production, processing, post-harvest and marketing of coffee in five departments which represent 60 percent of the total coffee production areas in the country. The project is helping coffee farmers produce high quality coffee through improvements in cultivation and processing requirements. The goal is to increase the income of the coffee farmers by providing better opportunities to sell their product.

Consumption:

The increase in domestic consumption trends can be tied to the growing presence of coffee bars located in gas stations, shopping malls, main business streets, supermarkets, and hospitals. A large percentage of the Honduran population is young and is consuming more and different types of coffee drinks, e.g., "frozen" coffee drinks. Coffee bars that provide customers with free wireless internet service are attracting high school and university students as loyal customers.

Trade:

Exports

Post estimates the 2014/2015 harvest will reach 5.0 million 60-kg bags, with 4.7 million bags exported.

Export Trade Matrix				
Country	Honduras			
Commodity	Coffee, Green			
Time Period	MY	Units:	60 Kg Bags	

Exports for:	2013		2014	
U.S.	682,680	U.S.	675,284	
Others		Others		
Germany	1,431,318		1,390,748	
Belgium	695,869		676,145	
Italy	221,851		215,563	
France	173,077		168,171	
Japan	130,855		127,146	
S. Korea	117,364		114,038	
United Kingdom	113,489		110,273	
Holland	106,157		103,148	
Sweden	99,225		96,413	
Total for Others	3,089,209		3,001,645	
Others not Listed	568,129		540,071	
Grand Total	4,340,019		4,217,000	

Source: MY 2013: IHCAFE's Preliminary Annual Report 2012/2013
MY 2014: Post estimates

Export value in MY 2012/2013 was US \$795 million, a decrease from US \$1.4 billion the previous marketing year. According to the Central Bank of Honduras, coffee is the second largest contributor (19 percent) to the foreign exchange reserves for Honduras.

The average export price for MY 2012/2013 harvest was US \$140 per 46-kg bag compared to the average price of US \$201 in MY 2011/2012. The price of coffee in MY 2012/2013 harvest decreased, due to the expected record harvest of Brazil and the recuperation of production in Colombia.

According to Post's records Honduras ranks first in Central America, third in Latin America, and sixth globally in coffee exports by volume during the last years.

Informal Exports

The flow of contraband coffee going to Guatemala and Nicaragua is estimated at 153,000 60-kg bags. This unregistered flow is stimulated by higher prices in neighboring countries. Intermediaries are registered with IHCAFE and a majority of the time provides a receipt to the producer for the purchased product. Intermediaries, however, provide cash rapidly and help in commercialization by taking the harvest out to the road. Some intermediaries live in the same area of production and provide funds to the producers for personal expenses or for basic needs such as food.

Another reason for this unregistered trade is the existence of an alternate market. Honduran coffee sellers obtain a higher price if they do not sell in the formal market. If producers sell their coffee through the formal market, according to law, they face a deduction of US \$9.00 per quintal (100 pounds).

Imports

According to updated data from the Honduran Central Bank, imports of roasted and soluble coffee for domestic consumption come mainly from United States, Mexico, Colombia, Brazil, Chile, Costa Rica, El Salvador and Nicaragua. Post expects that competition to U.S. supplied roasted and soluble coffee will increase as international coffee companies sell their soluble coffee in machines located at commercial centers and office buildings. In addition, they are selling soluble coffee to costumers in supermarkets in smaller containers.

Stocks:

Coffee beans stored by the roasters are only toasted upon request. Roasters keep the remaining beans for domestic consumption. The coffee might also be sold to other Central American countries throughout the year.

For example, the MY 2013/2014's harvest report is partially done. According to the Statistic Bulletin of IHCAFE (www.ihcafe.hn), when the harvest ended on May 13, 2014, the exporters reported that they purchased 2.8 million 60-kg bags. They made contracts of 3.8 million 60-kg bags of coffee exports. As of May 20, 2014, exporters still have not yet reported their purchasing transactions. They will provide their complete purchase, sale and export reports to IHCAFE when the harvest ends on September 30, 2014.

Policy:

In 2000, the Government of Honduras (GOH) privatized IHCAFE. The privatization was done in order to rationalize the coffee sector. At the same time, the National Council of Coffee was created. IHCAFE is the specialized institution in Honduras that works with all aspects of coffee production, harvesting, and exporting. IHCAFE provides guidelines, extension services, and implements projects to increase production and to improve the quality of Honduran coffee. It also establishes commercialization procedures and controls coffee production and exports. Exporters must register both the coffee bought from growers and the coffee exported with IHCAFE. Subsequently, IHCAFE issues export permits to exporters. The Board of Directors of IHCAFE includes coffee growers, coffee roasters, exporters, and representatives from the Ministry of Agriculture and Ministry of Industry and Trade.

IHCAFE has developed and implemented a national strategy against coffee leaf rust. The strategy contains short, medium, and long-term actions. IHCAFE has made key alliances with other Government of Honduras institutions, international and regional organizations, and coffee farmer associations. Honduras is part of a regional agreement from Mexico to Panama to manage coffee leaf rust.

IHCAFE has begun a national campaign about coffee leaf rust control and the rehabilitation and renovation of affected farms. These actions include technical and financial resources for the producers affected. The objective is to reduce the impact on the economic, social, and environmental situation of thousands of coffee producers and their families. Additionally, there is need to follow up on the major findings and recommendations of the First International "Coffee Rust Summit" held in Guatemala in April 2013.

Due to the high level of indebtedness of many growers, the GOH created the Law of Financial Reactivation of the Coffee Sector in 2003. This law facilitated the creation of the coffee trust fund in 2004, which receives the financial contribution of coffee growers. The grower's contribution is obtained through the deductions that the exporter or intermediary makes when they buy the grower's coffee. One of the deductions is for US \$9.00 per quintal (100 pounds). This deduction is transferred to IHCAFE, which in turn transfers it to the trustee banks. This deduction is returned to the producer in 60 days. The interest from the US \$9.00 contribution is assigned to pay off the US \$20 million loan over the next 14 years.

The other mechanism to obtain funds is through an exporter deduction of US \$3.25 per purchased quintal. Out of the US \$3.25, approximately US \$0.50 is applied to the repayment of the US \$20 million loan, and the balance is distributed with 36 percent going to the operation of IHCAFE and 64 percent to the Coffee Fund. The Coffee Fund uses those resources to build and fix roads in coffee production areas, and to buy equipment for coffee producers.

IHCAFE maintains a trust fund to buy fertilizer, sell it at a discount, and on credit terms with payment not due for one year. The trust fund also provides financial assistance for maintenance and renewal of coffee farms.

To exemplify some of the benefits of the trust fund, IHCAFE used part of the trust fund to increase productivity and to lessen the impact of fertilizer prices on coffee producers. IHCAFE buys fertilizer used by producers and sells it to them at a lower-than-market price. The fertilizer is sold to coffee producers for cash or on credit with payment due in a year. This program supports an increase in production and also helps hold down the overall commercial price of fertilizer. The trust fund also provides financial assistance to purchase equipment and seeds, as well as offers technical assistance through education programs on crop diversification and irrigation methods.

In addition to its fertilization program, IHCAFE has implemented the following projects: Innovative Coffee Producer, Coffee Regionalization, Coffee Rehabilitation, and Productive Diversification. The programs being implemented are the Assistance to Small Coffee Producer, Land Title, Solar Dryers, Agro Forestry and Community Forestry. IHCAFE has also created the Superior School of Coffee, Centers of Research and Training, the National Center of Quality, the Coffee Quality Control Laboratory and the School of Tasters.

IHCAFE created in 2008 the National Quality Center to differentiate the coffee from Honduras and open international markets. The objective is to improve the living conditions of coffee farmers. In 2010, the center received ISO 17025-2005 accreditation. IHCAFE also has regional laboratories for coffee cupping to support coffee producers in their product knowledge and technology, as well as for the identification of quality specialty niches. In 2012, a Technical Standard of Coffee was approved, which is part of the National System of Honduras Coffee Quality. This standard supports the production and marketing processes of coffee in Honduras. In addition, IHCAFE has focused on educating young Hondurans in the Cupping School to improve long-term knowledge of coffee quality. Additionally, IHCAFE has signed an agreement with the National University of Honduras and to establish an academic program focused on quality control in coffee. Through the USDA/TechnoServe

project, services of coffee cupping with IHCAFE are being provided free to producers so that they can identify the quality of the coffee they produce.

Through these projects and programs, IHCAFE is introducing new ways to add value, to develop specialty coffee, and to find niche markets. Coffee producers are provided technical assistance to diversify their farm production by growing precious woods, and including food products such as avocado, fruits, fish, poultry or bees.

Marketing:

International Marketing -- The IHCAFE "Cup of Excellence" promotional event brings together the best Honduran coffees that are sold worldwide via electronic auction. Through this competition, Honduras finds niche markets for its coffee. In MY 2012/2013, Honduras produced 1,105,541 60-kg bags which were sold under programs such as: UTZ Certified, Association 4C, FLO/Organic, Rain Forest Alliance, Organic, Fairtrade, Café Practices-Certification Starbucks, and FLO/Café Practices.

In April 2012, the Specialty Coffee Association of America’s (SCAA) Board of Directors named Honduras as the “Portrait Country” during their annual exposition held in Oregon. For Honduras, the initiative represented a united strategy supported by the government, the private sector, and leading institutions to strengthen its coffee sector and trading ties with the United States.

Honduras, which has a growing reputation as a specialty coffee power player, earned a spot in the SCAA opening ceremonies, where former Honduran President Lobo participated. The “Portrait Country” status is sure to bring extra attention to Honduras. As demand for high quality Arabic coffees continues to rise, the commitment of Honduras represents an opportunity to build the supply chain for U.S. coffee roasters. IHCAFE had a cupping lab at the SCAA exposition in 2014.

Production, Supply and Demand Data Statistics:

Coffee, Green Honduras	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	315	0	322		329
Area Harvested	0	267	0	270		272
Bearing Trees	0	1,068	0	1,080		1,088
Non-Bearing Trees	0	188	0	208		228
Total Tree Population	0	1,256	0	1,288		1,316
Beginning Stocks	90	90	70	249		402
Arabica Production	4,600	4,723	5,000	4,600		4,983
Robusta Production	0	0	0	0		0
Other Production	0	0	0	0		0
Total Production	4,600	4,723	5,000	4,600		4,983

Bean Imports	0	0	0	0		0
Roast & Ground Imports	0	0	0	0		0
Soluble Imports	15	15	15	17		18
Total Imports	15	15	15	17		18
Total Supply	4,705	4,828	5,085	4,866		5,403
Bean Exports	4,400	4,340	4,800	4,217		4,700
Rst-Grnd Exp.	0	0	0	0		0
Soluble Exports	0	0	0	0		0
Total Exports	4,400	4,340	4,800	4,217		4,700
Rst,Ground Dom. Consum	225	229	225	237		242
Soluble Dom. Cons.	10	10	10	10		11
Domestic Use	235	239	235	247		253
Ending Stocks	70	249	50	402		450
Total Distribution	4,705	4,828	5,085	4,866		5,403
Exportable Production	4,365	4,484	4,765	4,353		4,730
TS=TD		0		0		0

Data: 1,000 hectares, million trees and 1,000 60-kg bags.