

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

Required Report - public distribution

Date: 5/12/2009

GAIN Report Number: MX9027

Mexico

COFFEE ANNUAL

Approved By:

Allan Mustard

Prepared By:

Gabriel Hernandez & Mark Ford

Report Highlights:

Even though there were adverse weather conditions throughout parts of Mexico, the MY 2009/10 (Oct-Sept) coffee production is forecast at 4.5 million 60-kilogram bags, which is the same as last year's preliminary production estimate. The coffee sector is confident that favorable weather and ample moisture for plantations located in unaffected areas will fuel younger trees into full bearing. However, the MY 2008/09 figure was revised slightly downward due to harsh weather conditions and a slight pest infestation in some producing areas. Meanwhile, the MY 2009/10 import levels are forecast to increase minimally over the previous year's revised estimate while the MY 2009/10 export level is forecast to maintain same level as MY 2008/09.

Commodities:

Coffee, Green

Production:

MY 2009/10 (Oct-Sept) coffee production is forecast at 4.5 million 60-kilogram bags, the same as last year's preliminary production estimate. While adverse weather conditions — heavy rains and low temperatures in northern Chiapas in early 2009, strong winds that shook the coffee trees, and a delayed rainy season in the coastal area — affected the flowering stage of some plantations, the coffee sector is confident that favorable weather and ample moisture for plantations located in unaffected areas would fuel younger trees into full bearing. Also, the timely release of the GOM's monetary support for producers would help offset any negative weather problems. The Chiapas coffee sector continues to implement a project, currently in its second year of a six-year term, to stimulate production through the renewal of coffee plantations, the recovery of affected areas, and the promotion of support schemes to encourage the certification of organic plantations, which could fulfill certain market niches. The MY 2008/09 figure was revised slightly downward mainly due to harsh weather conditions and a slight berry borer infestation in some producing areas that is preventing farmers from attaining a larger production. MY 2007/08 production estimates remain unchanged.

As previously reported, Mexico is ideally suited for coffee production due to geographical and climatological conditions. Recent reports indicate that about 98 percent of the coffee produced in Mexico is of the *Arabica* variety (85 percent produced through the wet milling process and 12 percent from the natural sun dried process) while two percent is of the *Robusta* variety. This production ratio will likely not change in the short term. Recent reports indicate that the states of Chiapas, Veracruz, Puebla, and Oaxaca account for nearly 94 percent of Mexico's coffee production, 85 percent of the area planted, and 83 percent of the total number of producers. The states of Hidalgo, San Luis Potosi, Colima, Nayarit, Jalisco, Guerrero, Queretaro and Tabasco account for the rest of that total. Approximately 35 percent of the area planted is located at an altitude of 900 meters above sea level, which typically produces the best coffee. Nearly 43.5 percent of the coffee produced is between 600 and 900 meters above sea level, which is good export-quality coffee, and 21.5 percent of the coffee produced is below 600 meters, generally where lower-quality coffee is produced.

Currently, Mexico is the world's largest producer of organic coffee, producing around 500,000 60-kilogram bags, which is mainly exported to the European market. Within Mexico, Chiapas is the largest organic coffee producer followed by Oaxaca, Veracruz, Guerrero and Puebla.

A number of factors have led to an overall stagnation in production in recent years, including the absence of good agricultural practices, the age of plantations, poor fertilization and higher production costs. In recent years, the cost of production has increased due to the lack of labor in the fields, which was primarily caused by migration to the United States. Labor costs represent about 90 percent of the total cost. However, recently there has been an ongoing increase in productivity and quality, thanks to coffee plantations applying better cultivation practices and adequate fertilization.

MY 2009/10 planted and harvested areas are expected to remain at the same level as MY 2008/09. As stated earlier, the coffee sector's current strategy is to stimulate production through the replanting of coffee plantations, the recovery of affected areas, and the promotion of support schemes to encourage the certification of organic plantations while increasing domestic consumption. Over the next few years, planted and harvested areas are expected to increase at a moderate pace, driven by the development of new coffee

nurseries and younger trees coming into production. The planted area figure for MY 2008/09 was revised slightly downward to reflect the latest official data. MY 2007/08 remains unchanged.

Yields continue to vary widely in Mexico due to variations in crop care and weather. MY 2009/10 yields are expected to be similar to MY 2008/09 levels, assuming favorable weather conditions in recovered and non-affected areas and expected improvements in cultural practices. Yield figures for MY 2007/08 remains unchanged. The average yield in Mexico is roughly five quintals (46 kg. bag) per hectare. Currently, Chiapas boasts yields of eight quintals per hectare while in the past it was nearly 12 quintals per hectare.

Consumption:

MY 2009/10 domestic coffee consumption of both roasted ground and soluble coffee is forecast to remain at the same level as MY 2008/09. A recent official marketing survey has confirmed that Mexico's domestic consumption is largely of soluble coffee. Studies confirm that 54 percent of domestic consumers typically drink soluble coffee while 18 percent drink roasted coffee and 20 percent drink a combination of both varieties. The per capita consumption of coffee in Mexico is still relatively low. However, the Mexican coffee industry is working hard to increase domestic consumption by promoting the health benefits of high quality Mexican blends. The objective is to eventually reverse the popular belief that there are negative health effects from consuming coffee. Official figures indicate that from the total production, 62 percent is destined for export while the remaining 38 percent is marketed domestically.

Consumers with relatively greater purchasing power have been targeted by the specialty coffee sector for years. However, the consumption of soluble coffee has been fueled by disposable income constraints. The rapid growth in cafes has now become a more mature venture that has attracted foreign and domestic investment, especially since the consumption of coffee in fast-food chains (McDonalds) and convenience stores (Oxxo, 7-Eleven) has been increasing.

Consumption estimates for MY 2008/09 and MY 2007/08 figures were kept unchanged to reflect industry data. Current official data indicates that per capita consumption is still low at 1.0-1.2 kilograms per year/per capita.

Trade:

The international coffee trade volume has risen in recent years, but Mexico's coffee exports have remained relatively flat. MY 2009/10 exports are forecast to maintain the same level as MY 2008/09. These stagnant export volumes are primarily attributed to the fact that Mexico's coffee has lost competitiveness in international markets since the quality factor is nearly non-existent, which is generally the main aspect for accessing new market niches. Roughly 90 percent of Mexico's coffee is exported as green beans. The United States continues to be the main international market for Mexican green beans. Industry sources have stated that countries like the United States and Germany buy Mexican coffee, add value to it (i.e., sort, roast, and package), and then re-export back to Mexico. Mexico has been unable to take advantage and capture the value-added feature in the production chain because the country lacks the infrastructure and distribution system to do so efficiently. The MY 2008/09 and MY 2007/08 export figures were revised downward to reflect recently updated industry data.

MY 2009/10 import levels are forecast to increase minimally over the previous year's revised estimate. This slight increase is attributed to the increased demand of middle-income consumers, who are in search of other options different from what the domestic

soluble brands offer, and high-income consumers who are in search of fashionable value-added imported coffee. However, the import estimates for MY 2008/09 and MY 2007/08 were revised downward due to recently updated industry data.

In recent years, about 70 percent of the Mexican coffee has been directed to the export market while only 30 percent is consumed domestically. This focus on exports has historically been fueled by the expectation of higher international prices and a relatively stable domestic demand. However, the Mexican coffee industry is working to increase domestic consumption, and has established a 10 year goal of selling 70 percent of Mexican coffee domestically while exporting only 30 percent.

Stocks:

MY 2009/10 ending stocks are forecast to decrease considerably from the previous year's revised estimate, mainly due to sustained domestic consumption and an unchanged diminished production level. Ending stock estimates for MY 2008/09 and MY 2007/08 figures were revised upward due to a slight decrease in exports.

Authorities from the National Coffee System (NCS) report that Mexico has never had a reliable system to register final stock numbers, and thus data are largely anecdotal. Current stock estimates reflect information obtained from industry sources since no official government statistics are available.

Policy:

Currently, the "Sustainable and Integral Coffee Development Law" is on hold while Congress analyzes and debates its merits. This law proposes a package of subsidies to producers as well as a complicated government-private sector scheme to guarantee average prices. Several producers have reported that they oppose the law because it will cede power over how federal coffee funds are spent, and they will be left in the dark. The Lower House has passed the proposed law, but the Senate has yet to ratify it. At this point, it is uncertain if the law will be voted on during the ordinary session of Congress in 2009.

Marketing:

Historically, Mexico's coffee blends have not reached top prices in foreign markets due to the use of inappropriate processing techniques, such as mixing coffee grains from different altitudes and maturity stages, and mishandling grains during the wet milling process. Through the continued enforcement of SAGARPA's, "Productive Development and Quality Improvement of Mexican Coffee" program, coffee producers are being taught appropriate processing and marketing techniques. This should enable growers to produce a higher-quality coffee as well as create new coffee brands. For that purpose, the GOM has initiated the delivery of \$40.7 million (U.S. dollars) to the 12 producing states.

Since there is a lack of information regarding benefits from the consumption of coffee, among consumers and non-consumers, the NCS has been working to eliminate the taboo or negative image that caffeine consumption is unhealthy. Through various marketing campaigns, NCS has outlined the quality of Mexican blends as well as the added benefits (anti-oxidants) of consuming coffee.

Recently, the government of Chiapas initiated a joint venture project with a private liofilization (freeze-dry) company to establish a plant that would allow producers to improve the quality of coffee. Recent studies show that the liofilized coffee world market is growing at an annual rate of 3.5 percent.

Production, Supply and Demand Data Statistics:

PSD Table		(1000 HA) (MILLION TREES) (1000 60 KG BAGS)							
Coffee, Green Mexico	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data
Area Planted	700	700	700	700	700	683	0	0	700
Area Harvested	600	600	600	600	600	600	0	0	600
Bearing Trees	700	700	700	700	700	700	0	0	710
Non-Bearing Trees	180	180	180	200	200	200	0	0	210
Total Tree Population	880	880	880	900	900	900	0	0	920
Beginning Stocks	390	390	390	210	210	270	0	0	133
Arabica Production	4,250	4,250	4,250	4,250	4,250	4,200	0	0	4,250
Robusta Production	250	250	250	250	250	247	0	0	250
Other Production	0	0	0	0	0	0	0	0	0
Total Production	4,500	4,500	4,500	4,500	4,500	4,447	0	0	4,500
Bean Imports	1	150	15	10	150	15	0	0	20
Roast & Ground Imports	34	50	20	60	60	15	0	0	20
Soluble Imports	0	50	100	0	60	106	0	0	100
Total Imports	35	250	135	70	270	136	0	0	140
Total Supply	4,925	5,140	5,025	4,780	4,980	4,853	0	0	4,773
Bean Exports	2,500	2,500	2,420	2,500	2,500	2,400	0	0	2,400
Rst-Grnd Exp.	20	20	20	20	20	20	0	0	20
Soluble Exports	210	210	115	210	210	100	0	0	100
Total Exports	2,730	2,730	2,555	2,730	2,730	2,520	0	0	2,520
Rst, Ground Dom. Consum	1,385	1,600	1,100	1,400	1,600	1,000	0	0	1,000
Soluble Dom. Cons.	600	600	1,100	600	600	1,200	0	0	1,200
Domestic Use	1,985	2,200	2,200	2,000	2,200	2,200	0	0	2,200
Ending Stocks	210	210	270	50	50	133	0	0	53
Total Distribution	4,925	5,140	5,025	4,780	4,980	4,853	0	0	4,773

Table 2. Mexico COFFEE, exports (GBE)

UNITS: Metric Tons

Exports to:		
Destination	CY 2007	CY 2008
U.S.	76,976	71,073
Belgium	18,594	13,130
Germany	13,888	8,135
Japan	3,485	3,581
Other not listed	22,830	14,220
Grand Total	135,773	110,139

Table 3. Mexico COFFEE, imports (GBE)

UNITS: Metric Tons

Imports from:		
Destination	CY 2007	CY 2008
U.S.	1,175	1,406
Colombia	336	418
Other not listed	1,285	472
Grand Total	2,796	2,296

Table 4. Mexico Soluble COFFEE, exports (GBE)

UNITS: Metric Tons		
Exports to:		
Destination	CY 2007	CY 2008
U.S.	31,216	29,312
Other not listed	7,851	10,710
Grand Total	39,067	40,022

Table 5. Mexico Soluble COFFEE, imports (GBE)

UNITS: Metric Tons

Exports to:		
Destination	CY 2007	CY 2008
U.S.	9,883	5,533
Colombia	1,399	1,643
Other not listed	2,191	515
Grand Total	13,473	7,691