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Post: Quito

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Report Highlights:

Coffee production for marketing year (MY) 2022/23 (April to March) is forecast at 354,000 60-kg bags of Green Bean Equivalent (GBE) basis, an increase of 36 percent over the MY 2021/2022 estimate of 261,000 60-kg bags, due an increase in expected area harvested and improved pruning techniques. Despite continued government and private sector efforts to recover national coffee production, planted area in MY 2022/2023 is expected to remain at 60,000 hectares. Exports are expected to increase to 527,000 60-kg bags after a reduction in exports the previous year.

Executive Summary:

Production and export of coffee in Ecuador had been on a drastic decline from 2013 until 2020, when higher international prices and demand for exports increased by 15 percent from the previous year. Ecuador's low field productivity – 45 percent lower than other Latin American countries like Peru and Colombia, and 78 percent lower than Brazil – and high processing costs have made Ecuadorian coffee less competitive compared to neighboring countries.

Coffee production for marketing year (MY) 2022/23 (April to March) is forecast at 354,000 60-kg bags of Green Bean Equivalent (GBE) basis, an increase of 36 percent over the MY 2021/2022 estimate of 261,000 60-kg bags. This forecast is based on an additional 5,000 hectares expected to be harvested, and improved pruning and fertilization practices that have increased yields. Despite an average of 20–22 percent increase in national production, especially Arabica coffee, the overall planted area remains similar to previous years at roughly 60,000 hectares. Prices obtained by Robusta producers increased compared with last year, which stopped the downward trend. Prices for Arabica increased to an average of \$126.00 per 60-kg bag. Specialty coffees can often receive nearly double that price at \$220 per 60-kg bag.

A continued effort by the Ecuadorian government to improve profitability of the supply chain has succeeded in some areas where producers who sell “fresh cherry” beans have been able to receive prices twice that of historical prices (\$110 per 60-kg bag).

Consumption in Ecuador for MY 2022/23 is forecast at 328,000 GBE bags. Ecuador's consumption since 2018 was growing at a 12 to 15 percent yearly rate, which retracted by 5 percent during MY 2020/21. The increase of per capita consumption increased from 0.80 Kg per person to 1.05 Kg according to ANECAFE information. The forecast for soluble coffee imports for MY 2022/23 was increased to 110,000 60-kg bags by FAS Quito. Ecuadorians increased their consumption of soluble coffee and have increased ground coffee consumption as well.

Ecuadorian coffee exports for MY 2022/23 are forecast at 527,000 GBE bags, an increase of 19 percent from previous year. MY 2021/22 exports are revised up to 500,000 bags based on local industry and Ministry of Agriculture and Livestock (MAG) figures. Based on information provided by the Ecuadorian Coffee Producers and Exporters Association “ANECAFE”, between MY 2020/21 and MY 2021/22 Ecuador exported an additional 80,000 60-kg bags, which contained 10,000 60-kg bags of C. Arabica, 20,000 60-kg bags of Robusta and 50,000 60-kg bags of industrialized coffee.

The forecast for coffee bean imports during MY 2022/23 remains at 330,000 bags, similar to MY 2021/22. This is primarily caused by Ecuador's loss of competitiveness in the region, increases in transport costs, lack of availability of vessels, and an expected increase in local production.

Table 1: Production, Supply and Distribution, Coffee:

| Coffee, Green | 2020/2021 | | 2021/2022 | | 2022/2023 | | |
|-------------------------|---------------|----------|---------------|----------|---------------|----------|-------------------|
| Market Begin Year | Apr-20 | | Apr-21 | | Apr-22 | | |
| Ecuador | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post | |
| | | | | | | | (Units) |
| Area Planted | 200 | 60 | 200 | 60 | 0 | 60 | (1000 HA) |
| Area Harvested | 137 | 34 | 137 | 37 | 0 | 42 | (1000 HA) |
| Bearing Trees | 93 | 102 | 93 | 113 | 0 | 128 | (MILLION TREES) |
| Non-Bearing Trees | 67 | 82 | 67 | 71 | 0 | 53 | (MILLION TREES) |
| Total Tree Population | 160 | 184 | 160 | 184 | 0 | 184 | (MILLION TREES) |
| Beginning Stocks | 210 | 209 | 166 | 165 | 0 | 158 | (1000 60 KG BAGS) |
| Arabica Production | 88 | 88 | 90 | 91 | 0 | 113 | (1000 60 KG BAGS) |
| Robusta Production | 167 | 167 | 170 | 170 | 0 | 241 | (1000 60 KG BAGS) |
| Other Production | 0 | 0 | 0 | 0 | 0 | 0 | (1000 60 KG BAGS) |
| Total Production | 255 | 255 | 260 | 261 | 0 | 354 | (1000 60 KG BAGS) |
| Bean Imports | 350 | 350 | 330 | 330 | 0 | 330 | (1000 60 KG BAGS) |
| Roast & Ground Imports | 1 | 1 | 1 | 1 | 0 | 1 | (1000 60 KG BAGS) |
| Soluble Imports | 90 | 90 | 90 | 90 | 0 | 110 | (1000 60 KG BAGS) |
| Total Imports | 441 | 441 | 421 | 421 | 0 | 441 | (1000 60 KG BAGS) |
| Total Supply | 906 | 905 | 847 | 847 | 0 | 953 | (1000 60 KG BAGS) |
| Bean Exports | 24 | 24 | 30 | 30 | 0 | 60 | (1000 60 KG BAGS) |
| Rst-Grnd Exp. | 1 | 1 | 1 | 1 | 0 | 2 | (1000 60 KG BAGS) |
| Soluble Exports | 475 | 475 | 413 | 413 | 0 | 465 | (1000 60 KG BAGS) |
| Total Exports | 500 | 500 | 444 | 444 | 0 | 527 | (1000 60 KG BAGS) |
| Rst, Ground Dom. Consum | 40 | 40 | 45 | 45 | 0 | 45 | (1000 60 KG BAGS) |
| Soluble Dom. Cons. | 200 | 200 | 200 | 200 | 0 | 283 | (1000 60 KG BAGS) |
| Domestic Consumption | 240 | 240 | 245 | 245 | 0 | 328 | (1000 60 KG BAGS) |
| Ending Stocks | 166 | 165 | 158 | 158 | 0 | 98 | (1000 60 KG BAGS) |
| Total Distribution | 906 | 905 | 847 | 847 | 0 | 953 | (1000 60 KG BAGS) |

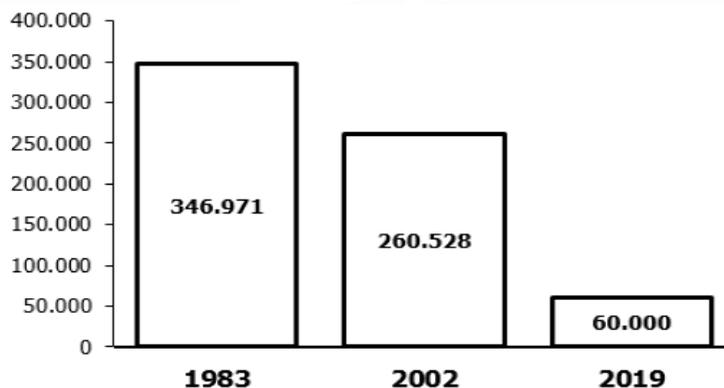
*Units: (1,000 HA); (million trees); (1,000/60 KG bags).

Crop Area:

Ecuador's total coffee planted area has been drastically reduced over the past 30 years, from 347,000 hectares in the early 1980's to 60,000 hectares in 2022, basically in the traditional coffee area of Jipijapa and Manabí province that used to provide grains to the soluble coffee industry, based on information provided by ANECAFE and MAG. For MY 2022/23 (April/March), FAS Quito forecasts the planted area will remain at approximately 60,000 hectares, similar to that of MY 2021/2022. This revised area estimate concurs with data published by both the Ministry of Agriculture "MAG" and Ecuador's National Association of Coffee Exporters "ANECAFE".

Figure 1:

Historic Evolution of Ecuador's coffee planted area



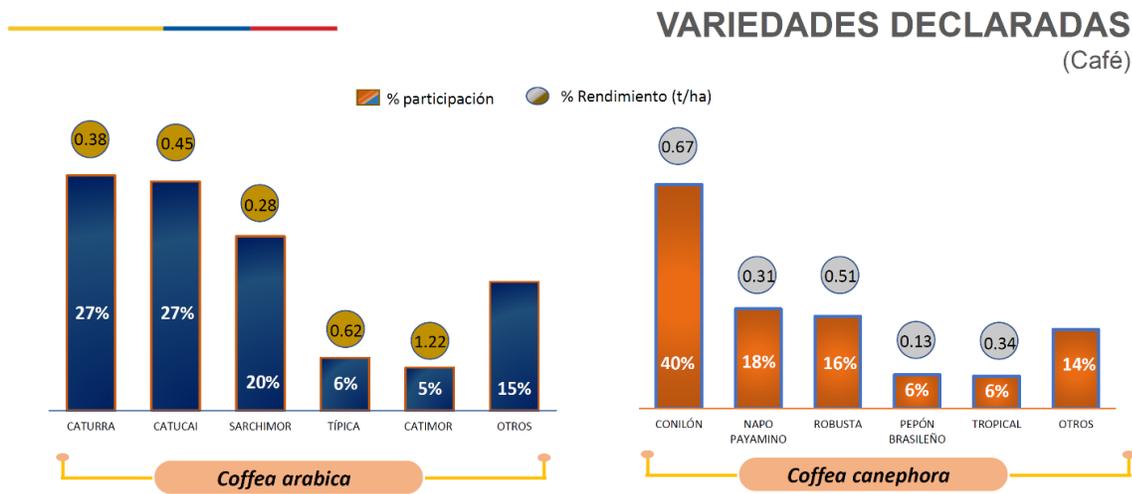
Source: MAG (1986), MAG (2002), ANECAFE (2019)

MAG's information system only reflects *C. arabica* planted area. The harvested area is forecast to increase by fourteen percent to 42,000 hectares in MY 2022/23. Productivity continues to increase as result of technical practices implemented during the "Coffee and Cacao Reactivation Program" (2012-2016), mainly for *C. canephora* (Robusta) crops.

Ecuador's Robusta trees have a national average yield of 0.53 MT per hectare with yields ranging from 0.13 to 0.67 MT per hectare. A slight increase in yields is expected for *C. arabica* trees, which have a national average yield of 0.43 MT per hectare and range from 0.15 to 1.33 MT per hectare. Both species of coffee show an increase in yield of 22 percent compared with last year. This information is based on MAG's "Crops Yield Report 2021".

Ecuador's wide range in yields is caused by differences in planted varieties, soil, and weather conditions, and harvest practices: mechanized or manual. Most farmers rely on family labor for crop maintenance and harvesting. Intercropping and polyculture are common in Ecuador's highlands, generally in production units of less than five hectares, which represent 96 percent of the country's planted area. Coffee production represents 35 percent of Ecuadorian farmers' total income and occurs in at least 40 percent of total planted area.

Figure 2: PLANTED VARIETIES AND YIELDS (MT/HA)



Source: “Crops Yield Report 2020” – MAG

Production and Processing:

Ecuadorian coffee production in MY 2022/23 is forecast at 354,000 bags (60-kilograms per bag) on a GBE basis, increasing by 93,000 bags or 36 percent higher than the MY 2021/22 estimate. This forecast is based on better maintenance of planted area, recovery of old plantations, technical pruning and replacement of old trees and cultivars with new ones in recent years, which are the results of a defunct Ecuadorian government project to improve coffee production. FAS Quito is maintaining its MY 2021/22 coffee production estimate at 261,000 bags, the same as Post’s forecast last year. Production suffered for many years due to a lack of investment in rejuvenating plantations and new cultivars, but since 2020 coffee demand grew considerably worldwide and farmers have invested to improve their crops, especially *C. arabica* producers.

The current Ecuadorian government, which assumed power on May 24, 2022, has not implemented the coffee program presented in 2021 by the coffee sector and the National Association of Coffee Producers and exporters “ANECAFE”. The main reason for this has been the instability of authorities at the Ministry of Agriculture “MAG”, and its greater focus on banana phytosanitary problems.

Ecuador has lost considerable competitiveness in the production of soluble coffee in recent years. Ecuador’s soluble coffee manufacturers have the capacity to process more than one million bags per year. The largest company, El Café Co., which accounts for 70 percent of all Ecuadorian coffee exports and used to supply 10 percent of the world’s demand of lyophilized (freeze-dried) coffee, continues operating just one of their two state-of-the-art plants due to high processing costs. When Ecuador’s coffee growing sector lost competitiveness in the 1990s due to the entrance of new producing countries on the market, and dollarization of the Ecuadorian economy in 2000 that increased production and labor costs, domestic production was replaced with imported beans from Vietnam and Brazil, and more recently from Colombia and Peru. During 2021, imports of coffee grains were limited due to freight

costs and availability of containers and vessels. Transport cost for imported coffee remained, on average, 50 percent higher compared to 2020.

Additional causes of lack of competitiveness in the production of soluble coffee are high costs of electricity and water. The average price per cubic meter of water in Guayaquil is \$6.50, an increase of \$0.50 compared with 2020. This price is 60 percent higher than in Colombia and 85 percent higher than in Peru. Coffee grain transportation costs between Manta and Guayaquil, and higher minimum wage (\$425 per month) compared to neighboring countries add to Ecuador's lack of competitiveness.

Now, El Café, SICA and ASKELGADO companies are principally processing local production for the Ecuadorian market. They are buying the country's entire Robusta production and storing it for later processing. The use of imported coffee to produce soluble coffee for the local market is difficult as a 25 percent import tax, in addition to high shipping prices, make it cost prohibitive. Imported coffee is transformed and reexported.

Photo 1: Ecuadorian soluble coffee brands



Source: ANECAFE

Imported coffee enters Ecuador under the Ministry of Trade Regime 21 regulation which allows the temporary import of merchandise for processing and export. Ecuador's soluble coffee sector, and exports of soluble coffee, continue a recovery trend in the range of 10 percent per year to 465,000 bags of 60 Kg. for MY 2022/2023.

Coffee associations like ANECAFE continue promoting changes in production and trade methodologies to improve quality and prices. Part of this initiative is the "Golden Cup" award created in 2016 and the new "Excellence Cup" award created in 2021 by Ecuador's Specialty Coffees Association "ACEDE", bringing international buyers to taste and negotiate directly with producers. These developments have made coffee production more profitable. The main areas where specialty coffees are grown are Loja, Quito Metropolitan District, Pichincha, Imbabura, and more recently Cuenca and Azuay. In the Coastal region several specialty coffee farms located in Manabí province have become part of these initiatives. Regions are categorized according to altitude, weather and soil conditions and drying and fermentation processes. Specialized farms can divide the farm into lots and micro lots.

Photo 2: High Altitude coffee production area, Nanegalito region.



Source: FAS Quito

Coffee growing areas:

- Very high-altitude coffee. Grown in areas located above 1,200 meters above sea level (MASL).
- High altitude coffee. Grown between 800 and 1,200 MASL.
- Standard coffee. Grown in areas below 800 MASL.

Coffee processing method:

- Natural. When the coffee is processed dry.
- Washed. When the coffee is wet processed. At present, washed coffee is also prepared using the following methods: enzymatic wet and sub-humid (processing with desmucilaginator equipment)
- Semi-washed. Also known as “honey” coffee, this method is based on the harvesting of ripe fruits, pulping, drying with all the mucilage and threshing.

Photo 3: Coffee drying methods: Washed and Honey.



Source: FAS Quito, Finca Maputo.

Figure 3: General coffee varieties and location

| Coffee varieties | Location Provinces |
|------------------|--|
| Washed Arabic | El Oro, Manabí, Loja, Guayas y Zamora Chinchipe |
| Natural Arabic | Loja, Manabí, El Oro, Los Ríos, Guayas y Pichincha |
| Robusta | Santa Elena, Manabí, Guayas, Orellana y Sucumbíos |

Source: FAS Quito research

Ecuador is one of the few countries in the world where coffee production can take place nation-wide, including the Galapagos islands. Forty percent of *C. arabica* production occurs in Ecuador's coastal provinces. Manabí province accounts for 67 percent of the total coastal production, with over ninety percent of the planted area corresponding to *C. arabica*. The Amazon (jungle) and the Sierra (highland) areas account for 30 percent each of Ecuador's coffee production. Eighty-six percent of Robusta coffee is planted in the Amazon region, while Arabica coffee is cultivated along the coast and the highlands. There are about 70,000 coffee farmers nationwide.

Inputs:

Overall, Ecuador's coffee sector is a mix of domestic bean production and the processing of imported beans for the soluble coffee industry. Coffee is largely handpicked in Ecuador and is becoming more sophisticated, mainly for Arabica coffee, with aspirations to get higher quality grains resulting in better prices. Robusta coffee is typically harvested worldwide using mechanical methods, but in Ecuador this specie is handpicked on over 90 percent of farms.

Photo 4: Maputo Coffee Farm.



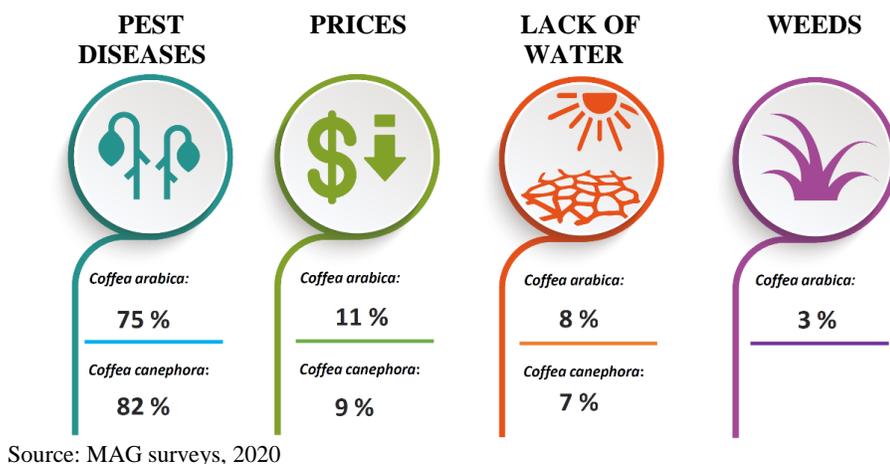
Source: FAS Quito, 2022

There was a limited use of fertilizers during CY 2021, but due to high international prices this practice has increased. Only 45 percent of Arabica farmers and 20 percent of Robusta producers utilized fertilizers, in general.

The use of automatic or drip/spray irrigation systems has been limited to coastal areas where mechanization is possible, but farmers in highland provinces like Loja have begun to use this technology to overcome the lack of water, which is the third most important problem in coffee production -- affecting 8 percent of the coffee planted area.

Farmers have increased the use of weed controls like herbicides, making weed pressures a less important problem in coffee production, especially for *C. arabica* specie.

Figure 4: Main Problems in the Coffee Sector in Ecuador



Land tenure:

Most of the coffee produced in Ecuador is produced by smallholder farmers. 96 percent of coffee farmers own less than five hectares, with three percent owning between five to ten hectares and one percent of farmers owning more than 10 hectares.

Photo 5: Maputo Farm

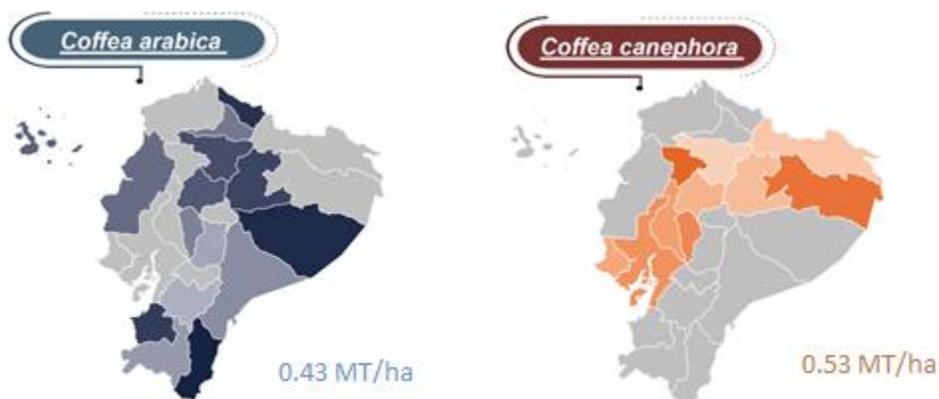


Source: FAS Quito

Yields:

Average yields are increasing, especially for Arabica growers using modern agronomic practices, and often surpass the MY 2021/22 national average of 400 kg per hectare. The observed increase in yields is mainly the result of new and rejuvenated cultivars coming into production. Robusta yields surpassed 530 kilograms per hectare in MY 2021/22. Robusta coffee is mainly produced in areas more suitable for mechanization and modern cultivation techniques, but the use of fertilizers is less common. Roughly 75 percent of farmers are using certified seeds. FAS Quito forecasts an average (Robusta and Arabica) yield of 465 kilograms per hectare in MY 2022/23.

Figure 5: National Coffee Yields (MT/ha)



Source: MAG-CGINA, 2021

Prices:

Farmers in CY 2021 were paid on average \$220 per 60-kg bag of special quality Arabica coffee and \$126 for commercial quality. Robusta coffee prices averaged \$69 per 60-kg bag in 2021. Overall, prices for Robusta coffee are less volatile than Arabica, but the Robusta prices did increase ten percent compared to CY 2020. These prices are for dried coffee. The average price to farmers for freshly picked Arabica “cherry” beans is \$27 per 60-kg bag and for Robusta “cherry” beans bring \$18 per 60-kg bag.

Government efforts to support coffee growers continue. One aspect of this has been trying to improve efficiency of the supply chain by linking growers directly with buyers. Higher international prices and unsatisfied global and domestic demand for specialty coffees from exotic destinations have driven an increase in Ecuador’s production of Arabica coffee, mainly located in the highland provinces.

In recent years, specialty coffee growers, known to produce a high-quality bean, are receiving much better prices than traditional subsistence coffee growers. Prices for specialty coffees are often negotiated with little or no consideration of international coffee prices.

Policy:

Ecuador’s 2008 Constitution stipulates that only public agencies can benefit from fees and special contributions set forth by public law. As a result, no organization other than a government entity can collect fees. Prior to this, Ecuador’s Coffee Council (COFENAC), a public-private organization focused on coffee policy and trade, was responsible for aiding Ecuador’s coffee sector. It was fully disbanded in February 2015. In 2015, the Ministry of Agriculture and Livestock (MAG) assumed control over coffee policies and technical assistance programs. With a budget of \$200 million, MAG began a project to renew coffee and cacao orchards and increase production called “Minga del café y cacao” (Minga: an indigenous word to describe a communal work). This project finished in 2017 and had limited successes in most areas since the beginning of the program, but some efforts are starting to show more positive results such as increased yields due to better pruning techniques.

No fees or export taxes are currently levied on coffee exports. MAG continues to assess ways to promote coffee production through limited technical assistance, provision of inputs and renewals of old cultivars. During CY 2021, MAG continued work to improve the supply chain to assist farmers in increasing their revenue. Ecuador’s Foreign Commerce Committee “COMEXI” is responsible for authorizing imports of foreign coffee beans.

Consumption:

Ecuador’s total domestic coffee consumption in MY 2022/23 is forecast at 328,000 bags GBE, a 34-percent increase over the previous year, based on soluble coffee consumption. Post estimates per capita consumption of coffee on a GBE basis at around 1.05 kilogram per person, the GBE is 31 percent higher than last year’s estimate of 0.80 kg/person, based on higher demand of processed and ground coffee for home consumption.

Ecuadorians primarily consume soluble (instant or powdered) coffee. However, preferences are changing, and the market is developing a taste for roasted-ground coffee. The Ecuadorian Ministry of Trade, Quito Municipality with its project “Café de Quito”, and Ecuador’s Specialty Coffee Association “ACEDE” are working to improve the coffee value chain, including specialty coffee roasters and producers, to increase the local consumption and sales of ground coffee.

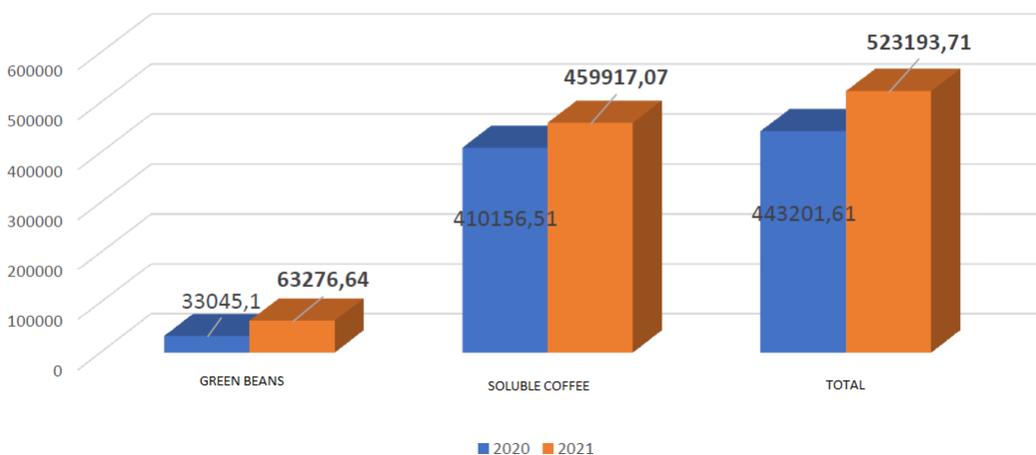
Stocks:

Ecuador typically maintains coffee stocks of around 150,000 to 160,000 bags GBE of Arabica and Robusta coffees. For MY 2022/2023 USDA FAS forecasts a reduction of stocks by 38 percent based on the increase of international demand and higher prices. These are beans used mainly to produce soluble coffee for domestic consumption and are commonly stored for six to seven months during the processing period. The government does not manage or warehouse these stocks. Domestic soluble coffee manufacturers, and smaller exporters storing beans to reach a shipment size, are the entities responsible for these coffee stocks.

Trade:

Ecuador’s coffee exports in MY 2022/23 are forecast at 527,000 bags GBE, an increase of 83,000 bags—19 percent higher compared to the previous year. FAS Quito adjusted it is MY 2021/22 export estimate to 527,000 bags based on local industry and MAG figures. Ecuador exports beans and soluble coffee. The harvest of domestically grown beans occurs between April and October. These beans are exported primarily between July and October. Imports of coffee beans for processing by the soluble industry and exports of soluble coffee, on the other hand, occur year-round.

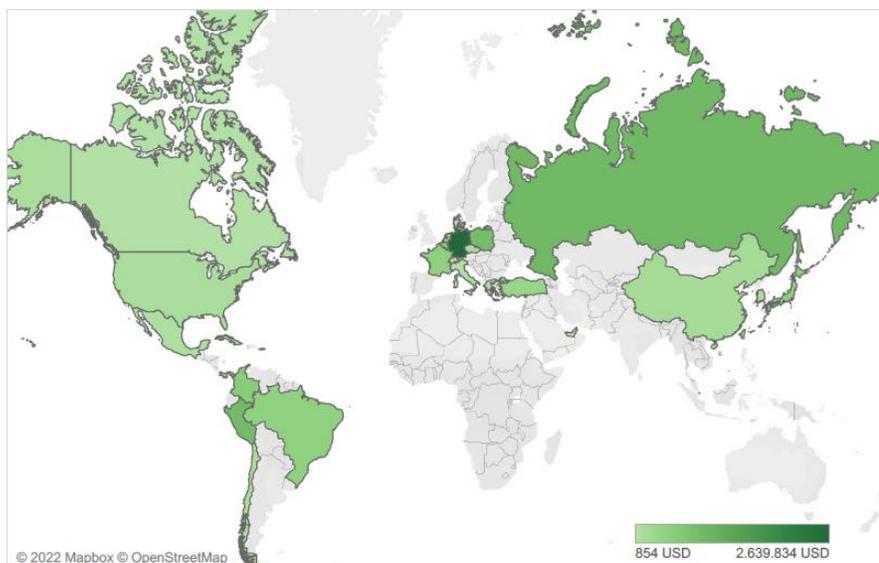
Figure 6: Ecuadorian coffee exports 2020-2021 (60 Kg bags).



Source: -ANECAFE

In MY 2021/22, Ecuador exported an estimated 30,000 bags of coffee beans (Arabica and Robusta), 413,000 bags of soluble coffee (about 93 percent of total exports), and nearly 1,000 bags of roasted-ground coffee. In monetary value, Ecuador exported \$78 million in coffee products in CY 2021. Germany (32%), Poland (12%), Russia (10%), Colombia (10%), and Belgium (5%) are the top destinations.

Figure 7: Ecuador’s Main Export Destinations in 2021



Source: Ecuador Central Bank, 2021

Imports of soluble coffee in MY 2022/23 are forecast to increase to 110,000 bags. Ecuador’s statistics do not report data for coffee beans temporarily imported for processing into soluble coffee and subsequently re-exported. FAS Quito forecasts that Ecuador will import around 330,000 bags for processing and re-export in MY 2022/23.

The country’s soluble coffee producers typically source about half of their coffee beans from major Robusta producers such as Vietnam, Brazil, and Colombia. The proposed Ecuadorian Coffee Reactivation Project (not in place yet) hopes these imports will be replaced with local production in the future.

Attachments:

No Attachments