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Report Highlights:

El Salvador's coffee production is expected to reach 519,000 sixty-kg bags in marketing year (MY) 2020/21. The Salvadoran coffee sector continues to struggle mainly due to low international prices, climate change, continued coffee leaf rust, and a lack of a long-term strategy that has hindered investment at the farm level. The MY2021/22 crop is forecast to slightly rebound to 528,000 sixty-kg bags. The COVID-19 pandemic is also affecting the sector due to a reduction in farm worker availability to carry out post-harvest coffee berry picking and processing. The Government of El Salvador (GOES) has announced a coffee sector rescue program that is expected to renovate approximately 35,000 hectares, as well as re-structure debt and create a coffee research institute.

Executive Summary:

El Salvador's MY2020/21 harvest, which begins in October and ends in September, will only post a slight increase due to a continued lack of financing for inputs and diminished farm level work, as well as low international prices. FAS San Salvador's production estimate is approximately 1.75 percent higher than the previous year's crop of 510,000 sixty-kg bags. Due to the added impact of the COVID-19 pandemic, the MY2021/22 harvest is not expected to recover and will only increase 9,000 sixty-kg bags, reaching 528,000 sixty-kg bags.

Exports in MY 2020/21 are expected to reach 537,000 sixty-kg bags, down 3 percent from the previous crop. Export numbers for MY2021/22 are forecast to increase to 545,000 sixty-kg bags. The United States continues to be the main export destination for Salvadoran coffee, accounting for 41 percent of MY2020/21 exports through April 2021. Germany is the second largest destination for Salvadoran coffee, followed by Japan, Italy, Belgium, and England.

A tendency to look towards the export market and a lack of an overall strategy has led El Salvador to continue to neglect its domestic market. This has led to increases in soluble coffee imports, mainly from Mexico, Brazil, and Nicaragua. Coffee bar chains, including Starbucks, Juan Valdez, and El Salvador's Four Monkeys and The Coffee Cup continue growing in the retail market.

The Salvadoran Coffee Council (SCC) continues to monitor exports through export registration permits. In the past, the Government of El Salvador (GOES) guaranteed loans to the coffee sector both through state and private banks; however, private banks are now reluctant to lend to the coffee sector due to price volatility and climate change vulnerability. Coffee is still an important source of employment in rural areas. However, the drastic decline in production (As a result of coffee rust, low prices, and a lack of investment) has led to big job losses in the sector. Over the last five crops, jobs have dropped from 42,280 to an estimated 36,125 for the 2020/21 crop. Coffee is no longer the top source of export revenues in El Salvador, replaced by non-traditional products such as processed ethnic foods, tropical fruits, and sugar. At current prices, coffee exports in 2021/22 are only expected to generate \$90 million in foreign exchange.

El Salvador continues to promote its coffee through trade expos and buyer missions, focusing mainly on specialty and gourmet qualities (See Trade Section, below).

The GOES has recently announced a coffee sector rescue program. The plan aims to renovate approximately 35,000 hectares, create a coffee research institute, re-structure debt, provide new loans with lower interest rates and a lengthier payback period, make export sale schemes more transparent to benefit farmers, and promote local consumption, among other activities.

Commodities:

Coffee, Green

Production:

New production numbers compiled by FAS San Salvador estimate the 2020/21 coffee crop at 519,000 sixty-kg bags. This is a 1.75 percent increase from the 2019/20 crop, mainly due to lack of fertilizer, continued damage by leaf rust throughout the growing season and lack of profitability due to persistent low production yields, and low international prices. The 2021/22 production is forecast to slightly increase to 528,000 bags.

The GOES continues to assist mainly small farmers with a plant and fungicide giveaway program that has had a minimal positive impact on the recovery of the coffee sector. Salvadoran coffee production could recover with better agricultural practices to counter coffee rust and an adequate renovation program that includes financing to provide plants with appropriate nutrients and post-harvest management until they reach production.

Value-added production such as gourmet, specialty, and fair-trade coffees continues to provide additional revenue to a small, but growing number of coffee producers that are focusing on this type of market. These farmers are now focusing on micro (5-100 bags) and nano (less than 5 bags) coffee lot sales to specialty retailers in the United States, Europe, and Asia. However, the COVID-19 pandemic affected sales through this marketing channel due to extensive quarantines imposed in importing countries.

In 2020, El Salvador managed to continue with the Cup of Excellence competition using a virtual component for coffee grading. The Geisha and Pacamara varieties continue to dominate this competition with scores in the 90-point range. The pandemic affected export promotion through postponed trade missions to the European, Asian, and U.S. specialty coffee markets. These may be re-scheduled for the fourth quarter of 2021 (see Trade Section, below).

Consumption:

Consumption in coffee bars continues to grow in El Salvador. The number of establishments is expanding – now opening in strip malls and major shopping centers, which is the case with Juan Valdez, Starbucks and local competitors Viva Espresso, Four Monkeys and The Coffee Cup. In addition, new coffee brands at the retail level are stimulating demand for local Bourbon, Pacas and Pacamara variety coffee.

In MY2020/21 consumption is estimated to reach 270,000 bags. Due to the impact of COVID-19 on consumer spending, domestic consumption has practically stalled. Most local consumption continues to be soluble coffee imported from Mexico, Brazil, Colombia and Nicaragua, as well as some locally produced brands. In MY2020/21, soluble domestic consumption is expected to reach 240,000 sixty-kg

bags-Green Bean Equivalent (GBE). Roasted and ground domestic consumption reached 30,000 sixty-kg bags GBE in the same period. Local consumers continue to favor soluble coffee due to its ease of preparation and lower price.

Insufficient investment in marketing to boost consumption of local high-quality roasted beans and a market that tends to be price elastic are some of the factors that continue to favor soluble consumption. The SCC has continued to work to boost consumption of higher quality coffee by holding coffee promotion events, such as the 2020 Expocafe and barista training. This event was supported by USDA through a Food for Progress program being implemented by the SCC and geared to increase domestic consumption, strengthen the SCC's Coffee Training School (roasting, barista, and beverage preparation methods) and promote Salvadoran coffee in new export markets such as the Middle East, Eastern Europe and Asia. However, COVID-19 posed a challenge for these promotional events and the SCC had to re-schedule some activities and change many to a virtual mode.

Trade:

Coffee exports for MY2020/21 are estimated at 537,000 sixty-kg bags, down 3 percent from the previous crop. In MY2021/22 coffee exports are expected to slightly rebound reaching approximately 545,000 sixty-kg bags.

In MY2020/21 the United States is expected to be the main export destination for Salvadoran coffee reaching approximately 220,250 sixty-kg bags, or about 41 percent of total exports. Germany continues to be the number two export destination accounting for approximately 9 percent of total exports. Other important destinations are Belgium, Italy, Japan and the United Kingdom. South Korea is slowly increasing purchases of Salvadoran coffee, accounting for almost 3 percent of total exports.

Premium prices obtained by gourmet and specialty coffees create an incentive to increase exports of these types of coffees. Even though the pandemic posed a challenge, the SCC has carried out various promotional events, including the Cup of Excellence. The best quality coffees produced in El Salvador participate in global electronic auctions. Through these events, local coffee is sold to U.S., Asian, and European buyers with prices that have premiums that range from \$100 to \$300 per hundredweight over the spot market "Contract C" prices.

Export Trade Matrix El Salvador Coffee, Green			
Time Period	MY	Units:	60 kg bags
Exports for:	2020/21		2021/22
United States	220,250	United States	223,615
Others		Others	
Germany	50,497	Germany	51,268
Japan	49,960	Japan	50,722
Italy	41,365	Italy	41,995
Belgium	33,306	Belgium	33,815
England	26,323	England	26,725
South Korea	15,042	South Korea	15,817
Taiwan	13,967	Taiwan	15,270
Sweden	11,818	Sweden	14,180
Others not Listed	74,672		71,993
Grand Total	537,200		545,400

Source: SCC/Salvadoran Central Bank (BCR)

Local non-government organization (NGO) Salvanatura continues to expand the number of producers that are participating in environmental and social responsibility certifications such as the Rainforest Alliance certification. Currently, over 230 farms and 34 mills have been Rainforest Alliance certified. Other certification efforts such as Starbucks Cafe Practices, Fair Trade, UTZ, and coffee-related geographical indications (GIs) are also expanding in El Salvador. The SCC, working with the six coffee regions in El Salvador, has established GIs for the coffee produced in those regions. Coffee with these certifications commands a higher price on the market. The SCC has also trained local cuppers to obtain a “Q” grade certification that ultimately helps to position Salvadoran coffee as a reliable source of quality beans. Starbucks Cafe Practices program enables Salvadoran farmers under the program to sell their coffee at prices about \$50 above international “Contract C” prices.

In marketing year (MY) 2021/22, Mexico is expected to supply approximately 124,334 sixty-kg bags GBE of soluble coffee to the local market. Brazil is expected to export 91,508 sixty-kg bags and Nicaragua 36,313 sixty-kg bags. Colombia is also present in the market with soluble product brand Colcafe, as well as with its’, “Juan Valdez”, coffee retail outlets selling 11,620 sixty-kg bags of

Colombian coffee. U.S. imports are estimated at 3,777 sixty-kg bags of both roasted and soluble coffee.

Import Trade Matrix El Salvador Coffee, Green			
Time Period	MY	Units:	60 kg bags
Imports for:	2020/21		2021/22
United States	3,765	United States	3,777
Others		Others	
Mexico	123,949	Mexico	123,334
Brazil	91,224	Brazil	91,508
Nicaragua	36,200	Nicaragua	36,313
Colombia	11,585	Colombia	11,620
Guatemala	9,846	Guatemala	9,877
Honduras	5,792	Honduras	5,810
Others not Listed	7,239		7,261
Grand Total	289,600		290,500

Source: Salvadoran Central Bank (BCR)

Stocks:

FAS/San Salvador estimates stock numbers reaching 11,000 sixty-kg bags in MY2020/21. Stocks for MY2021/22 are forecasted to drop to 10,000 sixty-kg bags due to increased coffee sales due to higher international prices.

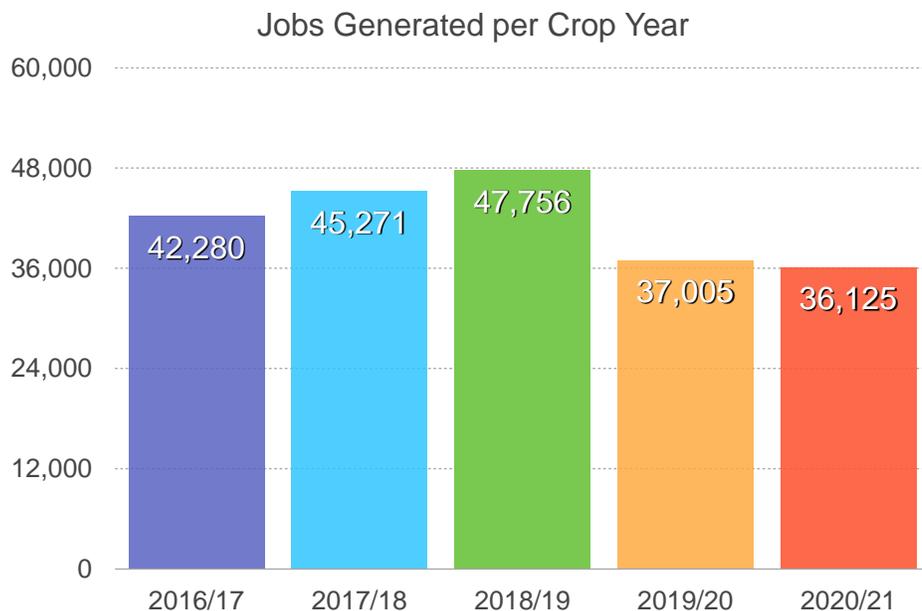
Policy:

The main problem faced by the Salvadoran coffee sector continues to be lack of a strategy to create sustainability and profit for coffee farmers.

While there have been some efforts by past government administrations to implement assistance programs, they have not been effective in helping producers recover from losses, due to diseases such as coffee leaf rust, and anthracnosis, that negatively impact yields.

In 2014, the GOES created the CENTA (National Agricultural Research) coffee program within the Ministry of Agriculture (MAG). This new institution oversees extension services for coffee farmers. In addition, in 2016, MAG started a new fungicide and plant giveaway program for small farmers. According to MAG, in calendar year 2019, the GOES provided approximately 20 million rust-resistant plants through CENTA cafe. These government programs mainly target small farmers with less than 3 hectares, which account for less than 10 percent of planted areas. The main problems with the plant give-away program are that most seedlings are not certified, and no funding is provided for the necessary upkeep to enable the plants to reach production age (approximately 3 years). As such, most of the time farmers sell the plants or they die due to a lack of inputs (i.e. fertilizer, insecticides, fungicides). In addition, in calendar year 2020, this program had a delay due to logistical issues caused by COVID-19 and the plants were distributed almost at the end of the rainy season, thus many plants were left unplanted.

The sector would benefit from a major replanting program to renovate coffee production areas with new trees. In many areas, most trees are over 25 years old and have surpassed their productive age. Every year over 7 million plants need to be planted, just to replace those that die naturally. According to the Salvadoran Coffee Association, approximately 30 million good quality rust-resistant plants are needed per year for a period of 10 years to completely renovate the national coffee area.



Source: Salvadoran Coffee Council/SCC

As a result of the problems the sector faces, jobs continue to disappear in coffee producing areas resulting in migration to urban areas. Approximately 10,000 jobs are lost for every 100,000-quintal drop in production – approximately every 45,000 tons. In addition, more coffee farms are abandoned, depriving the country of its main source of forestation and water retention.

Coffee farmers continue paying back the Coffee Trust (FICAFE) program, which was established in 2001 to defer accumulated 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 could be used to plant new coffee trees, to improve agricultural practices to fight coffee leaf rust, and to increase productivity at the farm level. The GOES has extended this grace period for an additional year through 2021.

The GOES is providing loans through state banks to certain qualified farmers to carry out production activities and harvest collection for the upcoming production cycle. The GOES is also providing fungicides and liquid fertilizers to small farmers to alleviate the coffee rust outbreak. However, given the continued damage by rust, this loan program and provision of inputs will again not be enough to keep many farmers afloat. Private banking institutions are reluctant to provide loans to the sector due to the high-risk of default because of price volatility and dwindling cherry yields.

In 2016, with the help of the Inter-American Institute for Agricultural Cooperation (IICA), the eight coffee associations began to work together to try to find a way out of the coffee rust crisis. They set up working groups to analyze research, financing, institutional strengthening, and marketing/branding. However, this effort was not backed by the GOES and the work done was set aside.

Through the Food for Progress program, USDA continues working with the NGO Technoserve on the Modernizing Coffee and Cocoa in the Americas (MOCCA) project to assist approximately 5,000 coffee farmers with new production technologies, extension work, access to high-quality coffee seeds, access to higher paying export markets, and a loan guarantee program to facilitate lending to the sector. This program could serve as a model of what the coffee sector could do to overcome the challenges posed by coffee rust, low yields, and lack of profitability.

At the end of 2017, the government and the main opposition party signed a political pact to try to save the coffee sector. The pact proposed creating a new research institution, extending the repayment period and lower interest rates on coffee debt (estimated at around \$240 million), providing \$100 million to renovate 70,000 hectares with rust-resistant varieties over the next 8 years, and creating a single coffee organization to unite the eight current associations and the government. As part of this commitment, the National Assembly approved an \$86 million loan from the Central American Bank for economic integration. This funding is expected to help start the projected renovation of the entire coffee area. Approximately \$6 million will be devoted to the creation of a research institute and the rest to the

renovation of old coffee trees and technical assistance. However, due to a political hold-up at the National Assembly, this program was unable to be implemented.

Another issue impacting farmer profitability is the high cost that coffee mills charge to farmers for the service to transform their coffee to export-ready green beans. Currently this cost is approximately \$50 per hundredweight GBE. Also, increasing roasted and soluble coffee imports are impacting local farmers. According to the Ministry of Economy, current duties are too low, and changes are needed to alleviate the impact on local coffee consumption. Every year, El Salvador imports close to 300,000 sixty-kg bags mainly of soluble low-quality coffee that affects market opportunities for local coffee.

The future of El Salvador’s coffee sector will depend upon the ability of both producers and government institutions to implement a strategy that includes: debt re-structuring; extending repayment periods; and a unified coffee association that oversees research, technical assistance, and quality control; labor; food security; and crop diversification. If these issues are not addressed, the number of farmers that have already abandoned their farms (currently 35 percent) will continue to grow, deepening the labor, environmental, and economic crises.

A new GOES administration, which took office on June 1, 2019, has been working with the coffee associations, and they have drafted a program called Cafe-Proyecto Pais. This program was viewed as an opportunity to get the coffee associations together and come up with a unified strategy that could help farmers become sustainable in the near future. Under the program, the issues affecting the sector were divided into four areas: financing for plant renovation; debt restructuring; research and technology transfer; and commercialization (export and domestic). However, due to the COVID-19 crisis, in 2020 this program was put on hold by the GOES.

In April 2021, the GOES administration announced a coffee rescue program that seeks to increase production and farmer profitability in the medium term. Under the program, the GOES plans to re-structure carry over debt from the sector estimated at \$240 million, create a coffee research institute, build a coffee seed/nursery certification program, renovate approximately 35,000 hectares, create a transparent coffee processing mechanism among farmers and coffee mills, promote local consumption of Salvadoran coffee, review coffee import duties, increase direct trade, and crop diversification to increase farmer income and diminish dependency on a single crop, among other activities. To date, the GOES has secured a \$45 million loan from the Inter-American Development Bank (IDB) to assist smallholder farmers (approximately 8 % of total coffee area) through technical assistance and preferential loans, an \$86 million loan from the Central American Bank for Economic Integration (BCIE) to fund plant renovation and a coffee research institute; and is negotiating green bonds to finance an estimated \$630 million trust that will enable them to carry out the rescue program.

If this plan moves forward, it could pose an opportunity for ailing coffee farmers to become profitable and sustainable in the near future.

Production, Supply and Demand Data Statistics:

Coffee, Green	2019/2020	2020/2021	2021/2022
Market Begin Year	Oct 2019	Oct 2020	Oct 2021

El Salvador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (Has.)	137	137	137	137	0	137
Area Harvested (Has.)	130	130	130	130	0	130
Bearing Trees (Million)	323	323	323	324	0	324
Non-Bearing Trees (Million)	20	20	20	19	0	19
Total Tree Population (Million)	343	343	343	343	0	343
Beginning Stocks (Thousand 60 Kg. Bags)	13	41	12	9	0	11
Arabica Production (Thousand)	505	510	475	519	0	528
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production (Thousand 60 Kg. Bags)	505	510	475	519	0	528
Bean Imports (Thousand 60 Kg. Bags)	2	12	2	14	0	14
Roast & Ground Imports (Thousand 60 Kg. Bags)	8	13	10	15	0	15
Soluble Imports (Thousand 60 Kg. Bags)	205	258	210	261	0	261
Total Imports (Thousand 60 Kg. Bags)	215	283	222	290	0	290
Total Supply (Thousand 60 Kg. Bags)	733	834	709	818	0	829
Bean Exports (Thousand 60 Kg. Bags)	441	543	415	525	0	532
Rst-Grnd Exp. (Thousand 60 Kg. Bags)	0	0	0	0	0	0
Soluble Exports (Thousand 60 Kg. Bags)	10	12	9	12	0	13
Total Exports (Thousand 60 Kg. Bags)	451	555	424	537	0	545
Rst,Ground Dom. Consum (Thousand 60 Kg. Bags)	30	30	32	30	0	30
Soluble Dom. Cons. (Thousand 60 Kg. Bags)	240	240	243	240	0	243
Domestic Use (Thousand 60 Kg. Bags)	270	270	275	270	0	273

Ending Stocks (Thousand 60 Kg. Bags)	12	9	10	11	0	10
Total Distribution (Thousand 60 Kg. Bags)	733	834	709	818	0	829
Exportable Production (Thousand 60 Kg. Bags)	235	240	200	249	0	255

Attachments:

No Attachments