

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:** 5/24/2013

**GAIN Report Number:** ES2013-ES2

## **El Salvador**

### **Coffee Annual**

#### **El Salvador - Coffee Production & Exports -- Rust Up**

**Approved By:**

Henry Schmick

**Prepared By:**

Miguel Herrera

**Report Highlights:**

El Salvador's coffee production is expected to reach 1.22 million 60-kg bags in 2012/13 (October 2012 - September 2013). Even though this is an on-production cycle year, damage by a severe coffee leaf rust outbreak caused a production decline. The Salvadoran government is working on a program to provide coffee trees to small farmers to renovate (replace) their old trees and supply inputs to control the rust outbreak. El Salvador continues to promote specialty coffee; now accounting for approximately 30% of total exports. Post estimates the 2013/2014 crop at a historic low of 785, 000 60-kg bags, a 35 percent decrease from 2012/2013. However, this production estimate could drop even lower as coffee rust damage will be re-assessed following the coffee flowering period.

## **Executive Summary:**

El Salvador's 2012/13 marketing year (October 1, 2012 - September 30, 2013) coffee harvest is expected to be 20% lower than previously reported, reaching approximately 1.22 million 60-kg bags. According to the Salvadoran Coffee Council (CSC), the coffee rust outbreak affecting the Central American region is the main reason behind this significant drop in production. The 2013/14 harvest is expected to be even lower since it will be burdened by the full impact of the coffee rust damage.

Exports in MY 2012/13 are expected to reach 1.108 million 60-kg bags. Export numbers for 2013/14 are expected to drop considerably due to both an off-year production cycle and the damage due to coffee leaf rust. Local financial institutions continue to require farmers to have a planned coffee-sales program in order to have access to loans; farmers must forward contract their coffee sales and avoid speculation. The United States is the main export destination for Salvadoran coffee, accounting for almost 30 percent of MY 2012/13 exports through April 2013. Germany is the second destination for Salvadoran coffee, followed by Canada, Japan, Belgium, Sweden and Italy.

Lack of local ground coffee processing facilities continues to favor imports for soluble coffee. This has led to a continued increase in soluble imports, mainly from Brazil, Mexico and Nicaragua. Peru and Colombia are also gaining market share in the retail and institutional market.

The CSC continues to monitor exports through the use of export registration permits. The Government of El Salvador (GOES) through the government-owned financial institutions has guaranteed a loan of US\$60.00 per hundredweight (cwt) to cover routine maintenance and harvesting during the 2013/14 crop season (Please refer to Policy Section, below, 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 foods and tropical fruits. Coffee exports in 2013/14 are expected to generate approximately US\$90 million in foreign exchange.

El Salvador continues to promote its coffee focusing mainly on specialty and gourmet qualities (See Trade Section, below). The agricultural sector has continued growing assisted by higher prices for traditional exports (coffee and sugar), as well as increased market access for non-traditional exports under the Central America-Dominican Republic (CAFTA-DR) free trade agreement with the United States.

## **Commodities:**

Coffee, Green

## **Production:**

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador reveal that the 2012/13 coffee harvest is expected to reach 1.220 million 60-kg bags. This is a lower number than previously reported; lower production is due to the harsh damage that a coffee leaf rust outbreak caused during the end of the growing season. However, the full impact of the coffee rust outbreak is expected to be felt in the 2013/14 harvest. Total 2013/14 production is estimated at a historic low of 785,000 sixty-kg bags. However, this number could be even lower since the delayed rainy season has delayed coffee flowering, and it is also still too early to completely evaluate the real effect of coffee rust on the upcoming production cycle.

The GOES continues to guarantee loans to the coffee sector. Cultural practices to counter the attack of coffee rust will be a key factor in the recovery of Salvadoran coffee production. 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 32 percent of total production in MY 2012/13. Recently, the CSC successfully organized the eleventh edition of the “Cup of Excellence” promotional event to increase exposure of fine Salvadoran coffees in the specialty market. In addition, the CSC continues to promote trade missions of European and American specialty coffee bars to sample local coffee (Refer to Trade Section, below, for further information).

### **Consumption:**

Recent data compiled by the CSC shows an increase in coffee consumption in El Salvador. New coffee brands at the retail level are stimulating consumption. In addition, the number of coffee bars continue to expand – now popping-up in strip malls as well as in major shopping malls. In MY 2012/13, consumption reached 274,000 sixty-kg bags. Most local consumption is soluble coffee mainly imported from Brazil, Mexico and Nicaragua. In MY 2011/12, soluble domestic consumption is expected to reach 242,000 bags - Green Bean Equivalent (GBE). Roasted and ground domestic consumption remains at similar levels reaching 31,000 bags GBE in the same period.

El Salvador only consumes a small portion of local production. Thus, 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 MY 2012/13 are estimated at 1.108 million 60-kg bags. This number is lower than previously reported mainly due to damage by coffee rust. In MY 2013/14 coffee exports are forecast at 700,400 sixty-kg bags.

In MY 2012/13 the United States is expected to be the main export destination for Salvadoran coffee reaching approximately 326,890 sixty-kg bags, about 30 percent of total exports. Germany is the number two export destination accounting for approximately 28 percent of total exports. Other important destinations are Japan, Italy, Canada, Belgium and Sweden.

Premium prices obtained by gourmet and specialty coffees are an incentive to increase exports of these types of coffees. Recently the CSC carried out the eleventh edition of the “Cup of Excellence” promotional event. The best quality coffees produced in El Salvador were selected by a group of local

and international coffee judges to participate in a global electronic auction. Through this event, local coffee has been successfully sold in the past to U.S., Japanese and European buyers with prices that are much higher than the coffee 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>2012</b>      |               | <b>2013</b>       |
| U.S.                       | 326,890          | U.S.          | 206,620           |
| <b>Others</b>              |                  | <b>Others</b> |                   |
| Germany                    | 305,835          | Germany       | 193,310           |
| Canada                     | 105,270          | Canada        | 66,540            |
| Japan                      | 100,840          | Japan         | 63,735            |
| Belgium                    | 89,755           | Belgium       | 56,730            |
| Sweden                     | 59,840           | Sweden        | 37,820            |
| Italy                      | 36,570           | Italy         | 23,115            |
| England                    | 23,270           | England       | 14,710            |
|                            |                  |               |                   |
|                            |                  |               |                   |
|                            |                  |               |                   |
| Total for Others           | 721,380          |               | 455,960           |
| Others not Listed          | 59,830           |               | 37,820            |
| <b>Grand Total</b>         | <b>1,108,100</b> |               | <b>700,400</b>    |
| <b>Source: CSC</b>         |                  |               |                   |

El Salvador has been active in promoting coffee through reverse trade missions composed of European, American and Japanese specialty coffee bar owners that visit the country's best coffee production sites, as well as coffee mills, to get acquainted with the unique qualities that Salvadoran coffee can provide to coffee blends. In the 2013 Specialty Coffee Association of America (SCAA) fair recently held in Boston, El Salvador participated as a sponsor.

Also programs such as the Rainforest Alliance Certification are being extended to include more coffee producers in this ecological seal program. Up to now, over 230 farms and 34 mills have been certified. Farmers that join this certification program have to improve the quality of life for their workers as well as the surrounding communities, must preserve the ecosystem, protect wild life and conserve water resources in order to get a premium price for their coffee.

In Calendar Year 2012, Brazil supplied 72,450 sixty-kg bags GBE of soluble coffee to the local market. Nicaragua with 31,103 bags and Mexico with 48,945 are also important suppliers. Colombia and Peru are also entering the market with soluble products.

|                            |
|----------------------------|
| <b>Import Trade Matrix</b> |
|----------------------------|

| <b>El Salvador<br/>Coffee, Green</b>         |                |               |                   |
|--|----------------|---------------|-------------------|
| <b>Time Period</b>                           | <b>MY</b>      | <b>Units:</b> | <b>60 kg bags</b> |
| <b>Exports for:</b>                          | <b>2012</b>    |               | <b>2013</b>       |
| U.S.   | 4,710          | U.S.          | 4,850             |
| <b>Others</b>                                |                | <b>Others</b> |                   |
| Brazil                                       | 72,450         | Brazil        | 75,000            |
| Mexico                                       | 48,945         | Mexico        | 51,200            |
| Nicaragua                                    | 31,103         | Nicaragua     | 33,200            |
| Colombia                                     | 3,944          | Colombia      | 4,250             |
| Peru   | 2,637          | Peru          | 2,850             |
| Honduras                                     | 2,260          | Honduras      | 2,450             |
| Guatemala                                    | 1,240          | Guatemala     | 1,400             |
|  |                |               |                   |
|  |                |               |                   |
|  |                |               |                   |
| Total for Others                             | 162,579        |               | 170,350           |
| Others not Listed                            | 6,901          |               | 13,400            |
| <b>Grand Total</b>                           | <b>174,190</b> |               | <b>188,600</b>    |
|  |                |               |                   |
| <b>Source: Salvadoran Central Bank (BCR)</b> |                |               |                   |

### **Stocks:**

New data provided by the CSC shows stock numbers reaching 55,000 sixty-kg bags in MY 2012/13.

Stocks for MY 2013/14 are expected to continue at similar levels, mainly due to farmers holding on to inventory to wait for a rebound in international prices.

### **Policy:**

To comply with World Trade Organization (WTO) regulations, the Government of El Salvador (GOES) has phased-out a six percent drawback program for non-traditional exports including soluble and roasted coffee. This drawback scheme was used by the GOES as an incentive for exporters to trade their products outside the Central American region. The GOES is working on an export promotion program that would replace the drawback program, since it was an export subsidy – not consistent with WTO agreements. However, problems in reaching an agreement with the private sector have delayed the application of the new Export Promotion Program.

Coffee farmers continue paying back the Coffee Trust (FICAFE) program, which was established in 2001 to defer accumulated debt with the banking system to a longer term that would allow farmers to cover their debt. As part of the GOES program to revamp coffee production, the capital payments to FICAFE have been deferred for a grace period of 3 years so that those funds can be used in plant renovation and to improve agricultural practices to increase productivity at the farm level.

The GOES through its state banks has guaranteed a \$60.00 per hundredweight GBE loan to carry out regular cultural practices and harvest collection. The GOES is also providing fungicides and liquid fertilizers to alleviate the coffee rust attack. However, given the severity of the coffee rust damage, this loan ceiling and input provision will not be sufficient to cover the expenses and rust protection needed by coffee farmers to recover their plantations.

Based on what the GOES considers positive results, from a pilot coffee recovery program carried out in 2011 in coffee areas affected by Hurricane Ida that provided bearing trees to farmers, there is interest on the part of the GOES to expand the program to a national level. However the financial cost to carry out this program is very high since most of the existing coffee trees have reached their productive age limit and need to be replaced with higher yielding varieties that also offer some resistance to coffee rust. This program could also generate much needed jobs in the rural area since there will be a drop in labor usage during the reduced coffee harvest.

The main problem faced by the Salvadoran coffee sector is the lack of an institutional framework that incorporates all the actors in the private side (i.e. producers, cooperatives, millers) and also includes the public sector as the regulatory setting body, so that a clear strategy can be designed and carried forward not only to rescue the sector but also to set out a path to reach sustainability and profitability for coffee farmers.

El Salvador continues to actively participate in International Coffee Organization (ICO) meetings.

### Production, Supply and Demand Data Statistics:

| Coffee, Green<br>El Salvador | 2011/2012                   |          | 2012/2013                   |          | 2013/2014                   |          |
|------------------------------|-----------------------------|----------|-----------------------------|----------|-----------------------------|----------|
|                              | Market Year Begin: Oct 2011 |          | Market Year Begin: Oct 2012 |          | Market Year Begin: Oct 2013 |          |
|                              | USDA Official               | New Post | USDA Official               | New Post | USDA Official               | New Post |
| Area Planted                 | 0                           | 176      | 0                           | 176      |                             | 176      |
| Area Harvested               | 0                           | 164      | 0                           | 164      |                             | 164      |
| Bearing Trees                | 0                           | 541      | 0                           | 541      |                             | 541      |
| Non-Bearing Trees            | 0                           | 54       | 0                           | 54       |                             | 54       |
| Total Tree Population        | 0                           | 595      | 0                           | 595      |                             | 595      |
| Beginning Stocks             | 13                          | 13       | 14                          | 43       |                             | 55       |
| Arabica Production           | 1,250                       | 1,175    | 1,475                       | 1,220    |                             | 785      |
| Robusta Production           | 0                           | 0        | 0                           | 0        |                             | 0        |
| Other Production             | 0                           | 0        | 0                           | 0        |                             | 0        |
| Total Production             | 1,250                       | 1,175    | 1,475                       | 1,220    |                             | 785      |
| Bean Imports                 | 0                           | 0        | 0                           | 0        |                             | 0        |
| Roast & Ground Imports       | 14                          | 14       | 14                          | 12       |                             | 14       |
| Soluble Imports              | 180                         | 172      | 200                         | 162      |                             | 175      |
| Total Imports                | 194                         | 186      | 214                         | 174      |                             | 189      |

|                        |       |       |       |       |  |       |
|------------------------|-------|-------|-------|-------|--|-------|
| Total Supply           | 1,457 | 1,374 | 1,703 | 1,437 |  | 1,029 |
| Bean Exports           | 1,170 | 1,059 | 1,400 | 1,104 |  | 698   |
| Rst-Grnd Exp.          | 3     | 1     | 3     | 1     |  | 2     |
| Soluble Exports        | 0     | 0     | 0     | 3     |  | 0     |
| Total Exports          | 1,173 | 1,060 | 1,403 | 1,108 |  | 700   |
| Rst,Ground Dom. Consum | 30    | 31    | 30    | 31    |  | 32    |
| Soluble Dom. Cons.     | 240   | 240   | 240   | 243   |  | 244   |
| Domestic Use           | 270   | 271   | 270   | 274   |  | 276   |
| Ending Stocks          | 14    | 43    | 30    | 55    |  | 53    |
| Total Distribution     | 1,457 | 1,374 | 1,703 | 1,437 |  | 1,029 |
| Exportable Production  | 980   | 904   | 1,205 | 946   |  | 509   |