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El Salvador

Coffee Annual

Salvadoran Coffee Slowly Recovering from Rust Crisis

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Report Highlights:

El Salvador's coffee production is expected to increase to 640,000 sixty-kg bags in Marketing Year (MY) 2017/18. Even though production increased by approximately five percent compared to the previous cycle, the Salvadoran coffee sector continues to struggle mainly due to continued coffee leaf rust, low international prices and lack of financing. The MY2018/19 crop is expected to reach 692,000 bags. Thus far the rainy season has provided adequate moisture for coffee flowering and is expected to unfold favorably for coffee bean development.

Executive Summary:

El Salvador's MY2017/18 coffee harvest will increase mainly due to new plants coming into production and a less severe leaf rust damage. Post's production estimate is approximately five percent higher than the previous year's crop at 640,000 sixty-kg bags (bags), revised up eleven percent from the previous estimate. The MY2018/19 harvest is expected to increase eight percent reaching approximately 692,000 bags.

Exports in MY 2017/18 are expected to reach 553,000 bags, up five percent from the previous estimate in line with the increased production estimate. Export numbers for MY2018/19 are expected to increase to 605,000 bags. The United States continues to be the main export destination for Salvadoran coffee, accounting for 42 percent of MY 2017/18 exports through April 2018. Germany is the second destination for Salvadoran coffee, followed by Italy, Belgium, Japan and England.

Lack of incentives for value-added coffee processing continues to favor imports. This has led to continued increases in soluble imports, mainly from Mexico, Brazil and Nicaragua. Starbucks, the Colombian chain Juan Valdez and Salvadoran chain The Coffee Cup continue growing in the retail market.

The Salvadoran Coffee Council (SCC) continues to monitor exports with the use of export registration permits. The Government of El Salvador (GOES), through government-owned financial institutions, has guaranteed a loan of US\$70 per hundredweight (cwt) to cover routine maintenance and harvesting during the 2017/18 crop season (Please refer to Policy Section, below, for further information). However, private banks are reluctant to lend to the coffee sector due to fears of default. Coffee is still an important source of employment in rural areas, however, the drastic decline in production (as a result of coffee rust) has led to big job losses in the sector. Over last five seasons jobs have dropped from 86,500 to an estimated 45,000 for the 2017/18 crop. Coffee is no longer the major source of export revenues in El Salvador, replaced by non-traditional products such as processed ethnic foods and tropical fruits; and sugar. At current prices, coffee exports in 2018/19 are only expected to generate US\$95 million in foreign exchange.

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

Commodities:

Coffee, Green

Production:

New production numbers compiled by Post reveal that the 2017/18 coffee harvest is expected to reach 640,000 bags, up eleven percent from previous estimates. This is also a five percent increase from the 2016/17 crop, mainly due to less damage than expected by leaf rust throughout the growing season and more new plants coming into production. The 2018/19 production is estimated at 692,000 bags.

The GOES continues to guarantee loans to the coffee sector. Continued good agricultural practices to counter coffee rust is one of the key factors in the recovery of Salvadoran coffee production. Value-

added production such as gourmet, specialty and fair-trade coffees continue to provide additional revenue to coffee producers. More farmers are now focusing on micro and nano-lot sales to specialty retailers in the United States, Europe, and Asia.

In the 2018 El Salvador Cup of Excellence competition two Geisha variety lots won first and second place with a 92 point score. In addition, the SCC continues to promote reverse trade missions of European, Taiwanese and American specialty coffee buyers to sample local coffee (see Trade Section, below).

Consumption:

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

In MY 2017/18 consumption is expected to reach 300,000 bags. However, most local consumption continues to be soluble coffee imported from Mexico, Brazil and Nicaragua; as well as locally produced brands. In MY2017/18, soluble domestic consumption is expected to reach 264,000 bags - Green Bean Equivalent (GBE), a three percent increase compared to the previous year. Roasted and ground domestic consumption has also increased reaching 36,000 bags GBE in the same period. However, local consumers continue to favor soluble coffee due to ease of preparation and a lower price tag.

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 CSC is trying to boost consumption of higher quality coffee promotion events and barista training.

Trade:

Coffee exports for MY2017/18 are estimated at 553,000 bags, up five percent from the previous estimate as a result of increase in production. In MY2018/19 coffee exports are expected to reach approximately 605,000 bags.

In MY2017/18 the United States is expected to be the main export destination for Salvadoran coffee reaching approximately 232,800 bags, about 42 percent of total exports. Germany continues to be the number two export destination accounting for approximately 22 percent of total exports. Other important destinations are Italy, Belgium, Japan and the UK. South Korea has become a new export destination accounting for 2.3 percent of total exports. This number is expected to grow in MY2018/19 due to a recent free trade agreement with South Korea that has provided duty free access for Salvadoran coffee.

Premium prices obtained by gourmet and specialty coffees create an incentive to increase exports of these types of coffees. The SCC has carried out various promotional events, including the Cup of Excellence events. The best quality coffees produced in El Salvador as selected at the Cup of Excellence participate in global electronic auctions. Through these events, local coffee is sold to U.S., Japanese, Taiwanese and European buyers with prices that are have a premium over the spot market "Contract C" prices.

Export Trade Matrix			
El Salvador			
Coffee, Green			
Time Period	MY	Units:	60 kg bags
Exports for:	2017		2018
U.S.	232,813	U.S.	254,705
Others		Others	
Germany	122,213	Germany	133,705
Italy	43,134	Italy	47,190
Belgium	37,604	Belgium	41,140
Japan	35,392	Japan	38,720
England	25,991	England	28,435
South Korea	12,719	South Korea	13,915
Total for Others	277,053		303,105
Others not Listed	43,134		47,190
Grand Total	553,000		605,000

Source: CSC

El Salvador is active in promoting coffee through reverse trade missions composed of European, American, Taiwanese and Japanese specialty coffee buyers. Salvadoran coffee offers. Many Salvadoran coffee exporters participated in the 2018 Specialty Coffee Association of America (SCAA) fair.

Local NGO Salvanatura is expanding 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 Fair Trade, UTZ, Starbucks and coffee-related Geographical Indications (GI's) are also being expanded in El Salvador. The CSC working with the six coffee regions in El Salvador have established GI's for the coffee produced in those regions. Coffee with these certifications commands a higher price on the market. The CSC is also training local cuppers to obtain "Q" grade certification that ultimately helps to position Salvadoran coffee as a reliable source of quality beans.

In Calendar Year 2017, Mexico supplied 84,064 bags GBE of soluble coffee to the local market. Brazil exported 69,087 bags and Nicaragua 28,322 bags. Colombia is also present in the market with soluble product brand Colcafe, as well as with its insignia "Juan Valdez" coffee retail outlets selling 7,297 bags of Colombian coffee. U.S. imports totaled 3,586 bags of both roasted and soluble coffee.

Import Trade Matrix			
El Salvador			
Coffee, Green			
Time Period	CY	Units:	60 kg bags
Imports for:	2017		2018
U.S.	3,586	U.S.	3,750
Others		Others	
Mexico	84,064	Mexico	84,500
Brazil	69,087	Brazil	70,000
Nicaragua	28,322	Nicaragua	28,500
Colombia	7,297	Colombia	8,000
Chile	2,504	Chile	2,600
Ireland	1,832	Ireland	1,900
Total for Others	193,106		195,500
Others not Listed	11,523		10,750
Grand Total	208,215		210,000

Source: Salvadoran Central Bank (BCR)

Stocks:

New data compiled by FAS/San Salvador shows stock numbers reaching 56,000 bags in MY2017/18. Stocks for MY2018/19 are expected to drop to 45,000 bags.

Policy:

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

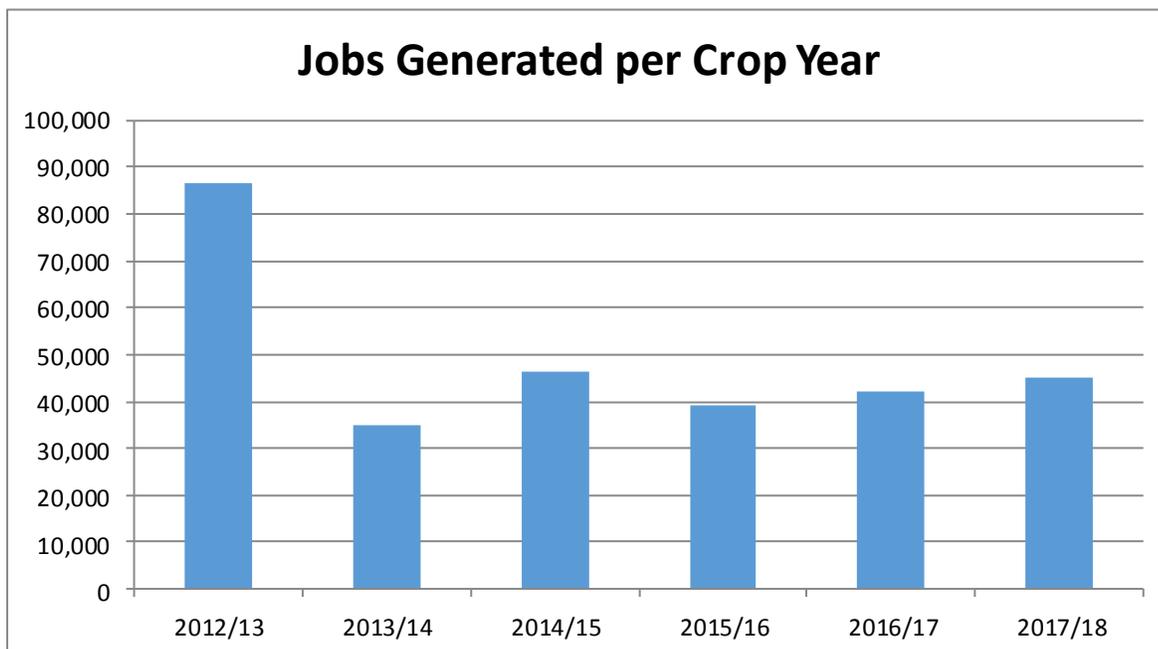
While there are some efforts by the government to implement assistance programs, they have not been effective in helping producers recover from losses due to rust.

In the fourth quarter of 2014, the GOES through the Ministry of Agriculture (MAG) created CENTA café. This new institution oversees extension services for coffee farmers. In addition, in the second quarter of 2016, MAG started a new fungicide and plant giveaway program for small farmers. According to MAG, approximately 18 million rust-resistant plants will be provided through CENTA café in CY2018. These government programs are mainly targeted to small farmers (less than 3 hectares) that only account for 10 percent of planted area. The main problem with the plant give-away is that there is no funding made available to provide the necessary care until the plants reach production age (approximately 3 years), thus most of the time farmers must sell the plants or they die due to a lack of inputs (i.e. fertilizer, insecticides, fungicides).

The Government's political program is insufficient. The sector needs a major replanting program to renovate coffee production areas with new trees. In many areas, most trees have surpassed their productive age (over 25 years). Every year over seven million plants need to be planted just to replace those that die naturally. According to the Salvadoran Coffee Association, approximately 30 million rust-

resistant plants are needed per year for a period of ten years to completely renovate the national coffee area.

As a result, 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, the abandonment of coffee farms has increased, depriving the country of its main source of forestation and water retention, a much needed benefit of coffee production.



Source: Salvadoran Coffee Council

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 three 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 2018.

The GOES, through its state banks, has guaranteed a \$70 per hundredweight GBE loan 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 ceiling and input provision will not be sufficient.

In the fourth quarter of 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. In addition, they have organized the second World Scientific Coffee Summit that is

scheduled to take place in El Salvador, in June, 2018. Some of the top names in coffee research have already confirmed their participation as speakers in this event.

USDA through the Food for Progress program continues working with the National Cooperative of Business Associations (NCBA) on a project to assist approximately 7,500 coffee farmers with new production technologies, extension work, access to high-quality, rust-resistant varieties, assistance with loan requests and a crop diversification program to improve food security and additional income. This program serves as a model of what the coffee sector could do to overcome the challenges posed by coffee rust.

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 proposes the following: to create a new research institution, to extend the repayment period and lower interest rates on coffee debt (estimated at around \$240 million), to provide \$100 million to renovate 70,000 hectares with rust-resistant varieties over the next eight years, and to create a single coffee organization to unite the eight current associations and the government. As part of this commitment, the National Assembly agreed to approve an \$80 million loan from the Central American Bank for Economic Integration and the government of Taiwan. This funding will help to start the projected renovation of the entire coffee area. Approximately \$6 million are to be devoted to technical assistance and the rest to renovation of old coffee trees.

The Ministry of Agriculture is also interested in creating a price band for the 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. The GOES is doing an assessment of the import duties currently charged for roasted and soluble coffees and the impact that imports generate on local farmers. According to the Ministry of Economy, current duties are too low and there needs to be a revision made to alleviate the impact on local coffee consumption.

The future of El Salvador's coffee sector will depend upon the ability of both producers and government institutions to implement a strategy to get out of the crisis that includes debt re-structuring, repayment periods, and a unified coffee association that oversees research, technical assistance, 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 30 percent), will continue to grow, deepening a crisis in labor, the environment and the economy.

Production, Supply and Demand Data Statistics:

<i>Coffee, Green</i>	2016/2017		2017/2018		2018/2019	
<i>Market Begin Year</i>	Oct 2016		Oct 2017		Oct 2018	
<i>El Salvador</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (Has.)	141	141	141	141	0	137
Area Harvested (Has.)	134	134	134	134	0	130
Bearing Trees (Million)	335	335	335	335	0	323
Non-Bearing Trees (Million)	25	25	25	25	0	20
Total Tree Population (Million)	360	360	360	360	0	343
Beginning Stocks (Thousand 60 Kg. Bags)	13	13	28	61	0	56
Arabica Production (Thousand)	600	608	575	640	0	692
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production (Thousand 60 Kg. Bags)	600	608	575	640	0	692
Bean Imports (Thousand 60 Kg. Bags)	0	19	0	0	0	0
Roast & Ground Imports (Thousand 60 Kg. Bags)	10	9	10	9	0	10
Soluble Imports (Thousand 60 Kg. Bags)	200	195	200	199	0	200
Total Imports (Thousand 60 Kg. Bags)	210	223	210	208	0	210
Total Supply (Thousand 60 Kg. Bags)	823	844	813	909	0	958
Bean Exports (Thousand 60 Kg. Bags)	520	488	525	540	0	590
Rst-Grnd Exp. (Thousand 60 Kg. Bags)	0	1	0	1	0	1
Soluble Exports (Thousand 60 Kg. Bags)	0	2	0	12	0	14
Total Exports (Thousand 60 Kg. Bags)	520	491	525	553	0	605
Rst,Ground Dom. Consum (Thousand 60 Kg. Bags)	35	35	35	36	0	41
Soluble Dom. Cons. (Thousand 60 Kg. Bags)	240	257	250	264	0	267
Domestic Use (Thousand 60 Kg. Bags)	275	292	285	300	0	308
Ending Stocks (Thousand 60 Kg. Bags)	28	61	3	56	0	45
Total Distribution (Thousand 60 Kg. Bags)	823	844	813	909	0	958
Exportable Production (Thousand 60 Kg. Bags)	325	316	290	340	0	384