

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 5/25/2016

GAIN Report Number:

Peru

Coffee Annual

Annual

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Report Highlights:

Peru's coffee production in marketing year (MY) 2016/17 (April/March) is forecast at 3.2 million bags (60-kilograms per bag), increasing over 5 percent compared to the previous year. Low international prices and rust infestation have cornered coffee producers, particularly organic farmers.

Executive Summary:

Coffee production in marketing year (MY) 2016/17 (April/March) is forecast at 3.2 million bags (60-kilograms per bag), increasing over 5 percent compared to the previous year. Like other countries in the region, Peru suffered an outbreak of the fungus *Hemileia vastatrix* which causes coffee leaf rust disease in MY2013/2014 affecting around 30 percent of the crop. Approximately 40 percent of Peru's total area planted has been affected by the outbreak.

Domestic consumption in MY 2016/17 is estimated at 160,000 bags, unchanged from MY 2016/17. While overall coffee consumption remains low, it has nonetheless doubled in the past five years. Peru, with a population of 30 million, has an annual per capita consumption of 600 grams. This contrasts with neighboring Colombia where per capita consumption climbs to two kilograms or Brazil where it exceeds four kilograms.

Peru's total calendar year (CY) 2015 exports reached 2.95 million bags (176,823 MT); Germany and the United States were the two main coffee export destinations with 29 and 24 percent of exports respectively. Export prices for Peruvian coffee averaged \$3,321 per metric ton in CY 2015, 18 percent lower than CY 2014.

Peru prides itself of being the largest organic coffee exporter in the world, but unfortunately the price premium does not compensate farmers for the lower yields and soil depletion, resulting in a difficult economic situation for most Peruvian coffee producers.

Production:

Coffee, Green Market Begin Year Peru	2014/2015		2015/2016		2016/2017	
	Apr 2014		Apr 2015		Apr 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	370	0	380	0	380
Area Harvested	0	350	0	355	0	355
Bearing Trees	0	578	0	610	0	610
Non-Bearing Trees	0	25	0	35	0	35
Total Tree Population	0	603	0	645	0	645
Beginning Stocks	24	24	4	4	0	8
Arabica Production	2900	2900	3000	3050	0	3200
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	2900	2900	3000	3050	0	3200
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	2924	2924	3004	3054	0	3208
Bean Exports	2750	2750	2800	2876	0	3025
Rst-Grnd Exp.	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
Total Exports	2750	2750	2800	2876	0	3025
Rst,Ground Dom. Consum	10	10	10	10	0	10
Soluble Dom. Cons.	160	160	160	160	0	160

Domestic Consumption	170	170	170	170	0	170
Ending Stocks	4	4	34	8	0	13
Total Distribution	2924	2924	3004	3054	0	3208
(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)						

Coffee production in marketing year (MY) 2016/17 (April/March) is forecast at 3.2 million bags (60-kilograms per bag), increasing over 5 percent compared to the previous year. Like other countries in the region, Peru suffered an outbreak of the fungus *Hemileia vastatrix* which causes coffee leaf rust disease in MY2013/2014 affecting around 30 percent of the crop. Approximately 40 percent of Peru’s total area planted has been affected by the outbreak.

Harvested area in MY 2016/17 is forecast at 355,000 hectares, remaining at the same levels as the previous year but increasing 5,000 hectares compared to MY2014/15. Harvesting commences in April and peaks in the June-September period; about 85 percent of the crop is brought in between April and July.

Peru continues struggling with the rust outbreak that affected plantations in 2014. Coffee rust arrived from Central America and entered Peru through the northern border of the country, spreading quickly to the south. Along with the presence of moisture, *Hemileia vastatrix* requires temperatures of between 10 and 35 degree Celsius. Reduced moisture after the fungus spore germination begins will inhibit the infection process. Under extreme conditions the disease will kill a tree. Normally, the loss in leaf foliage diminishes the plant’s ability to photosynthesize and store energy for fruit production, resulting in vastly lower yields.



Pic.1. Rust Resistant Coffee



Pic.2: Coffee dryer

While coffee production occurs throughout the eastern slope of the Andes, production is concentrated in three main growing areas. Coffee production is gradually shifting from Chanchamayo (i.e., one of the nine provinces of the Junín region) in Peru’s central highlands to the northern highlands of the Amazonas and San Martín regions. Although Chanchamayo still accounts for 28 percent of overall production, Amazonas and San Martín combined now account for over 49 percent of national production.

Peru produces Arabica coffee almost exclusively. Over seventy percent of which is of the *typica* variety followed by *caturra* (20 percent), and others (10 percent). Roughly 75 percent of Peruvian coffee cultivation occurs between 1,000 and 1,800 meters above sea level. Most coffee is shade grown and plant density on farms averages 2,000 plants per hectare. Coffee in Peru remains largely hand-picked and sun dried.

The majority of Peru's coffee producers are small farmers. These cultivate coffee on plots of land averaging three hectares. Small producers often form associations or cooperatives aiming to obtain better prices, improve post-harvest production handling, and cooperate on more effective marketing strategies. Some of the larger of these associations have membership of over 2,000 producers. The more sophisticated of these associations have financial institutions that provide producer loans, which partially subsidize production costs through technical assistance aimed at improving crop quality and yields. Cooperatives will market production directly or recur to coffee traders.

Poor access to credit places constraints on many of the smaller coffee producers. Peru's private banks reportedly refuse to accept untitled land as loan collateral, forcing most producers to obtain credit either from coffee buyers or informal lenders. The result of which is that small producers are burdened with fixed-price sales contracts and or high repayment interest rates.

Under more normal circumstances, yields can reach upwards of 2,500 kilograms per hectare (~42, 60-kg bags) on well managed plantations. On the less well managed coffee farms, yields drop due to poor cultivation practices and limited fertilizer use.

High plant replacement costs remain a concern. Sources indicate it costs \$3,000 per hectare to replace old, less productive and or diseased plants. This forces many producers to replant on average every twenty to thirty years instead of every ten years as in other coffee producing countries. Annual plant maintenance costs average about \$1,200 per hectare. Based on these and other factors, FAS Lima calculates the average cost of production at about \$1.62 per kilogram, eighty cents of which is labor.

With international coffee prices at \$130 per 100-pound-bag and rampant coffee rust that has infested at least 60 percent of the coffee plantations, most coffee producers in the central highlands of Peru are on the brink of bankruptcy. While all producers are affected, organic coffee producers are the most impacted. Organic fields yield 12-15 100 pound bags per hectare compared to 45-50 100 pound bags per hectare of conventional fields. The premium paid for organic coffee, no more than \$40 per 100-pound bag, does not compensate for the low productivity. Moreover, organic producers have to face total destruction of their fields since fungicides cannot be used to control rust. Unfortunately, Peru's organic producers are mostly poor, small-scale farmers that struggling to survive.



Pic.3: Organic coffee producers



Pic.4: Organic coffee producers

Consumption:

Domestic consumption in MY 2016/17 is estimated at 160,000 bags, unchanged from MY 2016/17. While overall coffee consumption remains low, it has nonetheless doubled in the past five years. Peru, with a population of 30 million, has an annual per capita consumption of 600 grams. This contrasts with neighboring Colombia where per capita consumption climbs to two kilograms or Brazil where it exceeds four kilograms.

Peruvians are primarily consumers of soluble (instant) coffee. Instant coffee accounts for 75 percent of total domestic coffee consumption. Nonetheless consumption patterns are changing and a roasted, ground coffee drinking culture is taking root. Coffee consumption among young, urban consumers is growing; consumption levels are now reaching the one kilogram per capita threshold. Domestic coffee consumption nevertheless still only accounts for about 10 percent of total production. Small corner stores (60 percent) and supermarkets (30 percent) account for the bulk of domestic coffee sales.

Trade:

Peru's exports of coffee in MY 2016/17 are forecast at 3.025 million bags, up 5 percent compared to our MY 2015/16. We foresee export volumes increasing as the coffee leaf rust outbreak abates and planted area expands as a result of the government's program to renew 80,000 hectares of coffee land.

Export Trade Matrix	
Country	Peru
Commodity	Coffee, Green
Time Period	CY 2015
Exports for:	
U.S.	42,596
Others	
Germany	51,122
Belgium	19,301
South Korea	10,129
Sweden	9,430

Canada	8,620
Others	35,625
Grand Total	176,823

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Peru, with some 90,000 certified organic hectares, is the world's leading exporter of organic coffee. A significant portion of Peru's coffee exports are organic, attributed in large part to the smaller growers' inability to pay for costly chemical fertilizers and pesticides. Foreign demand for specialty coffee however is motivating some of the smaller growers to seek out specialized certification. Current certifications, accessible even to smaller coffee farmers include:

- Fair Trade: Certified by Fair Trade Labeling Organizations International (FLO)
- Organic: Certified by several agencies such as USDA's National Organic Program (NOP), Japanese Agricultural Standards (JAS), Natureland, and the Organic Crop Improvement Association (OCIA)
- Sustainable Coffee: Certified by the Rainforest Alliance
- Café Practice: Certified by Starbucks
- Other certifications include bat friendly and bird friendly

Policy:

The Ministry of Agriculture and Irrigation established in 2013 a program to renew 80,000 hectares of coffee land over the next four years. Some \$70 million has been budgeted for this program; funds will be channeled through the country's AgroBanco (i.e., agricultural development bank). These loans are to be repaid in eight years at a ten percent interest rate. While some farmers are questioning the credit terms, these are understood to be better than what the country's private banking sector is currently offering.

The Peruvian Government has made international coffee promotion a national priority. PromPeru (i.e., Peru's export promotion agency) and its commercial offices overseas actively promote Peruvian coffee. At the same time, some local government agencies and non-governmental organizations are promoting organic coffee production as a means for increasing farmers' income.

Peru's coffee sector generates 855,000 jobs in otherwise remote, impoverished areas of the country. The government, through DEVIDA, encourages coffee production as an alternative crop to coca leaf cultivation.



Pic.5: Coffee production