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Peru

Coffee Annual

Low Prices Impact Peruvian Producers

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Report Highlights:
Coffee production in marketing year (MY) 2019/20 (April/March) is forecast at 4.5 million bags (60-kilograms per bag), increasing three percent from the previous year. Peru's exports of coffee in MY 2019/20 are forecast at 4.3 million bags, up one percent from the previous year. Producers continue struggling with falling international coffee prices.

Executive Summary:

Coffee production in marketing year (MY) 2019/20 (April/March) is forecast at 4.5 million bags (60-kilograms per bag), increasing three percent from the previous year. Harvested area in MY 2019/20 is forecast at 390,000 hectares, increasing slightly from the previous year. Peru produces almost exclusively Arabica coffee, of which over 70 percent is of the *typica* variety followed by *caturra* (20 percent), and other varieties (10 percent). Roughly 75 percent of Peruvian coffee cultivation occurs between 1,000 and 1,800 meters above sea level,

Peru's exports of coffee in MY 2019/20 are forecast at 4.3 million bags, up one percent from the previous year. Peru's total calendar year (CY) 2018 exports were 4.3 million bags. The United States was the top market for Peruvian coffee, accounting for 25 percent of total exports.

Production:

Coffee, Green	2017/2018		2018/2019		2019/2020	
Market Begin Year	Apr 2017		Apr 2018		Apr 2019	
Peru	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	385	385	388	388	0	390
Area Harvested	360	360	360	360	0	363
Bearing Trees	615	615	613	613	0	615
Non-Bearing Trees	35	35	38	38	0	40
Total Tree Population	650	650	651	651	0	655
Beginning Stocks	75	75	85	82	0	12
Arabica Production	4375	4375	4400	4380	0	4500
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	4375	4375	4400	4380	0	4500
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	4450	4450	4485	4462	0	4512
Bean Exports	4185	4188	4200	4260	0	4300
Rst-Grnd Exp.	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
Total Exports	4185	4188	4200	4260	0	4300
Rst,Ground Dom. Consum	10	10	10	10	0	10
Soluble Dom. Cons.	170	170	180	180	0	180
Domestic Consumption	180	180	190	190	0	190
Ending Stocks	85	82	95	12	0	22
Total Distribution	4450	4450	4485	4462	0	4512
(1000 HA), (MILLION TREES), (1000 60 KG BAGS)						

Coffee production in marketing year (MY) 2019/20 (April/March) is forecast at 4.5 million bags (60-kilograms per bag), increasing three percent from the previous year. Peru's coffee production is still recovering from a coffee leaf rust (*Hemileia vastatrix)* outbreak five years ago that affected 50 percent of the crop. Efforts include phytosanitary treatment and replacement of trees.

Harvested area in MY 2019/20 is forecast at 390,000 hectares, a slight increase from the previous year. As part of the Ministry of Agriculture's coffee rust recovery program, producers continue receiving

plants and fertilizer to replant and cultivate new areas. Harvesting commences in April and peaks in the June-September. About 85 percent of the crop is harvested between April and July.

Peru continues to combat the coffee rust outbreak that first affected plantations in MY2013/14. Coffee rust arrived from Central America and entered Peru through the northern border of the country, quickly spreading to the south. Along with the presence of moisture, *Hemileia vastatrix* (coffee rust), requires temperatures of between 10 and 35 degree Celsius. Reduced moisture after fungus spores begin to germinate 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.

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 16 percent of overall production, Amazonas and San Martín combined now account for 47 percent of national production.

Peru produces almost exclusively Arabica coffee, of which over 70 percent is of the *typica* variety followed by *caturra* (20 percent), and other varieties (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 handpicked and sun dried.

The majority of Peru's coffee producers are small farmers. These producers cultivate coffee on plots of land averaging three hectares. Poor access to credit places constrains 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. As a result, small producers are burdened with fixed-price sales contracts and or high repayment interest rates.

Small producers often form associations or cooperatives 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 numbers 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 through coffee traders.

With good agricultural practices, yields can reach upwards of 2,500 kilograms per hectare (42, 60-kg bags) on well-managed plantations. Average yields in MY 2018/19 are estimated at 729 kilograms per hectare and is expected at 744 kilograms per hectare in MY 2019/20.

High plant replacement costs remain a concern. Sources indicate it costs $3,000 per hectare to replace old, less productive 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 about $1,200 per hectare. Based on this and other factors, FAS Lima calculates the average cost of production at about $1.75 per kilogram, 49 percent of which is labor.

Though the coffee rust infestation has been reduced to less than 20 percent of total growing area, many coffee producers in the central highlands of Peru are still facing financial challenges. While all producers are affected, organic coffee producers are the most impacted. Organic fields yield twelve to fifteen 100 pound bags per hectare compared to forty-five to fifty 100 pound bags per hectare from conventional fields. The premium paid for organic coffee, no more than $40 per 100-pound bag, does not compensate for low productivity. Moreover, organic producers have to face total destruction of their fields since fungicides cannot be used to control rust. Peru's organic producers are mostly poor small-scale, subsistence farmers.

Consumption:

Domestic consumption in MY 2019/20 is forecast at 180,000 bags. While overall coffee consumption remains low, it has nonetheless increased over 100 percent in the last six years. Peru, with a population of 32 million, has an annual per capita consumption of 650 grams. This contrasts with neighboring Colombia, where per capita consumption reaches two kilograms, and Brazil, where it exceeds four kilograms.

Peruvians primarily consume soluble (instant) coffee, which 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 in this demographic group. Domestic coffee consumption 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 2019/20 are forecast at 4.3 million bags, up one percent from the previous year. Peru's total calendar year (CY) 2018 exports were also 4.3 million bags. The United States was the top market for Peruvian coffee, accounting for 25 percent of total exports. Germany and Belgium were also important export markets with 22 and 11 percent of exports respectively. Export prices of Peruvian coffee in CY 2018 averaged $2,609.32 per MT, ten percent lower than the 2017 average of $2,885.96. Price of Peruvian coffee exports have fallen 35 percent from its peak of $4,031.01 in 2014.

Export Trade Matrix	
Country	Peru
Commodity	Coffee, Green
Time Period	CY 2018

Exports for:	
U.S.	63,482
Others	
Germany	56,878
Belgium	28,628
Colombia	23,066
Sweden	14,117
Canada	11,659
Others	89,259
Grand Total	258,490

Source: SUNAT, Peruvian Customs

With some 90,000 certified organic hectares, Peru is the world's leading exporter of organic coffee. In addition to these certified hectares, a large portion of Peru's coffee exports are organic by default, attributed in large part to the smaller growers' inability to pay for costly chemical fertilizers and pesticides. Foreign demand for specialty coffee motivates some smaller growers to seek out specialized certification. Current certifications, that are accessible 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

In May 2018, a small coffee producer from the Sandia province in the department of Puno won the "Best Specialty Coffee" award at the "Global Specialty Coffee Expo" in Seattle. This producer is a member of the coffee cooperative that also won this award in 2017. These competitions enable Peru to distinguish itself as the producer of quality product, which could lead to higher incomes and better prices for producers.

Policy:

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

Peru's coffee sector generates 855,000 jobs in otherwise remote, impoverished areas of the country. The government, through the National Commission for Development and Life Without Drugs (DEVIDA), encourages coffee production as an alternative crop to coca leaf cultivation.

The Peruvian government does not keep coffee stocks. All inventories are kept by the private sector.