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Report Highlights:

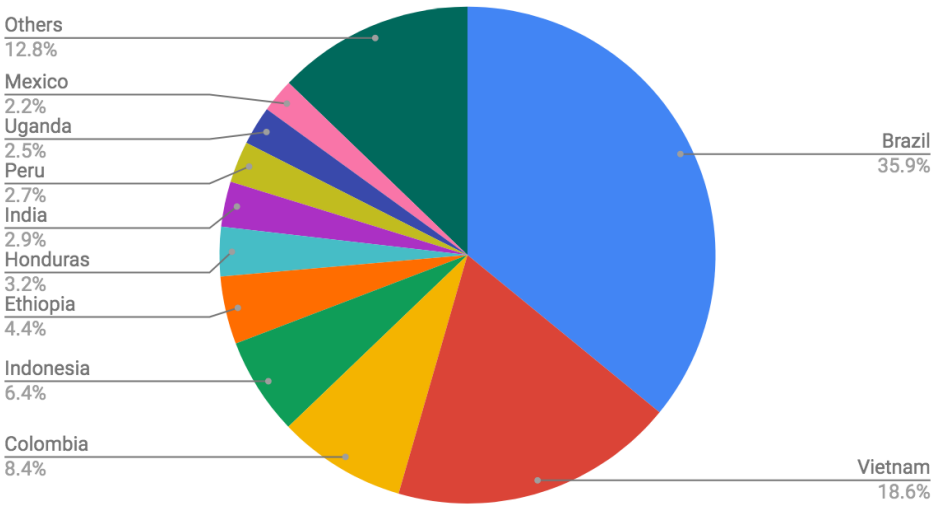
Mexico coffee production for marketing year (MY) 2021/22 is forecast at similar levels to the previous MY, due to labor shortages and ongoing drought conditions in some states that are degrading tree and soil health. Ongoing public and private sector efforts to increase production and efficiency by replanting rust resistant tree varieties is having minimal effect due to low financing for producers, a lack of robust technical and marketing assistance, and continued low global prices.

CROP AREA

Coffee planted and harvested area is forecasted at 0.7 and 0.63 million hectares (ha) for marketing year (MY) 2021/22 (October-September). According to the Secretariat of Agriculture and Rural Development (SADER) efforts will be focused on replanting existing areas with a higher density of disease resistant trees. Drought is expected to reduce harvested area for MY 2020/21 to 0.6 million ha. Contacts report the ongoing COVID-19 pandemic and related sanitary measures have significantly slowed efforts to recover planted area and provide technical assistance and inputs to control coffee pests. Additionally, heightened southern border restrictions have resulted in a shortage of field workers, many of which come from Guatemala.

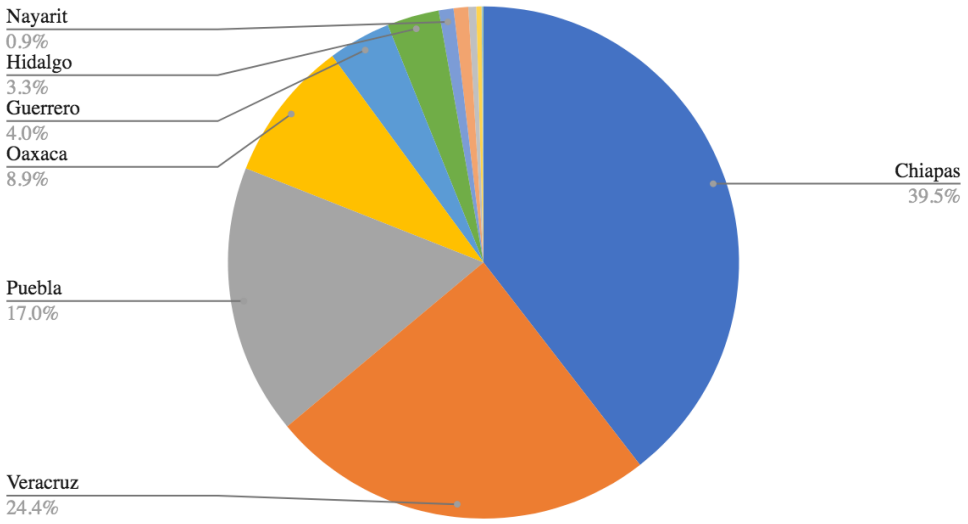
Coffee is considered a priority crop in Mexico, with integrated production chains and job creation for both Mexicans and Central American migrants. Coffee is critical to the livelihoods of many small producers, 90 percent of coffee growers are small-scale, that is, they have less than 2 hectares and 65 percent belong to municipalities with indigenous population and 37 percent of them are women. Mexico is the tenth largest producer of coffee, accounting for over two percent of global production. Coffee is produced in 14 states, concentrated in the central and south of the country, with the state of Chiapas accounting for nearly 40 percent of national production, and followed by Veracruz and Puebla at 24 and 17 percent, respectively.

Figure 1. Global Coffee Production



Source: Production, Supply and Distribution, USDA

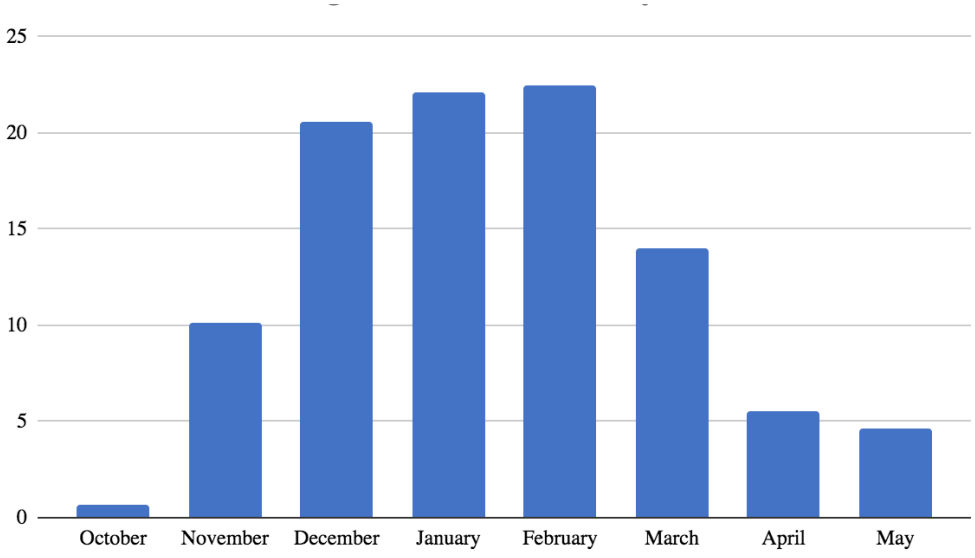
Figure 2. Production by State



Source: Agri-Food and Fisheries Information Service (SIAP/SADER)

Although coffee is typically harvested from November to April, contacts indicate that changes in climate are adjusting the time frame from year to year.

Figure 3. 2020 Production by Month (percentage)



Source SIAP/SADER

According to SADER officials, approximately 35 percent of Mexico's coffee production is high-quality high-altitude coffee, located at 900 meters or higher above sea level. Another 43.5 percent grows between 600 and 900 meters above sea level. Newly planted areas have changed to more pest-resistant varieties like Oro Azteca, Marsellesa, Costa Rica 95, Sarchimor, and varieties from Nicaragua and Guatemala. The new pest-resistant varieties require full sun; however, several cooperatives are working to breed traditional shade grown varieties.

Efforts to Control Coffee Pests and Recover Planted Area

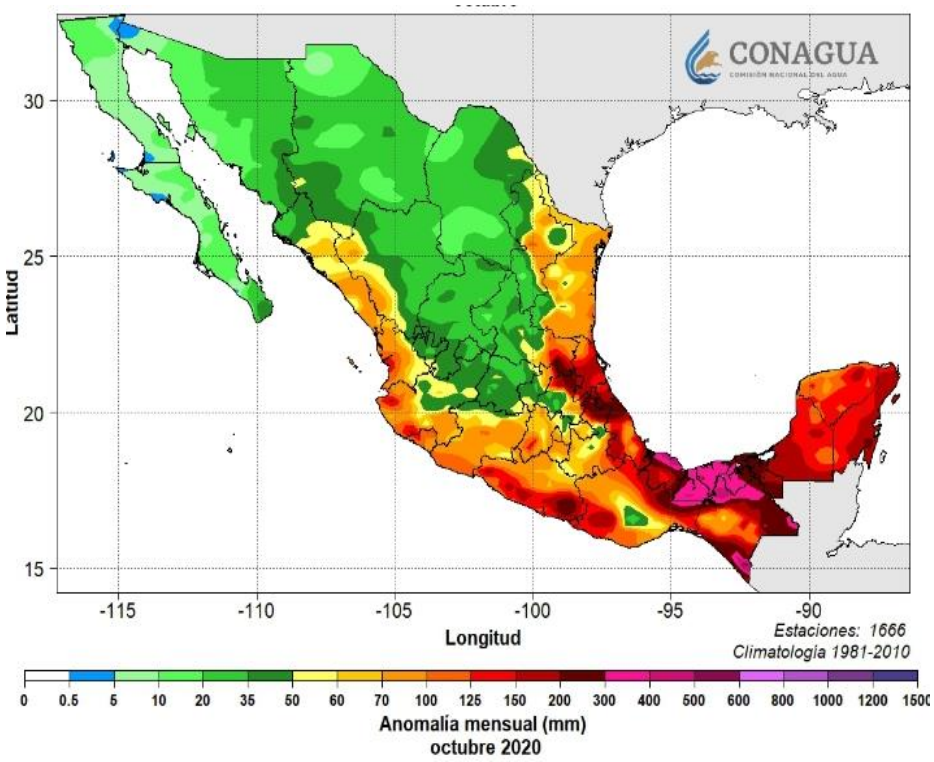
The coffee berry borer (CBB, *Hypothenemus hampei*) is an insect that develops inside the fruit, and results in a production loss, and a decrease in the quality of taste, smell, color and texture. Coffee rust is a disease caused by the fungus *Hemileia vastatrix*, which develops on the leaves and can cause defoliation, and prevents optimal fruit development. In serious cases, plant mortality occurs. According to the National Service of Health, Food Safety, and Food Quality (SENASICA), the presence of the coffee berry borer has been significantly reduced in recent years, and currently infestation rates are less than two percent. The severity level of coffee rust has decreased, mainly in regions replanting rust-resistant varieties. However, producers mention that slowed area revitalization in 2020 and 2021 due to a lack of labor, is a serious risk to production nationally.

In 2020, technicians from SENASICA installed 314,380 alcohol-based capture and kill traps on 19,771 hectares of Colima, Chiapas, Guerrero, Hidalgo, Jalisco, Nayarit, Oaxaca, Puebla, San Luis Potosí, Querétaro and Veracruz, for CBB control. Likewise, they changed the attractant in the traps of 4,831 hectares in Colima, Jalisco, Nayarit, Querétaro and San Luis Potosí, and applied the *Beauveria bassiana* fungus as a method of biological control on 1,016 hectares in Veracruz. Specialists also applied fungicidal sprays on 110,121 hectares, throughout the country to help eliminate coffee rust.

PRODUCTION

The Post forecast for MY 2021/22 coffee production is 3.59 million 60/kg bags, reflecting a minimal increase of 1.6 percent from the previous MY due to expected ongoing drought conditions and labor shortages. SADER, the National Industrialization of Coffee Association (ANICAFE) and the Mexican Association of Coffee (AMECAFE) forecast production for MY 2020/21 at 4 million 60/kg bags, however, Post believes that precipitation anomalies at the beginning of the harvest (Fig. 4), drought conditions, and pest and labor challenges exacerbated by the COVID-19 pandemic will make this forecast difficult to reach. The MY 2020/21 forecast is revised down from previous estimates to 3.53 million 60/kg bags, on updated information from SIAP that reflects reductions due to intensive rain at the beginning of the harvest season followed by abnormally dry weather, and severe labor shortages in Chiapas. Production through March 2021 is reported at 3.1 million 60/kg bags.

Figure 4. Monthly Accumulated Precipitation in October 2020



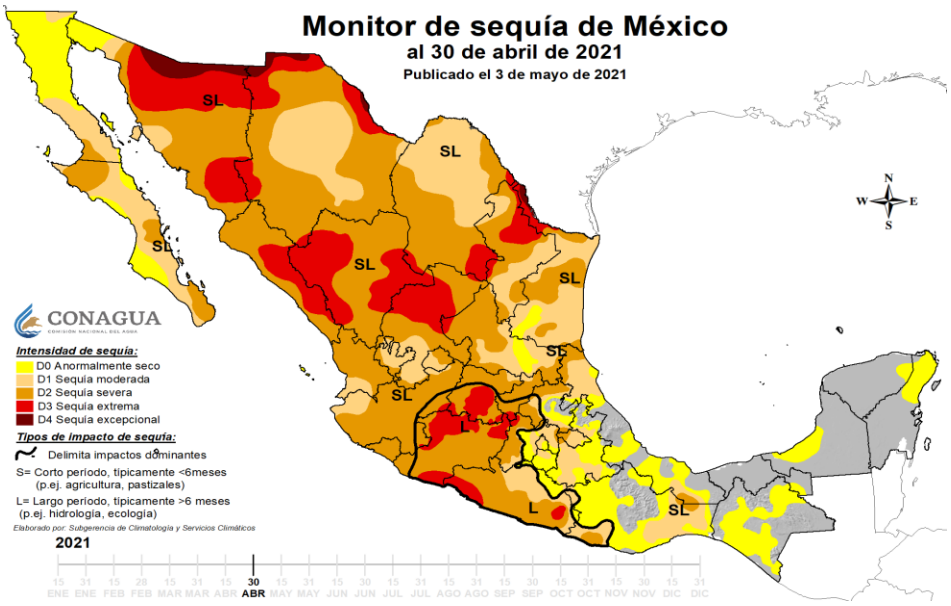
Source: National Commission of Water (CONAGUA)

Severe Weather Affecting Coffee Production

The National Water Commission (CONAGUA) is currently reporting abnormally dry conditions in 80 percent of the country (the highest level since 2011), with delayed rains and higher temperatures due to the La Niña weather pattern. Although effects are most severe in the northeast, where over half of the area is experiencing extreme drought, many of the coffee producing states are also affected. La Niña joins the list of challenges agricultural producers are facing, along with high fuel prices, rising electricity costs, and a lack of federal support for production inputs like pest and weed controls. Additionally, the National Forestry Commission has placed the country under critical risk for forest fires due to dry conditions. Many former federal support programs that assisted with financing and support after climate disasters were eliminated under the current administration.

The lack of rain in the first months of the year has affected coffee production for MY 2020/21, as intense heat is preventing flowering and dry soil is reducing yields (Fig. 5). Drought effects (degraded tree and soil health) are likely to impact the full production process for the next harvest as well.

Figure 5. Drought Conditions April 30, 2021



Source: CONAGUA D0 Abnormally Dry, D1 Moderate Drought,
D2 Severe Drought, D3 Extreme Drought, D4 Exceptional Drought
L Long periods > 6 months, S Short periods < 6 months

Chiapas has up to 178,000 producers, 95 percent of whom are small scale, with less than three hectares. Veracruz has 10 coffee-producing regions: Huayacocotla and Papantla in the north; Atzalan, Misantla, Coatepec, Huatusco, Córdoba and Zongolica in central; and Tezonapa and Los Tuxtlas in the south. Puebla is known for innovative production technologies that have resulted in higher-than-average national yields, and increased interest and investment in younger coffee producers has created a 'niche' sector of high-value specialized coffee producers

Table1. Post Forecast by State MY 2021/22

	Area Harvested (Ha)	Production (Bags 60/kg)	Yield (Bags/Ha)
Chiapas	237,050	1,422,300	6.0
Veracruz	125,000	862,500	6.9
Puebla	65,000	611,000	9.4
Oaxaca	111,300	322,770	2.9
Guerrero	43,050	154,980	3.6

Hidalgo	23,000	117,300	5.1
Nayarit	10,310	32,992	3.2
San Luis Potosí	16,130	32,260	2.0
Jalisco	3,450	17,595	5.1
Colima	2,700	11,880	4.4
México	530	2,332	4.4
Tabasco	350	1,505	4.3
Querétaro	199	318	1.6
Morelos	26	138	5.3
Total	638,095	3,589,870	5.6

Approximately 85 percent of coffee produced in Mexico is Arabica variety, and 15 percent Robusta. The government is promoting Robusta production for its coffee rust resistance and soluble and capsule coffee consumption. The Nestlé Company has announced plans to invest US $700 million to modernize its existing 16 factories in Mexico, and to construct an additional operation in the state of Veracruz. The plant is expected to begin operations by the second half of 2021. The plant is expected to process 20,000 tons of Mexican-grown coffee per year. Nestle has also announced an investment of US $15 million at its Chiapas factory, which will modernize technology to increase coffee roasting capacity by an additional 6,000 tons per year (up from 34,000 to go from the 28,000 tons). However, producers are expressing concern that they will be forced to deforest Arabica trees in order to accommodate the planting of 150,000 hectares of Robusta trees (which require full sun). Mexico produces high-value organic coffee, mainly for export to the United States. However, coffee rust has affected the output of organic coffee more than conventional. According to SADER, about seven to eight percent of producers are growing organic coffee.

The Mexican coffee sector faces significant domestic and global challenges that are likely to prohibit growth in the near future.

1. *Prices*

Volatile global coffee prices are still an impediment, with costs of production often higher than returns. Producers indicate that average producer prices the last three years were between U.S. $85 and $98 per 45/kg bag. Although prices have increased to between U.S. $110 to $135 this MY, production costs are approximately $140 per 45/kg bag.

2. *Producer Profile*

According to the Center for Studies for Sustainable Rural Development and Food Sovereignty (CEDRSSA), 90 percent of Mexico's coffee producers are small scale (less than two hectares) and 65 percent belong to municipalities with indigenous populations -of which 37 percent are women. They are disadvantaged in many aspects, from lack of information systems, to an inability to market their products according to quality. A lack of liquidity hampers production expansion and innovation to produce a higher quality product. Contacts indicate there are efforts underway to provide business skills to producers, some even in indigenous languages, but a more robust and comprehensive effort is necessary to bring sectoral change.

3. *Labor and Migration*

Access to field labor has become difficult for many producers, as government policies have greatly reduced the number of migrant field workers (mainly from Guatemala) available. This has resulted in increased labor costs, which now make up more than 80 percent of total production costs. From January to March 2021 there has been a reduction of 15 percent in Border Worker Cards issued compared to 2020. Contacts also state that an increased value of the Guatemalan quetzal has also disincentivized migrant workers.

4. *Impactful Government Support*

The Production for Wellbeing Program is one of the 38 priorities of the Government of Mexico. The program is available to producers of up to 20 hectares of rainfed production, or up to five irrigated hectares for small and medium producers. For 2021, coffee producers will receive 6,200 pesos (U.S. $310) per producer. Producer associations comment that the program has not had significant impact on the coffee sector, as it does not involve financing, or technical and marketing assistance.

Coffee is often inter planted with citrus, corn, bananas, and other crops for self-consumption. This 'milpa' planting system is being encouraged by the *Sembrando Vida* (managed by the Secretariat of Wellbeing). The program supports smallholder producers (2.5 ha or less) in 19 states with direct cash payments to grow fruit and timber trees. Coffee producers with this planting scheme can receive 5,000 pesos ($208) per month. To date, the program has received several criticisms, including irregularities in the allocation of resources, poor planning (seeds offered are not hospitable to the land), lack of technical assistance, management, or results frameworks. Producer associations have commented that in many cases the subsidy is greater than coffee production returns, and that some producers have decided to participate in the program instead of growing coffee. Some producers believe the program could be used to subsidize Robusta production in degraded lands and displace Arabica plantings in other areas.

YIELD

Coffee yields vary according to field management, weather, altitude and variety. Post forecasts a national yield for MY 2021/22 at 5.6 60 kg/bags/ha, a slight recovery from MY 2020/21 levels forecasted at 5.5 60 kg/bags/ha (Table 1).

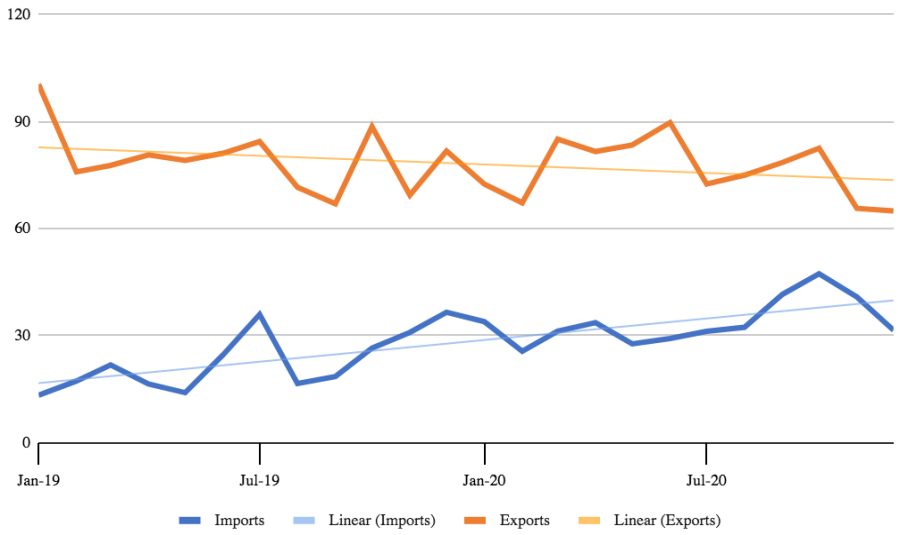
CONSUMPTION

The MY 2021/22 Post consumption forecast is 2.6 million 60 kg/bags. Roasted coffee consumption is expected to recover modestly in MY 2021/22 after COVID-19 related closures of the hotel, restaurant, and institutional sector led to an increase in soluble consumption rose due to an increase in at home preparations.

TRADE

The Post export forecast for MY 2021/22 is 2.95 million 60/kg bags. The United States continues to be Mexico's top market for green coffee. Exports of soluble coffee during the last two years decreased, while soluble coffee imports increased due to a shift to at home preparations during the COVID-19 pandemic. MY 2021/22 exports of soluble coffee are forecast to rebound after as a result of Nestle investments. The main destinations for soluble and roasted coffee are the United States and Colombia.

Figure 6. Soluble Coffee Trade



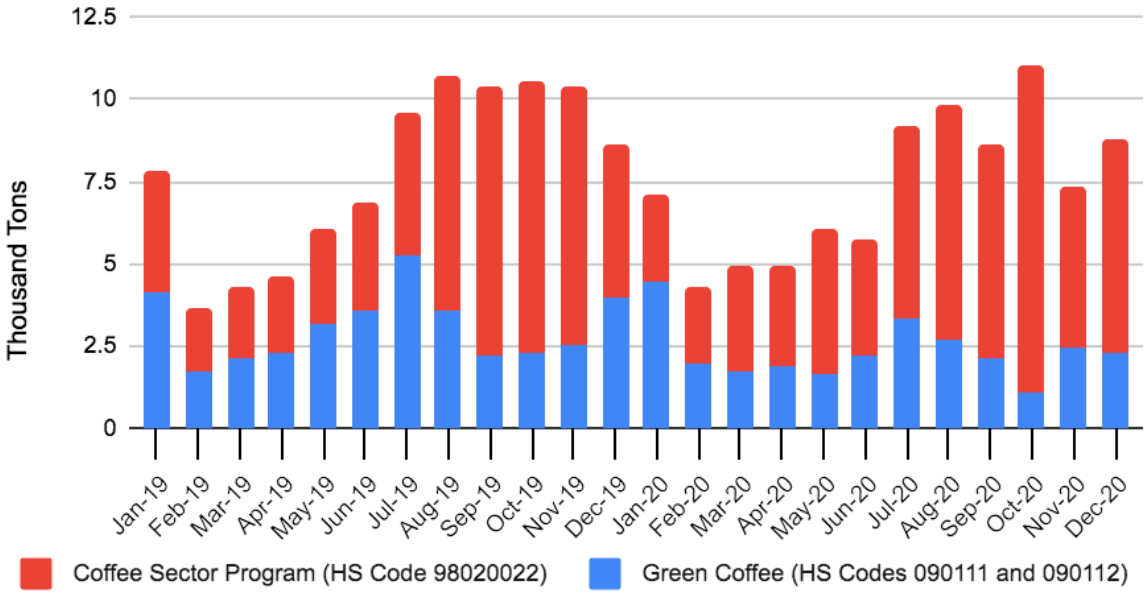
Source: Trade Data Monitor converted to thousand bags of green coffee

The Post import forecast for MY 2021/22 is 2.3 million 60kg/bags, on increased Robusta demand that cannot be fulfilled exclusively by domestic production. Imports for MY 2020/21 are revised upward from previous estimates at 2.2 60 kg/bags, on lower-than-expected production.

The Secretariat of Economy manages a Sectorial Production Program (PROSEC) that allows for the importation of a product at a preferential tariff if the product is transformed into a different product, in order to increase competitiveness and supply chain efficiency. Coffee products under the following harmonized system (HS) are included: 0901.12 (Not Roasted, Decaffeinated), 0901.21 (Roasted, Not Decaffeinated), 0901.22 (Roasted, Decaffeinated), and 2101.11.99 (instant coffee without essences). Coffee imported under this program is classified under HS number 9802.0022 – "Import of goods via

special operations of the Industry of Coffee". However, all types of coffee (beans, roasted, and soluble) are classified together, masking the actual type of coffee imported. This regulation will remain in effect until at least September 30, 2024 (See Mexico Coffee Import Programs MX2021-0016). This program is used mainly to cover Robusta demand, with green coffee mainly from Brazil (76 percent).

Figure 7. Green Coffee Imports



Source: Trade Data Monitor

STOCKS

The Post forecast for MY 2021/22 ending stocks is 159,000 60 kg/bags. MY 2020/21 stocks are revised 61 percent lower than previous estimated at 89,000 due to lower production.

Table 2. Mexico Coffee Production, Supply and Distribution

Coffee, Green	**2019/2020**		**2020/2021**		**2021/2022**	
Market Year Begins	**Oct 2019**		**Oct 2020**		**Oct 2021**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Bearing Trees	0	0	0	0	0	0

Non-Bearing Trees	0	0	0	0	0	0
Total Tree Population	0	0	0	0	0	0
Beginning Stocks	25	25	190	99	0	89
Arabica Production	3150	3150	3300	3000	0	3050
Robusta Production	550	550	600	530	0	540
Other Production	0	0	0	0	0	0
Total Production	3700	3700	3900	3530	0	3590
Bean Imports	1550	1522	1600	1550	0	1600
Roast & Ground Imports	85	78	85	80	0	80
Soluble Imports	250	380	250	390	0	350
Total Imports	1885	1980	1935	2020	0	2030
Total Supply	5610	5705	6025	5649	0	5709
Bean Exports	1590	1905	1750	1850	0	1800
Rst-Grnd Exp.	180	206	200	200	0	200
Soluble Exports	1000	945	1050	900	0	950
Total Exports	2770	3056	3000	2950	0	2950
Rst,Ground Dom. Consum	1050	950	1080	980	0	1000
Soluble Dom. Cons.	1600	1600	1650	1630	0	1600
Domestic Consumption	2650	2550	2730	2610	0	2600
Ending Stocks	190	99	295	89	0	159
Total Distribution	5610	5705	6025	5649	0	5709
(1000 HA),(1000 60 KG BAGS)						

Attachments:

No Attachments