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Mexican Coffee Production Continues to Rebound From Coffee Rust Disease

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Report Highlights:

Coffee production in Mexico is expected to increase, due to continued government and private sector investments in disease resistant seeds and specialized technical assistance, as the country continues to rebound from years of decimation due to coffee Rust disease. According to the Secretaria de Agricultura y Desarrollo Rural (SADER), a number of resources are available to control coffee rust; including, the establishment of additional nurseries to supply producers with quality disease-resistant plants, funding to buy agrochemicals, and the hiring of technicians to provide technical support and training.

CROP AREA

Coffee is produced in 15 Mexican states; Chiapas leads with 40 percent of production, followed by Veracruz at 25 percent, and Puebla with 16 percent. Harvesting usually begins in September and ends by March. Coffee production and planted and harvested hectares in Mexico have been trending downward for a number of years, mainly due to cold weather, atypical rainfall, and coffee rust disease (known locally as roya del café). Coffee rust is a fungal disease that causes plant defoliation, and can reduce plants' ability to produce fruit (the seeds of which are the actual coffee bean) in the next cycle. In serious cases, plant mortality occurs. Planted area continues to decrease and for MY 2018 /19, is estimated at 709,548 hectares (Ha), down from 711,526, Ha in MY 2017/18. However, the government continues to adopt measures, such as the development of rust resistant seeds, to fight coffee rust and maintain planted area. The Secretariat of Agriculture and Rural Development (SADER) believes that about 200,000 hectares will be cultivated in 2019. Around 35 percent of Mexico's coffee production area 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. New planted density is between 3,330 and 3,500 plants per hectare.

Producer states have implemented public and private programs to increase productivity and recuperate planted area, through the establishment of certified nurseries. According to SADER, a number of resources are available to control coffee rust; including, the establishment of additional nurseries to supply producers with quality disease-resistant plants, funding to buy agrochemicals, and the hiring of technicians to provide technical support and training. The Integrated Program for Coffee (PIAC) has been renamed SUBICAFE (Sustainability and Welfare for Small Coffee Producers) by the Mexican Government under new President Andres Manuel Lopez Obrador (See Policy Section). The objective of the program is to increase productivity to 10 million 60/ Kg bags from 2019 to 2024.

According to SADER, 150,000 hectares of coffee were rehabilitated in 2018, with plans for an additional 200,000 in 2019. In addition, 200 million rust resistant plants were planted in 2018, with 100 million more planned for 2019. In 2018, 558 nurseries were certified to work with producers, and plans for 2019 are to certify an additional 558.

PRODUCTION

Since 2016, Government policies have helped increase production after difficulties with widespread coffee rust disease. SADER, the National Service of Health, Food Safety, and Food Quality (SENASICA), the Integrated Coffee Production Chain (Sistema Producto Café), the Mexican Coffee Association (AMECAFE), and the National Institute of Research for Forestry, Agriculture, and Livestock (INIFAP) are all working to prevent and control coffee rust and other pests and diseases. Additionally, the National Institute of the Indigenous Peoples (INPI) is also working with SADER, as most coffee producers are from indigenous populations. The last agricultural census found 515,000 coffee producers, 310,000 of which work on one hectare, with 85 percent from indigenous populations.

Volatile prices have also had an impact on production, with producers indicating that during the first months of 2019, average producer prices were \$98 dollars per 45/kg bag of Arabica, while cost of production is approximately \$140 dollars 45/kg bag. Due to investments in the improvement of seeds and yields and specialized technical assistance, coffee production is expected to increase. The

Post/New forecast for MY 2019/20 (October/September) is 4.5 to 5.0 million 60/kg bags, according to the new plan for SUBICAFE. The estimate for coffee production for MY 2018/19 is revised downward from previous estimates to 4.0 million 60/kg bags, but still reflecting growth compared to MY 2017/18. Production estimates for MY 2017/18 are revised down from previous estimates according to official information. Government officials expressed that they expect coffee production to return to past levels by MY 2019/20. This forecast is preliminary, as weather and disease events could still affect planted and harvested areas.

Approximately 96 percent of coffee produced in Mexico is Arabica variety, while 3 to 4 percent is Robusta. However, current government and sector efforts aim to increase Robusta production in order to take advantage of an increase in consumption (mainly through soluble and capsule coffees). Mexican coffee producers -95 percent of which are small family owned, with areas under three hectares- are expressing concern over a planned Nestle coffee processing plant in Veracruz. Announced by President Andres Manuel Lopez Obrador in December 2018, the 154 million USD factory was the first large investment brought under the new administration, and is expected to create 10,000 jobs. However, dozens of coffee producer groups oppose the construction, on fears of the company paying low prices for beans, and concerns about environmental impacts. Ninety six percent of production in Mexico is shade-grown Arabica, while Nestle sources mainly sun-grown Robusta coffee (for soluble offerings). Producers fear that Arabica production will be decimated, in addition to the deforestation of thousands of hectares necessary to transition to Robusta. Producers believe the Nestle Company plans to plant 150,000 hectares of Robusta in order to fulfill needs.

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 7 to 8 percent of growers are cultivating organic coffee.

SENASICA reports regularly through a Coffee Plant Phytosanitary Epidemiological [Surveillance Program](#) on the phytosanitary conditions of coffee. The most recent bulletin is from January 2019.

There are also efforts from State Governments to support coffee production through tree renewal through pest-resistant plants, equipment, and training. Other state initiatives include the recovery of planted areas and support for various types of price-enhancing certifications (e.g. organic, fair trade, Shade Grown, Rainforest Alliance, etc.). Another objective of the SUBICAFE program is to promote the implementation of the Coverage Fund and interest amortization in coordination with the second floor Development Bank (FIRA- Central Bank Trust Fund), and search for development funds from BID. The federal government is also collaborating with the Regional Technological Program with Central America (PROMECAFE) on pest resistant seed development.

Although there are several Arabica varieties planted in Mexico, newly planted areas have changed to more pest-resistant varieties like Oro Azteca, Marsellesa, Costa Rica 95, Sarchimor, and varieties from Nicaragua and Guatemala.

**Table 1.- Mexico - Coffee Production
Selected States – MT not Processed**

STATE	Production MY 2016/17	Production MY 2017/18	% Change 2017/2016
Chiapas	339,361	346,856	2.21
Veracruz	192,545	210,176	9.15
Oaxaca	66,089	70,377	6.48
Puebla	128,995	135,682	5.18
Others	106,502	89,067	-16.37
TOTAL	833,492	852,158	2.23
Source: SADER/SIAP			

INPUTS

The SUBICAFE program includes technical assistance packages that provide nutritional inputs, fungicides, and tools for work in plantations. In 2018, SADER distributed more than 150,000 packages, and is expecting to distribute 350,000 more in 2019. In order to improve plant resistance to rust, there has been work towards improvement of coffee plants by grafting and cloning. In recent years, the cost of production has increased due to a lack of field laborers, with labor representing more than 80 percent of total production costs.

YIELDS

Coffee yields vary throughout Mexico due to variations in management, weather, altitude and variety. Overall yields for MY 2019/20 are forecast to increase to more than 1.35 MT/Ha because of the replanting of new coffee plant varieties, and better management of fields. Overall yields for MY 2018/19 are estimated at 1.33 MT/Ha. Yields for MY 2017/18 are estimated at 1.35 MT/Ha. The state of Chiapas has yields of about 1.4 MT/Ha while Veracruz has yields of 1.6 MT/Ha.

POLICY

SADER has developed a new Agri-Food Policy for 2019-2030, with the objective of increasing national production of strategic crops. These crops include rice, corn, cocoa, apples, forage oats, oilseeds, sorghum, wheat, beans, cane sugar and coffee. The Integrated Program for Coffee (PIAC) remains and administration priority, but has been renamed SUBICAFE (Sustainability and Welfare for Small Coffee Producers). The program will continue developing certified nurseries to provide quality disease-resistant plants, to renovate coffee plantations, and to provide maintenance and rehabilitation to viable lands. SUBICAFE will also continue to provide technological packages that guarantee sustainability of natural resources.

SADER also manages the [Integrated Coffee Productive Chain program](#) that helps stakeholders within the supply chain to obtain access to technology, training, industrialization, and market intelligence. AMECAFE, SADER, and the coffee sector sponsor the [Cup of Excellence](#) competition annually in Mexico, with the aim of promoting Mexican coffee in international markets. The coffee sector has also been working to create a Sustainable Coffee Institute to help regulate the domestic market, and create policies aimed at boosting production.

As part of the Government's Production for Well-Being Program, SADER will provide direct support to producers to invest in sustainable agricultural practices. The incentive of 5,000 pesos (\$263) per production cycle will be paid to all producers, regardless of farm size. Contacts indicated that direct payments were unlikely to improve production in substantial ways due to the lack of oversight and evaluation of the program.

CONSUMPTION

According to sources, average annual consumption is between 1.3 kg and 1.5 kg/per capita. Ground coffee consumption has increased to second largest share of domestic use. Soluble coffee holds approximately 60 to 65 percent share of consumption. MY 2018/19 has had more domestic product meet demand, with additional domestic supplies anticipated for MY 2019/20. Consumption of roasted coffee is strong, and consumers now have many options for freshly made coffee via the increasing number of specialty coffee shops throughout country. The specialty coffee sector continues to target consumers with high purchasing power, while soluble coffee is more popular among consumers with lower incomes.

The Post consumption (both roasted and soluble coffee) forecast for MY 2019/20 is 2.7 million 60kg/bags, assuming stable domestic prices and strong production. Domestic consumption for MY 2018/19 is revised downward to 2.5 million 60 kg/bags, on lower than expected growth, but is still an increase compared to MY 2017/18. Post MY 2017/18 domestic coffee consumption is revised upward from previous estimates due to an increase in domestic demand. Consumption demand had been met by imported coffee due to lower domestic supplies, however, with anticipated strong production, MY 2019/20 imports are likely to be reduced.

TRADE

The Post import forecast for MY 2019/20 is 1.6 million 60kg/bags, contingent upon beneficial weather, low pest disturbance, and international prices. In previous years, higher levels of imports were attributed to increased demand by middle-income consumers looking for options beyond domestic soluble brands, and by high-income consumers wanting value-added imported coffee. Additionally, imports were required during the years that production was most affected by coffee rust disease. With strong government and private sector investment in pest resistant varieties and technological inputs, domestic production is expected meet most domestic demand and further reduce imports.

Estimation of coffee imports is difficult. There is a [Sectorial Promotion Program \(PROSEC\)](#) managed by the Secretariat of Economy that allows the importation of a product at a preferential tariff as long as the product is transformed into a different product. The stated goal of the program is to increase competitiveness and supply chain efficiency in certain sectors, and thus provides preferential access regardless of whether finished products are for domestic users or for export. In the case of coffee, products under the following harmonized system (HS) numbers are included: 0901.12, 0901.21, 0901.22, and 2101.11.01. 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. Most coffee under this special tariff is imported from Vietnam and Brazil.

On August 27, 2018, the Secretariat of Economy (SE) announced modifications to an agreement published in Mexico's Federal Register on March 14, 2011 and April 1, 2014, which established duty free import quotas for roasted and ground coffee in 40-gram containers. This modification extends the validity of the duty and contributes to increase the availability of coffee beans and capsules in the country, and encourage integration for the production of coffee with greater added value. The impacted HS tariff lines are 0901.21.01; 0901.22.0; and 0901.90.99. (See GAIN Report MX [8045 Mexico Announces Extension of Duty Free Import Quota on Coffee.](#)) The regulation will remain in effect until December 31, 2020. Undoubtedly, prices will play a key role in the volume to be imported.

Coffee exports for MY 2019/20 are expected to grow due to strong production, and forecast at 3.3 million 60/kg bags. The United States continues to be the main international market for Mexican green coffee. Exports for MY 2018/19 remain unchanged from previous estimates, as demand remained strong. Coffee exports for MY 2017/18 are revised downwards from previous estimates according to U.S. data; however, industry believes exports were higher.

STOCKS

Post expects MY 2019/20 ending stocks to be slightly higher than MY 2018/19 estimates due to higher production expectations. However, the producers association reports that it has been difficult to have a reliable system to record ending stocks; therefore, data is largely anecdotal. Producers believe most stocks were used to cover domestic demand; therefore, ending stocks estimates for MY 2017/18 and MY 2018/19 are revised downward.

Production, Supply and Demand Data Statistics:

Table 2. Mexico - Coffee Production, Supply and Demand

Coffee, Green Market Begin Year	2017/2018		2018/2019		2019/2020	
	Oct 2017		Oct 2018		Oct 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
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	153	153	218	78	0	28
Arabica Production	3875	3700	4300	3850	0	4350
Robusta Production	200	200	200	200	0	200
Other Production	0	0	0	0	0	0
Total Production	4075	3900	4500	4050	0	4550
Bean Imports	1235	1300	1250	1350	0	1300
Roast & Ground Imports	85	80	80	80	0	80
Soluble Imports	210	225	175	240	0	200
Total Imports	1530	1605	1505	1670	0	1580
Total Supply	5758	5658	6223	5798	0	6158
Bean Exports	2130	2000	2050	2040	0	2150
Rst-Grnd Exp.	180	180	170	180	0	190
Soluble Exports	950	1000	1000	1000	0	1020
Total Exports	3260	3180	3220	3220	0	3360
Rst,Ground Dom. Consum	820	950	1050	1020	0	1080

Soluble Dom. Cons.	1460	1450	1700	1530	0	1620
Domestic Consumption	2280	2400	2750	2550	0	2700
Ending Stocks	218	78	253	28	0	98
Total Distribution	5758	5658	6223	5798	0	6158

(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)

Table 3. Mexico Trade Matrixes

Mexico: Green Coffee Imports in Metric Tons (MY Oct/Sep) (HTS: 090111 and 090112)			
Origin	MY 2017/18	Origin	MY 2018/19*
U.S.	4,849	U.S.	1,708
Vietnam	17,008	Vietnam	1,167
Brazil	1,432	Brazil	777
Other not listed	4,274	Other not listed	2,608
Grand Total	27,563	Grand Total	6,260

Mexico: Green Coffee Exports in Metric Tons (MY Oct/Sep) (HTS: 090111 and 090112)			
Destination	MY 2017/18	Destination	MY 2018/19*
U.S.	66,686	U.S.	11,369
Belgium	20,330	Belgium	995
Japan	1,284	Japan	132
Germany	5,875	Germany	66
Other not listed	28,396	Other not listed	6,295
Grand Total	122,571	Grand Total	18,857

Mexico: Roasted Coffee Imports in Metric Tons on a Green Bean Equivalent Basis (HTS: 090121 and 090122) (MY Oct/Sep)			
Origin	MY 2017/18	Origin	MY 2018/19*
U.S.	2,731	U.S.	687
United Kingdom	773	United Kingdom	270
Other not listed	1,271	Other not listed	384
Grand Total	4,775	Grand Total	1,341

Mexico: Roasted Coffee Exports in Metric Tons on a Green Bean Equivalent Basis (HTS: 090121 and 090122) (MY Oct/Sep)			
Destination	MY 2017/18	Destination	MY 2018/19*
U.S.	1,364	U.S.	379
Other not listed	9,432	Other not listed	2,754
Grand Total	10,796	Grand Total	3,133

Mexico: Soluble Coffee Imports in Metric Tons on a Green Bean Equivalent Basis (HTS: 21011101, and 210112) (MY Oct/Sep)			
Origin	MY 2017/18	Origin	MY 2018/19*
U.S.	7,477	U.S.	2,574
Colombia	4,347	Colombia	1,094
Other not listed	1,132	Other not listed	398
Grand Total	13,156	Grand Total	4,066

Mexico: Soluble Coffee Exports in Metric Tons on a Green Bean Equivalent Basis (HTS: 21011101, and 210112) (MY Oct/Sep)			
Destination	MY 2017/18	Destination	MY 2018/19*
U.S.	30,794	U.S.	6,916
Other not listed	29,037	Other not listed	6,432
Grand Total	59,831	Grand Total	13,348

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, April 2019.

* As of December 2018

Commodities:

Coffee, Green