

Required Report: Required - Public Distribution

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Report Name: Coffee Annual

Country: Ecuador

Post: Quito

Report Category: Coffee

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Report Highlights:

Coffee production for marketing year (MY) 2021/22 (April to March) is forecast at 261,000 60-kilogram (kg) bags of Green Bean Equivalent (GBE) basis, an increase of two percent over the MY 2020/2021 estimate of 255,000 60-kg bags. Despite government and private sector efforts to recover national coffee production, planted area in marketing year 2021/2022 is expected to remain at 60,000 hectares. Exports are expected to fall to 444,000 60-kg bags after a jump in exports the previous year. The continued COVID-19 pandemic could cause some issues with harvesting and processing of coffee in Ecuador.

Executive Summary:

The production and export of coffee in Ecuador began a drastic decline in 2013. Since then, the export of coffee grains has decreased by 84 percent and for soluble coffee, by 61 percent. A low field productivity, which is 80 percent lower than other Latin American countries, and high processing costs have made Ecuadorian coffee less competitive compared to neighboring countries.

Coffee production for marketing year (MY) 2021/22 (April to March) is forecast at 261,000 60-kilogram (kg) bags of Green Bean Equivalent (GBE) basis, an increase of two percent over the MY 2020/2021 estimate of 255,000 60-kg bags. The planted area remains similar to previous years at roughly 60,000 hectares. Prices obtained by Robusta producers have recovered in the last year, which has stopped the downward trend in production for now. Meanwhile, prices for Arabica remain in the range of \$110.00/60-kg bag, except for specialty coffees which can often receive nearly double that price at \$200/60-kg bag.

An effort by the Ecuadorian government to simplify the supply chain has succeeded in some areas where producers who sell “fresh cherry” beans have been able to receive prices twice that of historical prices (\$10/60-kg bag).

Consumption in Ecuador for MY 2021/22 is forecast at 245,000 GBE bags, a slight increase over the previous year due to an unexpected increase of consumption during the second half of calendar year (CY) 2020. The first half of CY 2020 showed a reduction of nearly 20 percent in consumption due to COVID-19, but Ecuadorians have now increased their consumption, mainly of ground coffee.

Ecuadorian coffee exports for MY 2021/22 are forecast at 444,000 GBE bags, a reduction of 11 percent from the previous year. MY 2020/21 exports are revised up to 500,000 based on local industry and Ministry of Agriculture and Livestock (MAG) figures.

The forecast for coffee imports during in MY 2021/22 is 330,000 bags, a decrease of 20,000 bags compared to MY 2020/21. This is primarily caused by the loss of Ecuador’s competitiveness in the region, the increase of transport costs, the increase in local production, and the current health pandemic.

Commodities:

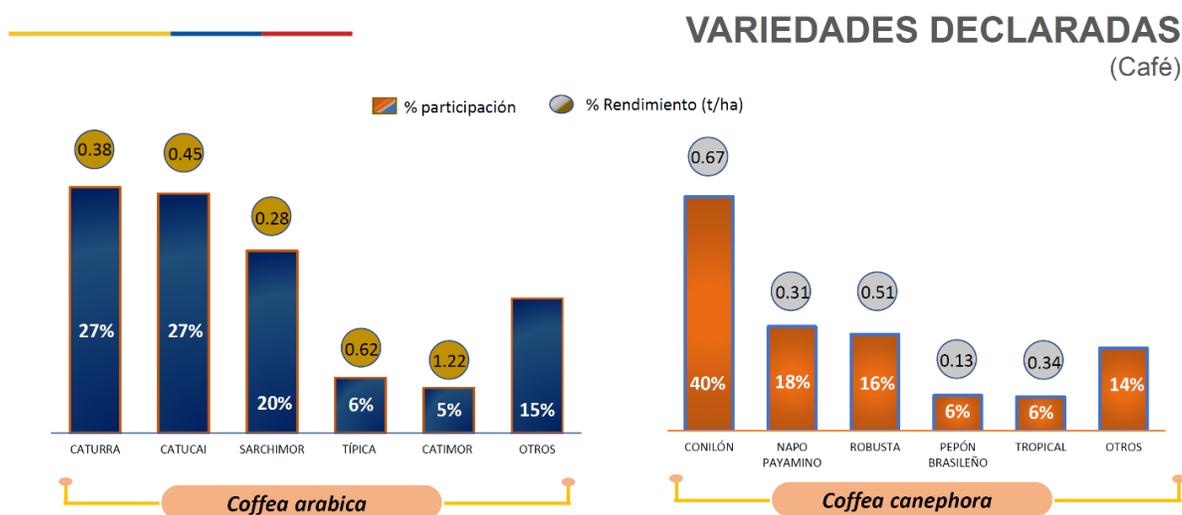
Coffee, Green	2019/2020		2020/2021		2020/2021	
Market Begin Year	Apr 2019		Apr 2020		Apr 2021	
Ecuador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	200	200	200	60	0	60
Area Harvested	137	130	137	34	0	37
Bearing Trees	93	115	93	102	0	113
Non-Bearing Trees	67	45	67	82	0	71
Total Tree Population	160	160	160	184	0	184
Beginning Stocks	198	198	210	209	0	165
Arabica Production	155	155	90	88	0	91
Robusta Production	120	120	125	167	0	170
Other Production	0	0	0	0	0	0
Total Production	275	275	215	255	0	261
Bean Imports	350	350	350	350	0	330
Roast & Ground Imports	1	1	1	1	0	1
Soluble Imports	90	90	90	90	0	90
Total Imports	441	441	441	441	0	421
Total Supply	914	914	866	905	0	847
Bean Exports	85	85	25	24	0	30
Rst-Grnd Exp.	1	1	1	1	0	1
Soluble Exports	370	370	375	475	0	413
Total Exports	456	456	401	500	0	444
Rst,Ground Dom. Consum	48	48	50	40	0	45
Soluble Dom. Cons.	200	201	200	200	0	200
Domestic Consumption	248	249	250	240	0	245
Ending Stocks	210	209	215	165	0	158
Total Distribution	914	914	866	905	0	847

*Units: (1,000 HA); (million trees); (1,000/60 KG bags).

Crop Area:

Ecuador’s total planted area of coffee has drastically reduced over the past several years. For marketing year (MY) 2021/22 (April/March), FAS Quito forecasts the planted area will remain at approximately 60,000 hectares, the same as the downward revision for MY 2020/2021. This figure concurs with data published by both the Ministry of Agriculture (MAG) and Ecuador’s National Association of Coffee Exporters (ANECAFE). The harvested area is forecast to increase by nine percent to 37,000 hectares in MY 2021/22. Productivity continues to increase as new and recently pruned trees come into production, mainly among *C. canephora* (Robusta) crops. Ecuador’s Robusta trees have a national average yield of 0.41 MT per hectare and range from 0.13 to 0.63 MT per hectare. A slight decrease in yields is expected for *C. arabica* trees, which have a national average yield of 0.31 MT per hectare and range from 0.28 to 1.22 MT per hectare. This information is according to MAG’s “Crops Yield Report 2020”. The wide range in yields is caused by differences in planted varieties and whether production and harvests are mechanized or handled by manual labor. Most farmers still rely on family labor for crop maintenance and harvesting. Intercropping and polyculture are still common in Ecuador’s highlands, occurring on at least 40 percent of total planted area and in production units of less than five hectares.

PLANTED VARIETIES AND YIELDS (MT/HA)



Source: - “Crops Yield Report 2020” – MAG

Production and Processing:

Ecuador’s coffee production in MY 2021/22 is forecast at 261,000 bags (60-kilograms per bag) on a Green Bean Equivalent (GBE) basis, increasing by 6,000 bags or two percent higher from the MY 2020/21 estimate. This forecast is based on better maintenance of planted area, expected results of efforts to recover old plantations, and the replacement of old trees and cultivars with new ones in recent years (an Ecuadorian government project to improve the coffee production, which already ended). FAS Quito is maintaining its MY 2020/21 coffee production estimate at 255,000 bags, the same as Post’s forecast last year. Production has been suffering for many years due to a lack of investment in rejuvenating plantations and new cultivars. Often, current cultivars are in need of complete renewals and replanting in the fields. To note, the continuing COVID-19 situation in Ecuador could affect the harvest and availability of workers.

A new Ecuadorian government will take over on May 24, 2021, and the coffee sector and ANECAFE have already presented a new coffee program to the Ministry of Production and Trade. The plan would plant an additional 50,000 hectares, 50 percent Arabica, 50 percent Robusta, add \$1 billion worth of investment (mostly loans), and a preferential interest rate of one percent (information provided by ANECAFE to FAS Quito).

Ecuador has lost considerable competitiveness in the production of soluble coffee in recent years. Ecuador's soluble coffee manufacturers have the capacity to process more than one million bags per year. The largest company, El Café Co., which accounts for 70 percent of all Ecuadorian coffee exports and used to supply 10 percent of the world's demand of lyophilized (freeze-dried) coffee, currently operates just one of their two state-of-the-art plants due to high processing costs. When Ecuador's coffee growing sector lost competitiveness in the 1990s due to the entrance of new producing countries, domestic production was replaced with imported beans from Vietnam and lately from Brazil. During 2020 and due to the COVID-19 situation, imports of coffee grains were limited as fleet costs increased between 78 and 85 percent from the main suppliers: Brazil and Vietnam.

The lack of competitiveness in the production of industrialized coffee is also principally related to prohibitively high costs of electricity and water in Guayaquil, high transportation costs between Manta and Guayaquil, and higher minimum wages compared to neighboring countries. The average price per cubic meter of water in Guayaquil is \$6.00, which is more than double the price in Colombia at \$2.50.

Now, El Café is principally processing local production, buying the entire Robusta production and storing it for later processing. The use of more imported coffee to produce soluble coffee for the local market is difficult as a 25 percent import tax, in addition to high shipping prices, make it cost prohibitive. Ecuador's soluble sector, and exports of soluble coffee, are looking for a recovery this year, counting on the additional production during MY 2021/2022.

ANECAFE has promoted changes in production and trade methodologies to improve quality and prices. As part of this initiative, the "Golden cup" award was created in 2016, bringing international buyers to taste and negotiate directly with the producers. The main areas where specialty coffees are grown are Loja, Quito, Pichincha, Imbabura, and more recently Cuenca and Azuay. Regions are categorized according to altitude and drying and fermentation processes.

Coffee growing areas:

- Very high-altitude coffee. Grown in areas located above 1200 meters above sea level (MASL).
- High altitude coffee. Grown between 800 and 1200 MASL.
- Standard coffee. Grown in areas below 800 MASL.

Coffee processing method:

- Natural. When the coffee is processed dry.
- Washed. When the coffee is wet processed. At present, washed coffee is also prepared using the following methods: enzymatic wet and sub-humid (processing with demucilaginator equipment)
- Semi-washed. Also known as "honey" coffee, this method is based on the harvesting of ripe fruits, pulping, drying with all the mucilage and threshing.

Coffee varieties	Location Provinces
Washed Arabica	El Oro, Manabí, Loja, Guayas y Zamora Chinchipe
Natural Arabica	Loja, Manabí, El Oro, Los Ríos, Guayas y Pichincha
Robusta	Santa Elena, Guayas, Orellana y Sucumbíos

Source: FAS research

Ecuador is one of the few countries in the world where coffee production could take place nation-wide, including the Galapagos islands. Fifty percent of coffee production occurs in Ecuador's coastal provinces. The province of Manabí accounts for 25 percent of total production, focused in the Jipijapa area. The Amazon and the Sierra (highland) areas account for 30 percent each of Ecuador's coffee production. Robusta coffee is planted in the Amazon, while Arabica coffee is cultivated along the coast and the highlands. There are about 60,000 coffee farmers nationwide.

Inputs:

Overall, Ecuador's coffee sector is a mix of domestic bean production and the processing of imported beans for the soluble coffee industry. Coffee is largely handpicked in Ecuador currently, but harvesting is becoming more sophisticated, mainly for Arabica coffees, in order to get higher quality grains and better prices.



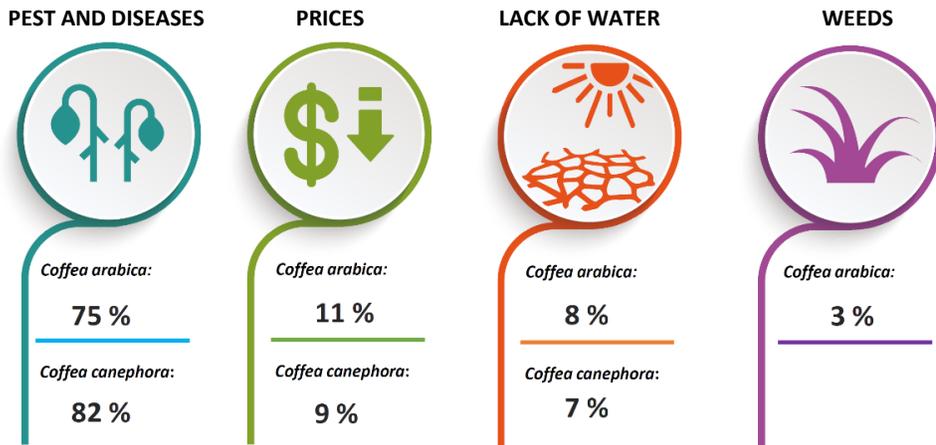
Source: - Observatorio Económico y Social. Universidad Técnica de Ambato, 2020

There is limited use of fertilizers and during CY 2020, only 40 percent of Arabica farmers and 16 percent of Robusta producers utilized them. The use of modern irrigation systems is limited to coastal areas where mechanization is possible, and the lack of water is now the third most important problem in coffee production. During the past year, farmers have increased the use of technical weed control, making it a less important problem in coffee production compared to previous years.

Land tenure:

The majority of coffee produced in Ecuador is produced on smallholder farms. Roughly 62 percent of coffee farmers own up to one hectare, 33 percent own between one to five hectares and five percent of farmers own more than five hectares.

MAIN PROBLEMS IN THE COFFEE SECTOR IN ECUADOR



Source: MAG surveys, 2020

Yields:

Average yields are increasing, especially for Arabica growers using modern agronomic practices, who often surpass the MY 2020/21 national average of 310 kg per hectare. The observed increase in yields is mainly the result of new and rejuvenated cultivars coming into production. Robusta yields reached 410 kilograms per hectare in MY 2020/21. Robusta coffee is mainly produced in areas more suitable for mechanization and implementation of modern practices, but the use of fertilizers is less common. Roughly 75 percent of farmers are using certified seeds. FAS Quito forecasts an average (Robusta and Arabica) yield of 400 kilograms per hectare in MY 2021/22.

NATIONAL COFFEE YIELDS (MT/HA)

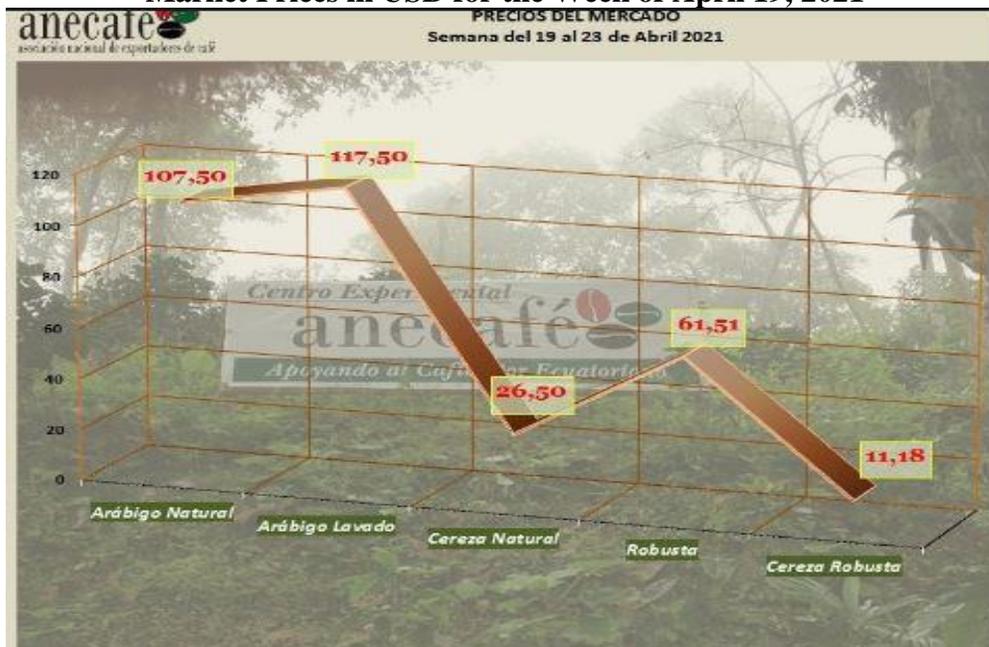


Source: MAG-CGINA, 2020

Prices:

Farmers in CY 2020 were paid on average \$200 per 60-kg bag of special quality Arabica coffee and \$115 for commercial quality. Robusta coffee prices averaged \$62 per 60-kg bag in 2020. Overall, prices for Robusta coffee are less volatile than Arabica, but the Robusta prices did increase six percent compared to CY 2019. Prices are for dried coffee. The average price to farmers for freshly picked Arabica “cherry” beans is \$22 per 60-kg bag and for Robusta “cherry” beans is \$11 per 60-kg bag.

Market Prices in USD for the Week of April 19, 2021



Natural Arabica, Washed Arabica, Arabica Cherry, Robusta, Robusta Cherry

Source: ANECAFE

Government efforts to support coffee growers have continued, one aspect of which has been trying to simplify the supply chain by linking growers directly with buyers. Higher international prices and unsatisfied global and domestic demand for specialty coffees from exotic destinations have driven an increase in Ecuador's production of Arabica coffee, mainly located in the highlands.

In recent years, specialty coffee growers, known to produce a high-quality bean, are receiving much better prices than traditional subsistence coffee growers. Prices for specialty coffees are often negotiated with little or no consideration of international coffee prices.

Policy:

Ecuador's 2008 Constitution stipulates that only public agencies can benefit from fees and special contributions set forth by public law. As a result, no organization other than a government entity can collect fees. Prior to this, Ecuador's Coffee Council (COFENAC), a public-private organization focused on coffee policy and trade, was responsible for providing assistance to Ecuador's coffee sector. It was fully disbanded in February 2015. In 2015, the Ministry of Agriculture and Livestock (MAG) assumed control over coffee policies and technical assistance programs. With a budget of \$200 million, MAG began projects to renew coffee and cacao orchards and increase production. These projects have had limited successes in most areas since the beginning of the program, but some efforts are starting to show more positive results.

No fees or export taxes are currently being levied on coffee exports. MAG continues to assess ways to promote coffee production through technical assistance, pruning campaigns, provision of inputs and full renewals of old cultivars. During CY 2020, MAG continued work to simplify the supply chain to assist farmers in increasing their revenue. Ecuador's Foreign Commerce Committee is responsible for authorizing imports of foreign coffee beans.

Consumption:

Ecuador's total domestic coffee consumption in MY 2021/22 is forecast at 245,000 bags GBE, a two percent increase over the previous year. This increase is expected despite the continued slowdown in the Ecuadorian economy due to COVID-19. Post estimates per capita consumption of coffee on a GBE basis at around 0.80 kilogram per person, slightly higher than last year's estimate of 0.78 kg/person, on higher demand of processed and ground coffee for home consumption.

Ecuadorians primarily consume soluble (instant or powdered) coffee. However, preferences are changing, and the market is developing a taste for roasted-ground coffee. The Ecuadorian Ministry of Trade and the Municipality of Quito are working with the coffee value chain, including specialty coffee roasters and producers, to increase the local consumption of ground coffee.

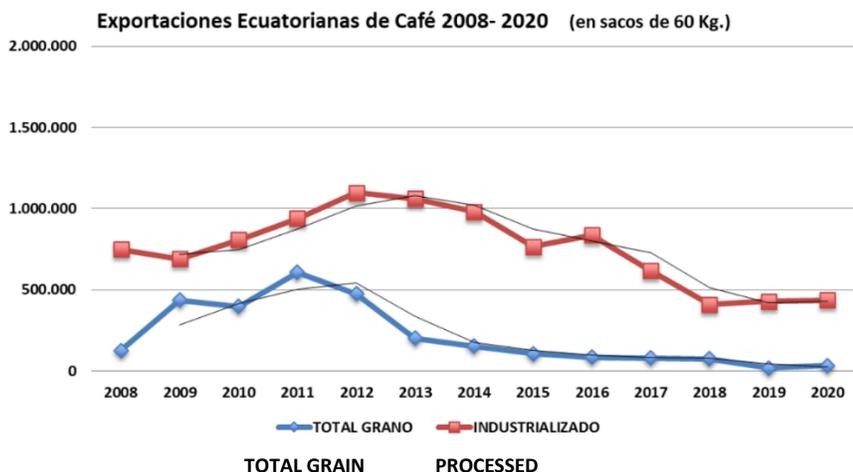
Stocks:

Ecuador typically maintains coffee stocks of around 150,000 to 160,000 bags GBE of Arabica and Robusta coffees. These are beans used mainly to produce soluble coffee for domestic consumption and commonly stored for six to seven months during the processing period. The government does not manage or warehouse these stocks. Domestic soluble coffee manufacturers, and smaller exporters storing beans while reaching a shipment size, are the entities responsible for these coffee stocks.

Trade:

Ecuador's coffee exports in MY 2021/22 are forecast at 444,000 bags GBE, a decrease of 56,000 bags and 11 percent lower compared to the previous year. FAS Quito maintains its MY 2020/21 export estimate of 500,000 bags based on local industry and MAG figures. Ecuador exports beans and soluble coffee. The harvest of domestically grown beans occurs between April and October. These beans are exported primarily between July and October. Imports of coffee beans for processing by the soluble industry, and exports of soluble coffee, on the other hand, occur year-round.

Ecuadorian coffee exports 2008-2020 (60 Kg bags)

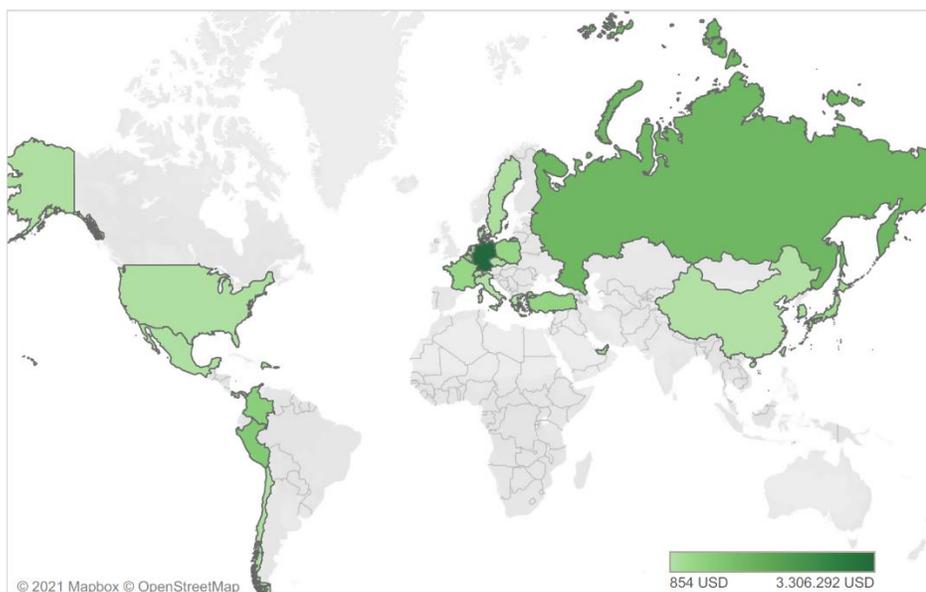


Source: -ANECAFE

In MY 2020/21, Ecuador exported an estimated 24,000 bags of coffee beans (Arabica and Robusta), 475,000 bags of soluble coffee (about 93 percent of total exports), and nearly 1,000 bags of roasted-ground coffee. In monetary value, Ecuador exported \$69 million in soluble coffee products in CY 2020,

with Germany, Russia, Peru, and the United Kingdom being the top destinations. Ecuador’s exports of green coffee totaled \$8 million.

ECUADOR’S EXPORTS MAIN DESTINATIONS 2020



Source: - Ecuador central Bank, 2021

Imports of soluble coffee in MY 2021/22 are forecast to maintain at 90,000 bags. Ecuador’s statistics do not report data for coffee beans temporarily imported for processing into soluble coffee and subsequently re-exported. FAS Quito forecasts for MY 2021/22 that Ecuador will temporarily import around 330,000 bags for processing and re-export.

The country’s soluble coffee producers typically source about half of their coffee beans from major Robusta producers such as Vietnam and Brazil. The recently proposed Ecuadorian Coffee Reactivation Project hopes these imports could be replaced with local production in the future.

COFFEE IMPORTS 2008-2020 (60 Kg bags., 85-90 percent Robusta imports)

AÑOS	TOTAL GRANO
2008	509.377,05
2009	607.537,78
2010	788.887,27
2011	787.852,62
2012	1.133.180,72
2013	1.377.629,75
2014	1.228.200,08
2015	488.176,38
2016	751.237,25
2017	808.822,67
2018	367.702,17
2019	449.628,27
2020	327.364,17

*En sacos de 60 Kg. / 85 - 90 % es Robusta



Source: -ANECAFE

Attachments:

No Attachments