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Global Agricultural Information Network

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Ecuador

Coffee Annual

Ecuadorian Competitiveness in Production of Soluble Coffee has Vanished

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Report Highlights:

Prohibitively high costs of electricity and water, transportation, and high labor costs have cut production of soluble coffee in half. Germany and Russia are Ecuador's top two markets for its exports of soluble coffee products. Concurrently, successes are noticeable within the specialty coffee beans product category for export. Reportedly, a Korean buyer bought one lot of Ecuador's high-altitude specialty coffee for \$3,800 per 60 kg bag in 2018.

Executive Summary:

Ecuador's soluble sector, and exports of soluble coffee, have fallen by 50 percent in the last few years. Ecuador's competitiveness in processing imported coffee has vanished. The lack of competitiveness in the production of industrialized coffee is mainly related to prohibitively high costs of electricity and water in Guayaquil, insufficient and erratic supply of electricity and water in Manta, high transportation costs between Manta and Guayaquil, and overall high wages compared to neighboring countries (\$500 per month, including social benefits).

Ecuador's coffee production in marketing year (MY) 2019/20 (April/March) is forecast at 275,000 bags (60-kilograms per bag) on a Green Bean Equivalent (GBE) basis, up 20,000 bags or eight percent higher than the MY 2018/19 estimate. FAS Quito is maintaining its MY 2018/19 coffee production estimate at 255,000 bags. Production has increased due to better than expected results in the recovery of old plantations and the replacement of old trees. Despite only limited government efforts to support coffee growers, on the other hand, high 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. In recent years, specialty coffee growers, with proven reputation, are receiving much better prices than traditional subsistence coffee growers. Prices for specialty coffees are negotiated with little or no consideration of international coffee futures prices. Reportedly, one lot of Ecuador's high-altitude specialty coffee sold for \$3,800 per bag GBE in 2018. Loja, Loja; Quito, Pichincha; Intag, Imbabura; and most recently Cuenca, Azuay are the main areas where specialty coffees are being grown.

Ecuador's total domestic coffee consumption in MY 2019/20 is forecast at 249,000 bags GBE, up 9,000 bags or four percent higher than the MY 2018/19 revised estimate of 240,000 bags. Total domestic consumption has increased in spite of the slowdown in the Ecuadorian economy.

Ecuador's coffee exports in MY 2019/20 are forecast at 456,000 bags GBE, down 30,000 bags or six percent lower compared to the MY 2017/18 (revised) estimate of 486,000 bags. FAS Quito is revising downward its MY 2018/19 coffee export estimate due to the decrease in Ecuador's production of soluble coffee. In MY 2018/19 Ecuador exported an estimated 75,000 bags of coffee (Arabica and Robusta) beans, 410,000 bags of soluble coffee (about 84 percent of total exports), and some 1,000 bags of roasted-ground coffee. Germany, Russia, and Colombia were Ecuador's top three markets for its exports of coffee products in CY 2018.

Imports in MY 2019/20 are forecast at 441,000 bags, down 15,000 bags or three percent lower compared to the MY 2018/19 (revised) estimate of 456,000 bags. The relevance of Ecuador's coffee sector remains tied to its soluble-coffee processing capabilities. Thus, it continues to import nearly as much coffee as it then converts into soluble coffee to be exported to foreign markets.

Commodities:

Coffee, Green

Coffee, Green Market Begin Year Ecuador	2017/2018		2018/2019		2019/2020	
	Apr 2017		Apr 2018		Apr 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	200	200	200	200	0	200
Area Harvested	130	130	137	130	0	130
Bearing Trees	90	90	93	110	0	115
Non-Bearing Trees	70	70	67	50	0	45
Total Tree Population	160	160	160	160	0	160
Beginning Stocks	237	237	213	213	0	198
Arabica Production	95	95	135	140	0	155
Robusta Production	110	110	120	115	0	120
Other Production	0	0	0	0	0	0
Total Production	205	205	255	255	0	275
Bean Imports	625	625	650	370	0	350
Roast & Ground Imports	3	3	4	1	0	1
Soluble Imports	80	80	85	85	0	90
Total Imports	708	708	739	456	0	441
Total Supply	1150	1150	1207	924	0	914
Bean Exports	132	132	140	75	0	85
Rst-Grnd Exp.	1	1	2	1	0	1
Soluble Exports	572	572	650	410	0	370
Total Exports	705	705	792	486	0	456
Rst,Ground Dom. Consum	39	39	41	43	0	48
Soluble Dom. Cons.	193	193	151	197	0	201
Domestic Consumption	232	232	192	240	0	249
Ending Stocks	213	213	223	198	0	209
Total Distribution	1150	1150	1207	924	0	914

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

Crop Area

Total area planted has remained constant at about 200,000 hectares for the past three marketing years.

The area harvested —130,000 hectares in MY 2019/20—is forecast to remain the same as the previous marketing year. However, productivity will continue to increase as new and pruned trees continue to come into production. Most farmers rely on family labor for maintaining the crop and harvest.

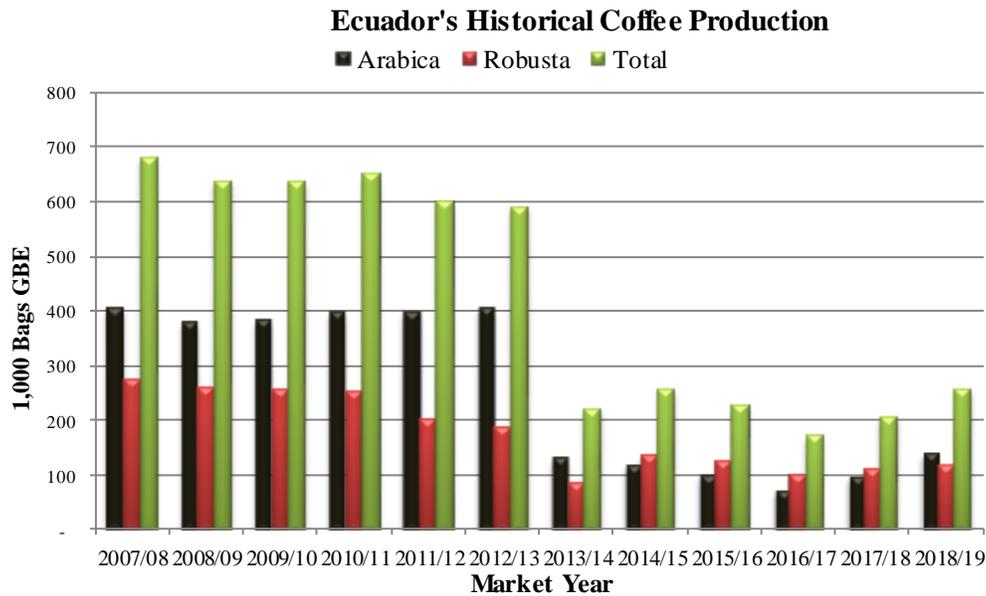
Intercropping and poly-culture are still common, occurring on at least 40 percent of total planted area.

Production and Processing

Ecuador's coffee production in marketing year (MY) 2019/20 (April/March) is forecast at 275,000 bags (60-kilograms per bag) on a Green Bean Equivalent (GBE) basis, up 20,000 bags or eight percent higher from the MY 2018/19 estimate. This forecast is based on the expected result of efforts to recover old plantations and the replacement of old trees and cultivars with new ones in recent years. FAS Quito is maintaining its MY 2018/19 coffee production estimate at 255,000 bags. Production had 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. At the beginning of CY 2019, farmers reported low presence of pests and diseases and favorable weather conditions.

Ecuador has lost considerable competitiveness in the production of soluble coffee. Ecuador’s soluble coffee manufacturers have the capacity to process more than one million bags per year. 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. In the last three to five years, Ecuador’s competitiveness in processing imported coffee has also vanished. The lack of competitiveness in the production of industrialized coffee is mainly related to prohibitively high costs of electricity and water in Guayaquil, insufficient and erratic supply of electricity and water in Manta, high transportation costs between Manta and Guayaquil, and overall high wages compared to neighboring countries (\$500 per month, including social benefits). Guayaquil and Manta are Ecuador’s major port cities and also the locations where coffee processing plants are located. As a result, Ecuador’s soluble sector, and exports of soluble coffee, has fallen by half in the last few years.



Prices

Farmers in calendar year (CY) 2018 were paid on average \$221 per 60-kg bag of Arabica coffee, \$67 or 23 percent less than in 2017. Robusta coffee prices averaged \$82 per 60-kg bag in 2018. Farmers received \$10 or 11 percent less than in 2017. Overall, prices for Robusta coffee are less volatile than Arabica.

Despite only limited government efforts to support coffee growers, high 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. 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 negotiated with little or no consideration of international coffee

futures prices. Reportedly, one lot of Ecuador’s high-altitude specialty coffee sold to a Korean buyer for \$3,800 per bag GBE in 2018. Loja, Quito, Pichincha; Intag, Imbabura, and more recently Cuenca and Azuay are the main areas where specialty coffees are grown.

Price Table Ecuador, Wholesale Coffee Prices (\$/60 Kg Bag, Green Coffee)

Month	Arabica (green)			Robusta (husked beans)		
	2017	2018	% Change	2017	2018	% Change
Jan	264.35	240.74	-8.9%	94.61	76.10	-19.6%
Feb	264.35	240.74	-8.9%	91.60	74.38	-18.8%
Mar	264.35	240.74	-8.9%	91.80	76.18	-17.0%
Apr	287.58	240.74	-16.3%	90.36	78.65	-13.0%
May	290.38	240.74	-17.1%	89.12	84.05	-5.7%
Jun	296.76	240.74	-18.9%	92.75	86.38	-6.9%
Jul	290.58	240.74	-17.2%	96.35	87.72	-9.0%
Aug	291.04	224.87	-22.7%	98.16	88.13	-10.2%
Sep	286.23	206.35	-27.9%	96.79	87.11	-10.0%
Oct	298.28	187.11	-37.3%	93.71	84.11	-10.3%
Nov	314.82	176.55	-43.9%	87.81	81.63	-7.0%
Dec	314.82	174.61	-44.5%	76.91	80.37	4.5%
Average	288.63	221.22	-23.4%	91.66	82.07	-10.5%

Source: FAS Quito Office Research

Fifty percent of coffee production occurs in Ecuador’s coastal provinces. The province of Manabí accounts for 25 percent of total production. The Amazon and the Sierra (highland) areas account for 30 percent each of the Ecuador’s coffee production. Robusta coffee is planted in the Amazon, while Arabica coffee is cultivated along the coast and the high lands. 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 industry. Coffee is largely handpicked in Ecuador. There is limited use of fertilizer and modern irrigation systems. Traditional cultivation accounts for 65 percent of the crop. Traditional bean production is mostly in the hands of subsistence landholders who do not use fertilizers, pesticides, irrigation, or contracted labor. The country’s soluble coffee producers source raw material, coffee beans, from major Robusta producers such as Vietnam. The technology used by the soluble industry was developed mainly in Switzerland.

Yields

Yields are increasing and growers using modern agronomic practices often surpass 200 kilograms (kg) per hectare. Yields in MY 2018/19 averaged 118 kilograms per hectare. The observed increase in yield per hectare is mainly the result of new and rejuvenated cultivars with new bearing trees coming into production. Yield estimates are forecast to increase in the coming years. FAS Quito estimates an average yield of 95 kilograms per hectare harvested in MY 2017/18 and forecasts an average yield of 127 kilograms per hectare in MY 2019/20.

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. The Ministry of Agriculture and Livestock (MAG) in 2015 assumed control over coffee policies and technical assistance programs. 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. Ecuador's Foreign Commerce Committee is responsible for authorizing imports of foreign coffee beans.

Consumption

Ecuador's total domestic coffee consumption in MY 2019/20 is forecast at 249,000 bags GBE, up 9,000 bags or four percent higher than the MY 2018/19 revised estimate of 240,000 bags. Total domestic consumption has increased despite the slowdown in the Ecuadorian economy. Real growth in Gross Domestic Product (GDP), according to the IMF, is expected to be negative 0.5 percent in 2019 and marginally positive at 0.2 percent in 2020. Ecuador's population is 16.5 million, growing at a rate of 1.3 percent per annum (U.S. Census Bureau – July 2018 estimate). Post estimates per capita consumption of coffee on a GBE basis at around 0.87 kilogram per person. Ecuadorians consume primarily soluble (instant or powder) coffee. However, preferences are changing and the market is developing a taste for roasted-ground coffee. El Café (Grupo Noboa) dominates the soluble coffee market. The increase in consumption of roasted-ground coffee is driven by a growing coffee culture accompanied by the opening of specialty coffee roasters and coffee outlets such as Café Vélez, Galletti, Cafecom, El Español, Sweet & Coffee, Isveglio, Cyril, Corfú, and Colombia's Juan Valdez.

Stocks

Ecuador maintains coffee stocks of around 100,000 to 200,000 bags GBE. The government does not manage or warehouse these stocks, as these are beans used mainly to produce soluble coffee. Therefore, domestic soluble coffee manufacturers, and smaller bean exporters storing beans while reaching a shipment size, are the entities responsible for these coffee stocks.

Trade

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. Ecuador's coffee exports in MY 2019/20 are forecast at 456,000 bags GBE, down 30,000 bags or 6 percent lower compared to the MY 2018/19 (revised) estimate of 486,000 bags. FAS Quito has revised downward its MY 2018/19 coffee export estimate by 256,000 bags GBE. As described in the Production Section, Ecuador's soluble industry has lost competitiveness and continues to struggle to survive in an environment of increasingly higher production costs.

Ecuador exported in MY 2018/19 an estimated 75,000 bags of coffee (Arabica and Robusta) beans, 410,000 bags of soluble coffee (about 84 percent of total exports), and some 1,000 bags of roasted-

ground coffee. Germany, Russia, and Colombia were Ecuador’s top three markets for its exports of coffee products in CY 2017 and CY 2018. Imports in MY 2019/20 are forecast at 441,000 bags, down 15,000 bags or three percent lower compared to the MY 2018/19 (revised) estimate of 456,000 bags. Imports of soluble coffee in MY 2019/20 are forecast to increase 5,000 bags to 90,000 bags.

Export Trade Matrix Calendar Year 2017 and 2018

Country	Ecuador	
Commodity	Coffee, Green, in 60Kg Bags	
Destination	2017	2018
Germany	323,095	225,412
Russia	146,581	72,972
Colombia	51,129	72,325
Poland	33,371	6,698
United States	33,151	2,172
Turkey	18,247	6,512
Japan	17,735	19,959
Other countries	56,928	76,650
Total	921,174	482,700

Sources: Ecuadorian Ministry of Agriculture and Livestock, Ecuadorian Association of Coffee Exporters ANECAFE, and FAS Quito Office Research.

Ecuador’s statistics do not report data for coffee beans temporarily imported for processing into soluble coffee and subsequently re-exported. In monetary value, Ecuador exported almost \$70 million in soluble coffee products in CY 2018, with some \$47 million alone in shipments to Germany and Russia. Ecuador’s exports of green coffee totaled almost \$12 million of which \$6.2 million corresponded to Robusta exports to Colombia.

Ecuador's Historical Coffee Exports

