

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Honduras**

### **Coffee Annual**

**2018**

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**Report Highlights:**

Honduras is the largest coffee producer in Central America and the third largest in Latin America. Honduras ranks fifth globally in coffee production. Honduran coffee production in marketing year (MY) 2018/19 (Oct 2018 to Sept 2019) is forecast at 7.3 million 60-kilogram bags, a two percent decrease over the record year harvest of MY2016/17. In April 2018, studies identified four new strains of coffee leaf rust in Honduras. Coffee producers will continue to struggle against the spread of rust, which will increase productions costs.

**Executive Summary:**

The coffee harvest for MY2018/19 is forecast at 7.3 million bags (60 kg each). The estimate is a two percent decrease from the record year harvest of MY2016/17 because of the risk of coffee leaf rust. In early 2017, a previously resistant variety of coffee (Lempira) was found with rust. In April 2018, IHCAFE's studies identified four new strains of coffee rust that have not affected producers on a large scale yet.

Coffee producers are facing increased production costs to try to prevent rust, and a decline in international coffee prices. IHCAFE is informing producers of monitoring, prevention and treatment measures to combat rust. IHCAFE continues with the Early Warning System established in 2012, and continues to do research on potential rust-resistant coffee varieties.

The export forecast for MY2018/19 is 7 million bags. This estimate takes also into account the spreading risk of coffee rust. Exports of specialty coffee have grown due to increased demand.

In 2017, 104,416 small and medium-sized producers accounted for 86 percent of Honduras's total coffee production, according to the Honduran Coffee Institute (IHCAFE).

According to the Honduran Central Bank's preliminary information, in CY2016, coffee production contributed four percent to the gross domestic product.

**Production:**

Honduras ranks first in Central America, third in Latin America, and fifth globally in coffee production.

Honduran coffee is grown at high altitudes, with 61 percent of farms located between 3,900 and 5,200 feet above sea level. Coffee is grown in 15 of the 18 Honduran departments. In MY2016/17, 105,171 coffee producers registered their production with IHCAFE. Out of those, 104,416 are small and medium producers. Together, these producers harvest 86 percent of Honduras's total coffee production.

Coffee production forecast for MY2018/19 is estimated at 7.3 million bags. The estimate is a two percent decrease from the record year harvest of 2016/17. The forecast accounts for coffee rust's effect on this harvest. The Lempira coffee variety, which was resistant to coffee leaf rust for two decades, was affected by rust in the 2016/17 harvest. Furthermore, in April 2018, studies done by IHCAFE identified four new coffee rust strains. According to IHCAFE, the Parainema and IHCAFE 90, two varieties that are being used by some farmers, are still resistant to coffee rust.

The decrease in production will come from higher production costs due to rust, and low coffee prices.

Another factor that may decrease production is the fact that most producers are small. They do not have access to credit to invest in preventive measures against coffee rust. Many coffee producers are already in debt from previous loans for planting, renovation and maintenance during previous harvests.

Producers are still repaying government loans from the 2012 rust outbreak that need to be repaid by 2019.

IHCAFE is implementing actions to prevent rust from spreading. The plan comprises providing information to coffee producers about preventive measures, nutrition of the plant, and increasing monitoring in the farm. IHCAFE has a campaign with two slogans: “Everybody against leaf rust” and “Don’t change the coffee variety; change your attitude.” They also produced a video available in their web page about how to respond to rust.

Planted and harvested areas in MY2017/18 are forecast to increase slightly, but less than previous estimates due to coffee rust.

The following institutions work to prevent and control rust:

- The Early Warning System for Coffee Production (SAT) was established in 2012, when Honduras had a rust outbreak. SAT is comprised of IHCAFE, the Secretariat of Agriculture and Livestock, Food and Agriculture Organization (FAO), the National Service of Meteorology, and the International Regional Organization for Plant and Animal Health (OIRSA). The objective of the system is to inform the government, coffee producers, and institutions about the potential phytosanitary threat and their respective actions of intervention. The information is shared with other countries in the region. SAT issues monthly bulletins for IHCAFE and coffee producers to continue improving control measures and agricultural practices in coffee production.
- IHCAFE’s Research and Development Center is continuously evaluating the resistance level of leaf rust-resistant coffee varieties.
- Coffee producer associations and international organizations have implemented short, medium, and long-term strategies to fight coffee leaf rust since 2013. These strategies focus on producer training, information campaigns, and technical assistance.

Production of "value-added" coffee is also increasing. Large areas of coffee production are above 3,000 feet, the minimum altitude required for specialty coffee. These specialty coffees fall under different programs and certifications such as: UTZ Certified, Association 4C, Fairtrade/Organic (FLO/ORG), Rain Forest Alliance (RFA), Organic (ORG), Bird-friendly, Starbucks C.A.F.E, Fairtrade (FLO), Café Practices, Japanese Agriculture Standard (JAS), Cup of Excellence and others. Exports of specialty coffee increased to 2.4 million bags in MY2016/17, which represents an increase of 145 percent compared to the previous year.

As part of IHCAFE's efforts to market Honduran specialty coffees, six distinct coffee regions have been established. These specialty coffee regions are not rust-resistant, but high demand keeps production up. Producers are relying on good agricultural practices to control rust.

The United States Department of Agriculture (USDA) has the largest coffee project in Honduras, implemented by TechnoServe. The project focuses on all aspects of the coffee value chain in nine departments, representing about 70 percent of coffee production in the country. The project provides assistance to enhance productivity, strengthening coffee producer’s organizations, quality of specialty coffee, cupping of every lot sold in foreign markets and increase market linkages for small producers.

## Consumption:

Local consumption is estimated at 40 pounds per capita. The increase in domestic consumption trends comes from the growing presence of coffee bars in shopping malls, gas stations, retail areas, supermarkets, office buildings, and hospitals. A large percentage of the Honduran population is young and is consuming more and different types of coffee drinks. Coffee bars that provide customers with free internet attract students and young people.

## Trade:

### Exports

Post estimates the MY2018/19 production will reach 7.3 million bags, with 7 million bags exported. Coffee trade is year-round with the heaviest volumes from March to June. Export value in MY2016/17 was \$1.3 billion, with a 58 percent increase in value from the previous year. The average price was \$140 per bag. Export volume was a record 7.3 million, with a 42 percent increase in volume compared to MY2015/16.

Trade matrix with the main exports by destination:

<b>Export Trade Matrix</b>			
<b>Country</b>	<b>Honduras</b>		
<b>Commodity</b>	<b>Coffee, Green</b>		
<b>Time Period</b>	<b>MY</b>	<b>Units:</b>	<b>60 Kg Bags</b>
<b>Exports for:</b>	<b>2017</b>		<b>2018</b>
U.S.	1,345	U.S.	1,301
<b>Others</b>		<b>Others</b>	
Germany	1,876	Germany	1,834
Belgium	1,771	Belgium	1,693
Italy	468	Italy	423
France	238	France	211
Sweden	185	Sweden	178
Canada	161	Canada	156
United Kingdom	135	United Kingdom	130
Korea	106	Korea	102
Finland	89	Finland	87
<b>Total for Others</b>	<b>5,029</b>		<b>4,814</b>
<b>Others not Listed</b>	<b>917</b>		<b>938</b>
<b>Grand Total</b>	<b>7,291</b>		<b>7,053</b>

Source: MY 2017: IHCAFE's Preliminary Annual Report 2016/2017, MY 2018 : Post estimates

### Informal Exports

According to IHCAFE, the flow of informal exports decreased last year to around 300,000 bags. These numbers are based on the discrepancy between reported production and reported sales.

### Imports

According to data from the Honduran Central Bank, during CY2015, imports of roasted coffee for domestic consumption originate mainly from the United States, Costa Rica and Nicaragua. Imports of soluble coffee come mainly from the United States, Colombia, Mexico, Chile, El Salvador, and Costa Rica. Post expects that competition to U.S.-supplied roasted and soluble coffee will grow. Juan Valdez Colombian coffee is now sold in supermarkets. Coffee shops at malls with local and regional chains are popular. International coffee companies sell their soluble coffee in machines located in malls and office buildings. Additionally, soluble coffee is now available in smaller containers at supermarkets, since the price of soluble imported coffee is higher than local coffee.

**Stocks:**

Stocks are held by exporters and roasters from the private sector. Coffee beans are stored by exporters as inventory needed to meet future contracts and are not holding stocks meant to influence price. Honduran roasters keep beans for domestic consumption throughout the year. Some stocks may be released to other Central American countries in the course of the year; depending on price.

**Policy:**

IHCAFE was created as a semi-autonomous institution in 1970. In 2000, the Government of Honduras (GOH) privatized IHCAFE, as a non-profit institution to increase efficiency. At the same time, the National Council of Coffee (NCC) was created, which is the highest regulatory authority in the Honduran coffee sector. NCC is the specialized institution that works in all aspects of coffee production, harvesting, and exporting. IHCAFE has the following strategic axis: a) production and productivity, b) quality of Honduran coffee, c) promotion, d) diversification and e) financing of the coffee sector. It provides guidelines and regulations for the entire coffee value chain. It establishes commercialization procedures and controls coffee production and exports. IHCAFE issues export permits to exporters, who must register both coffee bought from producers, and coffee exported.

IHCAFE is made up of the different producer groups and associations. Its Board of Directors includes the four largest coffee producer's federations and associations: the Honduran Coffee Producers Association (AHPROCAFE), National Association of Coffee Producers of Honduras (ANACAFEH), Federation of Honduran Coffee Cooperatives (CCCH – La Central) and the Federation of Honduran Coffee Cooperatives (UNIOCOOP). The Board also has coffee roasters, exporter associations, and representatives from the Secretariat of Agriculture and Secretariat of Economic Development as members.

Honduran coffee production and exports started to slow with lower coffee prices in 1999. During the four year period of MY2000/01 to MY2003/04, prices continued to drop to a low of \$51.00 per quintal (100 pounds). Due to this crisis, the GOH provided loans and economic support to coffee producers. Most of the loans had a payment period of twenty years, and many Honduran coffee producers are still paying them off.

The GOH created the Law of Financial Reactivation of the Coffee Production Sector in 2003 in response to low coffee prices in order to prevent coffee producers from abandoning coffee production, avoid foreclosure on properties with high arrears, and assist producers with high levels of indebtedness. The law established a coffee producer savings fund. The collection mechanism is through a deduction of \$13.25 per quintal that the exporters make when they purchase coffee from producers. The \$13.25 is comprised of three deductions as follows:

Nine dollars is used to capitalize the coffee trust fund. This amount is used for: a) repayment of loans held by banks and financial institutions used by producers and, b) paying IHCAFE loans for fertilizers, inputs, financing and seeds sold to coffee producers. IHCAFE returns either the full saved \$9 to producers that do not have outstanding loans, or a lesser amount depending on the loan repayment schedule.

One dollar is for payment of outstanding loans received by coffee producers in 1999, 2000 and 2001. IHCAFE returns this \$1 annually to producers that did not receive loans in those years.

The remaining \$3.25 is divided as follows: \$0.50 is applied to the repayment of the outstanding \$20 million loan made in 2002. Thirty six percent goes to the operation of IHCAFE and 64 percent to the National Coffee Fund. The National Coffee Fund uses these resources to build and fix roads in coffee production areas, and to buy equipment for coffee producers.

The National Coffee Fund (NCF) was also created to provide support to the coffee sector. NCF is an organization that receives funding from coffee producers. The NCF is responsible for the maintenance and construction of roads in coffee-producing areas reducing transportation costs for producers. Each municipality receives an allocation of funds for road construction in proportion to its production.

The following projects are also implemented: Innovative Coffee Producer, Coffee Regionalization, Coffee Rehabilitation and Productive Diversification. In addition, other programs to assist small coffee producers are: Land Title, Solar Dryers, Agroforestry and Community Forestry.

IHCAFE created the Superior School of Coffee, Centers of Research and Training, the National Center of Quality, the Coffee Quality Control Laboratory and the School of Coffee Tasters. They have six research and training centers nationwide. In 2008 the National Quality Center opened to market coffee from Honduras internationally. In 2010, the center received ISO 17025-2005 accreditation. IHCAFE also has regional laboratories for coffee cupping to support coffee producers in their product knowledge and technology.

In addition, there is the Cupping School focused on educating young Hondurans to improve long-term knowledge of coffee quality. IHCAFE's agreement with the National University of Honduras (UNAH) has established the University Technician on Quality Control in Coffee and the Coffee Business Administration degrees. The USDA/TechnoServe project brings assistance to IHCAFE in training municipalities and organizations to improve productivity and quality of coffee in their region, and adopt new technologies. Support is also provided in research for coffee fermentation techniques and atmospheric control packaging for coffee storage to maintain coffee quality.

### **Marketing:**

Honduras has grouped coffee production and quality specifications into six different regions according to differences in microclimates and soil composition. In 2004, Honduras began with the Cup of Excellence (COE). In 2005, Honduras obtained the first Geographical Indication for the country: DO Marcala Coffee. The Geographic Indication (GI) as Brand Collective "Honduran Western Coffees" (HWC) was born.

**International Marketing** -- The IHCAFE "Cup of Excellence" promotional event brings together the best Honduran coffees that are sold worldwide via electronic auction. Through this competition, Honduras finds niche markets for its coffee. About 1,200 producers are chosen in regional quality competitions, and at the end of the process about 50 to 60 producers participate for the Cup of Excellence final competition.

Honduras has a growing reputation as a specialty coffee power player. There is more participation in international fairs to promote Honduran coffee. As demand for high quality Arabica coffees increases, Honduras is positioned to take advantage of it.

**Production, Supply and Demand Data Statistics:**

<b>Coffee, Green</b>	<b>2016/2017</b>		<b>2017/2018</b>		<b>2018/2019</b>	
<b>Market Begin Year</b>	<b>Oct 2016</b>		<b>Oct 2017</b>		<b>Oct 2018</b>	
<b>Honduras</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Area Planted</b>	0	334	0	342	0	349
<b>Area Harvested</b>	0	280	0	298	0	312
<b>Bearing Trees</b>	0	1191	0	1269	0	1329
<b>Non-Bearing Trees</b>	0	234	0	186	0	156
<b>Total Tree Population</b>	0	1425	0	1455	0	1485
<b>Beginning Stocks</b>	315	315	185	199	0	165
<b>Arabica Production</b>	7400	7513	7500	7436	0	7360
<b>Robusta Production</b>	0	0	0	0	0	0
<b>Other Production</b>	0	0	0	0	0	0
<b>Total Production</b>	7400	7513	7500	7436	0	7360
<b>Bean Imports</b>	0	0	0	0	0	0
<b>Roast &amp; Ground Imports</b>	0	0	0	0	0	0
<b>Soluble Imports</b>	20	16	20	16	0	16
<b>Total Imports</b>	20	16	20	16	0	16
<b>Total Supply</b>	7735	7844	7705	7651	0	7541
<b>Bean Exports</b>	7180	7291	7100	7130	0	7053
<b>Rst-Grnd Exp.</b>	0	0	0	0	0	0
<b>Soluble Exports</b>	0	0	0	0	0	0
<b>Total Exports</b>	7180	7291	7100	7130	0	7053
<b>Rst,Ground Dom. Consum</b>	350	338	350	340	0	342
<b>Soluble Dom. Cons.</b>	20	16	20	16	0	16
<b>Domestic Consumption</b>	370	354	370	356	0	358
<b>Ending Stocks</b>	185	199	235	165	0	130
<b>Total Distribution</b>	7735	7844	7705	7651	0	7541

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

