

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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**Date:** 5/25/2017

**GAIN Report Number:** MX7021

## **Mexico**

### **Coffee Annual**

#### **Coffee Production to Increase**

**Approved By:**

Lashonda McLeod

**Prepared By:**

Dulce Flores

**Report Highlights:**

The Post/New marketing year (MY) 2017/18 forecast for coffee production is 3.8 million 60/kg bags. The Post/New MY 2016/17 total production estimate is revised upward to 3.5 million 60/kg bags due to improved conditions and replanting of production areas. Coffee exports for MY 2016/17 and 2017/18 are expected to increase compared to MY 2015/16, due to expected recovery of production. Coffee imports for MY 2016/17 and 2017/18 are expected to decrease as supplies begin to cover for domestic demand.

**Commodities:**

Coffee, Green

**CROP AREA**

Coffee production, planted, and harvested hectares in Mexico had been on a slow downward trend for a number of years due to adverse weather, such as freezing temperatures and atypical rainfall. Currently, however, coffee rust (known locally as roya del café) is the most important factor affecting the decrease in coffee area. Volatile prices have also had an impact.

Planted area for marketing year (MY) 2016/17 is estimated at 717,336 hectares (Ha) down from 732,036 Ha in MY 2015/16. The industry as well as the Government of Mexico (GOM) has taken actions to fight the coffee rust. With public and private support, two main producer states have begun to increase productivity through the establishment of nurseries with plants certified as coffee rust resistant to renovate area planted. According to the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA), during MY 2016/17, 136 nurseries were established in the state of Veracruz and more than 48,000 hectares have been renovated with coffee rust resistant plants. The state of Chiapas established 63 certified nurseries and in collaboration with other institutions 99 more nurseries were certified. Also, more than 27,000 Ha were renovated adding a total of 41,000 Ha renovated in Chiapas. Other producing states have also been renovating area planted and growers have received technical support and training.

The MY 2017/18 planted area is forecast to be similar to MY 2016/17 as the industry as well as the GOM will continue efforts to address coffee rust and plant renovation. Around 35 percent of the coffee production area is top-quality high altitude coffee, located at an altitude of 900 meters or more above sea level. Another 43 percent grows between 600 and 900 meters above sea level.

**PRODUCTION**

Although there is no official Mexican forecast for coffee production for MY 2017/18, the Post/New forecast (October/September) is 3.8 million 60/kg bags, an increase compared to last year's production. Producers have indicated that weather has been good with excellent rainfall and good flowering. New planted areas are expected to be producing more coffee. This forecast is preliminary as weather and disease events could still affect planted and harvested areas.

Coffee production in Mexico has been hit hard for the last three years by coffee rust. Production has decreased from 4.5 million 60/kg bags five years ago to 2.3 million 60/kg bags in MY 2015/16. Coffee rust is a fungal disease that can lead to plant defoliation. In moderate cases, leaf defoliation reduces plants' ability to produce fruit (the seeds of which are the actual coffee bean) in the next cycle. In serious cases, plant mortality occurs. The advance of rust through Central America, Honduras, Panama, and Guatemala, began about six years ago before it reached the area of Chiapas in southern Mexico, spreading northward.

Reports indicate that nearly 96 percent of the coffee produced in Mexico is of the Arabica variety while 3 to 4 percent is of the Robusta variety. Mexico produces excellent organic coffee, a trend which is increasing amongst producers. However, the output of organic coffee has decreased by a greater amount than conventional coffee in the areas affected by coffee rust. According to SAGARPA, about 7 to 8 percent of growers were cultivating organic coffee, mainly for export purposes.

The Post/New MY 2016/17 total production estimate is expected to increase from previous estimates to 3.5 million 60/kg bags, due to improved conditions and replanting of production areas. The estimate is revised upward based on information from industry contacts. New areas are already producing coffee. As noted above, the coffee planted area nationwide has been affected by coffee rust. Due to the advance of this disease the government decided to implement in 2016 the new [Integrated Program for Coffee](#) (PIAC in Spanish) (See Policy Section). Producers in Mexico indicate that coffee production for MY 2016/17 grew as a result of efforts from growers to control coffee rust and renovation of plantations. Government officials expressed that they expect coffee production in the country to recover most of its past production by MY 2018/19.

SAGARPA, National Service of Health, Food Safety, and Food Quality (SENASICA), the Integrated Coffee Production Chain (Sistema Productivo 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 in Mexico. SENASICA, along with coffee sector organizations, is deeply involved in the establishment of strategies to control coffee rust. SENASICA reports regularly through a Coffee Plant Phytosanitary Epidemiological [Surveillance Program](#) (<http://www.royacafe.lanref.org.mx/index.php>) on the phytosanitary conditions of coffee. Coffee production for MY 2015/16 is revised upward based on official data to 2.3 million 60/kg bags.

There are also efforts from state governments to support coffee production through tree renewal with pest-resistant plants. Other state initiatives include recovery of planted areas and support for various types of price-enhancing certifications (e.g. organic, fair trade, Shade Grown, Rainforest Alliance, etc.). The state of Veracruz is encouraging production, trade, and coffee consumption in the state.

Approximately, 98 percent of the Arabica varieties planted in Mexico are Bourbon, Caturra, Catimor, Catuai, Maragogipe, Mundo Novo, Garnica, and Typica. This is expected; however, to change as new, more pest-resistant varieties are being planted like Oro Azteca, the Marsellesa variety from Costa Rica, and other resistant varieties from Nicaragua and Guatemala.

Table 1.-Mexico – Coffee Production 2016/17 (Oct/Sept)		
Estimates until March 2017		
Selected States		
STATE	Area Planted (Ha)	Production (MT) not processed
Chiapas	258,125	303,142

Veracruz	142,495	166,408
Oaxaca	139,677	64,225
Puebla	64,612	126,196
Others	112,479	100,184
<b>TOTAL</b>	<b>717,388</b>	<b>760,155</b>

Source: Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food./ Agrifood and Fisheries Information System. (Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion./ Servicio de Informacion Agroalimentaria y Pesquera) -SAGARPA/SIAP

<b>Table 2.- Mexico - Coffee Production Selected States – MT not Processed</b>			
STATE	Production MY 2014/15	Production My 2015/16	% Change 2015/2014
Chiapas	383,059	361,850	-5.53
Veracruz	276,054	191,017	-30.80
Oaxaca	82,512	66,053	-19.94
Puebla	171,320	121,433	-29.11
Others	113,306	94,659	-16.45
<b>TOTAL</b>	<b>1,026,251</b>	<b>835,012</b>	<b>-18.63</b>
Source: SAGARPA/SIAP			

Coffee is produced in 15 states. In a typical year, the main producer is the state of Chiapas with 41 percent of production, followed by Veracruz with 28 percent of production, and Oaxaca with 11 percent of production. Harvesting usually begins in September and ends by the month of March.

The government's census of producers is about 515,000 coffee producers of which about 310,000 have about one hectare to work. According to the survey, some 85 percent of the producers are indigenous.

## INPUTS

As mentioned in previously, SAGARPA implemented in 2016 the PIAC program and destined for the states of Chiapas and Veracruz USD \$28 million to establish certified nurseries to renovate area planted in those states with coffee rust resistant plants, and provide technical assistance to control coffee rust. The federal government destined USD \$2.6 million for the state of Oaxaca to encourage production, control coffee rust, hire technicians, and provide certified seeds or plants. The PIAC includes technological packages that provide nutritional inputs, fungicides, and tools for cultural work at plantations. In recent years, the cost of production has increased due to a lack of field labor. Field labor represents more than 80 percent of total production costs.

## YIELDS

Yields continue to differ widely in Mexico due to variations in management and weather; however, most yields have decreased due to coffee rust impacts. Yields for MY 2017/18 are forecast to be better compared to MY 2016/17, due to expected good weather conditions and assuming that better management is achieved to control and prevent coffee rust issues. Yields for MY 2016/17 are estimated

at about 1.0 MT/Ha, slightly higher to yields of 0.9 MT/Ha during MY 2015/16. At the state level, yields in Veracruz for MY 2016/17 are expected at 1.4 MT/Ha, Chiapas' yields are expected to be 1.0, and Puebla is expected to have yields of 2 MT/Ha.

## **POLICY**

Since the 2015 change of administration in SAGARPA, it has launched new coffee-focused support programs. The federal government designed and is implementing the [Integrated Program for Coffee](#) (PIAC in Spanish), where the overall objective is to increase production and competitiveness to reach 4.5 million 60kg bags by MY 2018/19. Among other goals, PIAC aims to develop certified nurseries to supply producers with quality disease-resistant plants, to renovate coffee plantations, and to provide maintenance and rehabilitation to the ones that are viable. Also, the PIAC will help producers by providing technological packages that guarantee sustainability of natural resources. Work will be coordinated at different government levels to implement actions and have the tools to increase production.

SAGARPA, in coordination with INIFAP is working to obtain coffee seed of different varieties resistant to coffee rust. INIFAP developed a plant variety that is resistant (Oro Azteca) which is being used in several places. Other seeds will be imported from Costa Rica, Guatemala, Nicaragua, and some from Brazil. These seeds are grown in nurseries to be distributed among coffee plantations. The plan is to renovate coffee plantations around Mexico and to put particular emphasis in the states of Veracruz, Puebla, Chiapas, Oaxaca and Guerrero, which represent more than 90 percent of production and have been hit hardest by coffee rust. PIAC plans to renovate 200,000 hectares in the next three years from 2016 onward. According to PIAC, small producers will have access to a package that will provide 1,000 plants per hectare at a cost of \$6 pesos/plant (USD \$0.31/plant) and a technological package of \$5,000 per hectare to \$15,000 pesos (USD \$250 to \$750). The government has also destined federal funds through SENASICA to fight coffee rust. According to PIAC, in 2016 57 tons of certified seeds planted, 106,000 hectares renovated with new plants, 120,000 technological packages used, and about 150 million plants were planted.

SAGARPA manages also a program entitled [Integrated Coffee Productive Chain](#) that includes all the actors in the coffee supply chain to help develop and support the sector by providing access to technology, training, industrialization, and trade channels.

AMECAFE, SAGARPA, and the coffee sector typically hold the [Cup of Excellence](#) competition annually in Mexico. The competition aims to promote the marketing of quality Mexican coffee in international markets. In 2016 the competition was not held, but in 2017, the competition resumed and was held from April 14 to May 5, 2017 in Mexico City.

## **CONSUMPTION**

Domestic coffee use (both roasted and soluble coffee) for MY 2017/18 is forecast at 2.3 million 60kg/bags, assuming relatively stable domestic prices. Coffee prices have increased as many other products because of the exchange rate fluctuations of the Mexican peso vs the U.S. dollar. Official sources believe consumption could grow to 3.0 million 60kg/bags, however a study on this issue is underway and consumption data is not certain yet. According to sources, average annual consumption

is typically between 1.3 kg/per capita to 1.5 kg/per capita. Consumption has been driven by promotions and the growing number of coffee shops in Mexico. Ground coffee consumption has increased and is the second largest share of domestic use. Soluble coffee is still very important and has about 65 to 69 percent share of consumption. Consumption demand has been met since 2015/16 by imported coffee due to lower supplies from domestic production. However, the government believes this situation will improve by MY 2018/19 when Mexico will be able to attain their production goal. Consumption of roasted coffee is strong as consumers now have more options for freshly-made coffee via the increasing number of specialty coffee shops in the country. Consumers with relatively greater purchasing power have been targeted by the specialty coffee sector for years, while soluble coffee consumption is more popular among consumers with lower incomes.

Post/New MY 2015/16 and MY 2016/17 coffee use estimates were revised upward from previous estimates to 2.3 million 60kg/bags, based on current official information. According to AMECAFE, about 40 percent of domestic coffee production was marketed for local consumption, and the remaining 60 percent was for export purposes. However, due to lower domestic production, producers tried to fulfill their international contracts first and leave the residual for domestic consumption. Official sources confirm that Mexico lacks a reliable consumption monitoring system.

## **TRADE**

The [Sectorial Promotion Program \(PROSEC\)](#), managed by the Secretariat of Economy, 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. According to official data, about 986,000 60/kg bags were imported for MY 2015/16 or a 36 percent over MY 2014/15. Most coffee under this special tariff is imported from Vietnam and Brazil. Imports for MY 2016/17 are expected to be slightly lower.

Increasing imports of coffee are attributed in part to increased demand by middle-income consumers who are searching for different options from domestic soluble brands, as well as by high-income consumers who want fashionable value-added imported coffee. However, since 2014, coffee imports have also increased to cover demand due to lower domestic production. Although coffee imports for MY 2015/16 are revised downward from previous estimates, they are considered to be high compared to previous marketing years. Due to larger domestic supplies, MY 2016/17 imports are also revised downward from previous estimates due to expected larger volumes of coffee production. Imports were needed to cover domestic demand.

Mexico is importing large quantities of coffee beans—mainly Robusta variety—as the Nestle plant in the city of Toluca in the State of Mexico, has increased its soluble coffee production capacity. This company has also increased the use of Arabica coffee in its products. About 300,000 60/kg bags of coffee from Honduras through Guatemala are usually smuggled into Mexico at low prices, but

producers believe this amount has increased due to the shortage of coffee in Mexico. This data is not reflected in the PS&D table.

Although there is no official Mexican forecast for coffee imports for MY 2017/18, the Post/New forecast for total imported coffee is 1.5 million 60/kg bags, but this estimate is still tentative and will tend to change depending on final production and international prices

On April 1, 2014, the Secretariat of Economy (SE) published a regulation modifying a previous announcement of a duty free import quota for roasted and ground coffee in the *Diario Oficial* (Federal Register). This continues a policy of promoting the packaging of coffee in 40-gram containers for household consumption. The impacted HS tariff lines are 0901.21.01; 0901.22.0; and 0901.90.99. (See GAIN Report [MX 4031](#) *Modifications to Duty Free Imports of Coffee in 40 Gram Containers.*) The regulation will remain in effect until December 31, 2018. Undoubtedly, prices will play a key role in the volume to be imported.

Although there is no official Mexican forecast for coffee exports for MY 2017/18, the Post/New forecast is 3.1 million 60/kg bags. However, this number is still tentative and will tend to change depending on final production and international prices. The United States continues to be the main international market for Mexican green coffee. Exports for MY 2016/17 were revised upward from the previous estimate due to higher domestic supplies. Exports for MY 2015/16 were revised slightly upward from previous estimates reflecting low overall exports due to lower supplies. Exports were lower than imported coffee for the first time.

## STOCKS

Post expects MY 2017/18 ending stocks to be slightly lower than the MY 2016/17 revised estimate due to expected higher exports. Ending stock estimates for MY 2015/16 and MY 2016/17 are revised upward from previous estimates, but still could decrease due to low production estimates. AMECAFE reports that Mexico has never had a reliable system to record ending stocks; therefore, data is largely anecdotal from industry sources.

## Production, Supply and Demand Data Statistics:

**Table 3. Mexico - Coffee Production, Supply and Demand**

Coffee, Green Market Begin Year	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
	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	125	125	100	180	0	231

<b>Arabica Production</b>	1800	2130	2000	3300	0	3600
<b>Robusta Production</b>	200	180	200	200	0	200
<b>Other Production</b>	0	0	0	0	0	0
<b>Total Production</b>	2000	2310	2200	3500	0	3800
<b>Bean Imports</b>	2175	2150	1900	1440	0	1280
<b>Roast &amp; Ground Imports</b>	75	75	75	75	0	75
<b>Soluble Imports</b>	200	190	200	190	0	190
<b>Total Imports</b>	2450	2415	2175	1705	0	1545
<b>Total Supply</b>	4575	4850	4475	5385	0	5576
<b>Bean Exports</b>	1275	1310	1200	1650	0	1950
<b>Rst-Grnd Exp.</b>	200	200	150	225	0	230
<b>Soluble Exports</b>	850	850	850	924	0	924
<b>Total Exports</b>	2325	2360	2200	2799	0	3104
<b>Rst,Ground Dom. Consum</b>	800	800	825	825	0	827
<b>Soluble Dom. Cons.</b>	1350	1510	1325	1530	0	1534
<b>Domestic Consumption</b>	2150	2310	2150	2355	0	2361
<b>Ending Stocks</b>	100	180	125	231	0	111
<b>Total Distribution</b>	4575	4850	4475	5385	0	5576

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

## Trade Matrixes

<b>Mexico: Green Coffee Imports in Metric Tons (MY Oct/Sep)</b> (HTS: 090111 and 090112)			
<b>Origin</b>	<b>MY 2015/16</b>	<b>Origin</b>	<b>MY 2016/17*</b>
U.S.	10,289	U.S.	3,244
Vietnam	20,984	Vietnam	5,102
Brazil	20,132	Brazil	2,455
Other not listed	18,790	Other not listed	2,019
<b>Grand Total</b>	<b>70,195</b>	<b>Grand Total</b>	<b>12,820</b>

<b>Mexico: Green Coffee Exports in Metric Tons (MY Oct/Sep)</b> (HTS: 090111 and 090112)			
<b>Destination</b>	<b>MY 2015/16</b>	<b>Destination</b>	<b>MY 2016/17*</b>
U.S.	44,415	U.S.	12,967
Belgium	5,728	Belgium	4,083
Japan	1,308	Japan	316
Germany	3,510	Germany	429



Other not listed	22,981	Other not listed	7,593
<b>Grand Total</b>	<b>77,942</b>	<b>Grand Total</b>	<b>25,388</b>

<b>Mexico: Roasted Coffee Imports in Metric Tons on a Green Bean Equivalent Basis (HTS: 090121 and 090122) (MY Oct/Sep)</b>			
<b>Origin</b>	<b>MY 2015/16</b>	<b>Origin</b>	<b>MY 2016/17*</b>
U.S.	2,318	U.S.	861
United Kingdom	915	United Kingdom	202
Other not listed	1,477	Other not listed	530
<b>Grand Total</b>	<b>4,710</b>	<b>Grand Total</b>	<b>1,593</b>

<b>Mexico: Roasted Coffee Exports in Metric Tons on a Green Bean Equivalent Basis (HTS: 090121 and 090122) (MY Oct/Sep)</b>			
<b>Destination</b>	<b>MY 2015/16</b>	<b>Destination</b>	<b>MY 2016/17*</b>
U.S.	1,211	U.S.	503
Other not listed	10,713	Other not listed	832
<b>Grand Total</b>	<b>11,914</b>	<b>Grand Total</b>	<b>1,335</b>

<b>Mexico: Soluble Coffee Imports in Metric Tons on a Green Bean Equivalent Basis (HTS: 2101101, and 210112) (MY Oct/Sep)</b>			
<b>Origin</b>	<b>MY 2015/16</b>	<b>Origin</b>	<b>MY 2016/17*</b>
U.S.	5,990	U.S.	2,566
Colombia	1,409	Colombia	1,170
Other not listed	3,630	Other not listed	1,794
<b>Grand Total</b>	<b>11,029</b>	<b>Grand Total</b>	<b>5,530</b>

<b>Mexico: Soluble Coffee Exports in Metric Tons on a Green Bean Equivalent Basis (HTS: 2101101, and 210112) (MY Oct/Sep)</b>			
<b>Destination</b>	<b>MY 2015/16</b>	<b>Destination</b>	<b>MY 2016/17*</b>
U.S.	28,743	U.S.	18,246
Other not listed	21,556	Other not listed	793
<b>Grand Total</b>	<b>50,299</b>	<b>Grand Total</b>	<b>19,039</b>

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, January 2017.

\* As of January 2017

<b>Table 4. Mexico: Monthly Exchange Rate Averages for 2014-2017</b>				
MX Pesos per U.S. \$1.00				
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
January	13.20	14.68	18.02	21.37
February	13.28	14.92	18.47	18.47
March	13.22	15.21	17.69	17.69
April	13.29	15.22	17.49	17.55
May	12.93	15.26	18.09	
June	12.99	15.46	18.12	
July	12.97	15.92	18.58	
August	13.14	16.50	18.47	
September	13.21	16.85	19.16	
October	13.47	16.58	18.91	
November	13.59	16.63	20.03	
December	14.44	17.03	20.51	
Annual Avg	13.29	15.85	18.62	
Source: Mexican Federal Register				
Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico				