

Peru's coffee Boom

This South American coffee-producing nation has seen output grow five-fold in the last two decades to 5 million bags. The question now is: How long can this boom be maintained?

In the 1990-91 crop cycle, Peru produced just 937,000 60-kilogram bags.

This was at a time when world production had collapsed following years of massive oversupply. The imbalance led to the end of the International Coffee Agreement on export quotas and minimum prices, which in turn resulted in world prices crashing to then historic lows.

Mirroring activity all over the world,

coffee fields across this South American country were abandoned. For most of the 1990s, Peru's annual output averaged between 1.4 and 1.6 million bags.

A little over a decade later, production has more than tripled. Although the initial focus on raising yields remains a priority, many seem to agree that output is unlikely to grow by more than 1 to 2 million bags under current conditions.

"During the past 10 years the producing area has increased some 50,000 hectares, and average production per hectare is now around 12 bags, compared to 7 bags per hectare in 2000," says Eduardo Montauban, General Manager of the Peruvian Chamber of Coffee and Cocoa.

From a cultivated area of around 200,000 hectares in 1994, Peru's more than 150,000 coffee growers

have today expanded output to some 340,000 hectares, according to Chamber estimates.

Official figures from Peru, however, vary greatly depending on the source. As 2012 came to a close, authorities started working on the first coffee census since 1994. Production in the last harvest reached a record 5.2 to 5.4 million bags, according to some sources.

Montauban tells *Global Coffee Review* that room for further expansion of Peru's planted area is now minimal. Most future increases in production will most likely come from older trees being replanted with more productive varieties and higher tree density. Other industry officials agree, saying that Peru has the potential to boost output to 6 million bags in the next five years if Arabica prices stay above US\$2 per pound. It's only at this level that growers can generate enough income to provide for investments and renovations of farms. If prices recover to levels above US\$ 2 per pound, for several consecutive years, sources are optimistic that output could reach 7 million bags by 2020.

"There is no doubt that with the prices we've had in the last few years,

producers were motivated to do a bit of investment in their farms," says Javier Dominguez, Manager of SolCafe Coop. "All the producers here are small farmers with just a few hectares, but since 2005, when we started the coop, we have been promoting renovation to improve yields."

With 1047 producers, the SolCafe cooperative in northern Cajamarca is an illustrative example of how the Peruvian coffee industry has grown in the past decade. From an average of just 9 bags per hectare, current yield has doubled to 18 bags. A total of 300 hectares, or some 12 per cent of the total cultivated area of 2583 hectares, has been fully renovated either through replanting or pruning. While the coop had embarked on some small-scale renovations in 2008, it

wasn't until funds from a government-financed project started to kick in, in 2009, that full renovation efforts got underway.

"We will never have much influence on the prices, but we can increase the volume we get from the harvest and make sure that we'll get a better income," Dominguez says. "It has especially been younger producers who have understood that the only way to do this is by maintaining production, raising yields through renovation of old coffee farms, regular pruning and better application of fertiliser."

Interestingly, Peru's initial coffee boom was less about lifting incomes, and more about cutting down on illegal drug production. A project was launched as a joint strategy between the United Nations Office on Drugs and Crime (UNODC), the Peruvian Government's narcotics fighting agency DEVIDA and other international partners, including the US Agency for International Development (USAID) in the 1990s, with the goal of replanting 15,000 hectares of illegal coca crops.

Implemented at a time when smallholder coffee growers were facing unsustainable low prices,

NORTHERN PROSPECTS

From a share of 30 to 35 per cent of Peru's national production 10 years ago, the northern region today accounts for as much as 55 per cent of total output.





Peru's coffee producers were seen as at particularly high risk of being lured into the illegal coca growing and drug trade in the Andes region. Coca cultivation thrives in the same climatic condition and high altitudes that are ideal for high quality coffee. Most of the main coca regions in Peru still coincide with the same regions where coffee often is found. Just a few years into the program, Peru's rising coffee production was already firmly on track, with output reaching 1.87 million bags for the 1995-96 coffee year.

As that program ended in 2010, Peru's Agriculture Ministry ensured incentives to coffee cultivation prevailed by launching an ambitious US\$10 million coffee renovation and replanting program.

High prices in 2010 and 2011 helped producers invest in renovation, replanting and even buying small amounts of new land. However, as the official renovation project ended in 2012, and with prices dropping, further expansion and renovation is not guaranteed. The drop in futures prices in 2012 has already cut significantly into earnings, which fell to about US \$ 950 million in 2012 from \$1.58 billion just a year prior.

It's these dropping prices that has put a short end on the rosy outlook for Peru's coffee boom. Add to this the challenge of infrastructure, and even

high prices may not be enough. "Where we really need to see much more work on renovation is in the central and southern regions, and this renovation will require a lot of support in the form of improved infrastructure," Montauban says.

Centered around Cajamarca and Moyobamba on the border with Colombia, the northern region has grown over the past 10 years to become the largest of the country's three coffee regions. Industry officials estimate that cultivation in the northern region has expanded by 20 to 30 per cent in that period.

"In the north, we have seen 90 per cent of all infrastructure needs for coffee processing met through individual investments, and the northern area also benefits from the availability of cheaper hydro-electric power outlets," says one exporter in Cajamarca. But in the central region – home to the Chanchamayo region known for some of Peru's best quality coffee – and the southern region of Cuzco and Puno, still hold vast potential for growth. But, much of this growth is said to be limited by poor infrastructure.

Most of the coffee areas in Peru's central and southern areas have still not been connected to the national electricity network. Roads to the remote highlands of the central region are in poor condition. This

makes something as simple as getting the coffee to the main ports either in Lima or further south a long and costly affair. Travelling through regions still rife with road and rural security problems can also be a challenge, says one senior official. Peru has had a significant number of incidents in the last few years where trucks were robbed and entire container loads of coffee were lost.

From a share of 30 to 35 per cent of Peru's national production 10 years ago, the northern region today accounts for as much as 55 per cent of total output, with the central and southern region roughly dividing the remainder, according to Chamber data.

"Of course Peru could produce 10 million bags, but that is not going to happen overnight," says the Chamber's Montauban. "Yes, Peru has all the right conditions for that to happen, the right soil, the land and the climatic conditions, but we don't have any national policy for the development of coffee and everything to date has come from private investment."

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