

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Colombia

### COFFEE SEMI-ANNUAL

## Coffee Production Expected to Rebound After Dramatic Reduction

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**Report Highlights:**

Colombian coffee production is expected to recover to 11.0 million 60 kg bags since weather conditions returned to more normal over the last six months and as a result, exports will increase to 10.2 million 60 kg bags. The Colombian Government maintains its support to coffee growers the programs to renovate coffee trees and improve coffee quality.

### Executive Summary:

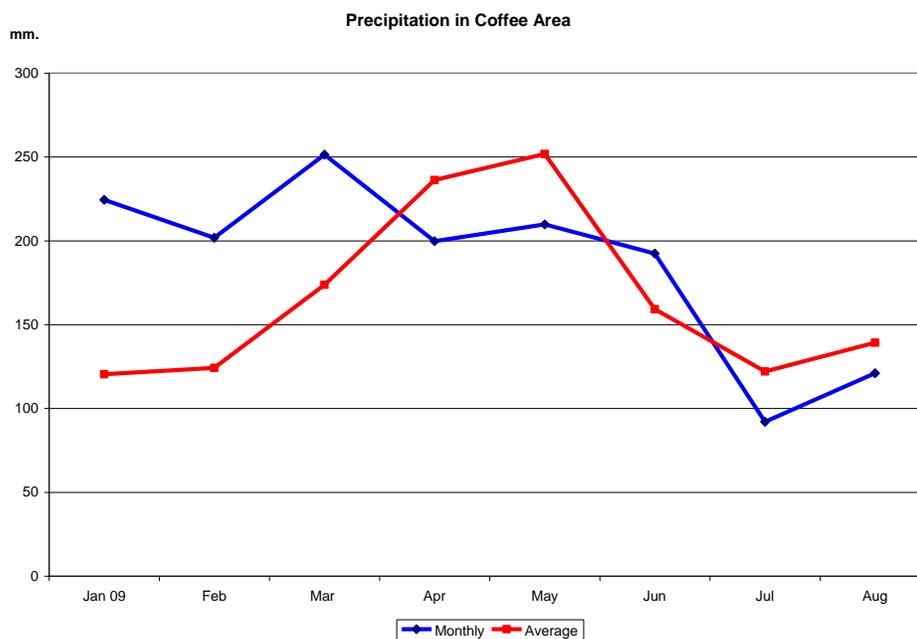
Colombian coffee production in MY 2009/10 is expected to recover to 11.0 million 60 kg bags, up 2.3 million 60 kg bags from the 2008/09 year, which was the lowest Colombian production since MY 1975/76, when coffee production was 7.3 million 60 kg bags. The expected rebound in production will be accompanied by an increase in coffee exports of 1.5 million 60 kg bags to 10.2 million 60 kg bags. Consumption will remain unchanged and the government will continue supporting coffee growers. The most important difference for the new marketing year compared with the previous is the expectation for change in weather conditions, which should be more favorable for coffee production and reduce pest and fungal issues.

### Production:

In MY 2008/2009, Colombian Coffee production hit its lowest production levels since 1976. It was an unexpected decline of 30 percent, which was lower than all initial forecasts. This translates to coffee production declining by 3.9 million 60 kg bags to 8.7 million 60 kg bags and from 12.5 million 60 kg bags in MY 2007/2008.

The production forecast for MY 2009/10 is for a recovery of 2.3 million 60 kg bags that will increase coffee production to 11.0 million 60 kg bags, mainly due to favorable weather conditions. The average rains recorded by the National Center for Coffee Research (CENICAFE) show a reduction in precipitation during the period April-August 2009, which is closer to historical average levels (See graph 1).

**Graph 1**



Source : CENICAFE

The primary factor responsible for the strong reduction in Colombian coffee production in MY 2008/09 was the long and strong rainfall period affecting coffee flowering and coffee bean formation. Rains in 2008 were well above the historic average according to the Center for Coffee Research (CENICAFE). The increase in humid conditions caused increased outbreaks of coffee rust, which were not limited to lower elevations as normal, but also affected coffee production at higher elevations. Extremely high fertilizer prices in 2007 and 2008 discouraged growers from applying fertilizer to their trees, or at a minimum, caused them to cut back. This also had a major impact on yields, especially in the technified areas where more advanced varieties and higher levels of inputs are used.

In addition to the rust fungus, continuous and above average rainfall, together with a shortage of sun and light, created the perfect environmental conditions for the increase in occurrences of the coffee cherry borer (Broca del café) which affects coffee bean appearance but not flavor. Coffee producers reported that the cherry borer, which is an insect that eats holes through the bean, had affected up to 5 percent of the crop and made that portion ineligible for export premiums.

A final negative impact on production in 2008/09 came from the new coffee plant renovation program of the National Coffee Growers Federation (FEDECAFE), which took 70,000 hectares out of production. This program aims to modernize and revamp Colombia's coffee trees, which begin to experience yield losses after 9 years of age. Colombia has 330,000 hectares of coffee trees that are very low-yielding that the coffee federation, with help from a federal government subsidy, is trying to pull from production. However, they are not advancing at the pace they would like due to resistance from small traditional coffee growers, who are hesitant to pull trees out of production due to the temporary loss in income the practice produces.

#### **Aspects of Colombian Coffee Production and Area:**

Over 95 percent of coffee producers in Colombia produce on 5 hectares or less. Less than 1,000 producers have more than 10 hectares, less than 100 have more than 100 hectares, and coffee farmers with more than 1,000 hectares just do not exist in Colombia. So the Coffee Federation plays a critical role in organizing small producers and ensuring they receive accurate international prices for their product. The coffee area in Colombia has been shifting over time from the marginal areas of the traditional coffee region, with poorer soils, to Huila, with high elevation, rich volcanic soils, and lower land prices. The transition of coffee producers from the traditional "coffee region" (Caldas, Risaralda, Quindio, Antioquia, and Cauca Valley) to Huila has caused this department to grow in coffee area and is expected to be the #1 coffee-producer in Colombia in the next few years (see table 1).

The Colombian coffee harvest takes place throughout the year, commencing in the south in January in Nariño and finishing in December in the northern portion of the Magdalena department, on the pacific coast. This facilitates marketing and commercialization of Colombian coffee for FEDECAFE.

Table 1.

<b>Colombian Coffee Area Planted by Departments</b>				
As of September 2008 (Thousand hectares)				
	<b>Traditional /1</b>	<b>Old Technified /2</b>	<b>Technified /3</b>	<b>Total</b>
<b>Antioquia</b>	5.7	37.3	86.1	129.1
<b>Tolima</b>	18.5	30.2	54.1	102.8
<b>Huila</b>	4.7	17.0	80.8	102.5
<b>Caldas</b>	5.7	20.5	58.7	85.0
<b>Valle</b>	9.3	21.7	46.4	77.5
<b>Cauca</b>	12.7	18.6	38.5	69.8
<b>Risaralda</b>	2.2	10.2	42.1	54.4
<b>Cundinamarca</b>	16.4	10.1	22.4	48.9
<b>Quindio</b>	3.0	9.4	30.0	42.4
<b>Santander</b>	5.4	10.7	25.3	41.5
<b>Norte de Santander</b>	13.0	8.8	10.8	32.6
<b>Nariño</b>	1.4	7.1	20.5	29.0
<b>Cesar</b>	10.4	6.2	5.3	21.9
<b>Magdalena</b>	8.6	4.9	4.1	17.6
<b>Boyaca</b>	3.6	3.2	4.0	10.8
<b>Guajira</b>	3.1	1.0	1.0	5.1
<b>Caquetá</b>	0.3	1.7	0.7	2.7
<b>Casanare</b>	1.8	0.2	0.6	2.6
<b>Meta</b>	0.4	1.3	0.7	2.4
<b>Chocó</b>	0.0	0.1	0.1	0.2
<b>TOTAL</b>	<b>126.2</b>	<b>218.6</b>	<b>533.9</b>	<b>878.8</b>

1/ Typical variety with density lower than 2,500 trees per hectare

2/ Trees older than 9 years produced in sunny conditions or coffee trees grown in shade that are older than 12 years

3/ Trees younger than 9 years produced in sunny conditions or coffee trees grown in shade that are younger than 12 years

Source:

FEDECAFE

### **Consumption:**

Local coffee consumption remains flat in spite of an increasing number of “Juan Valdez” coffee stores owned by FEDECAFE. By offering a variety of different hot and cold coffee drinks, Juan Valdez stores and other private coffee store brands are targeting the next generation of coffee drinkers and increasing their coffee consumption. Although coffee sales at Starbucks-style cafe outlets such as “Juan Valdez” and “Oma” have increased, coffee consumption in volume is still low at 1.5 kg per-capita consumption, compared with other coffee producing countries such as Brazil, 4.5 kg per-capita consumption. Where Juan Valdez’s marketing efforts really shine is in their promotion of Colombian Coffee overseas.

**Trade:**

Colombian coffee is produced for export, being among the highest-quality coffees in the world. Colombia produces exclusively Arabica with high-quality characteristics, such as hand-picked and washed, and grown in volcanic soils. When a shortage in production occurs the exported market is covered first, which affects the local market resulting in larger import volumes. In MY 2008/09, exports decreased drastically to 8.7 million 60 kg bags from 11.6 million 60 kg bags and imports increased to 700,000 60 kg bags.

According to post sources private exporters lost a great deal of money last year selling on the futures market. Apparently they sold short without securing the contracted volume. As international prices rose, so did domestic prices. This resulted in exporters having to purchase local coffee at prices higher than what the future contracts were worth.

Coffee exports are forecasted to increase to 10.2 million 60 kg bags and imports should decrease to 400,000 60 kg bags in the MY 2009/10, as weather conditions return to normal. Imports of coffee into Colombia are generally of lower quality and come from neighboring countries such as Ecuador and Peru, since Colombian coffee commands a higher price in international markets compared to other Andean regional coffees. Since Colombian high-quality coffee is inaccessible to lower income levels, much of the coffee consumed on the domestic market consists of cheaper blends.

Colombia continues to promote exports of value-added coffee products, including freeze-dried coffee, soluble coffee, coffee pods, and other industrialized coffee products. Colombia is exporting an increasing amount of specialty coffees that offer special characteristics to consumers. Specialty coffees produced in Colombia include that with the fair-trade seal, the rainforest alliance seal, coffee of origin from departments such as Nariño or Huila, coffee produced by indigenous growers, and organic coffees. However, the share of specialty coffees is still below 20 percent of total volume exported.

The United States continues to be the first single market destination of Colombian coffee exports, followed by Japan and Germany, which share 42 percent 15 percent, and 7 percent respectively. In MY 2008/09, the U.S. and Japan gained market share while Germany lost share in Colombian exports.

**Stocks:**

Post's final stocks number in 2008/09 reflects a big decrease from the 1,411,000 60 kg bags in 2007/08, owing to the coffee shortage which drew stocks down and nearly in half to 809,000 bags. It will take a while for stocks to recuperate to former levels, and are expected to hover around 759,000 bags in 2009/10, representing 24 days of exports and local consumption.

**Policy:**

FEDECAFE represents Colombia's coffee sector and administers its programs under a legal agreement with the Colombian government. GOC budget allocations to support coffee growers are managed by FEDECAFE, which designs programs to assist coffee

growers with production and to promote their products. FEDECAFE has traditionally designed programs to help growers improve farm productivity and coffee quality and cope with other factors affecting their income, such as exchange rate fluctuations.

The most important program that supports the coffee growers' income is the minimum price guaranteed to growers. FEDECAFE sets a minimum guaranteed price to producers which is set daily. To reduce production costs, fertilizers are given to coffee farmers as part of the support included in the coffee tree renovation program. For those growers that want to secure the price of their coffee in advance, FEDECAFE offers a program that allows them to register a portion of their expected coffee production, protecting them at harvest time against a fall in coffee prices below 60,000 Colombian Pesos (\$30) per 125 kg. There is also a hedging program available to cover changes in coffee prices due to the Colombian peso appreciation. All these programs are sourced with GOC budget allocations and FEDECAFE's own resources that are provided vis-à-vis a check off program for coffee exports.

Colombia is a very active member of the International Coffee Organization (ICO) which plays a fundamental role in promoting coffee consumption worldwide and ensures coffee quality recognition.

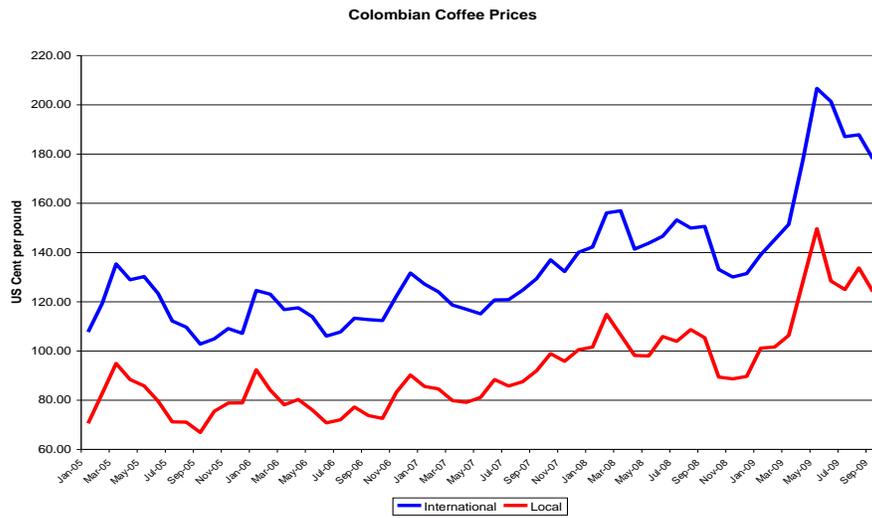
### **Prices**

International coffee prices for Colombian Coffee have been high as a result of the shortage in international supply and particularly due to a premium paid for high-quality Colombian coffee. The price paid to growers follows international price trends due to the automatic price transference to the Colombian coffee grower (see graph 2). The exchange rate has been volatile and strong against the U.S. dollar, causing the peso to strengthen against the US dollar, which has partially offset international coffee price gains. The difference between the international price and the price paid to coffee growers represents transportation and other costs associated with the export process.

### Production, Supply and Demand Data Statistics:

Coffee, Green Colombia	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data		Jan
			Data			Data			Data
Area Planted	780	780	780	780	780	780	780	780	780
Area Harvested	640	640	640	640	640	640	640	640	640
Bearing Trees	2,900	2,900	2,900	2,900	2,900	2,900	2,900	2,900	2,900
Non-Bearing Trees									
Total Tree Population	1,070	1,070	1,070	1,070	1,070	1,070	1,070	1,070	1,070
Beginning Stocks	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970
Arabica Production	1,302	1,302	1,302	1,411	1,411	1,411	461	824	809
Total Production	12,515	12,515	12,515	10,500	11,263	8,664	12,200	12,200	11,000
Bean Imports	12,515	12,515	12,515	10,500	11,263	8,664	12,200	12,200	11,000
Roast & Ground Imports	0	0	0	0	0		0	0	
Soluble Imports	400	400	400	800	400	700	400	400	400
Total Imports	0	0	0	0	0		0	0	
Total Supply	400	400	400	800	400	700	400	400	400
Bean Exports	14,217	14,217	14,217	12,711	13,074	10,775	13,061	13,424	12,209
Rst-Grnd Exp.	10,656	10,656	10,656	10,100	10,100	7,816	10,600	10,600	9,300
Soluble Exports	100	100	100	100	100	100	100	100	100
Total Exports	800	800	800	800	800	800	670	670	800
Rst,Ground Dom. Consum	11,556	11,556	11,556	11,000	11,000	8,716	11,370	11,370	10,200
Soluble Dom. Cons.	950	950	950	950	950	950	950	950	950
Domestic Use	300	300	300	300	300	300	300	300	300
Ending Stocks	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250
Total Distribution	1,411	1,411	1,411	461	824	809	441	804	759
Exportable Production	14,217	14,217	14,217	12,711	13,074	10,775	13,061	13,424	12,209
TS=TD	11,265	11,265	11,265	9,250	10,013	7,414	10,950	10,950	9,750
			0			0			0

Graph 2



Source: FEDECAFE