

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

Required Report - public distribution

Date: 5/14/2014

GAIN Report Number:

Colombia

Coffee Annual

Subsidies Subside as Prices Climb and Production Recovers

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Report Highlights:

Better weather and a more robust harvest of the 2010 replanted areas with rust-resistant varieties, in addition to the initial harvests of the 2011 replanted areas, will increase production to 10.8 million bags (1 bag = 60 kilograms unless otherwise noted) green bean equivalent (GBE) in marketing year (MY) 2013/14, 8.5 percent higher than last year. Production is forecast to increase further in MY 2014/15 to 11.9 million bags GBE if weather remains favorable. The looming *El Niño* phenomenon and likely drought conditions could impact production during the second half of the calendar year.

Executive Summary:

Post estimates that Colombian coffee production will increase to 10.8 million bags GBE in MY 2013/14 (October through September), up from 9.95 million bags GBE the year before. Production is forecast to increase further in MY 2014/15 to 11.9 million bags GBE. Colombia is in the second year of production recovery after four years of lower than average production triggered by inclement weather from the *la Niña* phenomenon and the spread of coffee rust. Since 2010, more than 300 thousand hectares have been replanted with rust resistant varieties with about half of the replanted area becoming economically viable. The National Federation of Colombian Coffee Growers (FEDECAFE) estimates that coffee productivity has risen from 11 bags per hectare in 2012 to 14 bags in 2013. Replanting efforts with rust resistant varieties and the return to more normal weather conditions have continued to support a production recovery, reflected this growing season by a 34 percent increase in coffee production in the first half of MY 2013/14.

The Government of Colombia (GOC) Protection for the Income of Farmers (PIC) subsidy program was established after the January/February 2013 coffee farmer protests and has since distributed about US\$520 thousand in direct payments to compensate for low domestic prices. The PIC payments continue in 2014; however, the recent increases in international coffee prices have stimulated domestic prices above the PIC trigger price (US\$366/125-kg bag). For now, PIC direct payments are on hold.

Domestic prices are set by FEDECAFE and based on the daily quote of the New York Coffee, Sugar and Cocoa Exchange (NYCSCE) less estimated costs for internal transport and administration.

In April 2014, farmers threatened to protest once again, regardless of the rising coffee price. Farmers claimed that the GOC did not honor all the subsidy payments, input costs were too high, and debt burdens insurmountable. A visit from Colombian President Juan Manuel Santos and negotiations with GOC agriculture officials motivated the farmers to stand down. The president announced that the GOC agrarian financial institutions, FINAGRO and the Agrarian Bank, would offer debt relief to all coffee farmers. However, to date, about US\$32 thousand in overdue PIC payments are still being processed.

Colombian coffee exports will parallel production gains. In MY 2013/14, Post estimates that exports will reach 10 million bags GBE, increasing further for MY 2014/15 to 11 million bags GBE.

Weather reports from the Colombian Institute for Meteorology (IDEAM) are indicating the likelihood that the *El Niño* phenomenon will create drought conditions towards second half of 2014, which could stem the ongoing production recovery.

Commodities:

Coffee, Green

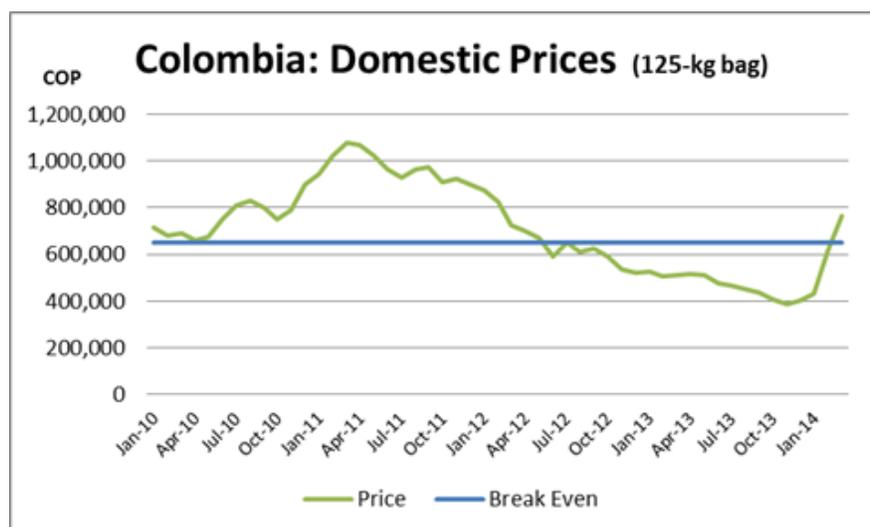
Production:

Post estimates that Colombian coffee production will increase to 10.8 million bags GBE in MY 2013/14, 8.5 percent higher than the previous year. Post forecasts production to increase further in MY 2014/15 to 11.9 million bags GBE -- if the favorable weather conditions remain. Around 300,000 hectares with rust resistant coffee varieties have been replanted since 2010 and near half of that area is currently in mature productive capacity. Although at a lower intensity, the coffee replanting program with rust-resistant varieties continues and will support further increases in production. Since 2013, the weather patterns have returned to more normal conditions, stimulating the production recovery. Production has returned to historical levels of 10 million bags GBE going back to the 1960's, but still below the 2008 peak year of 12.5 million bags GBE.

According National Center for Coffee Research (CENICAFE), climate change has initiated a trend in declining photoperiod, which has impacted flowering and stressed coffee trees, damaging the productive potential. In addition, IDEAM has indicated the *El Niño* phenomenon is on the horizon and will create drought conditions towards second half of 2014, which could stem the ongoing production recovery and affect coffee quality. Drier weather conditions could provoke *broca*, or cherry borer, outbreaks, also impacting coffee quality and exportable supplies.

The rust resistant replanting efforts are now beginning to show results, benefitting further from more normal weather conditions. This recovery is evidenced by the increase in monthly harvest data year-on-year (y-o-y). Coffee production through March 2014 reached 6.0 million bags GBE, a 34 percent increase from the same period a year before.

In spite of the PIC subsidy in 2013, lower prices created challenges for coffee growers to meet debt burdens, thus reducing investments in fertilizers and pest controls. The lack of investments inputs could also have a negative impact on the productive potential of the replanted coffee in the near term.



There are two peak harvest periods during a calendar year of coffee production: the main harvest period from October to December, produces 60 to 70 percent of total production; and, the second harvesting period from April to June, or the “mitaca” crop, harvested mainly in the central coffee region of Colombia. FEDECAFE estimates that there are 553 thousand coffee farmers in Colombia, a figure currently in dispute with some speculation that there are actually about 300-400 thousand.

Approximately 95 percent of Colombia's coffee growers farm on less than 5 hectares of land. Small farmers with less than 5 hectares of land are responsible for approximately 69 percent of coffee production in Colombia.

From 2009-2011, excessive rains from the *la Niña* phenomenon negatively impacted production through creating ideal moisture conditions supporting the spread of rust. The spread of coffee rust affected about 40 percent of the planted area from 2009 to 2011, but has since declined. A coffee replanting program that began in 2010 with the rust-resistant *Castillo* variety (a hybrid of domestic varieties and a variety native to East Timor), in addition to other methods of disease control and improved weather, appears to have managed and reduced the impact of coffee rust. Colombian growers regularly replant on a rotating schedule across landholdings, removing older, less economically viable trees from production. Not all replanting in recent years has been with the *Castillo* variety and farmers have expressed concerns with the *Castillo's* productive efficiency, in terms of kilograms of green coffee per tree, and low cupping quality, a key factor for selling to the premium coffee markets. Many farmers, as a result, continue to plant traditional varieties while applying other methods of disease control, such as the application of fungicides. As well, defensive replanting, such as creating an outer buffer of disease resistant varieties, with more traditional varieties within that buffer, is another method to minimize the impacts from rust. Regardless of the approach, attempts to control coffee rust have been effective. Coffee rust is reported to have only impacted seven percent of planted area in 2013, according to FEDECAFE.

Other production threats remain, such as the *El Niño* phenomenon and coffee cherry borer. There was an influx of spider mites as a result of a volcano eruption in 2012 that decimated the population of lady bugs and other of beneficial insects. Entomologists at CENICAFE worked with extension agents on recommending chemical controls for spider mites, eventually stimulating a rebound in the beneficial insect population.

Rising input costs for harvest laborers, fertilizer and chemical pesticides to address coffee rust and insect pests like the cherry borer, combined with previous low prices paid to growers, have effectively squeezed margins to the point of unprofitability. Labor represents about 40 percent of production costs. According to Post sources, labor costs, critical for harvesting, have risen 10-20 percent in 2013. Utility expenses, such as water and electricity, important for processing coffee, have also increased. The rising costs of labor and utilities have forced producers to make sub-optimal decisions regarding purchasing and using other inputs, such as fertilizers and chemical pest controls, which are key to maintaining coffee quality export standards.

Consumption:

Post estimates a marginal increase coffee consumption, up 100 thousand bags GBE in MY 2013/14, remaining static for MY 2014/15. Consumption remains small at 1.3 million bags GBE. Local coffee consumption is driven by an increasing number of "Juan Valdez" coffee shops or cafes owned by a private consortium associated with FEDECAFE. The Juan Valdez cafes offer a variety of coffee and espresso drinks. Other companies with a presence in this market include Illy and OMA. The mega-coffee retailer Starbucks will start operations in Colombia this year. Expectations are that Starbucks will stimulate competition and perhaps increase overall consumption. Coffee shops in Colombia are primarily oriented towards satisfying the coffee beverage preferences of young professionals. Although

processed and consumer-oriented high quality coffee sales have increased in recent years, the Colombian consumption of green coffee remains marginal.

Trade:

In MY 2013/14, Post expects Colombian coffee exports will increase to 10.1 million bags GBE, up 14 percent from the previous year. Colombian coffee exports have been expanding significantly since 2013 and, as of February 2014, exports increased 34 percent y-o-y, according to FEDECAFE. Post forecasts Colombian coffee exports will increase further to 11 million bags GBE in MY 2014/15, paralleling the recovery in coffee production.

The United States is the major single destination for Colombian coffee, importing 42 percent of all Colombian coffee exports, with Japan, Belgium, and Canada importing 12, 7 and 6 percent, respectively.

As part of a quality differentiation and improvement policy, Colombia is increasingly exporting high quality coffee that meets the cupping and grading expectations for certifications to capture more value added. Value added, specialty coffee now comprises 36 percent of Colombia's total coffee exports. Colombian specialty coffee is booming with certified and organic coffees receiving significant price premiums, typically higher than traditional coffee exports. Coffee denomination of origin labels from specific regions of Colombia, such as Huila and Nariño, are being pushed by the GOC as a strategy for more international recognition and further value added. Colombian specialty coffee growers produce coffee under numerous international programs that provide fair trade and organic certifications such as USDA Organic, UTZ Certified, 4C, and Rainforest Alliance. Protocols vary between growers to maintain the levels of quality that will meet certification standards and continue to be recognized by international buyers. Colombian coffee growers understand value added and quickly incorporate new best practices in production and intermediate processing that will insure high cupping scores and secure premium prices in niche international markets.

In 2014, the monthly average price of Colombian Coffee reached US\$ 211.07 cents per pound in March 2014, a 31 percent increase y-o-y. In addition, as of April 2014, the Colombian peso depreciated 5 percent against the dollar, which will help stimulate exports.

Stocks:

The estimated inventory of coffee at the end of MY 2013/14 totaled 985 thousand bags GBE, or about 9 percent of the total harvest. There exists no GOC or FEDECAFE policy to support large scale carry-over stocks of coffee. In MY 2014/15 inventory is forecast to reduce to 750 thousand bags GBE due to higher prices.

Policy:

The coffee sector has historically played a large role in Colombia's economic success, providing a livelihood for an estimated 500 thousand producers and their families, providing FEDECAFE with significant political influence. A majority of growers are members of FEDECAFE and take advantage

of the organization’s educational programs, technical training, and sales support. FEDECAFE purchases coffee from its members at an internal price which parallels the international commodity market less some administrative and internal transport expenses.

Colombian coffee growers, facing considerable financial difficulties, initiated protests on February 25, 2013 to demand that the GOC recognize the sector’s hardships and provide financial assistance. The negotiations resulted in an agreement by the GOC to establish a minimum internal floor price per bag paid to growers and an increased subsidy in the form of a direct payment to close the gap between the floor price and the growers’ break-even point.

The PIC subsidy agreement took effect on March 18, 2013, ensuring growers a minimum direct payment when the price paid to grower fell below COP700 thousand (US\$363). Towards the end of April 2014, the internal FEDECAFE price per bag was COP863 thousand (US\$447), above the PIC price floor trigger. The government, therefore, has suspended the program. Since March 2013, the GOC has paid out about US\$520 thousand to farmers under the PIC.

In April 2014, farmers threatened to protest once again, regardless of the rising coffee price. Farmers claimed that the GOC did not honor all the subsidy payments, input costs were too high, and debt burdens insurmountable. A visit from Colombian President Juan Manuel Santos and negotiations with GOC agriculture officials motivated the farmers to stand down. The president announced that the GOC agrarian financial institutions, FINAGRO and the Agrarian Bank, would offer debt relief to all coffee farmers. However, to date, about US\$32 thousand in overdue PIC payments are still being processed.

Other GOC and FEDECAFE programs to assist growers have focused on controlling coffee rust with the long-term goal of restoring coffee production to historical averages above 10 million bags GBE. FEDECAFE manages low interest loan programs for the costs of replanting; however, loans are allegedly only offered for planting the rust resistant *Castillo* variety. This has caused some discontent with growers that would like access to loans to plant other varieties, given issues with the *Castillo* yields and cupping quality. The GOC also offers financial assistance for all agricultural commodities through the Rural Funding Incentive which provides loans with discounted payback terms.

Production, Supply and Demand Data Statistics:

Coffee, Green Colombia	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	780	780	780	780		780
Area Harvested	640	640	640	640		640
Bearing Trees	2,900	2,900	2,900	2,900		2,900
Non-Bearing Trees	1,070	1,070	1,070	1,070		1,070

Total Tree Population	3,970	3,970	3,970	3,970		3,970
Beginning Stocks	249	249	769	820		985
Arabica Production	9,925	9,953	10,000	10,800		11,900
Robusta Production	0	0	0	0		0
Other Production	0	0	0	0		0
Total Production	9,925	9,953	10,000	10,800		11,900
Bean Imports	590	590	700	700		700
Roast & Ground Imports	0	0	0	0		0
Soluble Imports	60	60	50	50		50
Total Imports	650	650	750	750		750
Total Supply	10,824	10,852	11,519	12,370		13,635
Bean Exports	8,100	8,100	9,000	9,300		10,800
Rst-Grnd Exp.	85	82	75	85		85
Soluble Exports	670	650	700	700		700
Total Exports	8,855	8,832	9,775	10,085		11,585
Rst,Ground Dom. Consum	900	900	900	900		900
Soluble Dom. Cons.	300	300	300	400		400
Domestic Use	1,200	1,200	1,200	1,300		1,300
Ending Stocks	769	820	544	985		750
Total Distribution	10,824	10,852	11,519	12,370		13,635