

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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Colombia

Coffee Semi-annual

Production Recovery Continues as Prices Rebound

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Report Highlights:

Colombian coffee production in marketing year (MY) 2014/15 is expected to increase to 12.3 million bags (1 bag = 60 kilograms – unless otherwise noted), green bean equivalent (GBE), slightly above Post's estimate of 11.9 million bags in May 2014. Drought conditions from the *El Niño* phenomenon were predicted for the second half of 2014; however, weather conditions remain normal with little impact on production. Exports are forecast to increase to 11.3 million bags in MY2014/15, a marginal increase from the May 2014 estimate of 11 million bags.

Executive Summary:

Colombian coffee production will increase to 12.3 million bags GBE in MY2014/15 (October through September), slightly up from Post's previous estimate of 11.9 million bags. The rust resistant variety replanting program initiated in 2010 has expanded to about 490 thousand hectares or just over 50 percent of the total coffee area planted. The expansion of planting the rust resistant variety has continued to sustain the production recovery since the low of 7.7 million bags GBE in MY2011/12.

Colombian coffee exports are expected to increase to 11.3 million bags GBE in MY 2014/15, slightly above the May 2014 estimate of 11 million bags. Given the production recovery, Colombian coffee imports in MY2014/15, originating primarily Ecuador and Peru, will decline from 575 to 350 thousand bags.

The domestic price is set by the National Federation of Colombian Coffee Growers (FEDECAFE) and based on the daily quote of the New York Coffee, Sugar and Cocoa Exchange less an estimated cost of internal transport and administration. Domestic prices have recovered after a downward trend over the past two years with prices up 65 percent in the last 12 months. The average domestic price in October 2014 was Colombian Pesos (COP) 820,000 (USD 395) per 125 kilogram bag (domestic unit of sale for coffee) with production costs estimated between COP 530,000-700,000 (USD 250-330) per 125 kilogram bag. The Coffee Grower Income Protection (PIC) direct payment subsidy program continues even though domestic prices have been above the PIC trigger price: COP 700,000 per 125 kilogram bag. Payments are currently suspended and it is unclear if the GOC will maintain the program in 2015.

Commodities:

Coffee, Green

Production:

Colombian coffee production was 12.1 million bags GBE in MY2013/14, 12 percent above Post's estimate of 10.8 million bags. Production is estimated to increase in MY2014/15, reaching 12.3 million bags, slightly above the May 2014 estimate of 11.9 million bags. Weather reports from the Colombian Institute for Meteorology indicated the likelihood that the *El Niño* phenomenon would create drought conditions towards second half of 2014; however, weather conditions remain normal and no impacts on production are evident. Thus, the production recovery continues as harvesting expands to more planted area of the rust resistant variety, *Castillo*. The rust resistant *Castillo* variety is an Arabica hybrid of a native East Timor coffee variety with the local "Colombia" variety and was developed by FEDECAFE's Center for Coffee Research (CENICAFE). Colombia produces entirely Arabica coffees and in addition to *Castillo* and "Colombia" variety, growers also cultivate *caturrea*, *borbón*, and *pajarito*.

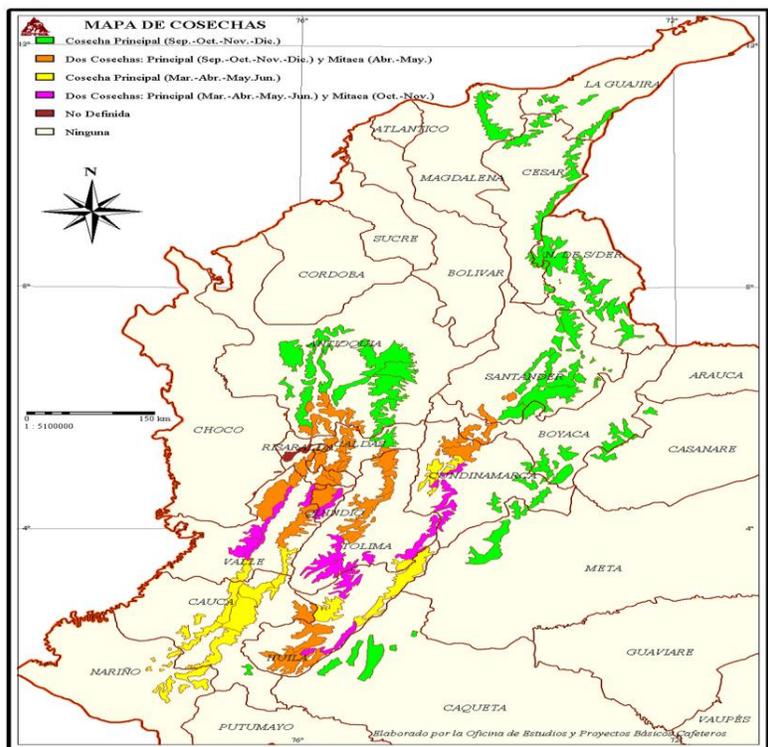
The program to replant with rust resistant *Castillo* coffee continues and roughly more than 3 million rust resistant coffee trees have been planted since 2009. Moreover, the replanting effort has expanded to about 490 thousand hectares (or 63 percent of planted area) with an increasing tree density averaging from 5 to 5.7 thousand trees per hectare. Greater tree planting density has also contributed to productivity gains, up 26 percent this year. Rust resistant coffee now represents about 60 percent of the total tree population and the incidence of coffee rust is estimated to be below 5 percent. In addition,

new varieties developed at CENICAFE have also demonstrated improved adaptability and durability to changes in climate conditions.

Not all replanting in recent years was with rust resistant varieties and farmers have expressed concerns about the *Castillo* variety's productive efficiency and cupping quality. 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 that has minimized the impacts from rust.

Production will continue to expand in southern Colombia, primarily in the departments of Huila, Cauca and Nariño. The share of production in the south has increased from 19 to 30 percent over the last decade. Southern Colombia is also recognized for producing some of the best quality coffees that win domestic and international cupping competitions. As a result, Huila, Cauca and Nariño have initiated denomination of origin branding strategies to differentiate their product and attract international buyers that pay significant premiums.

The map below illustrates the coffee producing regions of Colombia. The geography and topography of Colombia are unique with three mountain ranges that trifurcate the country from north to south, creating multiple micro-climates and ideal conditions for coffee production. Moreover, Colombia's proximity to the equator and ample photoperiod support harvesting coffee almost year-round.



Source: FEDECAFE

Consumption:

Driven by an increasing number of coffee drink franchises, domestic consumption is estimated to reach 1.4 million bags GBE for MY2014/15, slightly higher than Post's May 2014 estimate of 1.3 million bags. In July 2014, the Starbucks Coffee Company opened the first store in Bogota with plans to expand to 50 stores throughout Colombia by 2019. Starbucks has pledged to exclusively source Colombian coffee for all their domestic franchises. Starbucks will provide stiff competition against the established Juan Valdez coffee franchise, owned by a consortium that includes FEDECAFE. Juan Valdez opened 21 stores in 2013 with a total of 170 stores across 22 cities in Colombia's major urban markets. Other coffee drink purveyors with a presence in Colombia include the Italian franchise *Illy* and another local chain, *OMA*. Although high quality coffee sales have increased in recent years, Colombian coffee consumption remains trivial compared to other coffee producing countries.

Trade:

Colombian coffee exports are expected to increase to 11.3 million bags GBE in MY 2014/15, slightly above the May 2014 estimate of 11 million bags. The United States is the major single destination for Colombian coffee, importing 42 percent of all Colombian coffee exports, with the EU and Japan importing 30 and 11 percent respectively. Colombia continues to expand trade to new consumer markets, such as Saudi Arab, Ukraine, and Thailand. As well, Colombia is now exporting to major coffee producing countries, such as Brazil and Indonesia.

Prices for Colombian coffee in international markets increased 35 percent per pound in MY2013/14 and with a weaker Colombian peso against the U.S. dollar, average prices received by growers increased 65 percent per 125 kilogram bag.

Stocks:

The calculated inventory of coffee at the end of MY2013/14 totaled 1.3 million bags, or about 11 percent of the total harvest. The increase in stocks is the result of the increasing production above export commitments. In MY2014/15, stocks will remain unchanged at 1.3 million bags.

Policy:

The GOC policies supporting the coffee sector are currently under public scrutiny based on the findings of a recent report that proposed structural changes to FEDECAFE and its methods of market intervention. The coffee sector receives the highest levels of support from the GOC compared to other sectors with estimated subsidies at USD 1 billion over the last two years. The level of support, nevertheless, can be attributed to the importance of the sector towards rural livelihoods. There are an estimated 500 thousand farmers whose livelihoods depend on coffee production. About 95 percent of the coffee farms produce on 5 or less hectares of land and account for approximately 70 percent of total production. Coffee production, therefore, is ostensibly critical to rural employment and maintaining the economic well-being of rural families.

The current favorable exchange rate and higher coffee prices have reversed the challenging economic climate over last two years that negatively impacted grower livelihoods and motivated nationwide coffee farmer protests in February 2013, forcing the GOC to establish the PIC subsidy program. The PIC currently provides a variable direct payment to cover the difference between the domestic price and the trigger price (COP 700,000), which represents an upper range of the estimated costs of production. Since March 2014 prices have been above the trigger price resulting in no payments to growers. As a result, the GOC has not yet committed to an extension of the PIC in 2015.

The GOC has a policy arrangement with FEDECAFE authorizing the organization to administer a check-off of about USD 0.06 cents per pound of exported coffee to fund operations. Funds support a variety of programs that help growers, including CENICAFE’s coffee research, investigation, and extension assistance, and financial and marketing support. FEDECAFE controls the domestic price paid to growers, which serves a floor price in the absence of quality and certification premiums. In addition, FEDECAFE has developed initiatives to help coffee growers handle the financial risk associated with changes of international coffee prices and exchange rates. Under certain pricing conditions, a grower can provide an estimated sales price in Colombian pesos to FEDECAFE and at the eventual point of sale, should that price be impacted by adjustments in the exchange rate, FEDECAFE will cover the difference. As well, FEDECAFE assists growers with establishing futures contracts with the regional coffee cooperatives.

Marketing:

Colombia continues to promote product differentiation for high quality, Arabica coffee, either through denomination of origin branding and/or through a variety of environmental/social certifications that support more value added. Value added coffee, and in particular high quality, “specialty” coffees, are one third of Colombia’s total exports. Colombian high quality coffee is booming with geographical branding and certified organic coffees receiving significant price premiums. Colombia hosts the world renowned Cup of Excellence contest where small-scale farmers can showcase their high quality coffees to international buyers and receive significant premiums.

Colombian 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 international markets.

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	780
Area Harvested	640	640	640	640	640	640

Bearing Trees	2,900	2,900	2,900	2,900	0	2,900
Non-Bearing Trees	1,070	1,070	1,070	1,070	0	1,070
Total Tree Population	3,970	3,970	3,970	3,970	0	3,970
Beginning Stocks	249	249	771	771	271	1,295
Arabica Production	9,927	9,927	11,000	12,124	12,000	12,300
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	9,927	9,927	11,000	12,124	12,000	12,300
Bean Imports	590	590	500	500	500	300
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	60	60	75	75	50	50
Total Imports	650	650	575	575	550	350
Total Supply	10,826	10,826	12,346	13,470	12,821	13,945
Bean Exports	8,100	8,100	10,000	10,000	10,500	10,500
Rst-Grnd Exp.	85	85	75	75	75	75
Soluble Exports	670	670	800	800	700	700
Total Exports	8,855	8,855	10,875	10,875	11,275	11,275
Rst,Ground Dom. Consum	900	900	900	1,000	900	1,100
Soluble Dom. Cons.	300	300	300	300	300	300
Domestic Use	1,200	1,200	1,200	1,300	1,200	1,400
Ending Stocks	771	771	271	1,295	346	1,270
Total Distribution	10,826	10,826	12,346	13,470	12,821	13,945