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## **Colombia**

### **COFFEE ANNUAL**

#### **Coffee Production and Exports will Reduce**

**Approved By:**

Elizabeth Mello, Agricultural Attaché

**Prepared By:**

Leonardo Pinzon, Agricultural Specialist

**Report Highlights:**

Colombian coffee production is expected to decline by 1.3 million 60 kg bags in MY 2008/2009. Exports are also expected to fall by 556,000 60 kg bags due to lower production. Reduced international stocks of Colombian coffee increased the value of premiums received by the grower. Production and exports are forecast to recover to 12,2 and 11,4 60 kg bags respectively in MY 2009/2010 as weather normalizes and the world economy recovers.

**Executive Summary:**

Colombian coffee production is expected to decline to 11.3 million 60 kg bags in MY 2008/2009 mainly due to severe rainfall, and reinforced by the renovation of over 200,000 hectares of coffee trees in the last two years. Post forecasts a recovery in production to 12.2 million 60 kg bags in MY 2009/2010 as weather conditions returns to normal, producer incomes increase due to increasing international coffee prices and as farmers continue to receive support from the

government.

Colombian coffee exports are expected to decrease 556,000 60 kg bags to 11.0 million 60 kg bags in MY 2008/2009, in spite of the reduction in coffee production. International prices for Colombian coffee are currently at their highest levels since 1998, and the peso devaluation against the dollar is encouraging coffee exports. In turn, coffee stocks are also expected to decline by 584,000 60 kg bags, and post expects that imports will continue to meet part of the local coffee consumption.

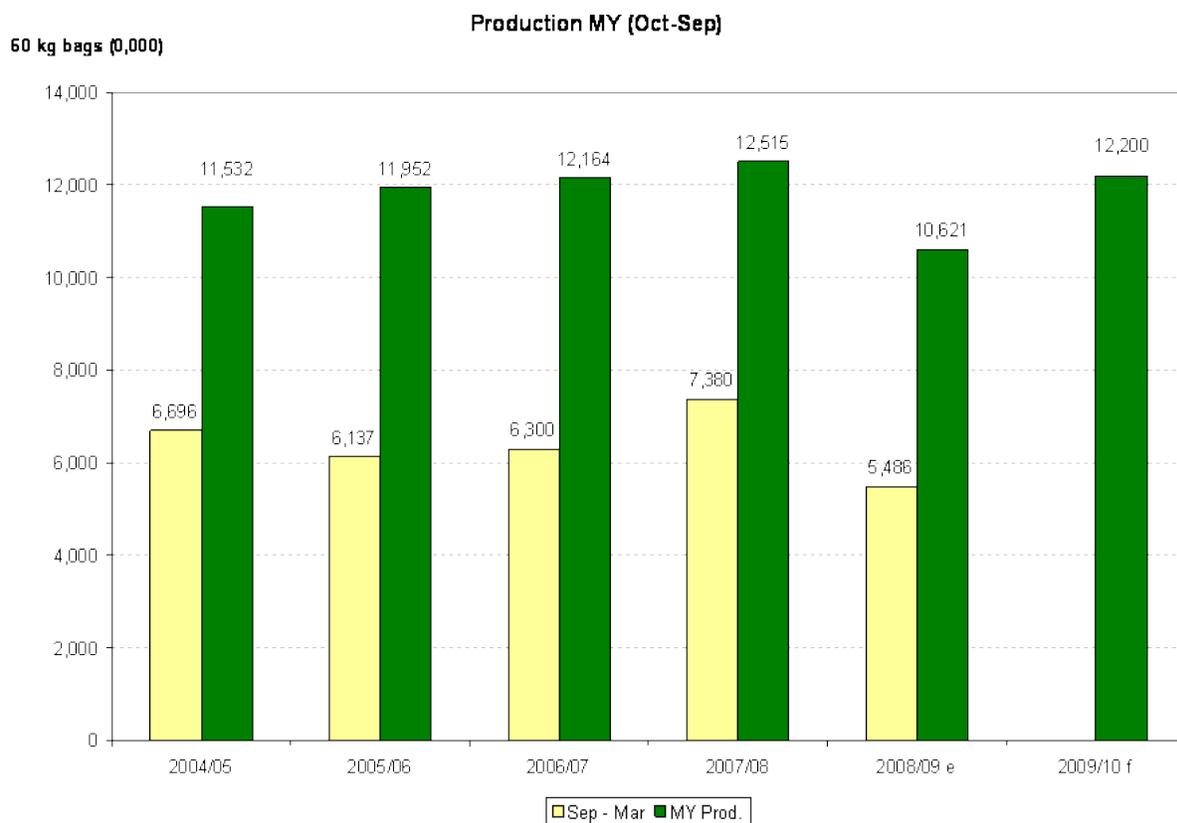
International high-quality coffee stocks are lower and because of that the premium paid to Colombian coffee has increased to levels that reached 77 cent per pound in the last week of April. This premium level for Colombian coffee is considered abnormal according with historical parameters, and would decline to normal levels if coffee supplies increase.

The government continues to support coffee growers and added the new "Fertifuturo" program to the stimulus package. This program operates as a credit line that provides loans to growers at no cost for purchasing fertilizers to cope with increased production costs.

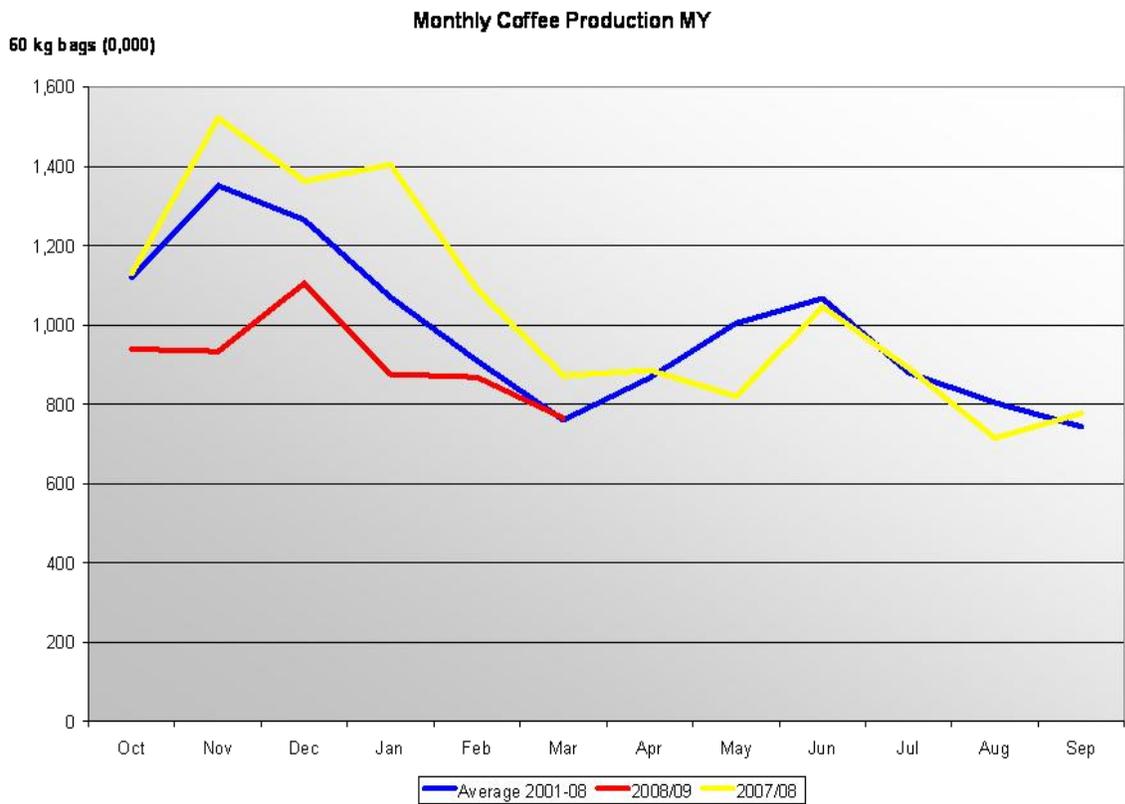
## **Commodities:**

### **Production:**

In MY 2007/2008, Colombian Coffee reached a production peak of 12,515 million 60 kg bags, 351,000 60 kg bags above the previous year. It is expected that production will decline to 11,263 million 60 kg bags in MY 2008/2009 and post forecasts a recovery in production to 12,200 million 60 kg bags in MY 2009/2010.

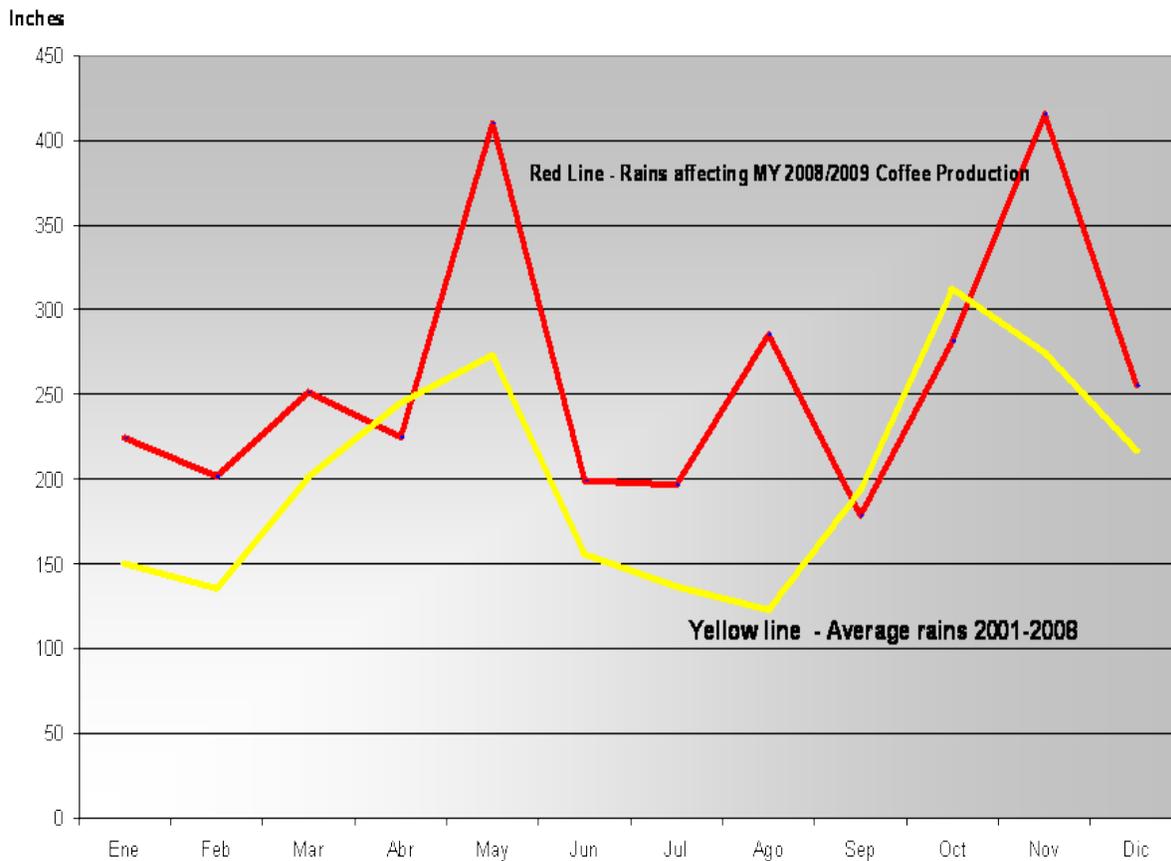


Three main factors are impacting the reduction expected in production for MY 2008/2009. First, the stronger rains damaged coffee tree blossoms which impacted coffee grain production. Second, the coffee tree renovation program, which is aimed to replace 60,000 hectares per year, replaced old and less productive coffee trees (see policy section). Finally, the increase in fertilizer prices that forced growers to reduce applications, which has negatively impacted yields.



The graph above shows the coffee production during the first half of the MY 2008/2009 is already 1.9 million 60 kg bags lower than a year before and 1.0 million 60 kg bags below than the previous 8 year average.

### Monthly Rainfall in Colombian Coffee Region



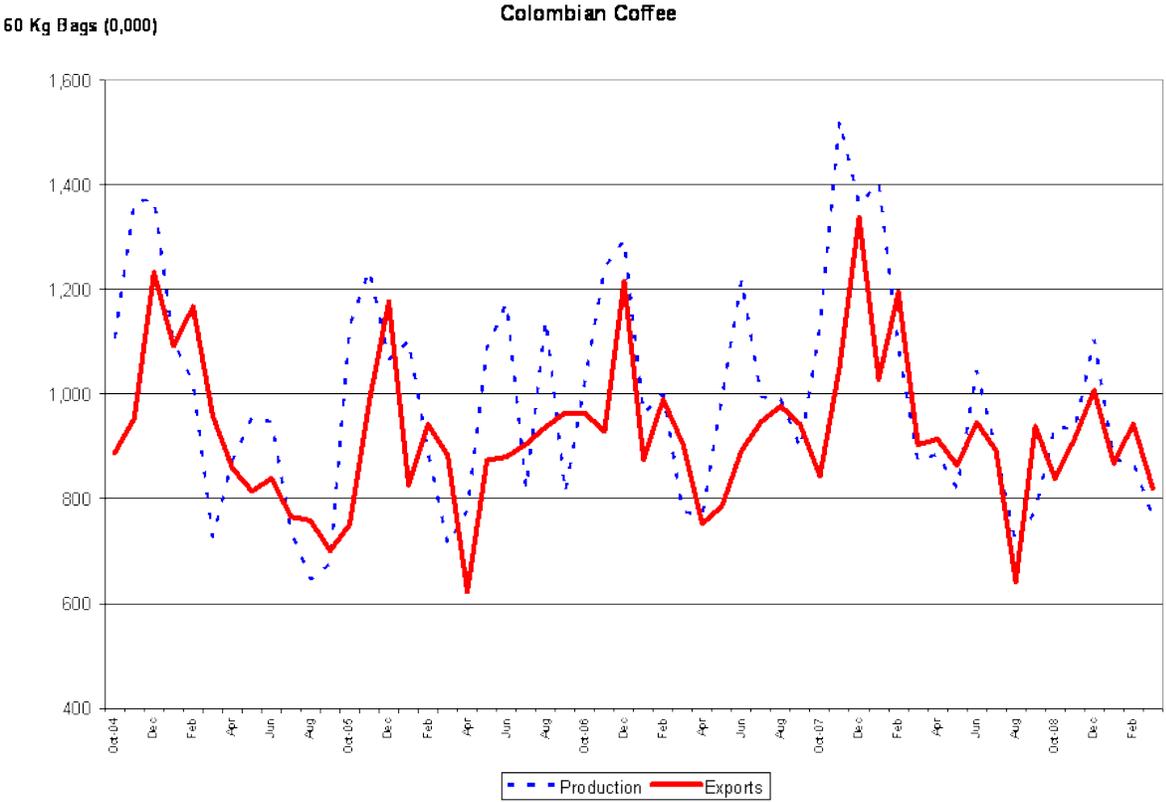
Severe rainy spells negatively affect coffee production because coffee trees need caloric-stress for its well flowering process and coffee bean formation. Lower flowering results in reduced coffee tree bean loading, which in turn determines the coffee tree's bean yields. Therefore, higher than the average and continuous rainfall that occurred in 2008 and the beginning of 2009 impacted coffee region lowering coffee production for MY 2008/2009. The latest weather forecast for the central coffee region is for more neutral precipitation in the near future which would result in increased coffee production in MY 2009/2010.

#### **Consumption:**

Colombian local coffee consumption is almost stagnant at 1.2 million bags. The National Coffee Growers Federation (FEDECAFE) considers there is a potential for growing consumption in the segment of specialty coffees. The rapid expansion of the "Juan Valdez" coffee stores is capturing a niche of young people that are drawn to more sophisticated coffee drinks. FEDECAFE is committed to promoting local consumption and increasing per-capita coffee consumption, which is far below per-capita consumption of other producing countries.

#### **Trade:**

Colombian coffee production is principally oriented towards external markets that pay a premium for its quality. Colombian coffee quality has become recognized as coffee of origin, and has secured a strong position that helps sustain a premium price. On average, above 90 percent of Colombian coffee production is sold to external markets. Eighty percent of the coffee exported is green coffee (washed and dried coffee beans, also called parchment coffee), and the remaining is specialty (organic, farm identified origin, special size and shape coffee beans) and processed coffee (freeze-dried and instant coffee).



Total Colombian coffee exports on a green-equivalent basis reached 11.6 billion 60 kg bags in MY 2007/2008, higher by 379,000 60 kg bags over the year before. The United States is the largest market for Colombian coffee exports, which received 36.2 percent of total Colombian coffee exports, followed by Japan with 12.3 percent and Germany with 11.9 percent. Colombian coffee exports are expected to fall to 11.0 million 60 kg bags in MY 2008/2009 and then increase to 11,3 million 60 kg bags in MY 2009/2010.

In 2008, the average price for Colombian coffee was \$1.45 per pound, 19 cents above the previous year's average. The higher price paid to Colombian coffee reflected a reduction in international stocks of high quality coffee, particularly Colombian Arabica-washed quality coffee, according to the International Coffee Organization (ICO). It caused the premium price paid for Colombian coffee, which is the only coffee that receives a premium price, reached 77 cents per pound during the last week of April. Colombian coffee is used by the coffee industry to blend with coffees of low quality and improve the final product quality.

FEDECAFE is working with ICO to differentiate high-quality coffee to sustain better prices for Colombian producers, and as a result of these efforts, Colombian coffee gained the

recognition of Coffee of Origin recognition. International prices paid for Colombian coffee have remained above \$1.00 per pound since December 2004.

Colombia imported 400,000 bags of coffee to supply local industry needs for local consumption. The main supplier was Ecuador, followed by Peru. Together they accounted for 99 percent of the total market.

**Stocks:**

Colombia's stock/inventory averaged 1.4 million bags in 2007/08, which represented 44 days of exports. In MY 2008/2009, Colombia is expected to reduce its stocks to 28 days of exports given that the high international prices encourage exports.

**Policy:**

**International Coffee Organization (ICO)**

FEDECAFE considers expanding ICO's membership to consumer and producer countries a key marketing policy to assure sustainability in the world coffee sector and particularly to strengthen Colombian's coffee position in the world market, making it more competitive. ICO policies to enhance coffee quality differentiation and promote coffee consumption are benefiting coffee trade.

**Support**

The Colombian government has maintained a minimum price support program for coffee growers that increased three times in 2007 from 330,000 pesos (\$184.60) to 420,000 pesos (\$234.90) per 125 kg bag to secure growers' incomes in the event of a price reduction. International prices have remained high since 2004 and Colombian coffee prices paid to growers have been above the minimum trigger price, so the program has not been used.

In 2007, FEDECAFE launched the second tranche of the coffee tree-renovation program, which targets the renovation of 300,000 hectares, in addition to the area renovated under the first renovation program tranche, and is currently being implemented. Approximately 120,000 hectares of coffee trees were replaced during the two first years. The government financial institution FINAGRO provides farmers credit of up to 4.5 million Colombian pesos, \$2,520 per hectare to renew coffee trees. The Government forgives 40 percent of the principal and FEDECAFE pays the interest. In order for the small coffee farmer to be able to receive the credit and its benefits, FEDECAFE created the National Coffee Guarantee Fund that serves as collateral for farmers' loans.

In 2008, FEDECAFE designed a new program that assigns credit to growers at no cost for purchasing fertilizers, maintaining good production practices, and to avoid coffee tree damage and losses in productivity. The program has granted loans valued at US\$ 1.7 million as of March 2009.

**U.S. – Colombia Free Trade Agreement**

The free trade agreement (CTPA) signed in late November, 2006 between the United States and Colombia is pending ratification in the U.S. congress. The CTPA will provide Colombian exports an immediate reduction of duties on coffee substitutes and preparations, essences, extracts or concentrates with a coffee base. Some of these products will be assigned TRQs, such as sugar-containing products with coffee flavor.

The CTPA will give U.S. exports a five-year phase-out period for extracts or concentrates and its preparations with a coffee base, and ten years for products containing sugar with coffee flavor.

**Marketing:**

FEDECAFE, the National Growers Coffee Federation, is aimed to positioning differentiated, high quality Colombian Coffee worldwide. Its strategy ranges from the farm level with an extensive network of field offices to provide coffee growers improved seeds and teach them how to maintain best practices at the farm level, including training in the washing and drying coffee process.

FEDECAFE has a coffee research center (CENICAFE), which has developed improved seeds, a variety of tools, and advanced scientific research on the coffee genome. Lately, FEDECAFE's regional committees started supporting young members of the coffee growers' families to become experts in grading coffee quality.

In a joint effort FEDECAFE and international roasters are promoting the "100% Colombian coffee" program by offering to consumers coffee brands containing 100 percent Colombian coffee origin.

The Colombia's coffee brand "Juan Valdez" has been playing a key role not only in positioning the quality recognition of Colombian coffee but also in reaching consumers with value added Colombian coffee products. Juan Valdes stores, which promote the program, have opened 130 locations worldwide so far and have plans for more expansion.

Colombian coffee growers participate in international coffee contests where they have obtained the best quality recognition and have received prices for specialty coffees that have reached up to US\$ 21 per pound for coffee of origin from a specific coffee plantation.

**Production, Supply and Demand Data Statistics:**

| Coffee, Green<br>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 |       |                 |
|                           | Annual Data Displayed       |       | New Post | Annual Data Displayed       |       | New Post | Annual Data Displayed       |       | Jan             |
|                           |                             | Data  |          |                             | Data  |          |                             | Data  |                 |
| Area Planted              | 780                         | 780   | 780      | 780                         | 780   | 780      |                             | 780   | (1000 HA)       |
| Area Harvested            | 640                         | 640   | 640      | 640                         | 640   | 640      |                             | 640   | (1000 HA)       |
| Bearing Trees             | 2,900                       | 2,900 | 2,900    | 2,900                       | 2,900 | 2,900    |                             | 2,900 | (MILLION TREES) |
| Non-Bearing Trees         | 1,070                       | 1,070 | 1,070    | 1,070                       | 1,070 | 1,070    |                             | 1,070 | (MILLION TREES) |
| Total Tree Population     | 3,970                       | 3,970 | 3,970    | 3,970                       | 3,970 | 3,970    |                             | 3,970 | (MILLION TREES) |
| Beginning Stocks          | 1,302                       | 1,302 | 1,302    | 1,070                       | 1,070 | 1,411    |                             | 824   | (1000 60 KG)    |

|                        |        |        |        |        |        |        |  |  |        |                   |
|------------------------|--------|--------|--------|--------|--------|--------|--|--|--------|-------------------|
|                        |        |        |        |        |        |        |  |  |        | BAGS)             |
| Arabica Production     | 12,392 | 12,392 | 12,515 | 12,250 | 12,250 | 11,263 |  |  | 12,200 | (1000 60 KG BAGS) |
| Robusta Production     | 0      | 0      | 0      | 0      | 0      | 0      |  |  | 0      | (1000 60 KG BAGS) |
| Other Production       | 0      | 0      | 0      | 0      | 0      | 0      |  |  | 0      | (1000 60 KG BAGS) |
| Total Production       | 12,392 | 12,392 | 12,515 | 12,250 | 12,250 | 11,263 |  |  | 12,200 | (1000 60 KG BAGS) |
| Bean Imports           | 0      | 0      | 0      | 0      | 0      | 0      |  |  | 0      | (1000 60 KG BAGS) |
| Roast & Ground Imports | 400    | 400    | 400    | 400    | 400    | 400    |  |  | 400    | (1000 60 KG BAGS) |
| Soluble Imports        | 0      | 0      | 0      | 0      | 0      | 0      |  |  | 0      | (1000 60 KG BAGS) |
| Total Imports          | 400    | 400    | 400    | 400    | 400    | 400    |  |  | 400    | (1000 60 KG BAGS) |
| Total Supply           | 14,094 | 14,094 | 14,217 | 13,720 | 13,720 | 13,074 |  |  | 13,424 | (1000 60 KG BAGS) |
| Bean Exports           | 10,874 | 10,874 | 10,656 | 10,600 | 10,600 | 10,100 |  |  | 10,600 | (1000 60 KG BAGS) |
| Rst-Grnd Exp.          | 100    | 100    | 100    | 100    | 100    | 100    |  |  | 100    | (1000 60 KG BAGS) |
| Soluble Exports        | 800    | 800    | 800    | 800    | 800    | 800    |  |  | 670    | (1000 60 KG BAGS) |
| Total Exports          | 11,774 | 11,774 | 11,556 | 11,500 | 11,500 | 11,000 |  |  | 11,370 | (1000 60 KG BAGS) |
| Rst,Ground Dom. Consum | 950    | 950    | 950    | 950    | 950    | 950    |  |  | 950    | (1000 60 KG BAGS) |
| Soluble Dom. Cons.     | 300    | 300    | 300    | 300    | 300    | 300    |  |  | 300    | (1000 60 KG BAGS) |
| Domestic Use           | 1,250  | 1,250  | 1,250  | 1,250  | 1,250  | 1,250  |  |  | 1,250  | (1000 60 KG BAGS) |
| Ending Stocks          | 1,070  | 1,070  | 1,411  | 970    | 970    | 824    |  |  | 804    | (1000 60 KG BAGS) |
| Total Distribution     | 14,094 | 14,094 | 14,217 | 13,720 | 13,720 | 13,074 |  |  | 13,424 | (1000 60 KG BAGS) |