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## Honduras

### COFFEE ANNUAL

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**Report Highlights:**

Honduras is the second biggest producer of coffee in Central America. Production in 2007/08 reached 3.8 million 60 kg. bags. About 256,000 60 kg bags of specialty, certified, and organic coffee were produced, up 200 percent from those of 2005/06. Honduras participated for the successive fifth year in the “Cup of Excellence” competition. Through the competition, Honduras obtained the best price average per pound of coffee and the highest total value sold via the electronic auction in the last five years. In 2008/09, production is estimated to reach 4.1 million 60 kg. bags although the current international financial crisis could affect production.

**Executive Summary:**

Sixty-one percent of Honduran coffee production is grown in the mountains between 2,700 and 3,600 feet above sea level, 23 percent in areas from 3,600 to 4,800 feet above sea level, and 16 percent in areas 1,500 to 2,700 feet above sea level. Coffee is grown in 15 of the 18 states and in 213 out of the 298 municipalities of Honduras.

The coffee sector provides employment to 30 percent of the population and generates much needed foreign exchange. Two million people directly participate in the coffee harvest. They are paid about US\$71 million, distributed nationwide over a period of four months. Besides picking the beans, there are other activities such as fertilizer application, shade control, cleaning, drying, commercialization and transport, which provide other employment. More than 100,000 families in the rural areas live off of coffee production. At the macroeconomic level, coffee exports contribute 25 percent of the agricultural domestic product. Coffee is a major source of foreign exchange, representing 15 percent of total export value.

Export value for the 2007/2008 harvest reached US\$594 million, which was 26 percent higher than the earnings from the 2006/2007 harvest. Production in 2007/2008 was on the upswing due to the greater utilization of inputs such as of fertilizer, and the implementation of assistance programs developed by the Honduran Coffee Institute (IHCAFE). In addition, the improvement in the price of coffee was an incentive to farmers to increase productivity. The average New York Coffee Stock Exchange price for the 2007/2008 harvest was US\$134 per 46 kg. bag compared to the average price of US\$118 in 2006/2007.

During 2007/2008, exports of specialty and certified coffee increased 200 percent from those of 2005/2006. Honduras participated for the fifth successive year in the "Cup of Excellence". Through the competition, Honduras received the best price average per pound of coffee; and the highest total value sold by the electronic auction in the last five years.

Honduran coffee production in 2009/2010 is forecast at 4.0 million bags (60 kilograms), a slight decrease from the previous year. Exports in 2009/2010 are forecast at 3.6 million 60 kg. bags.

The forecast is taking into consideration the impact that the financial crisis might have on the coffee market. Coffee producers tend to do not pay much attention to their farms when coffee sales are low. This would have an impact in lowering production.

### **Commodities:**

Asparagus, Fresh

### **Production:**

IHCAFE data indicates that the 2009/2010 harvest is expected to reach 4.0 million 60 kg bags. This forecast year is favorable in the biennial cycle of production. However, the financial crisis will likely have an impact on production. Coffee producers tend to reduce expenses, reducing fertilizer use, hiring fewer employees who work shorter hours, picking fewer cherries and pruning trees to allow better growth and greater commercial value in three years. Production for the 2008/2009 harvest is estimated at 4.1 million bags. The success of the 2007/2008 harvest was due to the work of the IHCAFE and the coffee producer organizations in increasing production through the renewal of plantations, the provision of fertilizers, and through the implementation of a national integrated pest management program.

Through a trust fund, IHCAFE bought fertilizers and sold them at a discount and on credit, with payment not due for one year. Coffee producers did not expand the planted area. Instead, they invested in their plantations. The application of the fertilizer, the provision of new seeds, the improvement of planting density, soil conservation and the incentive of higher coffee prices motivated producers to pay better attention to their farms and to increase productivity.

Production of "value-added" coffee is also increasing. More than 256,000 60 kg bags of specialty, certified, and organic coffee were produced, increasing exports of these categories by 200 percent from those of 2005/06. This production was under programs managed by Utz Kapeh Certified, Rain Forest Alliance, Fair Coffee and Organic Coffee.

**Consumption:** According to IHCAFE, domestic consumption generally increases about 3 percent annually. However, in 2009/2010 it is forecast to remain the same. Even though there is a proliferation of coffee bars, the financial crisis is affecting consumption. Consumers are decreasing their visits to shopping malls where most of the coffee bars are located. During the first two months of 2009, consumption has decreased 27 percent compared to the same period last year. Other coffee bars are located in supermarkets, hospitals and main business streets, but less frequented. Nonetheless, a wide range of the Honduran population is young and these Hondurans are consuming more and different types of coffee (e.g., "frozen" coffee drinks). Particularly, these coffee bars specialize in providing customers with free wireless internet service, which especially attracts high school and university students.

**Trade:**

Coffee exports for 2008/2009 are estimated at 3.6 million 60 kg. bags. Exports in 2009/2010 are forecast to remain at 3.6 million 60 kg. bags due to the fallout from the international financial crisis.

Export value for 2007/2008 reached US\$594 million, which is 26 percent higher than that from the 2006/2007 harvest. Exports to Germany, the U.S., Belgium, South Korea, Italy, Japan, Sweden, Spain and France represented 88 percent of total shipments. The greatest volume (26 percent) was exported to Germany, and the U.S. was the number two destination accounting for 23 percent of total exports. The average export price in the 2007/2008 harvest was US\$134 compared to US\$118 for 2006/2007.

According to data from the Honduran Central Bank, imports of roasted and soluble coffee for domestic consumption came mainly from the United States. In 2007, imports totaled 624,710 kg. valued at US\$1.14 million. Other coffee exporters to Honduras are Mexico, Guatemala, and Nicaragua to a lesser degree. Post expects that competition to U.S.-supplied coffee will be greater as Central American companies sell their soluble coffee in machines located at commercial centers and office buildings.

For the fifth year running, IHCAFE organized the "Cup of Excellence" competition. This promotional event brings together the best Honduran coffees which are sold worldwide via electronic auction. Through this competition, Honduras finds niche markets for its coffee.

In 2007/2008 more than 256,000 60 kg. bags were produced under the programs of Utz Kapeh Certified, Rain Forest Alliance, and Organic Coffees (Ocia and Fair Trade among others). During 2007/2008, exports of specialty and certified coffee increased 200 percent from those of 2005/2006.

The flow of unregistered coffee going to Guatemala and El Salvador is estimated at 50,000 and 35,000 bags, respectively. This unregistered flow is stimulated by the need of some growers to receive cash rapidly for their unprocessed product. Intermediaries help in the commercialization by taking the harvest out to the road. Some intermediaries live in the same area of production and provide funds to the producers for personal expenses or for basic needs such as food.

Another reason for this unregistered trade is the captive market that the exporters have, since according to law, they are the only ones that can export. Additionally, in Guatemala there is a higher capacity to negotiate futures markets. In Honduras, neither the producer nor the exporter has developed the means for futures trading. Subsequently, the only way to expedite a sale is through intermediaries. Guatemalan buyers can afford to pay higher prices for quality Honduran coffee. Then they mix it with Guatemalan beans, since Guatemalan coffee is often sold at a premium in the international market, while Honduran coffee is typically sold at a discount.

### Export Trade Matrix

Country	Honduras		
Commodity	Coffee, Green		
Time Period	MY	Units:	60 Kg. Bags
Exports for:	2008		2009
U.S.	845,710	U.S.	836,740
Others		Others	
Germany	956,020		945,880
Belgium	735,400		727,600
S. Korea	148,183		146,611
Italy	136,417		134,970
Japan	132,372		130,968
Sweden	95,602		94,588
Spain	79,423		78,581
France	73,908		73,124
Total for Others	2,357,325		2,332,322
Others not Listed	473,965		468,938
Grand Total	3,677,000		3,638,000

**Stocks:**

Stocks during 2008/2009 increased from the estimated amount in light of the increase in production and decrease in exports.

**Policy:**

The Honduran Government (GOH) privatized IHCAFE in 2000. The privatization was done in order to rationalize the coffee sector. At the same time, the National Council of Coffee was created. IHCAFE is the specialized institution in Honduras that works with all aspects of coffee production, harvesting, and exports. IHCAFE provides guidelines and implements projects to increase production and to improve the quality of Honduran coffee. It also establishes commercialization procedures and controls coffee production and exports. As part of those controls, exporters must register with IHCAFE the coffee which they buy from growers and the coffee which they export. Subsequently, IHCAFE issues exporters the export permits. The Board of Directors of IHCAFE includes coffee growers, coffee roasters, exporters, and representatives from the Ministry of Agriculture and Ministry of Industry and Trade.

During the years of the coffee crisis, due to low international prices, the GOH obtained a loan for US\$20 million to be paid over 20 years. Through the loan, funds supported all coffee producers in 2002. Due to the high level of indebtedness of many of growers, the GOH created the Law of Financial Reactivation of the Coffee Sector in 2003. This law facilitated the creation of the coffee trust fund in 2004, which receives the financial contribution of coffee growers.

The grower's contribution is obtained through the deductions that the exporter or intermediary makes when they buy the grower's coffee. One of the deductions is for US\$9.00 per quintal (100 pounds). This deduction is transferred to IHCAFE, which in turn transfers it to the trustee banks. The US\$9.00 contribution is assigned to pay off the US\$20 million loan over the next 16 years.

The other mechanism to obtain funds is through an exporter deduction of US\$3.25 per purchased quintal. Out of the US\$3.25, approximately US\$0.50 is applied to the repayment of the US\$20 million loan, and the balance is distributed with 36 percent going to the operation of IHCAFE and 64 percent to the Coffee Fund. The Coffee Fund uses those resources to build and fix roads in coffee production areas, and to buy equipment for coffee producers.

To exemplify some of the benefits of the trust fund, IHCAFE used part of the trust fund to increase productivity and to lessen the impact of the fertilizer prices on the production. IHCAFE bought fertilizer used by producers and sold it to them at a lower-than-market price. The fertilizer was sold to coffee producers for cash or on credit with payment due in a year. This program supported an increase in production for 2007/2008, and also helped hold down the overall commercial price of fertilizer.

In addition to its fertilization program, IHCAFE has implemented the Innovative Coffee Producer Project, the Coffee Regionalization project, the Coffee Rehabilitation Project, the Productive Diversification Project, and the Agro Forestry and the Community Forestry Programs. In addition, IHCAFE has created the National Center of Quality and the Superior School of Coffee.

Through these projects and programs, IHCAFE is introducing new ways to add value, to develop specialty coffee, and to find niche markets. Coffee producers are also provided technical assistance to diversify their farm production by growing precious woods, and including food products such as avocado, fruits, fish, poultry or bees.

### Production, Supply and Demand Data Statistics:

Coffee, Green Honduras	2008 2007/2008 Market Year Begin: Oct 2007		2009 2008/2009 Market Year Begin: Oct 2008			2010 2009/2010 Market Year Begin: Oct 2009	
	Annual Data Displayed	New Post	Annual Data Displayed	New Post	Annual Data Displayed	Jan	
		Data		Data			Data
Area Planted	243	243	243	243	243	243	243
Area Harvested	230	230	230	230	230	230	230
Bearing Trees	1,049	1,049	1,049	1,049	1,049	1,049	1,049
Non-Bearing Trees	141	141	141	141	141	141	141
Total Tree Population	1,190	1,190	1,190	1,190	1,190	1,190	1,190
Beginning Stocks	88	88	88	235	235	235	402
Arabica Production	3,802	3,802	3,802	4,079	4,079	4,079	4,035
Robusta Production	0	0	0	0	0	0	0
Other Production	0	0	0	0	0	0	0
Total Production	3,802	3,802	3,802	4,079	4,079	4,079	4,035
Bean Imports	0	0	0	0	0	0	0
Roast & Ground Imports	7	7	7	7	7	7	7
Soluble Imports	7	7	7	7	7	7	7
Total Imports	14	14	14	14	14	14	14
Total Supply	3,904	3,904	3,904	4,328	4,328	4,328	4,451
Bean Exports	3,395	3,395	3,395	3,642	3,642	3,642	3,603
Rst-Grnd Exp.	35	35	35	35	35	35	35
Soluble Exports	0	0	0	0	0	0	0
Total Exports	3,430	3,430	3,430	3,677	3,677	3,677	3,638
Rst,Ground Dom. Consum	230	230	230	240	240	240	240
Soluble Dom. Cons.	9	9	9	9	9	9	9
Domestic Use	239	239	239	249	249	249	249
Ending Stocks	235	235	235	402	402	402	564
Total Distribution	3,904	3,904	3,904	4,328	4,328	4,328	4,451
Exportable Production	3,563	3,563	3,563	3,830	3,830	3,830	3,786