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Colombia

Coffee

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Report Highlights:

Colombia's coffee production reached 11.95 million bags (60 kg) in 2001/02 crop year, 13.8 percent higher than a year before. Production is forecast to fall to 11.25 million bags for 2002/03. The International Coffee Organization agreed to withdraw 4 million bags from the market during October 2002 and September 2003.

Includes PSD changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
Bogota [CO1], CO

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Executive Summary

Colombia's coffee production reached 11.95 million bags (60 kilogram) in the October-September 2001/2002 period, 13.8 percent higher than a year before. On November 15, 2001 the government approved a three-year program, which includes resources for restarting the coffee renovation program and a monetary subsidy of 30,000 pesos when local prices fall below 300,000 pesos per 125-kilogram bag. The average indicative market price paid in September 2002 by the National Coffee Fund (NCF) was 297,288 pesos per 125 kilograms (\$0.44 per pound), up 4.9 percent from a year ago. Since coffee production is projected to drop at a faster pace than exports, stocks are expected to decline even further during 2002/03. In late September 2002, the International Coffee Organization (OIC) issued Resolution 407 to establish strict coffee quality controls. Member countries agreed to retire out of the market 4 million bags (60 Kg) between October 2002 and September 2003.

Production

The growth in production during 2001/2002 is due to trees planted under the coffee renovation project that started in 1998 entering into full production and good weather conditions during the blossom and growing periods. The coffee plant renovation project, which is essential in order to maintain production in the longer term, depends heavily on the recovery of international coffee prices.

Post forecasts coffee production for 2002/03 at 11.25 million bags, down 5.9 percent from previous figure of 11.95 million bags. The factors behind this small downturn are reduced support from Fedecafe, along with a lack of bank credit for small farmers.

World coffee production has become more competitive, characterized by oversupply, a rising share of low quality coffee, and two continuous years of low international coffee prices. The dramatic fall in income of coffee growers has been translated into lower salaries paid to coffee collectors, reduced pest control applications and poor post-harvest practices. The lower coffee income in turn has affected the region's economy with a notable rising in poverty and the use of illicit crops as a new income source in some areas.

A three year program of plant renovation was launched in 1998 by the National Growers Federation (Fedecafe), which provided incentive payments to renovate 350,000 hectares. After being discontinued as a cost-cutting measure, and then restarting with support of the government, the area covered has reached 300,000 hectares. The new government supported program was approved on November 15, 2001, and includes resources for a subsidy of up to 30,000 pesos when the local price falls below 300,000 pesos per 125 kilogram bag. This government support is being reduced because of the rise in international prices and was recently reduced from 30,000 pesos to 15,000 pesos.

The average age for Colombia's coffee trees was 7.5 years at the start of the program, and Fedecafe's intention was to reduce this figure to 5.5 years. Growers were given an incentive of 105 pesos (4 cents) per tree properly pruned or newly planted. The level of the incentive is modest, since pruning or planting a coffee tree costs 300 to 400 pesos (\$0.11 to \$0.15); however the incentive was high enough to have the desired effect of encouraging renewal of a significant area.

Since new plantings are increasing the density of trees per hectare, Colombia's coffee area is expected to go downward without significant changes in tree population. However, coffee output in the next few years will depend on various factors, such as management, control of pests and diseases, and weather. Coffee production should rise two to three percent in 2003/04 and each of the following two years, due to the increased productivity of plants that were renewed over the past years under Fedecafe's incentive program.

Colombia has shown an increasing interest in recent years in producing *organic coffee* along with the specialty coffees. Colombia has 54 registered brand names of specialty coffees and around 72 projects been developed which a export potential of 500,000 bags (60 Kilograms). The aim is to reach one million bags on exports in the future, which would represent around 30 percent of the world demand of specialty coffees.

Prices

In April 2001, the National Coffee Committee changed its commercial policy due to the drop in international prices. The guaranteed minimum price paid to growers was changed to a variable price system based on the international price for Colombian coffee, including the quality price premium it commands. This new price, which no longer contains a guaranteed price level, is revised daily based on closing price in the New York commodity exchange. In the new pricing scheme there is no subsidy from the NCF to growers, as was the case previously. Because the NCF no longer provides a buffer between growers and international prices, producers must be more aware of the market situation when they sell their coffee.

The *National Coffee Fund* (NCF) was established in 1967 to maintain grower price stability against fluctuations in world prices and provided the stabilization funds used previously to pay the guaranteed minimum price. The NCF is funded from a compulsory grower check-off payment taken from parchment coffee sales. The average indicative market price paid in September 2002 by NCF was 297,288 pesos per 125 kilograms (\$0.44 per pound), up 4.9 percent

from a year ago. The average price paid in October 2002 reached 310,123 pesos, 4.3 percent higher than the September price.

Colombian coffee reached a record **world price** of \$2.79 per pound in May 1997. Since then it has been falling steadily and, in September 2002, it stood at average of \$0.64 per pound. This price includes a premium for high-quality Colombian coffee that in turn also has been volatile, ranging from 17 cents per pound to 7 cents and for some contracts even lower. Local coffee industry officials hope the recent rise in world coffee prices will continue, although they are not optimistic about the long term duration of this price change. Specialty Colombian coffees receive prices that range from \$1.35 to \$1.70 per pound, however the export volume is still low.

Trade

Most of Colombia's coffee is produced for export market. During the period January- July 2002, coffee exports accounted for 10.6 percent of the total value of Colombia's exports, maintaining the same level reached a year earlier. Colombia coffee exports in the first seven months of 2002 are already 9.4 percent higher than in the same period of the previous year. Although coffee will continue to be an important generator of foreign exchange, it is expected to play a declining role due to the increasing importance of other export sectors, such as mining, petroleum, cut flowers and textiles.

Colombia, as a member of the *Association of Coffee Producing Countries* (ACPC), has been encouraging other coffee producing countries to restrict coffee exports and to take out of the market bad quality coffee in order to strengthen world coffee prices. A Colombian was recently appointed as director of the OIC, International Coffee Organization. Since his appointment, the OIC launched an aggressive educational campaign oriented towards increasing awareness of the difference between coffee qualities and the health benefits of coffee consumption. In late September 2002, the OIC approved Resolution 407 which established strict coffee quality controls. Member countries agreed to retire from the market 4 millions bags (60 Kg) between October 2002 and September 2003. Colombia particularly feels that the oversupply of lower-quality coffee is an important factor in low international coffee prices.

Stocks

Colombia's coffee stocks have fallen steadily since their pick in the mid-1980's, when they reached about 9 billion bags. End-of-season inventories have fallen from 2.9 million bags at the end of 1998/99 to 1.6 million bags at end of 2000/2001. Colombia's coffee carryover at the end of 2001/02 is estimated to be 1.4 million bags lower than the previous year. Since coffee production is projected to drop at a faster pace than exports, stocks are expected to decline even further during 2002/03.

Policy

Instead of expanding area, Fedecafe has been promoting improvements in yields and for marginal areas it is suggesting **alternative crops**, such as fruits, forestry, and macadamia nuts. Also,

plantains have become an alternative crop where growers are generating cash flow to invest in coffee plantations. The optimal altitude for coffee production is between 1,200 and 1,800 meters above sea level (3,940 to 5,900 feet). Specific areas of production in this zone are been identified for specialty coffee production to sell directly to the international consumer.

Coffee exporters are paying a compulsory check-off to the FNC. This check-off is a discretionary amount of the export price set by the GOC and currently is \$ 0.02 per pound. This mechanism is under revision and it is expected to change in the short time. The new contribution will have a maximum value which will give exporters greater security on the amount charged.

Colombia continue to require that exports of green coffee be sold to roasters, although the exporters' association (Asoexport) is pushing for a change in this policy.

The Colombian coffee industry is very interested in any possible changes in U.S. policy as a result of the resolution passed by the U.S. House of Representatives which stated that the U.S. government should adopt an strategy to help coffee country growers to overcome the poverty and economic damage caused by low international coffee prices during the last two years.

Tables**PS&D Coffee, Green, 2000/2001 to 2002/03 1/**

(1,000 hectares, million trees, and 1,000 60 kilogram bags)

PSD Table						
Country	Colombia					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Planted	805	805	805	805	805	795
Area Harvested	650	650	650	650	650	650
Bearing Trees	2790	2790	2790	2790	2790	2790
Non-Bearing Trees	1030	1030	1030	1030	1030	1030
TOTAL Tree Population	3820	3820	3820	3820	3820	3820
Beginning Stocks	2092	2092	1638	1618	1098	1419
Arabica Production	10520	10500	11000	11950	10900	11250
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	10520	10500	11000	11950	10900	11250
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	16	16	10	80	11	80
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	16	16	10	80	11	80
TOTAL SUPPLY	12628	12608	12648	13648	12009	12749
Bean Exports	8780	8780	9310	9929	9100	9400
Roast & Ground Exports	130	130	140	140	145	145
Soluble Exports	550	550	570	560	580	580
TOTAL Exports	9460	9460	10020	10629	9825	10125
Rst,Ground Dom. Consum	1290	1290	1290	1350	1290	1350
Soluble Dom. Consum.	240	240	240	250	240	250
TOTAL Dom. Consumption	1530	1530	1530	1600	1530	1600
Ending Stocks	1638	1618	1098	1419	654	1024
TOTAL DISTRIBUTION	12628	12608	12648	13648	12009	12749

Green Coffee Price to Growers, CY 2001 and 2002 1/
 (1,000 pesos per 125 Kilograms)

Prices Table			
Country	Colombia		
Commodity	Coffee, Green		
Prices in	Col pesos	per uom	125 Kg Bag
Year	2001	2002	% Change
Jan	322	276	-14.29%
Feb	292	271	-7.19%
Mar	297	294	-1.01%
Apr	313	306	-2.24%
May	340	284	-16.47%
Jun	295	276	-6.44%
Jul	280	264	-5.71%
Aug	284	258	-9.15%
Sep	283	297	4.95%
Oct	258	310	20.16%
Nov	271		-100.00%
Dec	270		-100.00%
Exchange Rate	2,724.04	Local currency/US \$	