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Coffee

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Report Highlights: MY 2003/04 Brazilian coffee production is projected at 33.6 million 60 kg. bags, down 35 percent from the 2002/03 crop, mainly due to expected lower yields, especially in the Arabica growing regions, which are in the "off-year" of the production cycle. Brazilian domestic consumption for MY 2003/04 is projected at 14.9 million bags, up 500,000 from the last MY, boosted by campaigns to promote coffee consumption. Total exports for MY 2003/04 are expected to decline to 25.6 million bags, down 3.33 million bags from the previous season, due to a drop in availability of the product.

Includes PSD changes: Yes
Includes Trade Matrix: No
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TABLE OF CONTENTS

PS&D Table	1
Production	2
Coffee Prices in the Domestic Market	4
Producer's Financing	4
Consumption	5
Trade	7
Stocks	9
Exchange Rate	11

PS&D Table

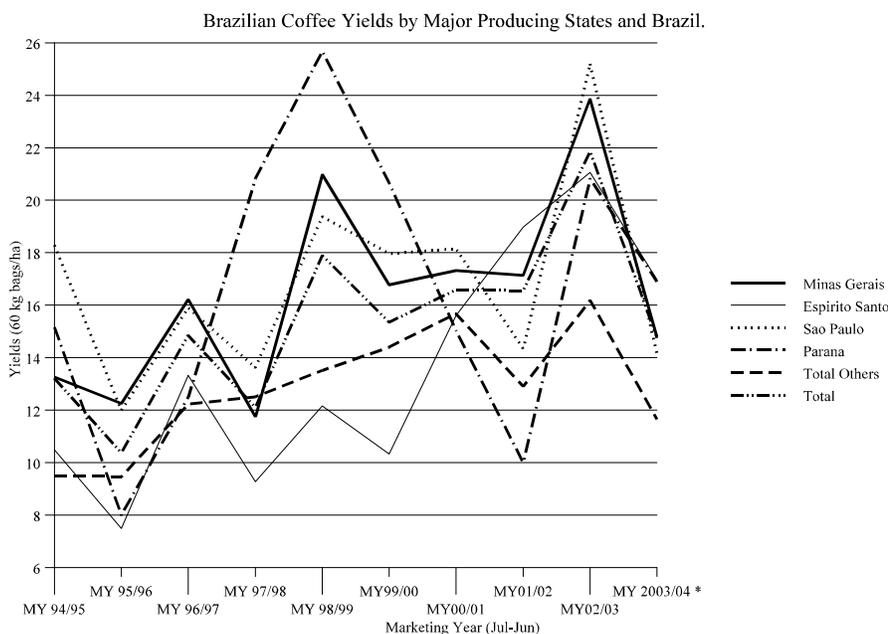
Country	Brazil					
Commodity	Coffee, Green		(1000 HA)(MILLION TREES)(1000 60 KG BAGS)			
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		07/2001		07/2002		07/2003
Area Planted	2615	2615	2675	2675	0	2457
Area Harvested	2120	2120	2360	2360	0	2279
Bearing Trees	4465	4465	5265	5265	0	5070
Non-Bearing Trees	1500	1500	1125	1125	0	682
TOTAL Tree Population	5965	5965	6390	6390	0	5752
Beginning Stocks	10630	10630	7335	7235	16155	15505
Arabica Production	24400	24400	39600	39600	0	23300
Robusta Production	10700	10700	12000	12000	0	10300
Other Production	0	0	0	0	0	0
TOTAL Production	35100	35100	51600	51600	0	33600
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	45730	45730	58935	58835	16155	49105
Bean Exports	22245	22245	26000	26250	0	23000
Roast & Ground Exports	75	75	80	80	0	100
Soluble Exports	2475	2475	2500	2600	0	2500
TOTAL Exports	24795	24795	28580	28930	0	25600
Rst,Ground Dom. Consum	13000	13000	13600	13600	0	14100
Soluble Dom. Consum.	600	700	600	800	0	800
TOTAL Dom. Consumption	13600	13700	14200	14400	0	14900
Ending Stocks	7335	7235	16155	15505	0	8605
TOTAL DISTRIBUTION	45730	45730	58935	58835	0	49105

Production

U.S. Agricultural Trade Office (ATO)/Sao Paulo forecasts total Brazilian coffee production for marketing year (MY) 2003/04 (July-June) at 33.6 million 60. kg bags, green equivalent, down 35 percent (18 million bags) from the 2002/03 crop (51.6 million bags). Arabica coffee production is projected at 23.3 million bags, a 41 percent drop from the previous season, whereas robusta production is forecast at 10.3 million bags, down 1.7 million bags relative to past year's crop. The significant reduction in production is mainly a consequence of expected lower yields, especially in the Arabica producing regions.

Post projects the average yield for MY 2003/04 at 14.75 (60-kg) bags per hectare (ha.), a 33 percent decrease from the 02/03 season (see graph below). Arabica coffee trees were in the on-year of the biennial production cycle in most growing regions for the 2002/03 crop. Favorable weather conditions and good crop management resulted in a record output not only in volume, but also in productivity (21.86 bags/ha), thus stressing the trees. As a natural consequence, coffee trees are expected to be in the "off-year" of the production cycle for the upcoming crop.

Depressed coffee prices also led to under average crop management for many producing regions. Growers did not use as many inputs (lime, fertilizer, chemicals) as necessary so as to cut costs. Weather related problems occurred in major growing regions in Minas Gerais, Sao Paulo and Bahia, affecting blossoming somewhat and fruit setting in the second semester of 2002. Most recently, dry spells in Espirito Santo have also affected the production potential for that state.



Source: ATO/Sao Paulo, projection for MY2003/04

Note: MG=Minas Gerais; ES=Espirito Santo; SP=São Paulo; PR=Paraná; BR=Brazil.

Expected decrease in area represents an additional factor pushing production down. ATO/Sao Paulo projects total coffee area for MY 2003/04 at 2.45 million ha., down 218,000 ha, from the previous season, mainly due to a decrease in new areas planted to coffee. Low domestic and international prices have inhibited producers to

invest in new plantings. MY 2003/04 coffee area for harvest is forecast at approximately 2.28 million ha., down 81,000 ha. relative to MY 2002/03.

Depressed coffee prices led some producers to abandon their plantations shifting to more profitable crops such as soybeans, corn and sugarcane. In addition, coffee plantations country wide were pruned and stumped as a result of the record yields obtained last season, therefore leading to significant drop in production this season. Producers took advantage of the expected drop to manage their crops. The anticipated reduction in harvested area is also attributed to the eradication of old and unproductive coffee groves.

Coffee tree population for MY 2003/04 is projected at 5.07 billion bearing trees and 682 million non-bearing trees, a 4 and 39 percent decrease compared to previous crop, respectively, as a result of the expected decrease in planted and harvested area. Planted area and tree population are based on post surveys and data obtained from different sources (CONAB, the Brazilian Institute for Geography and Statistics - IBGE, state secretariats of agriculture, coffee cooperatives, coffee growers associations, trading companies, etc).

ATO/Sao Paulo staff conducted field trips to major coffee producing areas to evaluate MY 2003/04 production. Trips were made in January (southern Minas Gerais and Sao Paulo), March (eastern Minas Gerais and Espirito Santo), April (center-western Minas Gerais, Parana and Sao Paulo) to observe vegetative development, cherry set and fruit formation. The table below shows forecasts by state and variety for MY 2003/04, as well as production estimates for MY 1999/00 to 2002/03. Production for "other" producing states is forecast based primarily on reports from producing states and information provided by post contacts. Bahia should produce 1.5 million bags of Arabica, while Rondonia should yield 2 million bags of Robusta.

Brazilian Coffee Production (Million 60-kg bags)					
State/Variety	MY 1999/00	MY 2000/01	MY 2001/02	MY 2002/03	MY 2003/04
Minas Gerais	15.40	16.00	16.20	25.35	14.00
Southwest	8.40	9.00	8.50	14.20	7.50
Center-western	3.50	3.00	3.20	4.65	3.00
Southeast	3.50	4.00	4.50	6.50	3.50
Espirito Santo	4.70	7.40	9.70	11.35	9.00
Arabica	2.00	2.60	2.20	2.85	1.90
Robusta	2.70	4.80	7.50	8.50	7.10
Sao Paulo	3.70	3.60	3.20	5.75	3.20
Parana	2.80	2.20	0.50	2.50	2.20
Others	4.20	4.90	5.50	6.65	5.20
Arabica	1.90	2.20	2.30	3.15	2.00
Robusta	2.30	2.70	3.20	3.50	3.20
Total	30.80	34.10	35.10	51.60	33.60
Arabica	25.80	26.60	24.40	39.60	23.30
Robusta	5.00	7.50	10.70	12.00	10.30
Source: ATO/Sao Paulo					

The harvest season for the Robusta producing regions (Espirito Santo and Rondonia) began in late March and

April. The Arabica harvest should start in mid-May and extend to October-November.

In December 2002, the Brazilian Government (GOB), through the Ministry of Agriculture, Livestock and Supply (MAPA), National Supply Company (CONAB), released the official Brazilian coffee production forecast for MY 2002/03 which ranged from 27.7 to 29.7 million bags. CONAB also revised upward the MY 2002/03 coffee production number to approximately 47.3 million bags, a 6 percent increase compared to the June 2002 survey. CONAB is currently conducting a second field survey and an updated MY 2003/04 crop estimate is expected in June. Market sources place the MY 2003/04 coffee crop between 30 and 35 million bags.

Coffee Prices in the Domestic Market

The Coffee Index price series released by the University of São Paulo's College of Agriculture "Luiz de Queiroz" (ESALQ) follows. The series tracks coffee prices in the domestic spot market since September 1996. The expected production drop for the MY 2003/04 crop resulted in an increase in coffee prices as of September 2002.

Arabica Coffee Prices in the Domestic Market (Real, 60kg/bag).							
	1997	1998	1999	2000	2001	2002	2003
January	159.76	242.64	167.85	223.56	127.51	110.01	190.74
February	194.62	238.70	188.63	197.39	127.05	110.84	193.03
March	218.45	208.34	188.67	194.20	125.17	116.41	174.97
April	224.07	189.49	171.57	180.33	117.03	117.76	175.00
May	252.32	162.76	188.21	179.31	130.24	107.54	--
June	242.57	139.77	187.30	157.37	125.23	106.37	--
July	197.99	130.15	161.17	150.01	116.99	104.70	--
August	209.86	135.83	160.90	137.83	113.90	109.21	--
September	220.40	123.76	149.86	137.34	111.97	136.04	--
October	202.67	122.50	172.97	143.78	104.39	167.72	--
November	201.44	141.37	219.83	141.65	111.09	187.65	--
December	229.12	142.08	242.42	128.19	105.02	184.13	--

Source: USP/ESALQ/CEPEA

Producer's Financing

Last February, the National Monetary Council (CMN) approved a R\$300 million fund to finance the 2003/04 coffee harvest. The interest rate is set at 13 percent per year, up 3.5 percent points from previous financing offered by the Government of Brazil (GOB).

The GOB created in August 2002, the Coffee Option Contract Program in order to regulate the domestic coffee supply. According to the program, the GOB set option contracts and coffee producers and coffee cooperatives are eligible to buy the option to sell their products to the Brazilian Government and guarantee fair prices for

their crops. Producers pay a premium when acquiring the contracts through an auction system and are assured to have their products marketed at reasonable prices (exercise price always above the minimum support price) by the time the contract expires. It is not mandatory that producers sell their products to the GOB, but they have the option to do so, if market prices are not attractive.

The first option contract auction should occur in July. The GOB has not determined the conditions of the program for the upcoming crop, but according to the current government proposal, exercise price for Arabica should be set at R\$205 and R\$215 for September and November 2003, respectively, whereas exercise prices for Robusta should be set at R\$113 and R\$118 per bag. Arabica producers say R\$220 per bag would be more equitable.

According to studies conducted by the Agricultural and Livestock Research Enterprise (EMBRAPA), Arabica and Robusta production costs are estimated at R\$196 and R\$91 per bag, respectively. Exercise prices will be based on such production costs. The final decision should come out next week during the CMN extraordinary meeting. The GOB is committed to purchasing up to 3 million coffee bags (2.1 million bags of Arabica and 900,000 bags of Robusta).

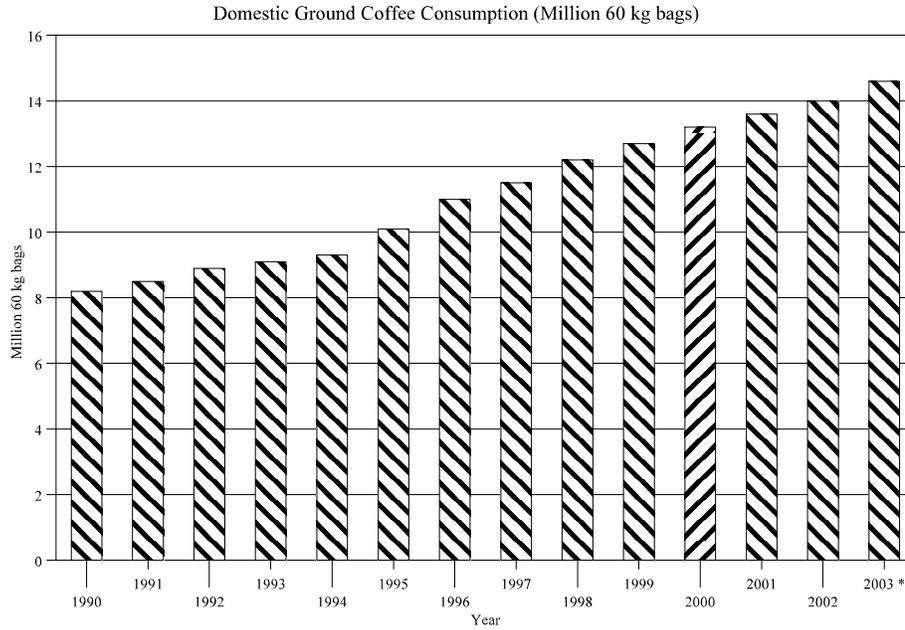
Consumption

ATO/Sao Paulo's domestic coffee consumption estimates for MY 2001/02 and 2002/03 have been slightly revised upward to 13.7 and 14.4 million 60 kg. bags, green coffee, respectively, up 100,000 and 200,000 bags from previous estimates. The revision is based on more accurate information regarding soluble coffee consumption, which totaled 700,000 and 800,000 bags for MY 2001/02 and 2002/03, respectively.

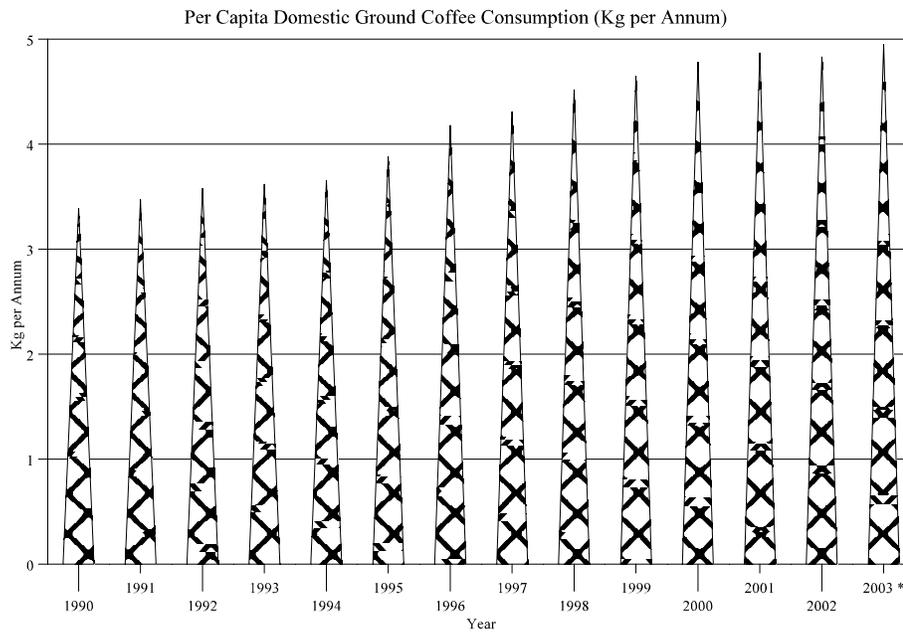
Domestic coffee consumption for MY 2003/04 is projected at 14.9 million bags, green equivalent, up 500,000 bags from the previous MY. Ground and roasted consumption should account for 14.1 million bags, whereas soluble coffee consumption is expected to contribute 800,000 bags. The population growth rate and campaigns to promote coffee consumption in Brazil are major factors leading to the expected increase in consumption.

According to the Brazilian Coffee Industry Association (ABIC), domestic ground/roasted and soluble coffee consumption for the November 2001-October 2002 period is estimated at 13.3 million and 780,000 bags, green equivalent, respectively. ABIC projects total domestic consumption for 2003 at 14.6 million bags. The figures below show Brazilian overall and per capita coffee consumption during the past few years, as well the 2003 projection, according to ABIC.

ABIC will launch a 3 year program ("Programa de Aumento do Consumo Interno de Café", PACIC) to encourage domestic coffee demand through the interaction of all agents in the coffee chain (growers, traders, industry, retail and service). The goal is to increase domestic coffee consumption to 16 million bags in 2005. Major strategies to reach the goal include improvement of overall coffee quality, product differentiation and market segmentation, through an educational process. Education and marketing promotion are the fundamentals underlying the program. The general idea is to promote coffee as a high quality beverage, handled with care from the farm to the consumer's cup, positioning coffee as a distinct product associated with pleasure and socialization. The PACIC's budget is R\$ 45 million. Funds should come from the industry and from FUNCAFE (Coffee Economy Defense Fund), an agency of the Ministry of Agriculture, Livestock and Supply (MAPA).



Source: Brazilian Coffee Association
* forecast



Source: Brazilian Coffee Association
* forecast

Trade

ATO/Sao Paulo has slightly revised the total MY 2002/03 (July-June) coffee export estimate to 28.93 million bags, green equivalent, up 350,000 bags from the previous figure, based on updated information provided by trade sources and the GOB. Green coffee exports (Arabica and Robusta) should account for 26.25 million bags, whereas soluble coffee exports should contribute 2.6 million bags, green equivalent. The devaluation of the local currency, the Brazilian Real versus the US Dollar, in the second-half of 2002 and into the first quarter of 2003, and the significant availability of the product are the major factors resulting in record exports. According to information provided by the Brazilian Green Coffee Association (CECAFE), preliminary export numbers for April 2003 Arabica and Robusta are 1.73 million bags combined.

Coffee exports for MY 2003/04 are projected at 25.6 million bags, down 11 percent from previous season, mainly due to the expected sharp drop in production, thus resulting in lower availability of the product. Coffee beans and soluble coffee exports should amount 23 and 2.5 million bags, green coffee, respectively.

As reported by the Brazilian Secretariat of Foreign Trade (SECEX), green coffee exports (NCM 0901.11.10) for Calendar Year (CY 2002) were 1,551,033 metric tons (approximately 25.85 million bags), a 24 percent increase relative to previous CY. Green exports and soluble coffee for MY 2002/03 (July-March) are reported at 1,355,483 and 46,165.7 metric tons, up 33 and 11 percent from same period for MY 2001/02, respectively. The U.S., followed by Germany and Italy are the major green coffee importers, while the U.S., Russia, Germany and Ukraine are the major soluble coffee importers. Green and soluble coffee exports by country of destination as reported by SECEX follows.

Brazilian Green Coffee Exports (Metric Tons, US\$ 000 FOB)						
Destination	CY 2002 1/		MY 2001/02 2/		MY 2002/03 2/	
	Quantity	Value	Quantity	Value	Quantity	Value
USA	297,088	207,418	158,665	118,635	304,389	227,922
Germany	323,845	266,062	212,328	182,081	268,068	228,995
Italy	138,200	116,804	94,161	88,702	125,991	113,025
Japan	97,632	92,687	68,621	65,433	79,278	77,858
Belgium	74,629	57,491	49,008	41,940	62,818	50,148
Spain	66,574	48,924	36,841	29,525	56,166	43,366
Slovenia	64,622	40,810	39,416	28,030	51,922	31,709
France	56,945	47,627	45,067	38,847	45,815	40,379
Greece	43,164	28,276	28,093	19,839	35,514	22,875
Canada	35,303	26,795	26,256	19,319	31,130	24,248
Sweden	38,208	32,849	26,228	22,869	31,013	27,740
Others	314,823	229,257	234,524	179,944	263,379	200,045
Total	1,551,033	1,195,000	1,019,208	835,165	1,355,483	1,088,309

Source: Brazilian Secretariat of Foreign Trade (SECEX), NCM 0901.11.10
1/ January-December, 2/ July-March

Brazilian Soluble Coffee Exports (Metric Tons, US\$ 000 FOB)						
Destination	CY 2002 1/		MY 2001/02 2/		MY 2002/03 2/	
	Quantity	Value	Quantity	Value	Quantity	Value
USA	10,370	24,267	8,068	18,865	9,801	23,307
Russia	8,269	25,027	7,523	23,354	7,110	21,925
Germany	6,877	19,955	3,666	10,538	5,472	16,401
Ukraine	8,121	24,370	3,457	10,503	5,136	15,062
Japan	3,497	15,913	2,960	13,532	3,023	13,365
Singapore	1,891	4,031	1,276	2,753	1,826	4,104
Malaysia	1,683	3,511	1,069	2,265	1,416	3,023
Czech Rep.	1,555	7,615	1,085	6,172	1,316	6,467
Lithuania	1,697	4,818	854	2,495	1,291	3,698
Argentina	2,022	5,208	1,760	5,426	1,173	2,881
UK	810	2,176	315	714	994	3,213
Others	9,639	30,125	9,552	31,826	7,609	24,583
Total	56,431	167,015	41,584	128,442	46,166	138,030

Source: Brazilian Secretariat of Foreign Trade (SECEX), NCM 2101.11.10
1/ January-December, 2/ July-March

SECEX reports roasted coffee exports (NCM 0901.21.10) for CY 2002 at 4,986.8 metric tons, up 47 percent from 2001. Roasted coffee exports for MY 2002/03 (July-March) were 4,776.6, a 13 percent increase from same period for MY 2001/02. Brazil does not have an export culture regarding ground and roasted coffee due to a lack of technology and information on how to compete in international markets. According to a recent survey conducted by the Agricultural Economics Institute (IEA) of the Sao Paulo State Secretariat of Agriculture, the situation is changing. Approximately 18.5 percent of the coffee processing companies now have state-of-the-art equipment, including high vacuum machines for packing, highly recommended for exporting.

In addition, in October 2002, the Sao Paulo Coffee Industry Syndicate (Sindicafe) started a program to encourage ground/roasted coffee exports, the Integrated Sectorial Program ("Programa Setorial Integrado", PSI) which is committed to increasing such exports to US\$24 and US\$100 million in 2004 and 2006, respectively. The Export Promotion Agency (APEX) of the GOB will fund R\$11.5 million, while the remaining 50 percent will come from the private industry.

The tables below shows monthly coffee export data (quantity and value) for MY 2002/03 (July-March), as reported by CECAFE and the Brazilian Soluble Coffee Association (ABICS).

Brazilian Monthly Coffee Exports for MY 2002/03 (60 kg bag, green equivalent).						
Month	Conillon	Arabica	Roasted	Total Green	Soluble	Total
Jul-02	449,140	1,688,298	10,875	2,148,313	178,921	2,327,234
Aug-02	515,159	2,135,232	3,276	2,653,667	222,507	2,876,174
Sep-02	445,132	2,195,631	5,762	2,646,525	217,380	2,863,905
Oct-02	530,435	2,310,383	7,148	2,847,966	218,098	3,066,064
Nov-02	353,404	2,314,466	1,946	2,669,816	230,358	2,900,174
Dec-02	417,108	2,086,297	3,091	2,506,496	292,985	2,799,481
Jan-03	297,809	1,783,526	9,436	2,090,771	181,796	2,272,567
Feb-03	323,341	1,762,010	4,117	2,089,468	246,569	2,336,037
Mar-03	253,929	1,429,342	3,137	1,686,408	234,244	1,920,652
Cumulative	3,585,457	17,705,185	48,788	21,339,430	2,022,858	23,362,288

Source: CECAFE and ABICS.

Brazilian Monthly Coffee Exports for MY 2002/03 (US\$ 1,000).						
Month	Conillon	Arabica	Roasted	Total Green	Soluble	Total
Jul-02	12,745	81,378	857	94,980	11,873	106,853
Aug-02	14,293	99,984	366	114,642	16,028	130,671
Sep-02	12,792	103,715	574	117,081	16,065	133,147
Oct-02	16,632	115,187	354	132,173	15,243	147,417
Nov-02	12,170	118,022	131	130,323	16,070	146,393
Dec-02	15,785	116,300	287	132,372	19,078	151,450
Jan-03	12,141	101,035	715	113,891	13,526	127,417
Feb-03	14,324	100,006	453	114,783	17,341	132,124
Mar-03	11,057	80,413	365	91,835	16,625	108,460
Cumulative	121,938	916,041	4,102	1,042,081	141,850	1,183,930

Source: CECAFE and ABICS.

Stocks

Post projects carry-over stocks for MY 2003/04 at 8.6 million (60 kg, green equivalent) bags, down 6.9 million bags from revised ending stocks for MY 2002/03, due to expected lower availability of the product. The results of monthly coffee auctions conducted by the MAPA/Department of Coffee (DECAF) are shown below. The next government coffee auction is scheduled for May 14 when 20,000 bags will be offered. As of March 31, the stock level held by the GOB was estimated at approximately 5.3 million bags.

Auctions of the Brazilian Government Coffee Stocks, 2002/2003 (60 kg bags, US\$/bag).				
Date	Quantity		Auction Price	
	Offered	Sold	R\$	US\$
10-Jul	20,000	18,161	64.64	22.65
14-Aug	20,000	9,997	71.62	22.41
11-Sep	20,000	16,105	85.91	27.44
09-Oct	20,000	19,260	93.93	24.38
13-Nov	20,000	16,005	113.62	31.56
11-Dec	20,000	20,000	135.00	38.24
15-Jan	20,000	19,314	126.06	38.22
12-Feb	20,000	20,000	142.76	26.09
12-Mar	20,000	20,000	135.73	32.68
16-Apr	20,000	16,825	142.97	46.49
Cumulative	200,000	175,667		

Source: Ministry of Agriculture, Livestock & Supply (MAPA)/Coffee Department (DECAF).

The monthly coffee distribution linked to Brazilian cooperatives for MY 2002/03 follows. According to the National Coffee Council (CNC), stocks held by cooperatives on March 31, 2003, were 5.84 million bags, up 3.26 million bags from March 2002, due to the large 2002/03 crop.

Monthly Coffee Distribution of Brazilian Cooperatives (60-kg bags, MY 2002/03 - Jul/Jun).				
Month	Beginning Stocks	Deliveries	Sales	Ending Stocks
July	3,191,430	3,083,880	960,846	5,314,464
August	5,314,464	3,680,718	985,614	8,009,568
September	8,009,568	2,361,823	1,264,322	9,107,069
October	9,107,069	1,340,012	1,523,038	8,924,043
November	8,924,043	500,251	1,265,243	8,159,051
December	8,159,051	310,154	852,347	7,616,858
January	7,616,858	224,836	884,765	6,956,929
February	6,956,929	172,601	884,449	6,245,081
March	6,245,081	137,496	544,277	5,838,300
Cumulative		11,811,771	9,164,901	

Source: National Coffee Council (CNC).

Exchange Rate

Exchange Rate (R\$/US\$1.00 - official rate, last day of period)						
Month	1998	1999	2000	2001	2002	2003
January	1.12	1.92	1.80	1.97	2.42	3.53
February	1.13	2.03	1.77	2.04	2.35	3.56
March	1.14	1.77	1.75	2.16	2.32	3.35
April	1.14	1.66	1.81	2.22	2.36	2.89
May	1.15	1.72	1.82	2.36	2.52	--
June	1.16	1.77	1.80	2.30	2.84	--
July	1.16	1.79	1.78	2.43	3.43	--
August	1.18	1.81	1.82	2.55	3.02	--
September	1.19	1.92	1.84	2.67	3.89	--
October	1.19	1.95	1.91	2.71	3.65	--
November	1.20	1.92	1.98	2.53	3.59	--
December	1.21	1.79	1.96	2.32	3.53	--

Source: Gazeta Mercantil