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Report Highlights:
Venezuelan coffee production has been falling, as there has been no price stimulus to keep growers on the land in recent year. But following the severe recession and devaluation in Venezuela in the last two years, the traditional pattern of coffee coming in from Colombia has reversed, and outflow to Colombia is expected to be larger than inflow. That is finally to drive domestic coffee bean prices up. But with government imposed controlled prices at the retail level, many roasters are closing up their businesses rather than operate at a loss. A significant restructuring of domestically mandated prices is expected within the next several months, but the question is whether it will occur in time to prevent some spot shortages on the local market.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Caracas [VE1]
[VE]

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Executive Summary

Venezuelan coffee production has been falling, as there has been no price stimulus to keep growers on the land in recent year. But following the severe recession and devaluation in Venezuela in the last two years, the traditional pattern of coffee coming in from Colombia has reversed, and outflow to Colombia is expected to be larger than inflow. That is finally starting to drive domestic coffee bean prices up. But with government imposed controlled prices at the retail level, many roasters are closing up their businesses rather than operate at a loss. A significant restructuring of domestically mandated prices is expected within the next several months, but the question is whether it will occur in time to prevent some spot shortages on the local market.

Production

Venezuelan coffee is very high quality and almost all of the Arabica variety. Most coffee is grown at altitudes ranging from 600 meters to 1,500 meters. Production is about 5.8 quintals (46 kg/ quintal) per hectare, and yield goes from 4.5 to 6.5 quintals per hectare depending on the region. The work in the coffee field is basically artisan as holdings are small with day laborers hired for the harvest. Most of the crop is harvested in December and January, with the harvest in the eastern region extending until February.

Venezuelan coffee production has been falling, as there has been no price stimulus to keep growers on the land. Venezuela has around 310,000 hectares for coffee production, where 50,000 families are settled. In recent years almost 70,000 hectares of coffee production have been effectively abandoned, mainly due to the poor prices received by producers. In addition, production has been limited in recent years as soaring prices for inputs such as pesticides and fungicides have cut their use, and there has been an increase in pest and disease problems.

There are three major coffee producing regions in Venezuela. In the Midwestern region production is concentrated in Sanare in Lara state, and Biscucuy and Chabasquén in Portuguesa state. In the western region coffee is in Boconó in Trujillo state and Santa Cruz de Mora in Mérida state. In the eastern part of the country coffee is found in Caripe in Monagas state

A combination of bad economic conditions and poor market prospects led to a drop in production of the 2003/04 harvest as farmers let some trees go out of production and yields were down. Production is forecast to show a slight increase to 840,000 bags in 2004/05 assuming prices to producers remain good.

Consumption

Coffee consumption in 2002/03 was 720,000 bags and is estimated to drop to 640,000 bags in 2003/04 as the economic recession has led people to cut back on the number of cups of coffee they drink. Retail coffee prices have been surprisingly steady and are only now starting in increase, though coffee here is still a bargain compared to U.S. prices. The Venezuelan GDP fell by 10.7 percent in 2003, which had an impact on all discretionary consumption. GDP is expected to grow by 8 to 9 percent in 2004, and post forecasts a slight improvement in coffee consumption as well next year.

Venezuelan coffee consumers have very sophisticated coffee preferences and special names for different strengths of coffee. These include Negro corto, Negro largo, marrón claro, marrón oscuro, guayoyo, con leche and tetero. Most coffee is brewed in either drip or espresso machines and 97 percent of the domestic market is for roasted coffee. However the market for soluble coffee had been growing, in particular for use in coffee vending machines.

Prices

The domestic price for coffee fell behind most other products for the 2001-2003 period. While the price index for food and beverages has gone up 90 percent during that period, the index for ground coffee was actually down 8 percent. Coffee and many other basic products were placed on a price control list effective since February of 2003. Those price controls immediately forced down the price of domestic coffee, and it has only recently regained its January 2003 level. Most other food products have seen price increases of around 40 percent since last year. (See VE4007 for more details)

While there has been a cap on the retail price of coffee, bean prices have gone through the roof. The government established a reference price for green coffee to growers of Bs. 90,000/quintal for the 2003/04 harvest. However, the prevailing market price for green coffee is around Bs. 140,000/quintal and there is a proposal before the government to increase the price to Bs. 162,500/quintal. Growers are able to demand that price due to shorter supply in the country and their option to move product into Colombia where prices are now better. The current market price for green coffee in Colombia is the equivalent of Bs. 200,000/quintal according the FAS/Bogota data.

This price disparity has caused some friction in the industry, since only a few large companies have been able to pay the higher prices and acquire coffee supplies. Many of the smaller companies, who often depended upon imports from Colombia, have been driven out of business by the high raw material costs. At this time there are at least 30 roasters that have ceased operations in Venezuela. As an example of the impact these raw material prices have on the roasters, at the official reference prices roasters had almost a 100 percent markup before selling at the controlled retail price of around Bs. 4000/kg. But at the Bs. 140,000 raw material price the entire markup for cleaning, roasting, and marketing is only 10 to 25 percent, and many companies are not able to stay in business with those margins.

The large companies that are still operating include Fama de America, Café Madrid, Café San Antonio, Café Imperial, Café San Domingo and these companies traditionally have supplied 65 percent of the domestic market. Café Madrid is the major company exporting roasted coffee.

Farm gate prices for Coffee Harvest 2003/04		
	Exchange rate	1,920 Bs/$
GREEN COFFEE	PRICE (Bs/q)	Price ($/q)
Good Washed Coffee "A"	90,000	46.87
Good Washed Coffee "B"	85,000	44.27
Good Washed Coffee "C"	80,000	41.66
Good Washed Coffee	75,000	39.06
Regular Washed Coffee	70,000	36.45

CONSUMER PRICES/ Ground & Roasted Coffee In Bolivar Terms			
Date	Exchange Rate	Price	
		Bolivars/ Kg	Dollars/ Kg
Dec-02	**1700**	3,865.40	2.28
Jan-03	**1800**	3,916.84	2.16
Feb-03	**1600**	3,904.08	2.44
Mar-03	**1600**	3,192.36	2
Apr-03	**1600**	3,064.32	1.92
May-03	**1600**	3,015.60	1.88
Jun-03	**1600**	2,972.96	1.84
Jul-03	**1600**	2,963.28	1.84
Aug-03	**1600**	2,989.16	1.88
Sep-03	**1600**	2,954.32	1.84
Oct-03	**1600**	2,896.96	1.8
Nov-03	**1600**	2,881.56	1.8
Dec-03	**1600**	2,889.36	1.8
Jan-04	**1600**	2,987.16	1.88
Feb-04	**1920**	3,668.84	1.92
Mar-04	**1920**	3,865.68	2

Source: INE & BCV

Trade

Coffee exports are expected to increase in 2003/04 due to the low domestic price relative to prices both in Colombia and other markets such as the United States. The United States is the major market for Venezuelan coffee with 80 percent of total exports going there and the rest to the European Union. Many Venezuelan producers have established direct marketing arrangements with foreign buyers.

The devaluation of the Bolivar has meant that the traditional pattern of coffee coming in from Colombia has virtually stopped, and much more coffee than usual is expected to be exported to Venezuela's Andean neighbor. While 100,000 to 200,000 quintals of coffee used to come in illegally, estimates now are that about 150,000 quintals have moved out through non-official channels "canales verdes in local jargon" in 2003/04

Concerned about domestic coffee availability, the Venezuelan government closed coffee exports in February 2004 since some of the local roasters were claiming a scarcity. The mechanism used was that the Ministry of Agriculture and Lands is simply delaying or not issuing the export authorizations for coffee. While official exports can be slowed through this mechanism, unofficial exports to Colombia are forecast to be significantly larger this year, unless there is an increase in the domestic coffee price

Stocks

The attached PS&D tables show relatively high levels of stocks. This is a result of the situation several years ago when due to a strong Bolivar Venezuela coffee prices were not competitive in the world market and exports dried up. It is unclear what the condition of those stocks is and much of the older product may be written off in the near future at a loss. The majority of these stocks should not be viewed as viable to meet current domestic or export demand.

PSD Table

PSD Table

Country Venezuela

Commodity Coffee, Green

(1000 HA)(MILLION TREES)(1000 60 KG B

	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [New]	
Market Year Begin		10/2002		10/2003		10/2004	MM/YYYY
Area Planted	310	310	310	310	0	310	(1000 HA)
Area Harvested	240	240	234	210	0	220	(1000 HA)
Bearing Trees	610	610	580	580	0	580	(MILLION TREES)
Non-Bearing Trees	20	20	25	25	0	25	(MILLION TREES)
TOTAL Tree Population	630	630	605	605	0	605	(MILLION TREES)
Beginning Stocks	603	603	533	528	0	375	(1000 60 KG BAGS)
Arabica Production	920	920	897	825	0	840	(1000 60 KG BAGS)
Robusta Production	0	0	0	0	0	0	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Production	920	920	897	825	0	840	(1000 60 KG BAGS)
Bean Imports	10	2	10	5	0	10	(1000 60 KG BAGS)
Roast & Ground Imports	10	1	10	2	0	3	(1000 60 KG BAGS)
Soluble Imports	0	3	0	0	0	0	(1000 60 KG BAGS)
TOTAL Imports	20	6	20	7	0	13	(1000 60 KG BAGS)
TOTAL SUPPLY	1543	1529	1450	1360	0	1228	(1000 60 KG BAGS)
Bean Exports	250	270	260	300	0	250	(1000 60 KG BAGS)
Roast & Ground Exports	35	8	35	35	0	35	(1000 60 KG BAGS)
Soluble Exports	5	3	0	0	0	0	(1000 60 KG BAGS)
TOTAL Exports	290	281	295	335	0	285	(1000 60 KG BAGS)
Rst,Ground Dom. Consur	710	710	690	640	0	650	(1000 60 KG BAGS)
Soluble Dom. Consum.	10	10	10	10	0	10	(1000 60 KG BAGS)
TOTAL Dom. Consumpti	720	720	700	650	0	660	(1000 60 KG BAGS)
Ending Stocks	533	528	455	375	0	283	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	1543	1529	1450	1360	0	1228	(1000 60 KG BAGS)