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## Honduras

## Coffee

## Annual

## 2008

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**Report Highlights:**

Honduras is the second biggest producer of coffee in Central America. Production in 2006/07 reached 3.5 million 60 kg. bags. About 230,000 60 kg bags of specialty, certified, and organic coffee were produced, increasing exports of these categories by 189% from those of 2005/06. Honduras participated for the successive fourth year in the "Cup of Excellence" competition, and one producer sold his coffee to a record price of US\$1,870 per 100 pounds. In 2007/08, production is expected to reach 3.8 million 60 kg. bags. Growers contribute to a coffee trust fund through deductions taken when an exporter or an intermediary buys the producer's coffee. These contributions have been used by the National Institute of Coffee (IHCAFE) to buy fertilizer which it sells to producers at a discount. This has lessened the impact of the rise in fertilizer prices and had increased productivity.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Tegucigalpa [HO1]  
[HO]

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## 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 exports.

Exports during the 2006/2007 harvest reached US\$470 million, which is 17 percent higher than the earnings from the 2005/2006 harvest. Production in 2006/2007 was on the upswing due to the greater utilization of inputs such as of fertilizer, and the implementation of assistance programs that developed by the Honduran Coffee Institute (IHCAFE). In addition, the improvement in the price of coffee has been a significant incentive to farmers to increase productivity. The average export price in the 2006/2007 harvest was US\$112 per 6 kg. bag compared to the average price of US\$105 in 2005/2006.

During 2006/2007, exports of specialty and certified coffee increased 189% from those of 2005/2006. Honduras participated for the successive fourth year in the "Cup of Excellence". Through this competition, Honduras finds niche markets for its coffee. In 2006/2007, a coffee producer sold its coffee at a record price of US\$1,870 per 100 pounds.

Honduran coffee production in 2008/2009 is forecast at 3.5 million bags (60 kilograms), 7 percent below that of the previous year. The decrease in production is due to the off-year of the biennial cycle. Exports in 2008/2009 are forecast at 3.2 million 60 kg. bags.

<div>Country</div> <div>Honduras</div> <div>Coffee, Green</div>										
Market Year Begin	2007 Revised			2008 Estimate			2009 Forecast			UOM
	USDA Official	Post Estimate 10/2006	Post Estimate New 10/2006	USDA Official	Post Estimate 10/2007	Post Estimate New 10/2007	USDA Official	Post Estimate 10/2008	Post Estimate New 10/2008	MM/YYYY
Area Planted	243	243	243	243	243	243	0	0	243	(1000 HA)
Area Harvested	230	230	230	230	230	230	0	0	230	(1000 HA)
Bearing Trees	1049	1049	1049	1049	1049	1049	0	0	1049	(MILLION TREES)
Non-Bearing Trees	141	141	141	141	141	141	0	0	141	(MILLION TREES)
Total Tree Population	1190	1190	1190	1190	1190	1190	0	0	1190	(MILLION TREES)
Beginning Stocks	63	63	63	137	137	64	0	0	54	(1000 60 KG BAGS)
Arabica Production	3500	3500	3500	3600	3600	3760	0	0	3500	(1000 60 KG BAGS)
Robusta Production	0	0	0	0	0	0	0	0	0	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	0	0	0	(1000 60 KG BAGS)
Total Production	3500	3500	3500	3600	3600	3760	0	0	3500	(1000 60 KG BAGS)
Bean Imports	0	0	0	0	0	0	0	0	0	(1000 60 KG BAGS)
Roast & Ground Imports	6	6	6	6	6	7	0	0	7	(1000 60 KG BAGS)
Soluble Imports	6	6	6	6	6	7	0	0	7	(1000 60 KG BAGS)
Total Imports	12	12	12	12	12	14	0	0	14	(1000 60 KG BAGS)
Total Supply	3575	3575	3575	3749	3749	3862	0	0	3581	(1000 60 KG BAGS)
Bean Exports	3218	3218	3246	3400	3400	3688	0	0	3248	(1000 60 KG BAGS)
Rst-Grnd Exp.	2	2	2	2	2	2	0	0	2	(1000 60 KG BAGS)
Soluble Exports	0	0	0	0	0	0	0	0	0	(1000 60 KG BAGS)
Total Exports	3220	3220	3248	3402	3402	3690	0	0	3250	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	212	212	230	210	210	230	0	0	240	(1000 60 KG BAGS)
Soluble Dom. Cons.	6	6	9	6	6	9	0	0	9	(1000 60 KG BAGS)
Domestic Use	218	218	239	216	216	239	0	0	249	(1000 60 KG BAGS)
Ending Stocks	137	137	88	131	131	67	0	0	82	(1000 60 KG BAGS)
Total Distribution	3575	3575	3575	3749	3749	3862	0	0	3581	(1000 60 KG BAGS)
Exportable Production	3282	3282	3261	3384	3384	3521	0	0	3251	(1000 60 KG BAGS)

## Production

IHCAFE data indicate that the 2008/2009 harvest is expected to reach 3.5 million 60 kg bags, a 7 percent decrease from the previous year. The decrease is due to the off-year of the biennial cycle. Production for the 2007/2008 harvest is forecast at 3.7 million bags. The success of the 2006/2007 harvest was due to the work that IHCAFE and the coffee producer organizations did on 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 area planted. 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 have motivated producers to pay better attention to their farms and to increase productivity.

Production of value-added coffee is also increasing. About 230,000 60 kg bags were produced under programs managed by Utz Kapeh Certified, Rain Forest Alliance, Fair Coffee and Organic Coffee. During 2006/2007, exports of specialty and certified coffee increased 189 percent from the previous year.

## Consumption

According to IHCAFE, about 7 percent of the production remains in the country. Domestic consumption generally increases about 3 percent annually. However, in 2008/2009 it is forecast to increase by 4 percent due to the proliferation of coffee bars. The coffee bars are located in shopping malls, supermarkets, hospitals and main business streets. This trend should continue growing since Honduran youth are consuming more coffee. In addition, these coffee bars specialize in providing customers with free wireless internet service, which attracts high school, university students, and others.

## Trade

Coffee exports for 2007/2008 are estimated at 3.7 million 60 kg. bags. Exports in 2008/2009 are forecast at 3.2 million 60 kg. bags due to the off-year of the biennial cycle.

Exports during the 2006/2007 harvest reached US\$470 million, which is 17 percent higher than those from the 2005/2006 harvest. Exports to Germany, the U.S., Belgium, Holland, Italy, South Korea, Spain, Sweden and France represented 86 percent of total shipments. The greatest volume (31 percent) was exported to Germany, and the U.S. was the number two destination accounting for 21 percent of total exports. The average export price in the 2006/2007 harvest was US\$112 compared to US\$105 for 2005/2006.

According to latest data from the Honduran Central Bank, imports of roasted and soluble coffee for domestic consumption came mainly from the United States. During 2007, there was an increase of 28 percent in volume and a decrease of 16 percent in value compared to 2006. 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 fourth 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 2006/2007, a coffee producer sold its coffee for a record price of US\$1,870 per 100 pounds. About 230,000 60 kg. bags were produced under the programs of Utz Kapeh Certified, Rain Forest Alliance, Fair Coffee and Organic Coffee. During 2006/2007, exports of specialty and certified coffee increased 189% 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 the illegal 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:

2007

2008

U.S.

763,830

U.S.

672,750

Others

Others

Germany	1,164,195.00		1,025,375.00
Belgium	492,615		433,875
Holland	240,588		211,900
Italy	150,550		132,600
S. Korea	148,340		130,650
Japan	120,660		106,275
Spain	91,512		80,600

Total for Others

2408460

2182526

Others not Listed

517,710

394,724

Grand Total

3690000

3250000

**Stocks**

Stocks during 2007/2008 decreased from the estimated amount in light of the increase in both exports and domestic consumption.

**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. These US\$9.00 are 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 2006/2007, 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.

Further information about coffee Honduras can be found at [www.cafedehonduras.hn](http://www.cafedehonduras.hn)