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**Colombia**

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**Report Highlights:**

**Colombia's coffee production in 2000/01 is projected to grow by 21 percent from 9.5 to 11.5 million bags, then decline slightly in 2001/02 to 11.4 million bags.**

**Colombia's green coffee exports in 2000/01 are projected at 9.8 million bags, up eight percent, with exports in 2001/02 are expected to increase a further 4 percent.**

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Includes PSD changes: Yes

Includes Trade Matrix: Yes

Unscheduled Report

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## Executive Summary

Colombia's coffee **production** in 2000/01 is projected to grow by 21 percent from 9.5 to 11.5 million bags, because of increased renovations two to three years ago, which have increased the current productivity of these coffee plants, and very favorable weather during the blooming period. The Colombian weather agency also anticipates favorable weather during the second half of 2001, which should result in good output in much of 2001/02, as well. However, the dramatic drop in international coffee prices since August 2000 will reduce investment in renovations this year (and probably next) and undoubtedly lower fertilizer use, which will negatively affect production. On balance, we estimate production in 2001/02 of 11.4 million bags, basically unchanged from this year.

One of the most important developments in the Colombian coffee situation, resulting from the sharp drop in international coffee prices, is the effect it has had on the financial situation of the National Coffee Fund (NCF). The operating funds of the NCF come from a check-off-type system whereby the NCF receives a portion of the sales values of coffee at the local level. However, the amount varies depending on the international price level, and, when prices fall below a certain level, the check-off is waived, which has been the case since the Fall of 2000. Despite a zero income stream, until recently, the NCF carried out its normal program expenditures, and maintained the guaranteed price system to growers, accumulating a deficit of US\$115 million in commercial year 2000. This huge deficit is what has forced the NCF to cut back on ongoing programs, lay off some staff, and abandon the guaranteed price system for a floating price system based on international price. Although many of the programs that were eliminated were social in nature and not directly related to production, the drastic cutback in activities by the National Coffee Committee (NCC) will no doubt have a negative effect on

production over time. However, this could be offset somewhat by the increasingly important role played by local grower cooperatives in educational and assistance programs.

As indicated, the NCC has changed its commercialization policy, due to the international price drop. The guaranteed minimum price paid to growers had been changed to a variable price based on the international price for Colombian coffee, including the quality price premium it commands. This new price paid to the growers is changed daily, based on closing prices in New York commodity exchange. In the new pricing scheme there is no subsidy from the National Coffee Fund (NCF) to growers, as was the case previously. This measure is discouraging growers from expanding coffee area. However, the NCC is still providing technical assistance to growers to improve coffee yields, while, at the same time, encouraging marginal growers to switch to alternative crops.

Domestic coffee *consumption* is unchanged from last year, because of the still slow economic recovery. Due to the increased output and current stocks, Colombia's green coffee *exports* in 2000/01 are projected at 9.8 million bags, eight percent above the previous year. Exports in 2001/02 are expected to increase a further 4 percent, due to sustained high production levels. The United States and Germany are the top buyers of Colombian coffee, accounting for 32 and 19 percent of all coffee sales, respectively.

## Production

### a. General

Coffee production in Colombia, along with the rest of the coffee producing world, has been thrust into a new competitive environment, as a result of the dramatic drop in international coffee prices, which began in August 2000. The significantly lower incomes now being received by producers will affect their ability to invest in continued renovation of coffee plants, which is essential in order to maintain production in the longer term. It will also lower the level of use of inputs, especially fertilizer, which will be a negative factor for production in the near term.

A program launched three years ago by the National Growers Federation (Fedecafe), which provided incentive payments to renovate 350,000 hectares was just discontinued, having reached only 200,000 hectares. Fedecafe was forced to curtail this program as a cost-cutting measure. Despite this, the Fedecafe program for maintaining production is still based on renovation to reduce the average age of plants and increase plant density. Also, a strong effort is being continued to improve grower management skills and increase their use of organic inputs, which helps to lower production costs. All of these efforts are oriented toward increasing quality and reducing the cost of production. However, given NCF's current fiscal deficit and the unavailability of credit means that the resources available to carry out these plans will be limited in the short and probably medium term.

In Colombia, there are currently 560,000 coffee growers on 805,000 hectares, an average of only 1.4 hectares per farmer. The average size of farm units continues to decline, since, as each farm

passes across generations, the unit is regularly divided among all children, with each operated independently thereafter. The small scale of each coffee production unit and low profits means that farmers are slow to adopt new production and processing techniques. In addition, although poor, coffee growers must still pay a protection fee to the guerrillas who control the countryside in Colombia, reducing profits even further.

The central states of Antioquia, Caldas, Risaralda and Quindio contain 37 percent of Colombia's coffee area and account for over 50 percent of national output. Colombia's coffee crop is cultivated in mountainous regions where climate and soil conditions are optimal.

Approximately, 70 percent of Colombia's total coffee area is planted with the high-yielding, rust-resistant Caturra and Colombia coffee varieties. These two varieties, which produce well without shade, account for more than 85 percent of total coffee production. The other 30 percent of Colombia's coffee area is planted with traditional coffee varieties, which must be cultivated under shade to ensure a quality coffee.

Coffee output during the first half of 2000/2001 was 30 percent greater than the same six-month period the previous year. Production during the second half of the year is projected to grow by 12 percent over last year, which will lead to the 21 percent rise in production for 2000/2001. Therefore, Post forecasts coffee production for 2001/02 at 11.4 million bags, down just a one percent from 2000/01. The factors that suggest this small downtrend are the reduced support from Fedecafe, along with a lack of bank credit for small farmers. Even though weather has been and it expected continue to be favorable, ensuring good floration, the lack of resources for control of pests and diseases and fertilizer will reduce production somewhat.

With stagnant world coffee prices, Colombia's coffee area is not expected to change significantly over the next year. However, coffee output in the next few years will depending on various factors, such as management, control of pests and diseases, and weather. Coffee production should rise two to three percent in 2002/03 and each of the following two years, due to the increased productivity of plants that were renewed over the past two year under Fedecafe's incentive program, which was recently discontinued.

Colombia is unique in that it produces coffee throughout the year, but there are two main coffee output peaks. The dominant harvest occurs during the October-January period and accounts for 45 percent of annual production. The minor crop is harvested May-July and represents an additional 25 percent of annual production. The remaining 30 percent of national production is harvested during the remaining five months of the year.

Colombia has shown an increasing interest in recent years in producing *organic coffee* along with the specialty coffees. Currently, less than one percent of Colombia's coffee production is organic, but volumes are growing.

## **b. Inputs**

Seventy percent of the total cost of producing coffee in Colombia is *labor*. Moreover, in Colombia, these workers are paid a relatively high salary, in comparison to other major producers in Africa and Asia. Temporary labor brought in during the harvest period does not receive a

fixed salary but instead is paid by the weight of the ripe coffee cherries picked. These seasonal workers can earn more than permanent workers depending on their skill levels.

Large amounts of **water** are used in on-farm processing of coffee, which results in heavy contamination of local rivers. Cenicafe, the Colombian coffee research center, has developed a system by which water usage is reduced from about 40 liters per kilo of coffee beans to less than one liter. Fedecafe is promoting this new technology among coffee growers, but with an price of US\$1,000 to acquire a typical processing machine, only about three percent of all farms in Colombia are enrolled in the program.

### c. Crop Quality

The new market environment has made growers much more aware of the importance of quality in determining prices, both at the international and local level. This should have a positive effect on the quality of coffee produced, but lower incomes will also affect the ability of growers to invest in inputs for and maintenance of their crops. The use of expensive chemical fertilizers could especially be reduced and investments in renovations will undoubtedly decline this year and next. It remains to be seen which factor will have the greater effect.

Broca, a coffee cherry borer insect, was detected in Colombia for the first time in 1988. According to local agronomists, this pest cannot be eradicated and, therefore, the local industry concentrates its efforts on keeping the insect, and resulting crop damage, under control. The broca insect does not affect production volumes but rather bean quality. Although broca damaged beans are unsightly, they do maintain their aroma and other taste properties. Nearly all of Colombia's broca damaged beans are sold for consumption within the domestic market and are not exported.

However, the low international prices and reductions in grower profits have resulted in reduced investments in pest control, especially by marginal producers, which will have a negative effect on coffee quality.

### d. Grower Prices

In April 2001, the National Coffee Committee also changed its commercialization policy, due to the international price drop. The guaranteed minimum price paid to growers had been 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 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 April

2001 by NCF was 313,000 pesos per 125 kilograms (\$0.53 per pound), down 10 percent from a year ago.

The Colombian coffee reached a record **world price** of \$2.79 per pound in May 1997. Since then it has been falling steadily and, in April 2001, it stood at average of \$0.78 per pound. This price includes a premium of \$0.17 per pound that Colombia receives for its high-quality coffee. Local coffee industry officials do not anticipate a strengthening in world coffee prices in the near future.

#### e. Production Policy

Colombia's coffee output peaked in 1991/92 at 18 million bags, but has declined steadily since then. Because of weak world coffee prices, the NCC--composed of government and coffee grower representatives--decided that Colombia should not expand its coffee plantations and since then has been discouraging farmers from expanding **planted area**. Instead, Fedecafe has been promoting practices that improve coffee yields and quality.

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. The optimal altitude for coffee production is between 1,200 and 1,800 meters above sea level (3,940 to 5,900 feet). Production zones above or below these parameters are considered marginal in Colombia. The NCC has been urging low-altitude growers to substitute tropical fruit, cocoa, pastures, and forestry products for coffee. Marginal coffee areas in zones of higher altitudes are being pushed toward dairy production.

In 1998, Fedecafe launched a five-year program for **renovating old coffee plantations**, with a goal of completing at least 70,000 hectares annually. The program has now been discontinued. However, over the past three years around 200,000 hectares were renewed under this program. The average age for Colombia's coffee trees was 7.5 years, and Fedecafe's intention was to reduce this figure to 5.5 years. Growers were given an incentive of 105 pesos (5 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 (\$0.15 to \$0.20); however the incentive was high enough to have the desired effect of encouraging renewal of a significant area.

## Consumption

Domestic coffee consumption in 2000/01 is calculated at 1.5 million bags, unchanged from 1999/00. The past two years, Fedecafe has been engaged in a promotional campaign to encourage domestic coffee consumption but, due to the economic recession the country is experiencing, the results have not been notable. Colombia's annual per capita consumption of coffee is estimated at only 2.2 kilos, compared to 4.3 kilos in other producing countries, such as Brazil and Costa Rica.

A kilogram of roasted/ground coffee (high quality) currently retails at 9,600 pesos (\$2.02 per

pound) in Bogota, up four percent from a year ago. The retail price of a 170 gram jar of instant coffee is US\$1.70, up 12 percent from last year.

## Trade

Most of Colombia's coffee is produced for the export market. A decade ago, foreign exchange earnings from coffee exports represented 31 percent of all Colombian exports, including both agricultural and non-agricultural products. However, in 2000, coffee exports accounted for only nine percent of Colombia's exports. 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, and cut flowers.

Fedecafe accounts for about 36 percent of all Colombian coffee exports, with the remainder handled by private exporters. Coffee exports generated \$1.2 billion in 2000, down 16 percent from a year ago, because of reductions in both volume (down ten percent) and prices. Because of this, coffee earnings in 2000/01 are expected to decline another five percent. Thirty-two percent of all coffee exports were destined for the U.S. market in year 2000. Forty-two percent of Colombia's coffee shipments were taken during this same period by the European Union. The second largest single buyer of Colombia's coffee is Germany, accounting for 19 percent of all export sales. During this decade, Japan has been importing increasing amounts of coffee from Colombia and in 2000 accounted for 14 percent of total coffee exports, which showed a growth of two percent when compared to a year before.

Colombia, as a member of the *Association of Coffee Producing Countries* (ACPC), has been encouraging other coffee producing countries to restrict coffee exports in order to strengthen world coffee prices. Colombia coffee exports in the first half of 2000/01 are already 15 percent higher than in the same period of the previous year. The ACPC will meet in late May 2001 to review the retention program established last year and apparently to discuss the viability of the plan to destroy lower-quality stocks being held by member countries. Colombia especially feels that the oversupply of lower-quality coffee is an important factor in low international coffee prices.

In the past two years, Colombia has shifting to the use of *containers* for exports; currently, 40 percent of its sales are shipped using containers. Colombia is also increasing its use of containers for internal transportation of coffee to ports, reducing domestic transportation costs.

## Stocks

Colombia's coffee stocks have fallen to their lowest level since the mid-1980's, when they reached about 9,000 million bags. End-of-season inventories have fallen from 2.9 million bags at the end of 1998/99 to 2.1 million bags at end of 1999/2000. Colombia's coffee carryover at the end of 2000/01 is estimated to be 2.3 million bags nine percent above last year. This higher stock level reflects the retention plan on exported coffee and a higher production level. Since

coffee production is projected to decline and an increase in exports, stocks are expected to decline by 15 percent during 2001/02.



# Tables

## Colombia: Green Coffee Supply & Demand, 1999/00 to 2001/02

(1,000 hectares, 1,000 60-kilo bags)

PSD Table						
Country:	Colombia					
Commodity:	Coffee, Green					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/1999		10/2000		10/2001
Area Planted	805	805	805	805	0	805
Area Harvested	650	650	670	650	0	650
Bearing Trees	2,790	2,790	2,800	2,790	0	2,790
Non-Bearing Trees	1,030	1,030	1,030	1,030	0	1,030
TOTAL Tree Population	3,820	3,820	3,830	3,820	0	3,820
Beginning Stocks	3,154	3,154	2,092	2,092	2,272	2,278
Arabica Production	9,512	9,512	12,000	11,500	0	11,400
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	9,512	9,512	12,000	11,500	0	11,400
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	16	16	0	16	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	16	16	0	16	0	0
TOTAL SUPPLY	12,682	12,682	14,092	13,608	2,272	13,678
Bean Exports	8,400	8,400	9,600	9,120	0	9,500
Roast & Ground Exports	110	110	110	130	0	140
Soluble Exports	550	550	550	550	0	550
TOTAL Exports	9,060	9,060	10,260	9,800	0	10,190
Rst,Ground Dom. Consum	1,290	1,290	1,310	1,290	0	1,300
Soluble Dom. Consum.	240	240	250	240	0	250
TOTAL Dom. Consumption	1,530	1,530	1,560	1,530	0	1,550
Ending Stocks	2,092	2,092	2,272	2,278	2,272	1,938
TOTAL DISTRIBUTION	12,682	12,682	14,092	13,608	2,272	13,678

**Colombia: Green Coffee Prices to Growers, CY2000 and 2001**

Prices Table					
Country:	Colombia				
Commodity:	Coffee, Green				
Year:	2001				
Prices in (currency)	1000pesos	per (uom)	125 kilos		
Year	2000	2001	% Change		
Jan	371	322	-13.2%		
Feb	354	292	-17.5%		
Mar	360	297	-17.5%		
Apr	348	313	-10.1%		
May	354		-100.0%		
Jun	342		-100.0%		
Jul	345		-100.0%		
Aug	330		-100.0%		
Sep	330		-100.0%		
Oct	330		-100.0%		
Nov	330		-100.0%		
Dec	330		-100.0%		

**Colombia: Green Coffee Exports, CY2000** (1,000 60 kilo-bags)

Export Trade Matrix			
Country:	Colombia	Units:	1000 bags
Commodity:	Coffee, Green		
Time period:	1 - 12		
Exports for	0		2001
U.S.	2971	U.S.	
Others		Others	
Germany	1717		
Japan	1265		
Belgium	481		
Canada	431		
France	305		
Netherlands	239		
Sweden	222		
Spain	228		
United Kingdom	232		
Italy	228		
Total for Others	5348		0
Others not listed	857		
Grand Total	9176		0