Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Scheduled Report - Public Distribution

Date: 5/17/1999

GAIN Report #VE9023

Venezuela

Coffee

Venezuelan Coffee Harvest Down after Best Crop of the Century

1999

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Report Highlights:

Exports increased to 520,000 bags in 1997/98 thanks to the return to more normal weather conditions. While coffee production is not expected to rise in 1998/99, exports should increase this year as a result of a new pricing system linked to coffee options on the New York Coffee, Sugar and Cocoa Exchange and a drawdown of the 1997/98 ending stocks.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Caracas [VE1], VE

Executive Summary

Venezuela only produces Arabica coffee. Production in 1997/98 was 1.38 million bags. According to the official data, Venezuela produced its most significant coffee harvest of the twentieth century. However, production for 1998/99 is expected to decrease even if good weather conditions remain. The National Coffee Fund (FONCAFE) has played an important role in rejuvenating and increasing the number of coffee fields over the four past years which has played a key role in the expansion in production.

Exports increased to 520,000 bags in 1997/98 thanks to the return to more normal weather conditions. Exports for 1998/99 are expected to increase as a result of a newly introduced free market style of pricing the crop, coupled with a larger supply of coffee thanks to the 1997/98 stocks. Illegal imports of cheaper coffee enters from Colombia typically enter Venezuela and for the 1997/98 season approximately 190,000 contraband bags have been estimated as entering the country.

PSD Table						
Country	Venezuela					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Planted	310	310	315	315	0	320
Area Harvested	300	300	305	305	0	305
Bearing Trees	610	610	615	615	0	620
Non-Bearing Trees	10	10	10	10	0	10
TOTAL Tree Population	620	620	625	625	0	630
Beginning Stocks	309	300	60	145	0	75
Arabica Production	981	1380	1380	1300	0	1250
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	981	1380	1380	1300	0	1250
Bean Imports	95	95	80	80	0	80
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	95	95	80	80	0	80
TOTAL SUPPLY	1385	1775	1520	1525	0	1405
Bean Exports	510	475	550	505	0	380
Roast & Ground Exports	40	40	40	30	0	30
Soluble Exports	4	5	5	5	0	0
TOTAL Exports	554	520	595	540	0	410
Rst,Ground Dom. Consum	761	1100	800	900	0	950
Soluble Dom. Consum.	10	10	10	10	0	0
TOTAL Dom. Consumption	771	1110	810	910	0	950
Ending Stocks	60	145	115	75	0	45
TOTAL DISTRIBUTION	1385	1775	1520	1525	0	1405

COFFEE GREEN

Production

General

Venezuela only produces Arabica coffee. Production in 1997/98 was 1.38 million bags. According to the National Coffee Fund (FONCAFE) figures, Venezuela produced its most important coffee harvest of the twentieth century during 1998. This excellent harvest has been attributed to several factors: good weather conditions over the past year, excellent coffee prices maintained over the past four years have encouraged production, good credit availability and the coffee nurseries policy followed by FONCAFE and the industry during last four years. The objective of this policy was to rejuvenate the ancient and non-productive coffee plantations, thus providing for a constant and significant increase in production.

Despite the favorable reported harvest of 1997/98, Venezuela's 1998/99 coffee harvest is expected to decrease, even if good weather conditions remain, because growers have found as a general rule of thumb that after every exceptional harvest the coffee plants are exhausted and unable to produce as much. Therefore, production for 1998/99 is projected at 1.30 million bags and the forecast for 1999/00 season is a further decline of 1.25 million bags.

Crop Area

FONCAFE has sought to rejuvenate 98 million coffee plants over the past four years. The program was initiated in 1994/95 to promote the replacement of old coffee trees with newer high yielding varieties. The goal of this project was to revive 25,000 hectares by the year 2000 in an effort to boost production, but economic conditions may put this target on hold.

Inputs

Farmers have invested heavily in fertilizer and pesticides since 1993/94 with the purpose of increasing yield and production to take advantage of the more favorable producer prices. Coffee growers have had no problem obtaining production loans during the last several years because returns on coffee have been excellent; however, even as FONCAFE's objective of increasing coffee production continues, the current economic crisis that has gripped Venezuela could reduce the level of inputs for the period 1999/2000.

Crop Quality

The quality of Venezuelan coffee is generally very high and compares favorably with Colombian coffee. Although the coffee borer worm has been detected in the western states of Venezuela, it is not considered to be a serious threat at this time. The Plant and Animal Health Protection Service of the Venezuelan Ministry of Agriculture (Servicio Autónomo de Sanidad Agropecuaria -SASA) has been very active in detecting and reducing the plague and enforcing phytosanitary regulations along the border states with Colombia. SASA works together with FONCAFE in a training campaign to reduce and contain the pest.

Production Policy

Official producer prices used to be set by agreement between FONCAFE and the Ministry of Agriculture. But since October 1998, prices have been determined through a more modern marketing approach. Producers, the industry and the Government recently agreed that the reference prices for the acquisition of the Venezuelan coffee would be tied to the future options of the New York Coffee, Sugar and Cocoa Exchange, as published in the Venezuelan ***Gaceta Oficial***, No. 36,551 on October 1, 1998. In that sense, the coffee prices of the present harvest 1998/99 will be determined having a reference price established in the New York Coffee, Sugar and Cocoa Exchange, plus a previous cost established by an agreement between producers and the industry.

Prices paid by domestic processors are heavily influenced by domestic and world market conditions. The present average producer price is Bs. 45,000 (US$75.60) per quintal (46 kilos). Prices have been strongly affected by the world market prices. (See the table below for a more detailed description of prices.)

PRODUCERS PRICES (Bs./46 kilo bag and US$/lb)

	1995/96		1996/97		1997/98*		1999/00*	
Coffee Type	Bs.	US$	Bs.	US$	Bs.	US$	Bs.	US.$
Natural	22,000	0.46	33,000	0.69	58,000	1.07	32,000	1.16
Washed	24,000	0.50	36,000	0.75	63,000	1.18	33,000	1.20
Good Wash	25,000	0.52	38,000	0.79	67,000	1.24	35,000	1.27
Fine Wash	27,000	0.57	42,000	0.87	73,000	1.37	45,000	1.64

*These price represent average free market prices.

Consumption

Domestic coffee consumption was approximately 1.1 million bags in 1997/98. Consumption continue to fall as compared with 1996/97 (1.80 kg per capita). Per capita coffee consumption for 1998 was 1.76 kg. The Venezuelan economy has been in a severe recession since 1993 and some local sources estimate that consumption fell 20 percent last year; however, producer contacts have stated that even though the price of coffee has increased, Venezuelans have not cut back on their habit of drinking coffee. However, the processors (Asociación Nacional de Industriales del Café, Anicaf) association disagrees with the producers.

Retail Prices for Ground Coffee (kg)

mm/yy	Bs.	US$	Bs./$1
06/95	1,110*	6.52	170.00
12/95	1,230*	4.24	290.00
05/96	1,230*	2.61**	470.00
07/96	2,480*	5.27	470.00
03/97	3,460*	7.23	478.00
05/98	3,800*	7.10	535.00
08/98	3,440*	6.31	545.00
11/98	3,400*	6.20	548.00
02/99	3,280*	5.65	580.00
05/99	3,440*	5.79	594.00

* Maximum price
**There was a major devaluation in April 1996

Source: Field observation and newspapers

Retail Prices for brewed Coffee

mm/yy	Size	Bs.	US $	Bs./$1
03/96	2 oz.	30	0.06	470
03/96	4 oz.	54	0.11	470
03/97	2 oz.	90	0.18	478
03/97	4 oz.	130	0.27	478
03/98	2 oz.	140	0.27	525
03/99	2 oz.	170	0.28	590
03/99	4 oz.	280	0.47	590

Source: Field observation and Newspapers

Trade

General

Venezuela has been exporting coffee for more than 210 years, even occupying second place in Europe among Latin American coffee producers at the beginning of 1900 and maintaining seven percent of the world production at that time. But several factors, mainly the easy revenues obtained from the oil industry, have negatively influenced Venezuelan coffee production during the twentieth century. However, since 1994, Venezuela has become much more pro-active in rejuvenating the local coffee industry.

Exports were 366,000 bags in 1996/97. Exports increased to 520,000 bags in 1997/98 due mainly to two factors: a return to normal weather conditions after two bad years and the payoff from several years of FONCAFE policies to promote production. While production is not expected to rise in 1998/99, exports should increase as a result of the new pricing system and a drawdown of the 1997/98 ending stock. Exports for 1999/00 are forecast to drop to 430,000 bags.

Because of high domestic prices from 1995 to 1997, there were reportedly sizeable illegal imports of cheaper coffee from Colombia. Estimates are that in 1997/98, approximately 190,000 contraband bags entered “by the green path” (a term used in Venezuela to describe the flow of contraband goods entering by land transport between Colombia and Venezuela). Coffee imports from Colombia are subject to phytosanitary restrictions because of the coffee borer worm which exists in Colombia.

Export Trade Matrix			
Country	Venezuela		
Commodity	Coffee, Green		
Time period	1998	Units:	60 Kg bags
Exports for:			1
U.S.	300,000	U.S.	
Others		Others	
Germany	64,400		
Spain	43,800		
Belgium/Lux.	40,600		
Canada	20,600		
France	15,600		
Total for Others	185,000		
Others not Listed	35,000		
Grand Total	520,000		

Source: Post estimates (Official Venezuelan data put exports at a level much lower than those reported by private sector sources. The trade data shown on this table have been derived by analyzing and comparing government and private sector sources of information. Official data show no imports.)

Tariffs

Most products from Andean countries enter Venezuela duty free and coffee is no exception:

Tariff Schedule

Harmonized Code	Description	Ad Valorem	Andean Community Duty
0901.11.00	Green Coffee	10	free
0901.12.00	Decaffeinated	30	free
0901.21	Roasted		
0901.21.10	Whole coffee bean	10	free
0901.21.10	Ground coffee	30	free
0901.22.00	Decaffeinated	20	free
0901.90.00	Other	20	free

Regime Notes:

Note 5. All require a sanitary certificate from the country of origin.
Note 6. All require a sanitary permit from the Ministry of Agriculture.

A - None of the above pay luxury tax.
B - All of the above are excepted from the “Preferencia Arancelaria Regional” (Regional Preference Tariff)
C - All of the above, coming from Peru must pay 10% duty.
D - Products from codes 0901.21.20 and 0901.22.00 must be registered at the Ministerio de Sanidad y Asistencia Social (MSAS)

Stocks

End of the year stocks in 1997/98 were 145,000 bags as a result of the huge harvest. Projected end of the year stocks for 1998/99 are only 75,000 bags; this decline is a consequence of the large exports to United States and other countries, lower imports and a relatively higher domestic consumption. Ending stocks for 1999/00 are forecast at 45,000 bags due to lower projected production.