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Venezuela

Coffee Annual

Annual Coffee Report

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Report Highlights:

Coffee production in MY 2014/15 is expected to decline by 30 percent compared to MY 2013/14, the largest year-to-year reduction and lowest production level in at least the past 15 years due mainly to a coffee rust outbreak. Coffee imports will continue to be significant, but forecast to decline in 2015/2016.

Executive Summary

The Venezuelan coffee sector has undergone profound changes in the past year and half jeopardizing the very existence of the crop. According to coffee farmers, the economic and political situation is becoming more difficult every day. Based on an October/September marketing year, coffee production in MY 2014/15 is expected to decline by 30 percent compared to MY 2013/14, the largest year-to-year reduction and lowest production level in at least the past 15 years.

There are multiple factors affecting coffee production in Venezuela that have put the sector at risk. The most serious was an outbreak of coffee rust which effected over 70 percent of Venezuela's coffee planted area in MY 2014/15. Contributing to sever production problems is a long list of government failed economic and agricultural policies along with a lack of investment in new technologies, and growing coffee imports. In MY 2015/16, production is expected to recover marginally, but will still be much lower than historical production levels. Imports in MY 2015/16 will continue to be significant, but will not fully compensate for lost production resulting in lower per capita consumption.

Production

General

The Venezuelan agricultural sector is experiencing a severe structural development crisis that is increasingly more visible every day. There are long lines of customers at supermarkets waiting to purchase whatever foods are available, and food and feed processors are working at less than full capacity due to a lack of raw materials. Subsidized food and agricultural imports make up about 70 percent of total food consumed in Venezuela and displaces less competitive domestic production due to rising production costs and reduced good-farming practices. The coffee sector is a prime example of how the crisis is playing out in Venezuela.

Crop Area

Coffee production occurs in the Coastal Range and the western Andean region of Venezuela. The main coffee producing States are: Lara, Portuguesa, Anzoátegui, Trujillo, Táchira, Monagas and Mérida. Over the past several years planted area had not changed due a lack of incentives to invest in the expansion of production and threats of expropriation of lands not in production. While there are no reliable official numbers, planted acreage continues to remain relatively unchanged. However, due to the sever outbreak of coffee rust that has plagued the region, and the lack of resources to contain it; the number of hectares harvested has declined along with yields. As a result, post reduced area harvested in MY 2014/15 from 180,000 to 160,000 hectares based on information provided by the Coffee Division of the Federation of Venezuelan Farmers (FEDEAGRO). Areas planted and harvested were left unchanged for MY 2015/16 pending the results of efforts to control the coffee rust outbreak. Most farmers that grow coffee historically generated off-farm income to supplement overall income, but now off-farm income has become more important to total household income due to diminishing returns from coffee.

Production

The majority of Venezuelan coffee farms are very small averaging around 5 hectares. They are characterized as low yielding, but high quality operations. After meeting with producer contacts and coffee traders, Post left unchanged production figures for MY 2013/14 at 700,000 bags. The effects of coffee rust, while beginning to show signs of spreading, had not affected most of the production areas. The absence of government policies to implement disease control programs, however, took its toll, which led to coffee rust spreading virtually unabated for over a year.

Due to the greater-than-expected impact of the coffee rust outbreak in MY 214/15, estimated production will fall as much as 30 percent according to FEDEAGRO and other trade sources. The production estimate for MY 2014/15 was adjusted downward to 460,000 bags, the lowest level in over 20 years. The drop in production came virtually entirely due to a drop in average yields caused by the coffee rust outbreak, but failure to provide adequate fertilization and pest controls added to the problem. Farmers refrained from reducing the number of trees in hopes that the situation would improve. Producers reported that the disease affected about 70 percent of all coffee operations in the country and it will take the better part of several years to fully recover, which will only happen if the government changes its agricultural policies and provides incentives and assistance to plant more trees and increase yields with ample fertilization and better good-farming practices.

In addition to the coffee rust outbreak, the government continues to control farm-gate prices which are too low to meet rising costs of production. Production for MY 2014/2015 is forecast to increase to 500,000 bags due to a concerted effort by the industry to control the spread and impact of coffee rust. Expected higher yields will fuel the recover, as no new trees are expected to come into production in the near-term. The government has promised more outreach and technical assistance, but to date nothing has materialized.

Production Policy

The Ministry of Agriculture has been working on a program called the "Coffee Revitalization Plan" to boost coffee production, but to date the program has not been implemented due to other funding priorities. FEDAGRO has been in conversations with the government about the needs of the sector in the areas of production inputs such as agrochemicals, fertilizers, and machinery, as well as to discuss changing pricing policies.

A the beginning of the year, the Government published Presidential Decree 1509 in the Official Gazette No. 4557, declaring that the government will be the sole buyer of the national crop in 2015, forcing farmers to sell their coffee to the State agency Coffee Corporation of Venezuela – known as CVA-Café. The new policy removed all use of intermediaries for the purpose of controlling all movement and delivery of green coffee in Venezuela. CVA-Café will also manage all raw materials, both national and imported so as to control finished coffee product supplies. The policy will give the government a monopoly on all green coffee supplies as well as roasted and processed coffee made in state-owned processing facilities

Consumption

In 2010, consumer behavior changed with respect to coffee as consumers no longer worried about quality and price, but rather quantity and availability. Venezuela is now a net importer of coffee due to the significant reduction in production over the past several years. In 2013/14, Venezuela imported over

500,000 60-kilo bags of coffee, a bitter reminder to Venezuelan coffee producers of government policies that undermine their sector.

Coffee consumption in MY 2013/14 was left unchanged at 1,165 bags, as a result of increased imports. However, in MY 2014/15 consumption is estimated to decrease to 1,150 bags due to the severe decline in production and not enough imports to fully meet demand. As a result, Venezuelan per capita consumption will fall for the second consecutive year. In MY 2015/16, consumption is forecast unchanged at 1,150 bags as the forecast increase in production will not offset the stagnant and likely to decline imports.

Trade

Imports

Venezuela was a historic producer of one of the best Arabic coffees in the world. However, in recent years Venezuela has gone from being an exporter of premium coffee for about 200 years, to becoming a net importer.

The Bolivarian Government is the sole importer of coffee. Since MY 2009/10, Venezuela has imported large quantities of green coffee to compensate for declining production. In MY 2014/15, both producers and roasters estimated that about 685,000 bags of green-coffee equivalent will be imported, mainly from Nicaragua and other Central America countries. Local roasters report that imported coffee beans are lower quality with small and inconsistent bean sizes and are lacking adequate aroma. Much of the coffee is imported under Oil-for Food Agreements, in which Venezuela sends crude oil to political allies, like Nicaragua, in exchange for basic food products and consumer goods.

Venezuela is expected to continue to import green coffee for the foreseeable future. In MY 2015/16, green coffee imports are expected to continue, but at a lower rate compared to recent years due to strict foreign exchange controls. Overall, imports are forecast to drop to 670,000 bags, but could fall lower if the foreign exchange situation worsens.

Exports

The Venezuelan coffee market is fluid. No official exports have been registered since 2004. However, unofficial shipments through the border with Colombia do occur, not only in green beans, but roasted ground coffee also. Higher prices and a favorable exchange rate fuel the illegal trade. According to trade contacts, it is estimated that only about 30,000 bags will be moved to Colombia in MY 2014/2015 and another 30,000 bags are expected to leave the country in MY 2015/2016. The decline is due to increased government controls on supply and reduced demand due to failing quality. These figures are a significant decline in exports when Venezuela was a net exporter prior to MY 2009/10, but represent the ongoing distortion of Venezuela's coffee market due to price controls and significant disparity in exchange rates.

In an attempt to end the smuggling, a government decree published on December 8, 2014 bans the transportation of coffee to three Venezuelan states Apure, Táchira and Zulia, that border Colombia. According to the decree, coffee can only be sold to state-controlled organizations and distribution centers that will be strictly monitored by the government.

Policy

PRICES

Coffee, like many other food products in Venezuela, is subject to a government controlled price regime established in 2003. Price controls coupled with high inflation, has led to lower returns and forcing farmers to diversify their operations by growing other short-cycle products such as vegetables as well as take on additional off-farm jobs. Farm-gate prices for green coffee were last raised in December 2014; however retail prices were not. The increase in the price of raw coffee was applauded by farmers, but by not raising the retail price at the same time, coffee roasters are facing lower margins resulting in losses. This situation has created an imbalance in the commercialization of coffee contributing to market disruptions and coffee shortages throughout the country. Coffee roasters are insisting on a price adjustment that coincides with the increase given to producers.

The price of green coffee, Good Washed "A," is approximately 4,500 bolivars/60-kilo bag, Good Natural graded coffee is 3,641.34 bolivars/bag, and Normal Natural coffee was increased to 2,878.89 bolivars/bag. The official exchange rate is Bs6.3/$1.00 while the parallel rate has reached Bs285/$1.00. Many farmers still claim that prices set by the government are too low.

Production, Supply and Demand Data Statistics:

Coffee, Green	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct 2013		Oct 2014		Oct 2015	
Venezuela	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	0	200	0	200	0	200
Area Harvested	0	180	0	160	0	160
Bearing Trees	0	500	0	460	0	460
Non-Bearing Trees	0	30	0	30	0	30
Total Tree Population	0	530	0	490	0	490
Beginning Stocks	69	69	55	55	0	21
Arabica Production	700	700	660	460	0	500
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	700	700	660	460	0	500
Bean Imports	500	500	685	685	0	670
Roast & Ground Imports	1	1	1	1	0	1
Soluble Imports	5	5	5	1	0	1
Total Imports	506	506	691	687	0	672
Total Supply	1,275	1,275	1,406	1,202	0	1,193
Bean Exports	50	50	40	30	0	30
Rst-Grnd Exp.	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
Total Exports	50	50	40	30	0	30
Rst,Ground Dom. Consum	1,165	1,165	1,290	1,150	0	1,150
Soluble Dom. Cons.	5	5	5	1	0	1
Domestic Use	1,170	1,170	1,295	1,151	0	1,151
Ending Stocks	55	55	71	21	0	12
Total Distribution	1,275	1,275	1,406	1,202	0	1,193
1000 HA, MILLION TREES, 1000 60 KG BAGS						