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Report Highlights:

The coffee crisis in Honduras has been a result of the steady decline in world coffee prices which are at their lowest level in 30 years. The 2002/03 coffee harvest is forecast at 2,450,000 60 KG bags, 5.7 percent less than the revised estimate of the 2001/02 coffee crop. It is reported that some 20,000 small producers have abandoned coffee production. Many farmers are unable to cover production costs. Exports during 2002/03 are estimated to be 2,200,000 bags.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Guatemala [GT1], HO

TABLE OF CONTENTS

Section I - Situation and Outlook [1](#)

Section II - Statistical Tables [3](#)

 PSD Table [3](#)

 Coffee, Green [3](#)

 Export Trade Matrix [4](#)

 Coffee, Green [4](#)

Section I - Situation and Outlook

The 2002/2003 coffee harvest is forecast at 2,450,000 60 KG bags, 5.7 percent less than the revised estimate of the 2001/02 Honduran coffee crop. FAS/Honduras has lowered the USDA production estimate of the 2001/02 crop by 12.2 percent. This shows the crisis was worse than either the industry or the statisticians expected. The coffee crisis in Honduras has been a result of the steady decline in world coffee prices which are at their lowest level in 30 years. It has also caused 80 percent of the small farmers and 20 percent of the large and medium producers to accumulate a high level of debt. Many farmers are unable to cover production costs. The situation has severely affected about 20,000 small producers who have abandoned coffee production over the past couple years. It is reported that their farms are now covered with weeds or have been repossessed by the banks. To reduce expenses many coffee farmers are forgoing the use of fertilizers, hiring fewer employees who are working shorter hours, and picking less cherries.

Domestic consumption continues to be small relative to crop production and exports of Honduran coffee. For example, only about 10 to 12 percent of the harvest remains in the country. FAS/Honduras has made only slight changes to the estimates of coffee consumption and believes that domestic consumption increases about 2.5 percent annually. As such, the 2002/2003 total domestic consumption of coffee is forecast at 286,000 bags.

Exports from Honduras during 2002/2003 are estimated to be 2,200,000 bags. This can change depending upon the size of the crop that is yet to bloom. The 2001/02 export estimate was 500,000 bags lower than the previous report due to information reflecting lower output and reduced export earnings.

However, there is a steady flow of unregistered coffee going to neighboring countries, particularly to Guatemala (150,000 bags) and El Salvador (20,000 bags). Some of the reasons for the illegal trade is the captive market that the exporters have, since according to law they are the only ones that can export. Another aspect is that in Guatemala there is a higher capacity to negotiate future markets. In Honduras, neither the producer or the exporter has developed the means for such capacity. Subsequently, the only way to expedite a sale are through intermediaries, who frequently smuggle it to Guatemala. Also, in Guatemala buyers can afford to pay higher prices for lower quality Honduran coffee and then mix it with Guatemalan beans since Guatemalan coffee is often sold at a premium in the international market. Meanwhile, Honduran coffee receives a price discount in the international market. The Honduran Coffee Institute (IHCAFE) is in need of better marketing strategies.

According to data from the Honduran Central Bank, imports from roasted and soluble coffee for domestic consumption come mainly from the United States. During 2001, imports totalled 194 metric tons valued at \$123,300. Other coffee exporters to Honduras are El Salvador and Guatemala to a lesser degree. However, the competition to US supplied coffee will be greater as Central American companies are selling their soluble coffee in machines located at commercial centers and office buildings.

The decline in production and markets for coffee has cut the number of export companies by 5 to 37 this year. Coffee exports contribution to Gross Domestic Product has also decreased. In 1997 coffee accounted for 7.8 percent of Gross Domestic Product; in 2001 it was only 1.8 percent.

The Government of Honduras, realizing the importance of a vital coffee sector and the high level of indebtedness among coffee farmers caused by the low world coffee prices, has made changes to legislation. Decree 152-99, initiated the collection of outstanding debts from growers, has been reviewed twice in the last two years. Decree 124-2001, enacted in late 2001, reduced the export fee to \$2.75 per each 46 KG bag, taking away the amount that was being collected for outstanding debts. One dollar is distributed to IHCAFE and \$1.75 to the National Coffee Fund. This tax will be reviewed in September 2003 or earlier if the GOH provides new financial assistance to the coffee growers.

As the coffee crisis continues in Central America, the IDB, World Bank and the United States Government are interested in diversifying out of coffee and into non-traditional exports to promote economic growth. Nevertheless, coffee is, and will continue to be, an important source of jobs and revenues in Central America. However, times have changed and farmers need to diversify into other endeavors, in either agriculture, small commercial businesses or manufacturing.

Section II - Statistical Tables

PSD Table						
Country	Honduras					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Planted	293	284	298	284	0	284
Area Harvested	253	230	257	215	0	205
Bearing Trees	820	750	834	705	0	675
Non-Bearing Trees	133	133	135	130	0	125
TOTAL Tree Population	953	883	969	835	0	800
Beginning Stocks	87	87	166	2	0	24
Arabica Production	2900	2876	2961	2600	0	2450
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	2900	2876	2961	2600	0	2450
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	2987	2963	3127	2602	0	2474
Bean Exports	2550	2690	2800	2300	0	2200
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	2550	2690	2800	2300	0	2200
Rst,Ground Dom. Consum	271	271	271	278	0	286
Soluble Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	271	271	271	278	0	286
Ending Stocks	166	2	56	24	0	8
TOTAL DISTRIBUTION	2987	2963	3127	2602	0	2474

Export Trade Matrix			
Country	Honduras		
Commodity	Coffee, Green		
Time period		Units:	60 Kg Bags
Exports for:	2001		2002
U.S.	511,337	U.S.	450,000
Others		Others	
Europe	1,386,186		1,240,000
Japan	253,375		220,000
South Korea	123,285		100,000
Guatemala	150,000		125,000
El Salvador	20,000		15,000
Total for Others	1,932,846		1,700,000
Others not Listed	245,817		150,000
Grand Total	2,690,000		2,300,000