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Dominican Republic

Coffee

Coffee Annual Report

1999

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Report Highlights:
After Hurricane Georges last August, MY 99 coffee production has been the lowest production ever. Expectations for MY 2000 are very promising.

Includes PSD changes: Yes
Includes Trade Matrix: No
Annual Report
Santo Domingo [DR1], DR

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Executive Summary

MY 1999 coffee production has decreased by 35 percent from a record high was 837,000 60 kg bags in MY 1988 (marketing year: July 1997-June 1998) with an all time low of 450,000 60 kg bags expected for MY 1999. The violent winds of hurricane George during the flowering season accounts for this reduction in production. The situation has reversed itself dramatically during the past eight months as timely rains, combined with inputs which were obtainable through hurricane relief programs, have resulted in the potential for an abundant harvest for MY 2000.

Domestic consumption has been relatively stable at between 300,000 and 310,00 bags, with minor fluctuations reflecting local price changes. A slight increase in consumption is expected in MY 1999 , as the purchasing power of local consumers continues to steadily increase and local prices for coffee remain at the current levels. Domestic coffee prices are not expected to increase in the next few months.

Coffee revenues took a huge dive when the MY 1999 crop experienced such severe hurricane damage that the export volume decreased 37 percent from the previous year. Exports are expected to generate as little as US$23 million this marketing year, down from US$84 million in MY 1998. If prices remain at current levels throughout MY 2000, the producers will replant lost bushes and coffee revenues will return to occupy second or third place as an agricultural foreign exchange earner along with sugar and cocoa. During the past months, average returns from coffee exports have stabilized at US$1.20/lb. At this time MY 2000 exports are projected to reach a conservative 480,000 60 kg bags, but with the right harvesting techniques could be higher.

Production

For many years Dominican coffee production has averaged slightly over 700,000 bags annually. A record high was 837,000 60 kg bags in MY 1988 (marketing year: July 1997-June 1998) with an all time low of 450,000 60 kg bags expected for MY 1999. This thirty five percent decrease in coffee production (from 702,000 bags in MY 1998 to an estimated 452,000 bags in MY 1999) is a result of the high winds from Hurricane Georges last September. The hurricane damaged agricultural outputs across the board and had a particularly disastrous effect on the coffee harvest because it swept all the flowers off the bushes. Low coffee prices in MY 1999 and the disastrous effects of the hurricane combined to limit grower’s incentives to harvest every berry or to apply inputs. The situation has reversed itself dramatically during the past eight months as timely rains, combined with inputs which were obtainable through hurricane relief programs, have resulted in the potential for an abundant harvest for MY 2000. Based on high flowering levels, coffee producers have anticipated that MY 2000 production will almost double the preliminary estimates for the this year’s crop. Market observers state that if current coffee prices remain high farmers will apply more inputs (fertilizers, copper pesticides, etc.) and, assuming there is not unexpected market crash, they will collect all the beans possible. All these factors combine to make MY 2000 a very promising year for the coffee crop.

Most coffee farms are comprised of less than ten hectares. These small producers often cannot afford basic inputs and thus fail to realize the crop potential of well-managed land. While there are some modern, well administered farms planted with high yielding hybrid varieties of coffee (caturra and catuei), more than half of the plantations are old-style and are planted in the "criollo" low yielding variety. Yields can range widely depending on the size and type of plantation with the small farms averaging about 5 60/kg bags/HA, and the bigger, modern plantations averaging 20 60/kg bags/HA. Another factor which limits overall productivity and the quality of the bean is that some plantations are below 600 meters above sea level, the recommended altitude for optimal growth conditions.

The costs of fertilizers, copper, and insecticides remains high due to few major players in the import market, weak infrastructure and high transport costs. High humidity last year aggravated the coffee rust, a disease which affects small plots in many coffee regions. The larger farms managed to keep it in check with the help of copper based pesticides. Another pest which has become increasingly destructive in recent years is the coffee berry borer ("broca"). Several organized efforts to provide growers with information on the disease and pest control methods have met with only limited success. Despite growing incidence of the pest throughout the country, neither the Government nor private sector have undertaken studies to accurately measure the level of damages. Government and private sector efforts to mitigate the damage remain severely restricted by the limited funds available.

Consumption

There is no government source for data on domestic consumption and industry (roasters) have always been reluctant to make these numbers public. However, market research shows that domestic consumption has been relatively stable at between 300,000 and 310,00 bags, with minor fluctuations reflecting local price changes. A slight increase in consumption is expected in MY 1999 , as the purchasing power of local consumers continues to steadily increase and local prices for coffee remain at the current levels. Domestic coffee prices are not expected to increase in the next few months. There is no direct competition from tea, cocoa or any other substitute as the volume consumed of these commodities is insignificant.

There are four major roasters in the country: 1) Industrias Banilejas, with the name brands of "Santo Domingo"and "Induban"; 2) URECAF or Reforestación Cafetalera Agroindustrial, with "Mama Inés" and "Montana Verde"; 3) J. Paiewonski & Sons with "Monte Real" and 4) Cafeterías Dominicanas with "La Tacita". The first two usually capture over eighty five percent of the roasted coffee market. The largest producer, Induban, has refurbish most of its equipment with state-of-the-art German roasters in late MY 1998 and this will be the first full MY that they will be employed.

Stocks

Under the International Coffee Agreement (ICA) producers and processors were granted export market share according to how much coffee they had (or *reported* to have) in their warehouses. Thus harvest numbers were artificially inflated to capture market share. Since the demise of the agreement in 1989 stockpiles of beans are lower as producers do not have a strategic need to maintain high reserves because they want to capitalize on high world market prices. Today stocks are in the range of fifty to sixty thousand 60 kg bags.

Prices

Average farm-gate prices for 1995-1999 are presented on the following table. In general they reflect the international prices.

AVERAGE FARM GATE PRICES

Year	RD$/CWT	RD$/60 kg bag	Exchange (RD$/US$)
1995	1,000.00	1,320.00	13.70
1996	1,150.00	1,650.00	14.50
1997	1,250.00	1,725.50	14.50
1998	1,350.00	1,780.00	15.60
1999	1,275.00	1,683.00	16.20

Source: Secretary of Agriculture and Industry.

In June 1999, retail prices of the major brands of roasted coffee in major supermarkets were:

	June 1998		June 1999	
Brand	1 lb.Bag	½ lb.Bag	1 lb.Bag	½ lb.Bag
Santo Domingo	35.95	18.75	39.95	19.95
Induban	N/A	28.95	N/A	29.95
Mama Ines	37.95	21.95	39.95	21.95
Montana Verde	42.95	22.95	N/A	31.95
Monte Real	35.95	17.95	39.95	N/A
La Tacita	29.95	15.50	34.95	N/A
Exch. rate per US$1	RD$15.60		RD$16.20	

Source: Industry

Export prices are generally quoted under the "other soft." Depending on the quality, prices could be as low as US$10-12 below the Coffee, Sugar and Cocoa Exchange (CSCE) prices in New York or as high as US$20-30 above the Exchange, minus freight charges. About half of the production is of the lower-quality "criollo" variety. Local coffee is sold in 50 kg bags but paid as CWT, allowing 10% for foreign matter, broken grains and deductions for roasting losses, etc. Export quality coffee is sold green and in 75 kg bags.

Trade

Over a decade ago, in MY 1985, coffee revenues reached a historic high when a harvest of less than 400,000 60 kg bags generated export revenues of almost US$89 million. The exact numbers have fluctuate from year to year, but historically coffee has been second only to sugar as the most important foreign exchange earner in the agricultural sector. Coffee revenues took a huge dive when the MY 1999 crop experienced such severe hurricane damage that the export volume decreased 37 percent from the previous year. Exports are expected to generate as little as US$23 million this marketing year, down from US$84 million in MY 1998. If prices remain at current levels throughout MY 2000, the producers will replant lost bushes and coffee revenues will return to occupy second or third place as an agricultural foreign exchange earner along with sugar and cocoa.

During the past months, average returns from coffee exports have stabilized at US$1.20/lb. Producers find these levels acceptable but naturally prefer the premium price of $1.75/lb which peaked in April, 1997. Although producers argue that high prices will encourage the best harvesting techniques possible, they have not been able to negociate higher farm-gate prices from exporters for the coming season. At this time MY 2000 exports are projected to reach a conservative 480,000 60 kg bags, but with the right harvesting techniques could be higher.

Producers generally sell to processors or exporters. There are some producer associations that export directly but they represent insignificant quantities of the total volume of the export market. During the last marketing year seven traders out of a total of forty three handled over seventy percent of the green coffee exports. The seven most important are: Comercial Roig, Mazario Rizek, Café Serrano, Casa Toral, Font Gamundi, Paiewonski and Cafetalera del Sur. The export market for roasted coffee is small at about 3,000 60 kg bags/year and Industrias Banilejas accounts for over sixty percent of this amount. The better brands being promoted abroad are "Induban Gourmet," "Santo Domingo" and "Montana Verde".

About fifty percent of all Dominican coffee is exported to the United States; 31 percent of the coffee exports went to the old ICA members. After the United States the more important importers are the EU and Japan.

Export licences are not required for coffee, but the Secretary of Agriculture requires quality control permits to assure the quality of the shipment through grain inspection, sale contract registration, etc.. Some countries require a phytosanitary certificate from the Secretary of Agriculture (SEA) prior to their imports. The GODR bound its coffee and coffee-based product export tax for green and/or roasted and/or milled coffee at US$0.01 cent/kilo. These proceeds support the Coffee Commission at the SEA. Import tariffs for coffee are fifteen percent for green and thirty percent for roasted, plus an additional eight percent VAT.

Policy

The Dominican Government does not play a major role in the development of the coffee sector. During the last ten years it has only sponsored a few programs which directly encourage coffee production and has not added to marketing infrastructure. Government support of the industry has been limited to emergency efforts after the hurricane and minimal credit and technical assistance. The Secretariat of Agriculture has kept some nurseries operating but has made very few plants available to the producers who were interested in renewing plant donations. There are also some private nurseries servicing a limited number of farmers.

During CY 1998, only US$4 million (RD$66 million) was allocated to the coffee sector through the Agricultural Credit Bank. That represents about four percent of the US$106 million programmed for all agricultural assistance for the year. Lack of funding and technical assistance was not limited to coffee, but reflected the lack of sound development policy and insufficient funding for the agriculture sector in general. The only improvement in the sector to date has been in a small amount of financing available at slightly better rates. Agricultural inputs, such as fertilizers and chemicals, are currently subject to tariffs of 3-5%. While the government has submitted a bill to Congress which would lower duties on agricultural inputs to zero, the change is not likely to have a major impact on coffee and it is likely to take several years before improvements in the sector would be reflected with an increase in production.

Marketing

Over 65% of the total production is handled by the exporter firms in the Dominican Republic. Producers generally sell their product to warehouses, ambulant brokers, large intermediaries and factory owners. The exporting firms generally own factories and in some cases roasters.

PSD Table						
Country	Dominican Republic					
Commodity	Coffee, Green				(1000 HA)(1000 TREES)(1000 60 KG BAGS)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		06/1997		06/1998		06/1999
Area Planted	153	153	153	153	0	153
Area Harvested	147	147	147	132	0	135
Bearing Trees	326	326	326	293	0	300
Non-Bearing Trees	20	20	20	18	0	18
TOTAL Tree Population	346	346	346	311	0	318
Beginning Stocks	71	71	46	61	31	53
Arabica Production	698	700	648	450	0	798
Robusta Production	2	2	2	2	0	2
Other Production	0	0	0	0	0	0
TOTAL Production	700	702	650	452	0	800
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	771	773	696	513	31	853
Bean Exports	422	409	362	152	0	477
Roast & Ground Exports	3	3	3	3	0	3
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	425	412	365	155	0	480
Rst,Ground Dom. Consum	300	300	300	305	0	310
Soluble Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	300	300	300	305	0	310
Ending Stocks	46	61	31	53	0	63
TOTAL DISTRIBUTION	771	773	696	513	0	853