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Colombia

Coffee

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Approved by:

David G. Salmon, Agricultural Attaché

U.S. Embassy, Bogota, Colombia

Prepared by:

Leonardo Pinzón, Agricultural Specialist

Report Highlights:

Colombia's coffee production fell by 12 percent in 1999/2000 but will rebound in 2000/2001, because of favorable weather. Colombian coffee prices are currently US\$0.91 per pound, a six-year low. Coffee exports decreased 12 percent in 1999/2000 but are forecast to recover 2000/2001. Coffee inventories are expected to grow to 200,000 bags, due to a coffee retention program among coffee producing nations.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Semi-Annual Report
Bogota [CO1], CO

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Executive Summary

Coffee production in 1999/2000 dropped 12 percent, due to excessive rains which resulted in poor flowering. However, coffee output is projected to increase by about 26 percent in 2000/2001, since weather patterns have returned to more normal ranges and extensive areas of renovated (pruned) plants are beginning to come back into production. Fedecafe, the main coffee buyer, has set the target price paid to farmers at a level similar to a year ago, which is almost equal to the current world price. For the August-October 2000 period, world prices for Colombian coffee have remained near record-low levels or an average of \$0.91 per pound. Because of weak international demand and increasing world inventories, Colombian coffee exports in 1999/2000 fell 12 percent from the previous year. For 2000/2001, coffee exports are forecast to grow 13 percent. Stocks are expected to increase, due to a retention agreement signed by producer countries. No coffee area expansion is expected in Colombia for the next few years.

Production

Final production figures issued by Fedecafe (National Coffee Growers Federation) show a 6 percent downward revision of Colombia's coffee production to 9.5 million bags (60 kilogram) in October-September 1999/2000. The end of the La Nina weather phenomenon, which resulted in excessive rains in Colombia during the first quarter of 2000, adversely affected blooming during the 1999/2000 period. Because of this, coffee bean production fell 12 percent in 1999/2000. Post expects 2000/2001 coffee production to rebound to about 12 million bags or a 26 percent

increase over the past year. Increases in production are due to renovation (pruning) of nearly 140,000 plants as part of a five-year program, which began in 1998, and better weather conditions.

The National Coffee Growers Federation has set a long-term target of 13 million bags (60 kilogram), as the appropriate overall production level for Colombia in order to maintain its market share of quality coffee and not push down international prices. This production level is expected to be reached in year 2002.

Prices

World prices for Colombian coffee have been declining steadily from an average monthly peak of \$2.63 per pound in May 1997 and reached a record low of \$0.91 per pound at August 2000. Prices for December shipments are around \$0.90, showing the market feels there are enough international inventories and that there will be no supply shortages in the short term. Price movements have shown almost the same pattern over the past two years, rising in October up to a yearly high in December and then declining slowly through the end of the commercial year (September). This year's price performance, according to Colombian coffee authorities, implies a high inventory level held by buyers, due to late 1999 reports that the severe drought in the Brazil would continue. Currently, world prices are about 27 percent lower than a year ago. Colombian coffee enjoys a quality premium over the world price, which amounted to \$0.13 per pound until June, 2000, when Colombia decided to lower it to \$0.11, in order to make its coffee more price competitive.

The National Coffee Committee (NCC) determines a **target price paid to farmers** for coffee bought by Fedecafe. The target price has been frozen at 330,000 pesos per 125 kilograms since May 1999, where it will likely remain through December, even though it is nearly equal to the export price. This target price means that, at the current prices, the export price is being completely transferred to the producer and, because of this, the Fedecafe is not receiving its normal income from the target price-export price spread. Because of this, its operating deficit is growing.

Also, this means that the floor price for the so-called *automatic price adjustment (APA) system* has been temporally set at 330,000 pesos per 125 kilograms, because of the current decision not to lower prices paid to producers. Under this system (APA), coffee target prices paid by Fedecafe are revised every three market days and take into consideration world coffee prices and the peso exchange rate. This year, the target price paid to farmers had been almost the same paid by private buyers. Normally prices paid by private buyers are moderately lower.

The **retail price** for a kilogram of roasted/ground coffee (high quality) is currently 7,500 pesos (\$3.53 per pound) **in Bogota**. Domestic demand has been depressed during the last two years, because the economic recession in Colombia has reduced demand.

Trade

The Coffee Producing Countries Association (CPCA) establishes annual coffee export quotas for the July - June marketing period for its 16 member countries. However, because of lower demand in the world market and the resulting downward price pressure, Colombia was unable to meet its assigned export level for the year. These quotas have become less useful as a mechanism for maintaining international prices, so a retention agreement is now in place among producing countries to keep supplies off the market.

Final published trade figures for the 1999/2000 marketing year show Colombia exported 8.4 million 60-kilogram bags of green coffee, 12 percent less than in 1998/99. Assuming that world coffee prices will not recover significantly from current levels and that production will increase by about ten percent, Post forecasts green coffee exports at about 10 million bags in 2000/2001, thirteen percent above the previous level. Coffee exports in the next 3-5 years, under the assumption of a long-term annual production target of 13 million bags and more stable prices, are expected to grow no more than two or three percent annually, mainly reflecting productivity gains.

Stocks

Year-end inventories fell during 1999/2000 from 3.2 million bags at the end of September 1999 to 2.1 million on September 30, 2000. Colombia's carryover at the end of 1999/2000 is equal to about two and a half month's of exports and domestic use. Stocks are projected to rise to about 2.3 million bags at the end of 2000/2001. This figure includes near 1.8 million bags being held under the retention plan agreed to by producing countries.

Policy

Coffee Retention Program

In one of the more important developments of the year, the National Coffee Committee (NCC) has been leading efforts to put in place a Retention Agreement between all coffee-producing countries, both members and not members of ACPC. The agreement requires countries to set aside in storage an amount of coffee equal to 20 percent of actual exports. This retention level is applied, if the price indicator falls below \$0.95 per pound. If prices are between \$0.95 and \$1.05, there will be no retention, and if prices are above \$1.05, stocks will begin to be released. Recent information from the Fedecafe refers to a voluntary retention in Colombia of 400,000 bags and around 700,000 bags in Brazil. International prices remained low after the retention agreement was signed in May 2000, which indicates that the level of supplies being held off the market are not sufficient to reduce oversupplies. However, Fedecafe noted that prices would be even lower if no retention policy had been in place for Colombia and Brazil.

The Retention Agreement will have an effect on international prices, however, other factors, such as Brazilian shortages and new participants in the market, e.g., Vietnam, are also major factors.

Even with rising exports in Colombia, stocks are expected to rise nine percent during the 2000/2001 marketing year.

Other Policy Issues

The second important development of Colombian coffee policy is rising deficits in Fedecafe, which have pushed them to reduce resources allocated to producers from \$0.20 to \$ 0.14 per pound. This is expected to decline further to \$0.10 next year. This amount has been transferred to producers through a variety of programs focusing on making coffee production more competitive. It should be noted that Fedecafe has been a key instrument in the development, organization and stability of the Colombian coffee market. However, if the extremely low international prices continue and Fedecafe is forced to maintain very small margins, the lack of funding could reduce significantly the programs they carry out to benefit Colombian coffee producers.

With the intention of supporting producer prices and transferring resources, the Fedecafe started a system of buying out-year crops from producers. This provides producers with working capital and helps to stabilize internal prices. Also, as part of a marketing strategy for selling Colombian Specialty Coffee (identity-preserved coffees from specific microclimates), Fedecafe is engaged in offering Specialty Coffee twice a month by auction. Also, to develop the market for this type of coffee, the Fedecafe is building a web page for a Specialty Club, where buyers can find a broad range of information on coffee promotions and technical aspects of crops, such as regional information and rainfall levels. At the same time, there is increasing interest in growing organic coffee for the export market, which is currently less than one percent of national coffee output.

As part of improving competitiveness and efficiency, instead of handling all coffee in traditional bags, in September 1999 Colombia initiated the use of bulk containers to transport coffee from farms directly to foreign markets. The bulk container system accounts for about five percent of the exports currently and its use will likely increase rapidly.

Tables

PS&D Coffee, Green, 1998/99 to 2000/2001 1/

(1,000 hectares, million trees, and 1,000 60 kilogram bags)

PSD Table						
Country:	Colombia					
Commodity:	Coffee, Green					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Area Planted	900	869	836	805	805	805
Area Harvested	840	786	715	650	650	670
Bearing Trees	3,100	3,112	2,990	2,790	2,780	2,800
Non-Bearing Trees	550	580	773	1,030	1,030	1,030
TOTAL Tree Population	3,650	3,692	3,763	3,820	3,810	3,830
Beginning Stocks	3,929	4,040	2,933	3,154	2,573	2,092
Arabica Production	10,868	10,868	10,800	9,512	12,000	12,000
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	10,868	10,868	10,800	9,512	12,000	12,000
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	16	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	16	0	0
TOTAL SUPPLY	14,797	14,908	13,733	12,682	14,573	14,092
Bean Exports	9,649	9,649	8,940	8,400	9,540	9,600
Roast & Ground Exports	110	110	110	110	110	110
Soluble Exports	545	545	550	550	550	550
TOTAL Exports	10,304	10,304	9,600	9,060	10,200	10,260
Rst, Ground Dom. Consum	1,310	1,240	1,310	1,290	1,310	1,310
Soluble Dom. Consum.	250	210	250	240	250	250
TOTAL Dom. Consumption	1,560	1,450	1,560	1,530	1,560	1,560
Ending Stocks	2,933	3,154	2,573	2,092	2,813	2,272
TOTAL DISTRIBUTION	14,797	14,908	13,733	12,682	14,573	14,092

1/ 2000/2001 estimated.

Green Coffe Prices to Growers, CY 1999 and 2000 1/
 (1,000 pesos per 125 Kilograms)

Prices Table					
Country:					
Commodity:					
Year:	2000				
Prices in (currency)	1000pesos	per (uom)	125 kilos		
Year	1999	2000	% Change		
Jan	324	371	14.5%		
Feb	313	354	13.1%		
Mar	313	360	15.0%		
Apr	313	348	11.2%		
May	318	354	11.3%		
Jun	330	342	3.6%		
Jul	330	345	4.5%		
Aug	330	330	0.0%		
Sep	330	330	0.0%		
Oct	330		-100.0%		
Nov	363		-100.0%		
Dec	403		-100.0%		
Exchange Rate	2125	(Local currency/U S \$)			
Date of Quote	15-Nov-00	(MM/DD/Y Y)			

1/ Average paid by private traders for dry parchment coffee of ordinary quality.