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Colombia

Coffee

Semi-Annual

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Report Highlights:
Colombia's coffee production grew by 11 percent in 2000/01 to 10.5 million bags and is estimated at 11.0 million bags in 2001/02. Colombian coffee prices are currently US$0.61 per pound, a ten-year low. Coffee exports are forecast to grow by four percent in 2001/02 year. A subsidy to growers of up to 30,000 pesos ($13.04) per bag was just approved to try to support prices at 300,000 pesos ($130.43) per bag.

Includes PSD changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
Bogota [CO1], CO

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Executive Summary

Colombia's coffee production reached 10.5 million bags (60 kilogram) in October-September 2000/2001 period ,11 percent higher than a year before. On November 15th, Colombia approved a three-year support program, which includes resources for restarting the coffee renovation program and a monetary subsidy of up to 30,000 pesos ($13.04) per 125-kilogram bag to try to maintain domestic prices at 300,000 pesos ($130.43) per bag. In October 2001, the world price stood at average of $0.61 per pound, which includes a premium of $0.17 per pound that Colombia receives for its high-quality coffee. Since coffee production is projected to grow at a lower pace than exports, stocks are expected to decline by 19 percent during 2001/02. In August of this year, Colombia, El Salvador, Costa Rica, Honduras, Nicaragua and Mexico reached an agreement to destroy stocks of lower-quality coffee or use it as organic fertilizer, in order to reduce coffee supplies. Under this agreement Colombia recently withdrew 50,000 bags of lower-quality coffee from the market.

Production

Final production figures issued by Fedecafe (National Coffee Growers Federation) show a 9.5 percent downward revision of Colombia's coffee production to 10.5 million bags (60 kilogram) in October-September 2000/2001. Post forecasts coffee production for 2001/02 at 11.0 million bags, down 3.5 percent from the previous estimate of 11.4. The factors that suggest this small downtrend are the reduced support from Fedecafe, along with a lack of bank credit for small farmers. Even with price and other supports from the government, the lack of resources on the parts of individual coffee growers means that less money will be invested in the control of pests and diseases and fertilizer, which will reduce production somewhat.

Coffee production in Colombia, along with the rest of the coffee producing world, has been thrust into a new competitive environment, as a result of the dramatic drop in international coffee prices, which began in August 2000. The significantly lower incomes received by producers since then are affecting their ability to invest in continued renovation of coffee plants, which is essential in order to maintain production in the longer term. It will also lower the level of use of inputs, especially fertilizer, which will be a negative factor for production in the near term. Growers and exporters feel that this environment of lower prices over such a extended period of time will force some of them to switch to other crops or livestock.

A program launched three years ago by the National Growers Federation (Fedecafe), which provided incentive payments to renovate 350,000 hectares was temporarily discontinued, having reached only 200,000 hectares. Fedecafe was forced to curtail this program as a cost-cutting measure. However, on November 15th, the Colombian Government approved a three-year program, which includes resources for restarting the renovation program and a subsidy of up to 30,000 pesos ($13.04), if the local price falls below 300,000 pesos ($130.43) per 125-kilogram bag.

In Colombia, the small scale of each coffee production unit and low profits means that farmers are slow to adopt new production and processing techniques. In addition, although poor, coffee growers must still pay a protection fee to the guerrillas who control the countryside in Colombia, reducing profits even further.

With stagnant world coffee prices, Colombia's coffee area is not expected to change significantly over the next year. However, coffee output in the next few years will depending on various factors, such as management, control of pests and diseases, and weather. Coffee production should rise two to three percent in 2002/03 and each of the following two years, due to the increased productivity of plants that were renewed over the past two year under Fedecafe's incentive program.

Colombia has shown an increasing interest in recent years in producing ***organic coffee*** along with the specialty coffees. Currently, less than one percent of Colombia's coffee production is organic, but volumes are growing.

Prices

In April 2001, the National Coffee Committee also changed is commercialization policy, due to the international price drop. The guaranteed minimum price paid to growers has been changed to a variable price system based on the international price for Colombian coffee, including the quality price premium it commands. This new price, which no longer contains a guaranteed price level, is revised daily, based on the closing price in the New York commodity exchange. In the new pricing scheme there is no subsidy from the NCF to growers, as was the case previously. Because the NCF no longer provides a buffer between growers and international prices, producers must be more aware of the market situation when they sell their coffee.

The ***National Coffee Fund*** (NCF) was established in 1967 to maintain grower price stability against fluctuations in world prices and provided the stabilization funds used previously to pay the guaranteed minimum price. The NCF is funded from a compulsory grower check-off payment taken from parchment coffee sales. The average indicative market price paid in

September 2001 by NCF was 286,356 pesos per 125 kilograms ($0.49 per pound), down 13 percent from a year ago.

The Colombian coffee reached a record ***world price*** of $2.79 per pound in May 1997. Since then it has been falling steadily and, in October 2001, it stood at average of $0.61 per pound. This price includes a premium of $0.17 per pound that Colombia receives for its high-quality coffee. Local coffee industry officials do not anticipate a strengthening in world coffee prices in the near future.

Trade

Most of Colombia’s coffee is produced for the export market. In 2000, coffee exports accounted for only nine percent of Colombia’s exports. Although coffee will continue to be an important generator of foreign exchange, it is expected to play a declining role, due to the increasing importance of other export sectors, such as mining, petroleum, and cut flowers.

Colombia, as a member of the ***Association of Coffee Producing Countries*** (ACPC), has been encouraging other coffee producing countries to restrict coffee exports in order to strengthen world coffee prices. Colombia coffee exports in the first half of 2000/01 are already 15 percent higher than in the same period of the previous year. The ACPC met in late May 2001 to review the retention program established last year and to discuss the viability of the plan to destroy lower-quality stocks being held by member countries. In fact, they agreed on take out of the market about 1.3 million bags during 2001/2002 marketing year by using it as organic fertilizer or destroying it. Colombia especially feels that the oversupply of lower-quality coffee is an important factor in low international coffee prices.

Stocks

Colombia’s coffee stocks have fallen to their lowest level since the mid-1980's, when they reached about 9 million bags. End-of-season inventories have fallen from 2.9 million bags at the end of 1998/99 to 1.6 million bags at end of 2000/2001. Colombia’s coffee carryover at the end of 2001/02 is estimated to be 1.3 million bags, even lower than the previous year. Since coffee production is projected to grow at a lower pace than exports, stocks are expected to decline by 19 percent during 2001/02.

Policy

Instead of expanding area, Fedecafe has been promoting improvements in yields and for marginal areas it is suggesting ***alternative crops***, such as fruits, forestry, and macadamia nuts. Also, plantains have become an alternative crop from where growers are generating cash flow to invest in coffee plantations. The optimal altitude for coffee production is between 1,200 and 1,800 meters above sea level (3,940 to 5,900 feet). Specific areas of production in this zone are been identified toward giving differentiation as specialty coffee production and be able to be sold directly to the international consumer.

In 1998, Fedecafe launched a five-year program for ***renovating old coffee plantations***, with a goal of completing at least 70,000 hectares annually. The program was temporarily discontinued at the beginning of this year with around 200,000 hectares renewed under this program. However, on November 15th the Government announced the approval of a three year program of supporting the coffee renovation program and a subsidy of up to 30,000 Colombian pesos ($12.93) when the local purchasing price to growers falls bellow 300,000 col pesos (139.35) per 125 Kg Bag.

The average age for Colombia's coffee trees was 7.5 years, and Fedecafe's intention was to reduce this figure to 5.5 years. Growers were given an incentive of 105 pesos (5 cents) per tree properly pruned or newly planted. The level of the incentive is modest, since pruning or planting a coffee tree costs 300 to 400 pesos ($0.13 to $0.17); however the incentive was high enough to have the desired effect of encouraging renewal of a significant area.

On August Colombia, El Salvador, Costa Rica, Honduras, Nicaragua and Mexico reached an agreement on retiring from their stocks the lower quality coffee and uses it as organic fertilizer for reducing the coffee supply. Under this agreement Colombia has retired 50,000 bags of lower quality at the beginning of the 2001/02 marketing year.

Tables

PS&D Coffee, Green, 1999/2000 to 2001/02 1/

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

PSD Table						
Country:	Colombia					
Commodity:	Coffee, Green					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/1999		10/2000		10/2001
Area Planted	805	805	805	805	805	805
Area Harvested	650	650	650	650	650	650
Bearing Trees	2,790	2,790	2,790	2,790	2,790	2,790
Non-Bearing Trees	1,030	1,030	1,030	1,030	1,030	1,030
TOTAL Tree Population	3,820	3,820	3,820	3,820	3,820	3,820
Beginning Stocks	3,154	3,154	2,092	2,092	2,278	1,618
Arabica Production	9,512	9,512	11,500	10,500	11,400	11,000
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	9,512	9,512	11,500	10,500	11,400	11,000
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	16	16	16	16	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	16	16	16	16	0	0
TOTAL SUPPLY	12,682	12,682	13,608	12,608	13,678	12,618
Bean Exports	8,400	8,400	9,120	8,780	9,500	9,050
Roast & Ground Exports	110	110	130	130	140	140
Soluble Exports	550	550	550	550	550	550
TOTAL Exports	9,060	9,060	9,800	9,460	10,190	9,740
Rst,Ground Dom. Consum	1,290	1,290	1,290	1,290	1,300	1,300
Soluble Dom. Consum.	240	240	240	240	250	250
TOTAL Dom. Consumption	1,530	1,530	1,530	1,530	1,550	1,550
Ending Stocks	2,092	2,092	2,278	1,618	1,938	1,328
TOTAL DISTRIBUTION	12,682	12,682	13,608	12,608	13,678	12,618

1/ 2001/2002 estimated.

Green Coffee Price to Growers, CY 2000 and 2001 1/
(1,000 pesos per 125 Kilograms)

Prices Table					
Country:					
Commodity:					
Year:	2001				
Prices in (currency)	1000pesos	per (uom)	125 kilos		
Year	2000	2001	% Change		
Jan	371	322	-13.2%		
Feb	354	292	-17.5%		
Mar	360	297	-17.5%		
Apr	348	313	-10.1%		
May	354	340	-4.0%		
Jun	342	295	-13.7%		
Jul	345	280	-18.8%		
Aug	330	284	-13.9%		
Sep	330	286	-13.3%		
Oct	330		-100.0%		
Nov	330		-100.0%		
Dec	330		-100.0%		

1/ Average paid by the Growers Federation for dry parchment coffee.