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Honduras

Coffee Report

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Prepared by:

Suzanne E. Heinen

U.S. Embassy Tegucigalpa

Drafted by:

Omar Gonzalez

Report Highlights:

Continuing expansion of crop area and cyclical factors raised Honduran coffee production to 2.98 million bags in 1997/98. El Nino's effect on the 1997/98 crop was not as large as anticipated, allowing production to increase by 30 percent from a year earlier. The effect of Hurricane Mitch, coupled with cyclical factors, promises to slash production by at least 24 percent in 1998/99,

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Semi-Annual Report

Tegucigalpa, Honduras

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HONDURA'S COFFEE REPORT

Continuing expansion of crop area and cyclical factors raised Honduran coffee production to 2.98 million bags in 1997/98. El Niño's effect on the 1997/98 crop was not as large as anticipated, allowing production to increase by 30 percent from a year earlier. The effect of Hurricane Mitch, coupled with cyclical factors, promise to slash production by at least 24 percent in 1998/99, making it drop to an estimated 2.26 million bags. Mitch has devastated Honduras' road network, which will make transporting the coffee crop to export plants an extremely difficult task. Exports could drop from over 2.5 million bags in 1997/98 to less than 2 million bags in 1998/99 as a result of the decreased supply and the difficult road conditions. Honduras' coffee export industry is also facing a financial crisis as roughly 40 percent of all exporting plants are practically bankrupt.

PSD Table

Country:

Honduras

Commodity:

Coffee, Green

Market Year Begin	1997		1998		1999		UOM (MONTH/YEAR)
	Old	New	Old	New	Old	New	
Area Planted	268	268	276	276	281	281	(1000 HA)
Area Harvested	233	233	240	240	243	243	(1000 HA)
Bearing Trees	749561	749561	763155	763155	776980	776980	(1000 TREES)
Non-Bearing Trees	121905	121905	134673	134673	137070	137070	(1000 TREES)
TOTAL Tree Population	871466	871466	897828	897828	914050	914050	(1000 TREES)
Beginning Stocks	25	25	26	26	25	202	(1000 60 KG BAGS)
Arabica Production	2279	2279	2607	2980	2600	2262	(1000 60 KG BAGS)
Robusta Production	0	0	0	0	0	0	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Production	2279	2279	2607	2980	2600	2262	(1000 60 KG BAGS)
Bean Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Soluble Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL SUPPLY	2304	2304	2633	3006	2625	2464	(1000 60 KG BAGS)
Bean Exports	2025	2025	2348	2554	2338	1979	(1000 60 KG BAGS)
Roast & Ground Exports	0	0	10	0	0	0	(1000 60 KG BAGS)
Soluble Exports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Exports	2025	2025	2358	2554	2338	1979	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	253	253	250	250	257	335	(1000 60 KG BAGS)
Soluble Dom. Consum.	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Dom. Consumption	253	253	250	250	257	335	(1000 60 KG BAGS)
Ending Stocks	26	26	25	202	30	150	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	2304	2304	2633	3006	2625	2464	(1000 60 KG BAGS)

Product X conversion factor = green bean equivalent

Product conversion factor

soluble coffee 2.6

roasted coffee 1.19

Production

Honduran coffee production surged beyond expectations in 1997/98, reaching nearly 3 million bags (60 kilos) of green bean equivalent. The reasons for this dramatic increase are varied. First of all, El Niño had more of a delaying effect on the crop rather than reducing it as was expected. Cyclical reasons also played a part in increasing coffee output. Another important factor is the continued expansion in production area brought about by favorable international coffee prices in recent years. According to the Honduran Coffee Institute (IHCAFE), exporters purchased from growers and intermediaries a total of 2.7 million bags during 1997/98, an increase of 34 percent from the previous period. In addition, it is estimated that another 278,000 bags did not enter normal commercial channels. This coffee is believed to have been exported illegally to neighboring countries and/or consumed on-farm by growers.

The production forecast for 1998/99 is an entirely different scenario, particularly now in light of hurricane Mitch. Prior to the storm, a downturn in the production cycle indicated that production would decline by about 10 percent from 1997/98 levels, which meant that output would fall to approximately 2.65 million bags. However, now that Mitch is estimated to result in production losses of approximately 390,000 bags, the 1998/99 crop is expected to decline to an estimated 2.26 million bags. IHCAFE estimates that three quarters of the country's coffee plantations were affected by the storm in varying degrees. The immediate effect was one of cherries falling off trees due to excessive rainfall and strong winds. However, of even greater concern is the massive amount of destruction caused to Honduras' road network which will surely make it extremely difficult for growers to take their product to market. Over 90 bridges nationwide have been either destroyed or seriously damaged and roads throughout the country, particularly in coffee growing areas, have been greatly affected by mud slides and sink holes. Moreover, IHCAFE had the majority of its road maintenance equipment concentrated in the northwestern part of the country, making it difficult for them to reach other important coffee growing areas which desperately need road reconstruction and maintenance. The abnormal weather may also cause premature ripening of cherries which will only make Honduras' road situation more critical. Therefore, the final effect of Mitch on Honduras' coffee sector remains largely dependent on Honduras' ability to quickly rebuild its roads in coffee growing areas. Coffee is one of the few export crops not fully destroyed by Mitch and thus it will be of paramount importance to the Honduran economy over the next year and beyond.

As a result of favorable returns for coffee growers over the past several years, it is expected that crop area will continue to expand and production will continue to rise over the next 3-5 years. With over 70,000 predominantly small coffee farmers, Honduras is a relatively low-cost, low-tech producer of coffee with a lower break-even point at the farm level in relation to countries with larger and more sophisticated producers. Consequently, Honduras is better positioned to ride out periods of depressed market prices and output has expanded as a result of this. Unfortunately, Hurricane Mitch and its aftermath may have an impact on Honduras' upward trend in coffee output. With damage assessments still underway, it still remains unclear at this stage just how sharply the Honduran economy will be dragged down and what effect this will have on the coffee sector.

Consumption

Honduran coffee consumption is estimated at 250,000 bags during 1997/98. Actual coffee consumption is expected to increase to roughly 257,000 bags in 1998/99. However, approximately 78,000 bags of domestic consumption coffee being held in storage in Tegucigalpa was lost to the raging waters of the Choluteca river as a direct result of hurricane Mitch. This loss is accounted for in the PS&D table in the consumption figure for 1998/99.

Trade

Total coffee exports during the 1997/98 year are estimated at 2.55 millions bags, of which 2.3 million bags were exported legally and the remaining 255,000 bags leaked out as contraband to neighboring Guatemala (75 percent), Nicaragua (15 percent), and El Salvador (10 percent). Of the 2.55 million bags exported legally, 65 percent went to ICO member markets and 35 percent went to non-ICO members. The United States was the leading destination for Honduran coffee, accounting for 23 percent of legal exports. The trade matrix in the following section shows exports during the 1997/98 coffee year. Legal coffee exports during this period generated \$444.3 million in revenues, by far Honduras' leading foreign exchange earner.

With greatly diminished supply, total coffee exports should decline to under 2 million bags in 1998/99. It is unclear yet what the impact of lower supply will be on regional coffee trade (contraband exports) but it is likely that it will also diminish. Another problem facing the Honduran coffee sector in 1998/99 is the poor financial position of nearly half of all exporting plants. During the 1997/98 crop, many exporters were left holding expensive coffee when international coffee prices dropped. Part of this was due to price speculation by both exporters and growers. Approximately 20 companies (nearly 40 percent of Honduras' export industry) have not been able to repay their loans and they are in danger of going bankrupt. Financing the current crop is therefore a major concern as well. The effects of Mitch will only aggravate the situation for most coffee exporters.

Policy

One of the chief priorities of the Honduran Government (GOH) is to rebuild Honduras' road infrastructure, particularly roads and bridges affecting coffee growers, so that Honduras can export its crop and obtain much needed foreign exchange. Honduras is reprogramming huge amounts of bilateral and multilateral loans to make available resources for this purpose in the immediate and short term. A large share of international assistance will also go to pay for reconstructing Honduras' road system.

Prior to Mitch, the sector was also considering utilizing approximately LPs. 540 million (\$40 million) from the Honduran Coffee Fund (money generated from an exchange of domestic consumption quality coffee and export quality coffee) to resolve the financial crisis of the export industry. Now that road reconstruction is such a priority, it is also likely the Fund will need to be used for this purpose.