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**Date:**

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## Colombia

### Coffee Semi-annual

## Rust Resistant Varieties Begin to Show Results

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**Report Highlights:**

In MY 2012/2013, Colombian coffee production is expected to increase 8.5 percent from the previous year to 8.3 million bags (1 bag = 60 kilograms) as a result of good weather conditions and the first economically viable harvest of rust resistant varieties planted in 2010. Exports are also forecast to increase to 8.2 million bags. In addition, the Government of Colombia (GOC) and the Federation of Coffee Growers (FEDECAFE) partnered to launch income and price hedging support programs to provide economic stability for growers to address low coffee prices and a strong Colombian peso.

**Executive Summary:**

Colombian coffee production is expected to increase 657 thousand bags to 8.3 million bags in MY2012/2013. Under the FEDECAFE coffee rust resistant variety replanting program, 60 thousand hectares have benefited in 2012. In 2010 and 2011, 180 thousand hectares were replanted with rust resistant varieties and the benefits of the 2010 replanting are now becoming economically viable. This replanting effort will likely support the trajectory of increased production given good weather, nevertheless, the rust threat remains as well as insect pests. The extremely wet weather conditions from previous years were a result of the “la Niña” climatic phenomenon, which has finished as of April 2012, according to Colombian weather authorities. What brings concern is the subsequent “Niño” climatic effect that can induce drought; however, drier conditions, to a limited extent, will support improved coffee production.

Colombian coffee exports are expected to increase to 8.2 million bags in MY 2012/2013. Exports will increase as demand for the high quality, Arabica bean Colombian coffee remains firm. Colombia will import approximately one million bags of Coffee, primarily from Peru, Ecuador and Vietnam, and Brazil to supply the domestic demand for processed coffee flavoring ingredients and instant coffees.

The Colombian coffee average monthly price paid to growers has declined 36 percent over the last 12 months. The average price paid to growers in October 2012 was US\$346 per 125 kilogram bag of coffee. The GOC is committed to work with FEDECAFE to address coffee grower income instability due to falling coffee prices that are exacerbated by a strong Colombian peso.

**Commodities:**

Coffee, Green

**Production:**

Colombian coffee production is expected to increase to 8.3 million bags in MY2012/2013, an 8.5 percent increase from last year. This implies an increase in coffee production on average by 53 thousand bags per month for MY2012/13. In order to reach 8.3 million bags, monthly production must average 690 thousand bags per month. Coffee production in Colombia is unique with three high mountain ranges and valleys with multiple micro-climates to allow for coffee harvesting all-year round. There can be identified two periods of coffee production concentration: the main harvest period from October to December, produces 60% to 70% of the total and the second harvesting period from April to June, the “mitaca” crop, harvested mainly in the central coffee region of Colombia. October production estimates for 2012 were just three thousand bags less than the last year, or a 0.5 percent decline. If favorable weather continues, this scenario is probable.

Approximately 240 thousand hectares have been replanted with coffee rust resistant varieties since 2010. Colombian growers regularly replant on a rotating schedule across landholdings, removing older, less economically viable trees from production. Not all replanting in recent years has been with rust resistant *Castillo* varieties and farmers have expressed concerns with the *Castillo*'s productive efficiency, in terms of kilograms of green coffee per tree, and cupping quality. Many farmers, as a result, continue to plant traditional varieties while applying other methods of disease control, such as the application of fungicides. As well, defensive replanting, such as creating an outer buffer of disease resistant varieties, with more traditional varieties within that buffer, is another method to minimize the impacts from rust. Replanting with rust resistant varieties and defensive rust control strategies has fomented the beginnings of what appears to be a production recovery. Expectations are that this recovery may prove sustainable as these defensive strategies continue to be a larger part of replanting efforts to control the spread of coffee rust. Other production threats remain, such as the "broca", or cherry borer, and a recent influx of spider mites as a result of a volcano eruption that decimated the population of lady bugs and other of beneficial insects. Entomologists at the Colombian Center for Coffee Research (CENICAFE) are working with extension agents on recommending chemical controls for spider mites, but do not appear to be too concerned about any significant impacts on production given that they are already observing a rebound in the beneficial insect population.

It is critical to caveat that the recovery hinges on a return to more normal weather conditions. Moreover, current low prices and income instability due to the strong Colombian peso can disrupt replanting schedules, given short term impacts to income flow and disincentives to invest in coffee seedlings for replanting, which require further investments in fertilizers and chemical pest and disease controls. If replanting is delayed, impacts on a grower's total harvest may decline as the older trees that would be designated for replanting realize diminishing returns to scale. Margins for growers continue to be challenged and the success of GOC efforts to address these issues will need to be monitored.

**Trade:**

In MY 2012/2013 Colombian coffee exports are expected to increase to 8.2 million bags. As part of a quality differentiation and improvement policy, Colombia is increasingly exporting high quality coffee that meets the cupping and grading expectations for certification and more value added. Value added coffee products, and in particular specialty coffees, both now make up 36 percent of Colombia's total exports. Colombian specialty coffee is booming with certified and organic coffees and coffees of origin receiving significant price premiums, resulting in higher overall prices than traditional coffee. At the 2012 Colombia Cup of Excellence, a female grower with a small farm in the southern department of Nariño won the event, receiving US\$22.00 per pound for her entire harvest. Colombian coffee growers produce coffee under numerous international programs that provide fair trade and organic certifications such as USDA Organic, UTZ Certified, 4C, and Rainforest Alliance. Protocols vary between growers to maintain the levels of quality that will meet certification standards and continue to be recognized by international buyers. Colombian coffee growers understand value added and quickly incorporate new

best practices in production and intermediate processing that will insure high cupping scores and secure premium prices in niche international markets.

The United States is the major single destination for Colombian coffee, importing 43 percent of all Colombian coffee exports, with the EU and Japan importing 30 and 11 percent respectively.

Although prices for Colombian coffee on the international market have remained strong in MY2011/2012, the average price received for Colombian growers is 20 percent less than the previous year.

**Stocks:**

There exists no GOC or FEDECAFE policy to support large scale carry-over stocks of coffee. The calculated inventory of coffee at the end of MY 2011/2012 totaled a trivial 239 thousand bags, or about 3 percent of the total harvest. In MY 2012/2013 inventory is expected to be lower at about 179 thousand bags.

**Policy:**

Ninety five percent of coffee farms produce on 5 or less hectares of land, which supports about 69 percent of total production. This characteristic makes the coffee commodity critically important for the GOC in terms of rural employment and maintaining the economic well-being of rural families.

The FEDECAFE funds for programs to support coffee growers are generated from a check-off transfer to FEDECAFE as a fix amount per pound of coffee exported which currently reached the maximum of \$0.06 per pound exported. . However, since production levels, and thus exports, have declined in recent years due to the rust disease and bad weather conditions, resources for FEDECAFE to support programs have been tight. A proposal by FEDECAFE to increase the bag check-off in August 2012 resulted in grower led riots in the city of Manizales, the heart of the coffee growing region. Humbled by the backlash, FEDECAFE approached the GOC for program resources, resulting in the launch of the Coffee Growers Income Support Program, which will allocate US\$15.8 million for direct compensation to growers, should the coffee price fall below US\$355 per 125 kilogram bag (or the break-even price for a typical Colombian grower). If the coffee price falls below that threshold, the GOC and FEDECAFE will provide a direct payment to farmers of about US\$11.00 per 125 kilogram bag.

In addition, FEDECAFE launched the Price Protection Program aimed to hedge grower losses from exchange rate appreciation. Under certain pricing conditions, a grower can provide an estimated sales price in Colombian pesos to FEDECAFE and at the eventual point of sale, should that price be impacted by adjustments in the exchange rate, FEDECAFE will cover the difference. Lastly, the program to recover production damaged by extreme rainfall has been extended to the end of the 2012 calendar year.

The Minister of Agriculture also announced that the GOC will cover all the fees for crop insurance to cover -weather-risk from climate change for small coffee farmers. The Ministry of Agriculture will

allocate the resources up to US\$4,400 per hectare affected. This insurance will cover damages caused by hailstorms, avalanches, landslides and Volcano eruptions. The parameters under which the insurance will operate are still to be defined. This is a modification of a program of crop insurance that has been in place since 1993, but funded by FEDECAFE.

### Production, Supply and Demand Data Statistics:

Coffee, Green Colombia	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	780	780	780	780	0	780
Area Harvested	640	640	640	640	0	640
Bearing Trees	2,900	2,900	2,900	2,900	0	2,900
Non-Bearing Trees	1,070	1,070	1,070	1,070	0	1,070
Total Tree Population	3,970	3,970	3,970	3,970	0	3,970
Beginning Stocks	284	284	99	99	139	239
Arabica Production	8,525	8,525	7,500	7,653	7,500	8,300
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	8,525	8,525	7,500	7,653	7,500	8,300
Bean Imports	715	715	1,000	1,000	1,000	1,000
Roast & Ground Imports	40	40	40	40	40	40
Soluble Imports	0	0	0	0	0	0
Total Imports	755	755	1,040	1,040	1,040	1,040
Total Supply	9,564	9,564	8,639	8,792	8,679	9,579
Bean Exports	7,400	7,400	6,500	6,523	6,500	7,400
Rst-Grnd Exp.	50	50	25	55	25	25
Soluble Exports	935	935	775	775	775	775
Total Exports	8,385	8,385	7,300	7,353	7,300	8,200
Rst,Ground Dom. Consum	780	780	900	900	900	900
Soluble Dom. Cons.	300	300	300	300	300	300
Domestic Use	1,080	1,080	1,200	1,200	1,200	1,200
Ending Stocks	99	99	139	239	179	179
Total Distribution	9,564	9,564	8,639	8,792	8,679	9,579

1000 HA, MILLION TREES, 1000 60 KG BAGS

**Commodities:**

Select