

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary - Public

**Date:** 12/4/2009

**GAIN Report Number:**

## Colombia

**Post:** Bogota

### Colombian Government Extends Subsidies to Coffee Sector

**Report Categories:**

Coffee

**Approved By:**

Todd Drennan, Agricultural Counselor

**Prepared By:**

Elizabeth Mello, Agricultural Attaché

**Report Highlights:**

The Colombian Government announced a six-point subsidy package on November 27, aimed at assisting coffee producers. Coffee production in CY 2009 dropped to 8.3 million bags, the sector's weakest performance since 1976, and a 28 percent drop from the 12.5 million bags produced in 2008. For MY 2010, Post is forecasting a moderate recovery of 11 million bags. President Uribe set an aggressive goal to double coffee production to 18 million bags by the year 2014.

**General Information:**

**Government Extends \$50 million in subsidies to its Coffee Sector**

The Colombian Government announced a six-point subsidy package on November 27, aimed at

assisting coffee producers (see coffee semi-annual, 11/13/2009). Coffee production in CY 2009 dropped to 8.3 million bags, the sector's weakest performance since 1976, and a 28 percent drop from the 12.5 million bags produced in 2008. For MY 2010, Post is forecasting a moderate recovery in production to 11 million bags.

The subsidy package is in addition to the already-existing support program administered by the coffee federation. It will include assistance in the following areas:

- 1) **Debt forgiveness and restructuring:** Producers with debts up to \$1,750 will be cancelled. There are approximately 4,700 producers in this situation. Those producers with debt over \$1,750 (about 2,300 producers are in this category) will be pardoned 70% of their debt if the remaining balance is paid. Debt restructuring will also be an option for this group.
- 2) **Fertilizer Discounts:** In an attempt to minimize the impact of the coffee borer beetle (*Hypothenemus hampei*) and coffee rust on production by increasing fertilizer use, discounts of up to 50% on fertilizer will be extended to farmers with beetle or rust problems. The Fertifutro Program is a separate program which extends fertilizer discounts of 20% for general use if they are purchased in cash.
- 3) **Higher Minimum Price:** The federation has raised the minimum coffee price for Pergamino per 125 kilo bag from \$300 to \$325.
- 4) **Increase in Tree Renovation Incentive:** Instead of a fertilizer credit, cash credits will be given to replace old and poor-yielding coffee trees with newer and higher-yielding varieties with better rust and drought resistance. Although two production years are lost when a tree is replaced, it is expected that in addition to increasing yields, less loss to rust and beetles will occur in the medium-term.

### **Colombian President Pushes for increase in production**

At the Coffee Federation's annual conference this month, President Alvaro Uribe set an aggressive goal to double coffee production to 18 million bags by the year 2014, in spite of the sector's current crisis. His four-point recommendation to achieve higher production consists of the following:

- **Coffee tree renovation:** By the year 2014, 85 percent of all coffee trees should be new varieties (fourth point of subsidy package mentioned above).
- **New sources of income for coffee growers:** Diversifying farmers' income by planting other commodities such as corn, beans, and bananas.
- **More aggressive international marketing:** Expanding the number of Juan Valdez stores overseas.
- **Setting high federation production goals:** Using various subsidies to increase yields.

Post is skeptical that Colombia can reach the ambitious production goals announced by President Uribe. It is not easy to make unilateral and rapid changes in a sector dominated by small producers. Post will not adjust its PS&D forecast at this time, and will closely monitor how the subsidy program is working and report any significant changes to production levels as they happen.

