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Colombia

Coffee

Semi-Annual

2008

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Report Highlights:

Colombian coffee production in 2009 is expected to decrease from 2008 by 142,000 60 Kg bags to 12.2 million 60 kg bags. Coffee exports are forecasted to decrease by 274,000 60 kg bags to 11.5 Million 60 kg bags. The Colombian government and Coffee Growers Federation signed a four year agreement aimed to protect coffee growers' income, which includes a set minimum price.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Bogota [CO1]
[CO]

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Executive Summary

Colombian coffee production is expected to fall to 12.2 million 60 kg bags in MY 2008/09 due to adverse climatic conditions, which include heavy and consistent rainfall problems which occurred in the coffee region. Exports are also forecasted to decrease by 274,000 60 kg bags to 11.5 million 60 kg bags in MY 2008/09.

The effect of the financial crisis on the coffee sector is likely to be reflected more in coffee quality than in volume of production. The credit crunch would reduce pest control, fertilizer application and labor expenditures. The Colombian government and the Colombian Coffee Growers Federation (Fedecafe) signed a new coffee agreement which includes an income-stabilizing provision for coffee growers which is a fixed price contract that will attempt to protect coffee growers' income. The price was set at 474,000 pesos ($199.22), per 125 kg bag.

Production

Colombian coffee production is expected to fall by 142,000 60 kg bags to 12.2 million 60 kg bags in MY 2009. This was partly due to the strong rainfall which occurred in the coffee region during the early months of 2008, which registered 48 percent higher than the historical average for the region. Excess and continuous rainfall reduces the caloric stress needed during the coffee tree's blossom and, as a result, caused a reduction this year in the number of coffee beans produced by each tree.

The income of Colombian coffee growers in the past year did not reflect the higher international coffee prices that occurred in 2007 and the beginning of 2008. This was due to the fact that, while international coffee prices did increase, the peso was simultaneously appreciating against the dollar. The peso has since changed course and, like many other currencies, is weakening against the dollar. However, a decline in international coffee prices recently occurred, which offset once again Colombian coffee grower gains. As a result of the income woes of the farmers, the government fixed a minimum coffee price to guarantee income to coffee growers (See policy section).

Colombian coffee production volumes should not suffer directly from the current financial crisis. However, the lower credit availability could affect coffee quality as farmers invest less in agricultural inputs (fertilizers, pest control and labor related to crop management) due to the fact that farmers have less cash on hand.

Consumption

Per-capita consumption of coffee is considerably lower relative to other coffee producing countries. The Coffee Growers Federation (Fedecafe) estimates total domestic consumption at around 1.2 million 60 kg bags, which has been stable for quite a few years. In recent years, with its "Juan Valdez" branding strategy, Fedecafe began offering export-quality coffee to the local market. This new local supplier has managed to expand consumption of high-quality coffee, but has not been able to increase per-capita coffee consumption in Colombia.

Trade

Colombian exports are expected to reach only 11.5 million 60 kg bags in 2009, 274,000 60 kg bags lower than the previous year. Colombian coffee exports follow coffee production trends closely, since there are no incentives in Colombia to hold inventories. Colombia has become a regular importer of low-quality coffee from Ecuador and Peru, which is blended and processed for local consumption. Post expects imports to reach 400,000 60 kg bags in 2009, about the same as the previous year.

Colombia has been a growing promoter of specialty coffees and has made an effort to capture a higher price from end consumers that can be transferred directly to coffee growers. It is estimated that 1.2 million 60 kg bags of value-added coffee were exported in MY 2007/08. This category includes organic coffee, coffee of origin, sustainable coffee, environmentally friendly coffee, and others, which all receive a premium price in international markets.

Stocks

In 2009, stocks are expected to be reduced to 970,000 60 kg bags from the 1.17 million 60 kg bags that were Colombia's coffee inventory a year earlier. The fluctuation in stocks depends heavily on the production level since there is no incentive to keep inventories. In those years when production is lower, as is expected to be the case in 2009, stocks tend to decrease along with production. Stocks have been replenished to a small degree by the imports mentioned above.

Policy

The Colombian government and Fedecafe signed a new coffee agreement that will be valid until 2011. This agreement includes an income-stabilizing provision called the "Price Protection Contract" (PPC) which guarantees a fixed price of 474,000 pesos ($199.22) per 125 kg bag to growers. This price is assumed to cover the coffee production costs and is a noticeable addition to the current coffee policy. The new price contract option can be used by growers to secure a price for up to 50 percent of their total anticipated production.

The price protection contract must be signed two months prior to harvest. The PPC offers coffee growers price protection, and more importantly, a fixed income. It is unclear how much the program will actually be used. However, it is expected to be an important tool for coffee growers in an environment of lower international prices.

Under the contract price program, farmer payments will be based on a comparison between the contract price and a derived coffee index price. If the index price falls below the set contract price of 474,000 pesos, Fedecafe will pay the difference. If the index price is above the contract price, the farmer receives no direct payment. The index price is derived daily based on the international coffee price adjusted for the exchange rate for that day. Under this contract, the actual sales price does not impact a farmer's payment. The cost of the program is 10,000 pesos per 125 kg. bag registered under the contract.

Fedecafe created a Coffee Fund Guarantee (Fogacafe) program, which will guarantee coffee growers' loans made with private banks. This will remove one of the bottlenecks coffee growers face in improving production since most coffee producers in Colombia are small farmers who encounter difficulties in presenting collateral when seeking loans.

Fedecafe continues to support the coffee renovation program to increase the coffee sector's yields. The program is now targeting 300,000 hectares for renovation over the next five years.

Other Relevant Reports

www.cafedecolombia.com.co
www.ico.org

Tables

Colombia

Coffee, Green

(1000 HA)(MILLION TREES)(1000 60 KG BAGS)

	2007	Revised		2008	Estimate		2009	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2006	10/2006		10/2007	10/2007		10/2008	10/2008
Area Planted	780	780	780	780	780	780	0	0	780
Area Harvested	640	640	640	640	640	640	0	0	640
Bearing Trees	2900	2900	2900	2900	2900	2900	0	0	2900
Non-Bearing Trees	1070	1070	1070	1070	1070	1070	0	0	1070
Total Tree Population	3970	3970	3970	3970	3970	3970	0	0	3970
Beginning Stocks	1215	1215	1215	1302	1302	1302	1182	1182	1070
Arabica Production	12164	12164	12164	12400	12400	12392	0	0	12250
Robusta Production	0	0	0	0	0	0	0	0	0
Other Production	0	0	0	0	0	0	0	0	0
Total Production	12164	12164	12164	12400	12400	12392	0	0	12250
Bean Imports	0	0	0	0	0	0	0	0	0
Roast & Ground Imports	400	400	400	400	400	400	0	0	400
Soluble Imports	0	0	0	0	0	0	0	0	0
Total Imports	400	400	400	400	400	400	0	0	400
Total Supply	13779	13779	13779	14102	14102	14094	1182	1182	13720
Bean Exports	10507	10507	10507	10770	10770	10874	0	0	10600
Rst-Grnd Exp.	100	100	100	100	100	100	0	0	100
Soluble Exports	630	630	630	800	800	800	0	0	800
Total Exports	11237	11237	11237	11670	11670	11774	0	0	11500
Rst,Ground Dom. Consum	950	950	950	950	950	950	0	0	950
Soluble Dom. Cons.	290	290	290	300	300	300	0	0	300
Domestic Use	1240	1240	1240	1250	1250	1250	0	0	1250
Ending Stocks	1302	1302	1302	1182	1182	1070	0	0	970
Total Distribution	13779	13779	13779	14102	14102	14094	0	0	13720
Exportable Production	10924	10924	10924	11150	11150	11142	0	0	11000

Exports			
Colombia			
Coffee, Green			
Time Period	**Oct / Aug**	**Units:**	**60 kg Bags (0,000)**
Exports for:	**2006**		**2007**
U.S.	3502	U.S.	3662
Others		Others	
Germany	1225		1279
Japan	1161		1239
Belgium	737		682
Canada	492		563
United Kingdom	344		475
Italy	376		392
Spain	275		312
Sweden	274		245
Finland	209		206
Korea, South	173		182
Total for Others	5266		5575
Others not Listed	925		946
Grand Total	9693		10183

Prices Table			
Colombia			
Coffee, Green			
Prices in	**Pesos**	**per uom**	**125 kg bag**
Year	**2007**	**2008**	**% Change**
Jan	477,403.00	501,520.00	5%
Feb	471,286.00	544,293.00	15%
Mar	440,411.00	500,500.00	14%
Apr	424,708.00	440,078.00	4%
May	407,040.00	434,980.00	7%
Jun	425,163.00	455,125.00	7%
Jul	417,871.00	463,806.00	11%
Aug	450,157.00	508,766.00	13%
Sep	483,229.00	540,713.00	12%
Oct	496,407.00	515,869.00	4%
Nov	489,550.00		-100%
Dec	505,613.00		-100%
Exchange Rate	2,335.02	Local Currency/US $	
Date of Quote	11/13/2008	MM/DD/YYYY	