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Honduras

Coffee Annual

2010

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Report Highlights:

Honduras is the third biggest producer of coffee in the Mexico, Central America and Caribbean region. Honduran coffee production in 2010/2011 is forecast at 3.8 million 60 kilograms (kg) bags. Coffee exports for 2010/2011 are forecast at 3.4 million 60 kg. bags. Production for 2009/2010 is estimated at 3.4 million 60 kg. bags. Exports for 2009/2010 are forecast to reach 3.2 million 60 kg. bags. Production for 2008/2009 was 3.4 million 60 kg. bags. The decrease in production was due to weather conditions. Exports for 2008/2009 were 3.0 million 60 kg. bags. About 225,000 60 kg. bags of specialty coffee were produced. For the seventh consecutive year, Honduras is participating in the "Cup of Excellence" competition. Honduran producers are providing more attention to their farms to increase productivity and quality of their coffee.

Executive Summary:

Sixty-one percent of Honduran coffee production is grown in the mountains between 2,700 and 3,600 feet above sea level, 23 percent in areas from 3,600 to 4,800 feet above sea level, and 16 percent in areas 1,500 to 2,700 feet above sea level. Coffee is grown in 15 of the 18 states and in 213 out of the 298 municipalities of Honduras.

The coffee sector provides employment to 30 percent of the population and generates much needed foreign exchange. Two million people directly participate in the coffee harvest. They are paid about US\$71 million, distributed nationwide over a period of four months. Besides picking the beans, there are other activities such as fertilizer application, shade control, cleaning, drying, commercialization and transport, which provide other employment. More than 100,000 families in the rural areas live off of coffee production. At the macroeconomic level, coffee contributes more than 36 percent of the agricultural gross domestic product. Coffee is a major source of foreign exchange, representing about 24 percent of total agricultural export value.

Coffee production for the 2010/2011 harvest is forecast at 3.8 million 60 kilogram (kg) bags. Production for 2009/2010 decreased to 3.4 million 60 kg. bags. The decrease from the Honduran Coffee Institute (IHCAFE)'s previous estimate was due to climatic conditions. Production in 2008/2009 was lower due to the dry weather conditions, compared to the record production of the previous year. In 2007/2008 there were optimum weather conditions.

The forecast export in 2010/2011 is 3.4 million 60 kg. bags. Exports in 2009/2010 are estimated at 3.2 million 60 kg. bags ten percent lower than estimated by IHCAFE.

Export value for the 2008/2009 harvest reached US\$464 million, which was 22 percent lower than the earnings from the 2007/2008 harvest. The average New York Coffee Stock Exchange price for the 2008/2009 harvest was US\$122 per 46 kg. bag compared to the average price of US\$143 in 2007/2008.

During 2008/2009, exports of specialty, certified and organic coffee were about 225,000 60 kg. bags. This is over 7 percent of total coffee exports. Some 400 to 650 thousand 60 kg. bags were not registered as exports through official channels. Honduras participated for the seventh successive year in the "Cup of Excellence" competition.

Commodities:

Select

Production:

The new data from IHCAFE suggests that the 2010/2011 harvest is expected to reach 3.8 million 60 kg. bags. Production for the 2009/2010 harvest is estimated at 3.4 million 60 kg. bags, twelve percent lower than the 3.9 million 60 kg bags estimated in November 2009. The decrease in the estimate is due to an extended summer and a drought which occurred in what is normally the rainy season.

Production for the 2008/2009 harvest was 3.4 million 60 kg. bags, five percent lower than estimated. The decrease in the estimate is due to the weather conditions. The coffee cherries did not receive water during critical stages of formation maturation was accelerated and the fruit fell earlier.

IHCAFE continues with a trust fund to buy fertilizers and sells them at a discount and on credit, with payment not due for one year. The trust fund also provides assistance for maintenance and renewal of coffee farms. About 87,000 coffee producers participate in this program.

Coffee producers did not expand the planted area. Instead, they invested in their plantations. The application of the fertilizer, the provision of new seeds, the improvement of planting density, soil conservation and price incentive motivated producers to pay better attention to their farms. The bearing and non-bearing trees remain steady. This is due to the cycle of the four - year period that a coffee plant takes to become productive.

Production of "value-added" coffee is also increasing. About 225,000 60 kg. bags of specialty, certified and organic coffee were produced. This production was under programs such as Utz Kapeh Certified, Organic/Fair Trade, Rain Forest Alliance, Fairtrade, Cafe Practices and others. In 2005, Honduras established the Denomination of Protected Origin (DOP) Marcala in order to guarantee and preserve the quality of the coffee produced in the Marcala region.

Consumption:

According to new data from IHCAFE, domestic consumption is placed at ten percent of total production. Consumption per capita in 2008 was 3.77 kg per person. This is a 56 percent increase from the previous year (2.41 kg. per person). The consumption in coffee bars located in shopping malls, main business streets, supermarkets, hospitals has been steady, supported by stable prices.

Honduran has a young population and young Hondurans are consuming more and different types of coffee (e.g., "frozen" coffee drinks). Particularly, these coffee bars specialize in providing customers with free wireless internet service, which especially attracts high school and university students.

Trade:

Coffee exports for 2010/2011 are forecast at 3.4 million 60 kg. bags. Exports for 2009/2010 are estimated at 3.2 million, 60 kg. bags, ten percent lower than the IHCAFE's forecast for the previous year. Coffee exports were 3.0 million 60 kg. bags in 2008/2009. It should be noted that these data do not include coffee exports that are not registered through official channels. The amount is between 400,000 to 650,000 60 kg. bags that are exported to Guatemala and Nicaragua. The coffee sent to Guatemala is quality coffee, while the coffee sent to Nicaragua is coffee of lower quality, but obtains attractive prices.

Export value for 2008/2009 reached US\$464 million. This was 22 percent lower than the earnings from the 2007/2008 harvest with record production. Exports to Germany, the U.S., Belgium, Italy, South Korea, England, France, Sweden, Japan and Finland represented 85 percent of total shipments. The greatest volume (29 percent) was exported to Germany, and the U.S. was the number two destination accounting for 14 percent of total exports. The average export price in the 2008/2009 harvest was US\$118 compared to US\$134 for 2007/2008.

According to data from the Honduran Central Bank, imports of roasted and soluble coffee for domestic consumption came mainly from the United States. Other coffee exporters to Honduras are Mexico, Guatemala and Nicaragua. Post expects that competition from U.S.-supplied coffee will be greater as Mexican and Central American companies sell their soluble coffee in machines located at commercial centers and office buildings.

For the seventh year running, IHCAFE organized the "Cup of Excellence" competition. This promotional event brings together the best Honduran coffees which are sold worldwide via electronic auction. Through this competition, Honduras finds niche markets for its coffee. In 2008/2009 about 225,000 60 kg. bags were produced under the programs of Utz Kapeh Certified, Organic/Fair Trade, Rain Forest Alliance, Fairtrade, Cafe Practices and DOP "Marcala".

The flow of unregistered coffee going to Guatemala and Nicaragua is estimated at 400,000 to 650,000 60 kg. bags. This unregistered flow is stimulated by the need of some growers to receive cash rapidly for their unprocessed product. Intermediaries help in the commercialization by taking the harvest out to the road. Some intermediaries live in the same area of production and provide funds to the producers for personal expenses or for basic needs such as food.

Another reason for this unregistered trade is the captive market that the exporters have, since according to law, they are the only ones that can export. Additionally, in Guatemala there is a higher capacity to negotiate futures markets. In Honduras, futures trading has not been developed. Subsequently, the only way to expedite a sale is through intermediaries. Guatemalan buyers can afford to pay higher prices for quality Honduran coffee. They mix it with Guatemalan beans, since Guatemalan coffee is often sold at a premium in the international market, while Honduran coffee is typically sold at a discount.

Export Trade Matrix

Country	Honduras	
Commodity	Coffee, Green	
Time Period	MY	Units: 60 Kg. Bags
Exports for:	2009	2010
U.S.	410,235	468,510
Others	Others	
Germany	871,524	995,325
Belgium	389,693	445,050
Italy	217,201	248,055
S. Korea	180,649	206,310
France	137,450	156,975
England	146,210	166,980
Sweden	114,189	130,410
Japan	111,168	126,960
Total for Others	2,168,084	2,476,065
Others not Listed	442,681	505,425
Grand Total	3,182,000	3,450,000

Stocks:

Stocks during 2008/2009 increased from the estimated amount in light of the decrease in exports. Coffee beans stored by the roasters are only toasted upon request. Roasters keep the remaining beans for domestic consumption. The coffee might also be sold to other Central American countries throughout the year.

Policy:

The Honduran Government (GOH) privatized IHCAFE in 2000. The privatization was done in order to rationalize the coffee sector. At the same time, the National Council of Coffee was created. IHCAFE is the specialized institution in Honduras that works with all aspects of coffee production, harvesting, and exports. IHCAFE provides guidelines and implements projects to increase production and to improve the quality of Honduran coffee. It also establishes commercialization procedures and controls coffee production and exports. As part of those controls, exporters must register with IHCAFE the coffee which they buy from growers and the coffee which they export. Subsequently, IHCAFE issues exporters the export permits. The Board of Directors of IHCAFE includes coffee growers, coffee roasters, exporters, and representatives from the Ministry of Agriculture and Ministry of Industry and Trade.

During the years of the coffee crisis, due to low international prices, the GOH obtained a loan for US\$20 million to be paid over 20 years. Through the loan, funds supported all coffee producers in 2002. Due to the high level of indebtedness of many growers, the GOH created the Law of Financial Reactivation of the Coffee Sector in 2003. This law facilitated the creation of the coffee trust fund in 2004, which receives the financial contribution of coffee growers.

The grower's contribution is obtained through the deductions that the exporter or intermediary makes when they buy the grower's coffee. One of the deductions is US\$9.00 per quintal (100 pounds). This deduction is transferred to IHCAFE, which in turn transfers it to the trustee banks. The US\$9.00 contribution is assigned to pay off the US\$20 million loan over the next 16 years.

The other mechanism to obtain funds is through an exporter deduction of US\$3.25 per purchased quintal. Out of the US\$3.25, approximately US\$0.50 is applied to the repayment of the US\$20 million loan, and the balance is distributed with 36 percent going to the operation of IHCAFE and 64 percent to the Coffee Fund. The Coffee Fund uses those resources to build and fix roads in coffee production areas, and to buy equipment for coffee producers.

To exemplify some of the benefits of the trust fund, IHCAFE used part of the trust fund to increase productivity and to lessen the impact of the fertilizer prices on the production. IHCAFE bought fertilizer used by producers and sold it to them at a lower-than-market price. The fertilizer was sold to coffee producers for cash or on credit with payment due in a year. This program supports an increase in production, and also helps hold down the overall commercial price of fertilizer.

In addition to its fertilization program, IHCAFE has implemented the Innovative Coffee Producer Project, the Coffee Regionalization project, the Coffee Rehabilitation Project, the Productive Diversification Project, and the Agro Forestry and the Community Forestry Programs. In addition, IHCAFE has created the National Center of Quality and the Superior School of Coffee.

Through these projects and programs, IHCAFE is introducing new ways to add value, to develop specialty coffee, and to find niche markets. Coffee producers are also provided technical

assistance to diversify their farm production by growing precious woods, and including food products such as avocado, fruits, fish, poultry or bees.

Production, Supply and Demand Data Statistics:

Coffee, Green Honduras	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	243	243	244	243	243	244			270
Area Harvested	230	230	224	230	230	224			250
Bearing Trees	1,049	1,049	1,049	1,049	1,049	1,049			1,049
Non-Bearing Trees	141	141	141	141	141	141			141
Total Tree Population	1,190	1,190	1,190	1,190	1,190	1,190			1,190
Beginning Stocks	266	266	266	265	519	240			134
Arabica Production	3,544	3,544	3,373	3,910	3,910	3,450			3,833
Robusta Production	0	0	0	0	0	0			0
Other Production	0	0	0	0	0	0			0
Total Production	3,544	3,544	3,373	3,910	3,910	3,450			3,833
Bean Imports	0	0	0	0	0	0			0
Roast & Ground Imports	7	7	8	7	7	8			8
Soluble Imports	7	7	3	7	7	7			7
Total Imports	14	14	11	14	14	15			15
Total Supply	3,824	3,824	3,650	4,189	4,443	3,705			3,982
Bean Exports	3,275	3,021	3,021	3,600	3,527	3,182			3,450
Rst-Grnd Exp.	35	35	35	35	35	35			35
Soluble Exports	0	0	0	0	0	0			0
Total Exports	3,310	3,056	3,056	3,635	3,562	3,217			3,485
Rst,Ground Dom. Consum	240	240	345	240	240	345			383
Soluble Dom. Cons.	9	9	9	9	9	9			0
Domestic Use	249	249	354	249	249	354			383
Ending Stocks	265	519	240	305	632	134			114
Total Distribution	3,824	3,824	3,650	4,189	4,443	3,705			3,982
Exportable Production	3,295	3,295	3,019	3,661	3,661	3,096			3,450