

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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Colombia

Coffee Semi-annual

Coffee Production and Exports Will Rebound

Approved By: Joe Lopez, Agricultural Counselor

Prepared By:

Leonardo Pinzon, Agricultural Specialist

Report Highlights:

In MY 2009/2010 Colombian coffee production declined for a second consecutive year that took coffee production to 8.1 million 60 kg bags, the lowest in 35 years. Coffee production is expected to increase to 9 million 60 kg bags in MY 2010/2011. Exports are also forecast to increase to 8.7 million 60 kg bags due to the improvement in coffee quality. The Colombian government and the Coffee Growers Federation have set a broader support program to cope coffee rust, which could be the main cause of the sharp decline in coffee production.

Executive Summary:

Colombian coffee production is expected to increase by 900,000 60 kg bags only to 9 million 60 kg bags in MY 2010/2011. The potential for coffee production should be evaluated over the next three years since the new coffee policy that strengthens support to coffee growers and encourage coffee tree renovation is in full force. As much as 50 percent of total Colombian coffee area is planted with varieties that are not resistant to coffee rust and post sources calculated that nearly 30 percent of these are affected.

Colombian coffee exports are expected to increase to 8.7 million 60 kg bags in MY 2010/2011 as coffee quality improves and coffee production recovers. As a result, in MY 2010/2011, a reduction of 160,000 60 kg bags in inventories are expected.

The Colombian government modified its support program and targets to increase the use of its Rural Funding Incentive (RIC) benefit and to make it more efficient in the fight against the coffee rust disease. The renovation program is now focused on renovating rust resistant varieties.

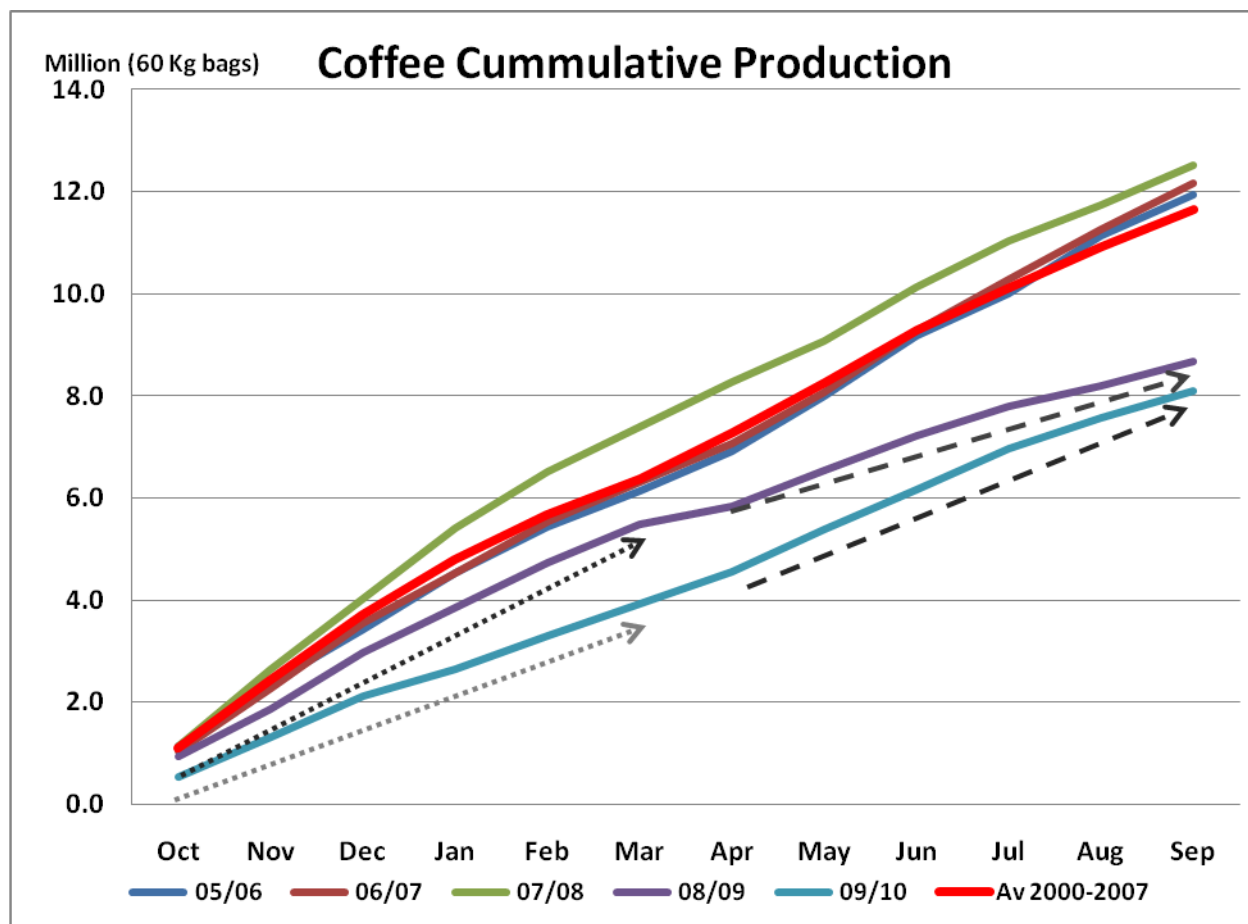
Commodities:

Coffee, Green

Production:

Colombian coffee production declined to 8.1 million 60 kg bags in MY 2009/2010, six percent lower than last year according to the Colombian Coffee Growers Federation (FEDECAFE). This is the second consecutive year of declining coffee production (see graph 1). The forecast for MY 2010/2011 is to increase production only by 900,000 60 kg bags to 9 million 60 kg bags. This expected level will still be 1 million 60 kg bags below the last ten-year average coffee production of 10.9 million 60 kg bags.

Graph 1

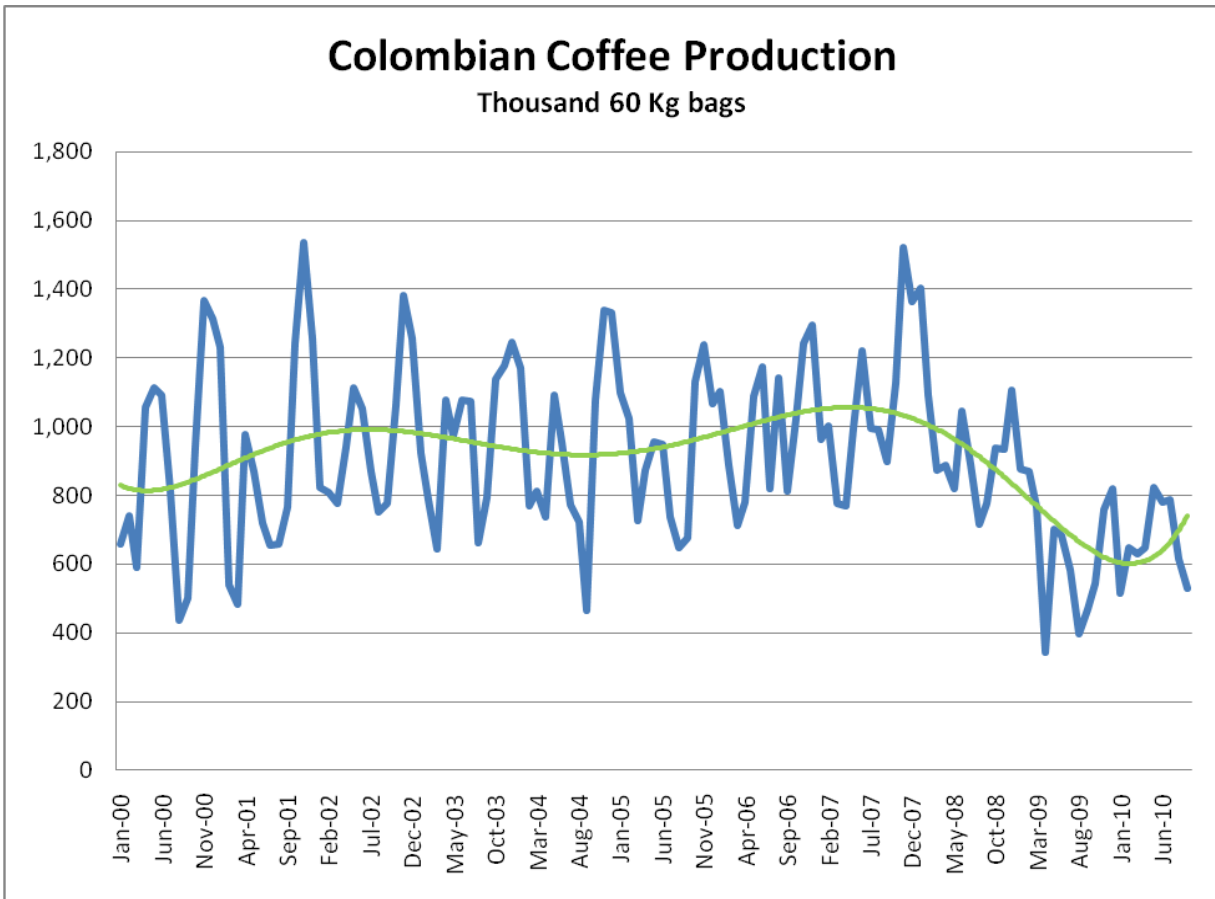


Coffee production declined contrary to initial production estimates, and the updated coffee census is still needed to know the current situation in the coffee areas and the current production capacity. Moreover, the potential for coffee production has to be evaluated over the next three years, as the new coffee policy that strengthens support to coffee growers and encourage coffee tree renovation is in full force. Climate change according to Colombian environment agencies, will increase temperatures and should also be considered for the future coffee production, since the coffee area planted at lowest altitude would need to move to higher levels to maintain ideal climate conditions and avoid the diseases that affects coffee trees at higher temperature.

Coffee production suffered from strong rains, high fertilizer and chemical prices and the strength of the peso. Altogether these factors eroded coffee grower income and this was reflected in the poor care of coffee plantations. As a result, coffee rust disease encountered the perfect environment to attack coffee trees.

As much as 50 percent of total Colombian coffee area is planted with varieties that are not resistant to coffee rust. The exact coffee area affected is unknown, however, post sources calculated that nearly 30 percent of the coffee varieties not resistant to the coffee rust disease are affected and a high percentage of those are out of production and must be renovated. Coffee tree renovation would set a new potential for coffee production in the coming years. The below graph of last decade depicts a coffee cycle that shows a downturn of coffee production (see graph 2).

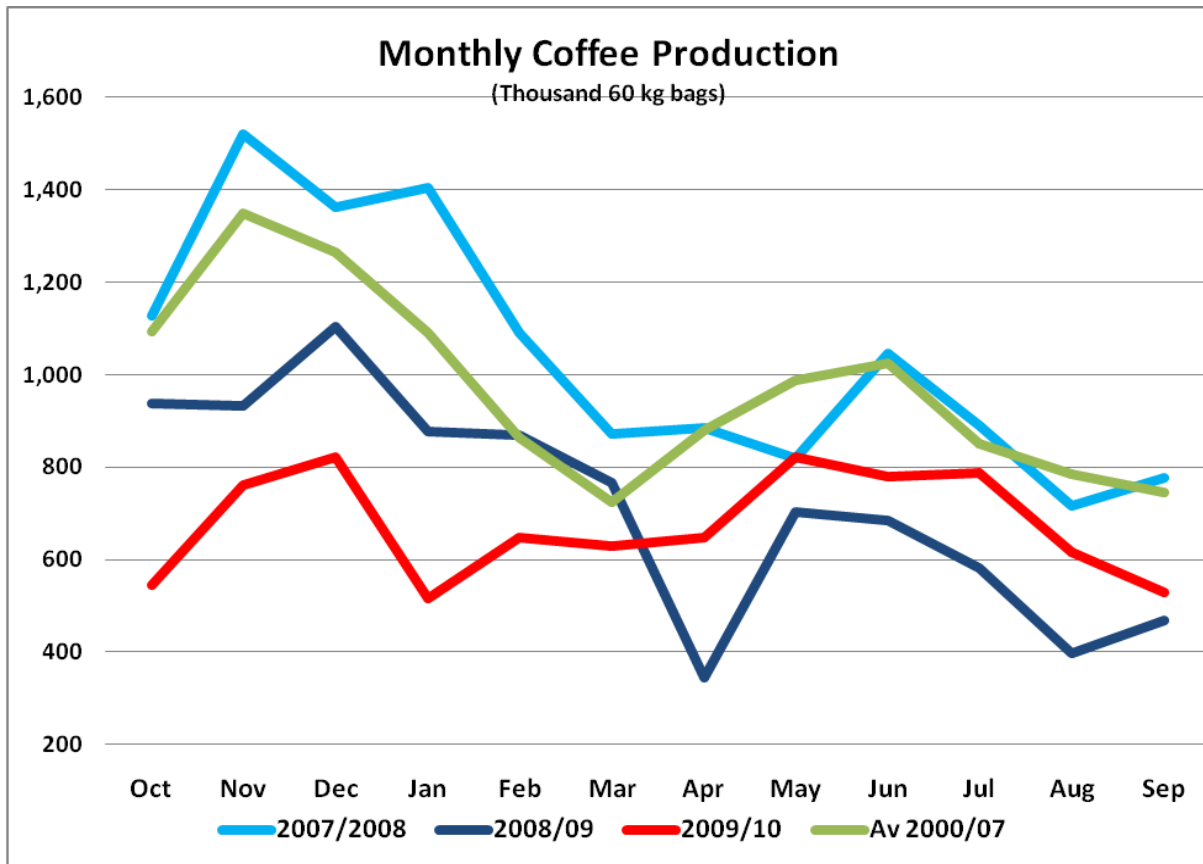
Graph 2



This year's coffee production showed a change in the monthly production. Colombian coffee production has bounced back. In April, monthly coffee production surpassed last year's April production and as of September, this trend has continued and is expected to so until the end of 2010 (see graph 3). The recovery, however, may be weak as damaged coffee trees are out of production and new coffee trees renovated in the last two years just are getting into production. Weather is still a wild card situation for the new coffee year which could help maintain the recovery path for production initiated in April compared with the last year.

In the medium term, the recovery of Colombian coffee production would rest on the effectiveness of the recovery program set by the government and FEDECAFE, and the return to more normal weather conditions.

Graph 3

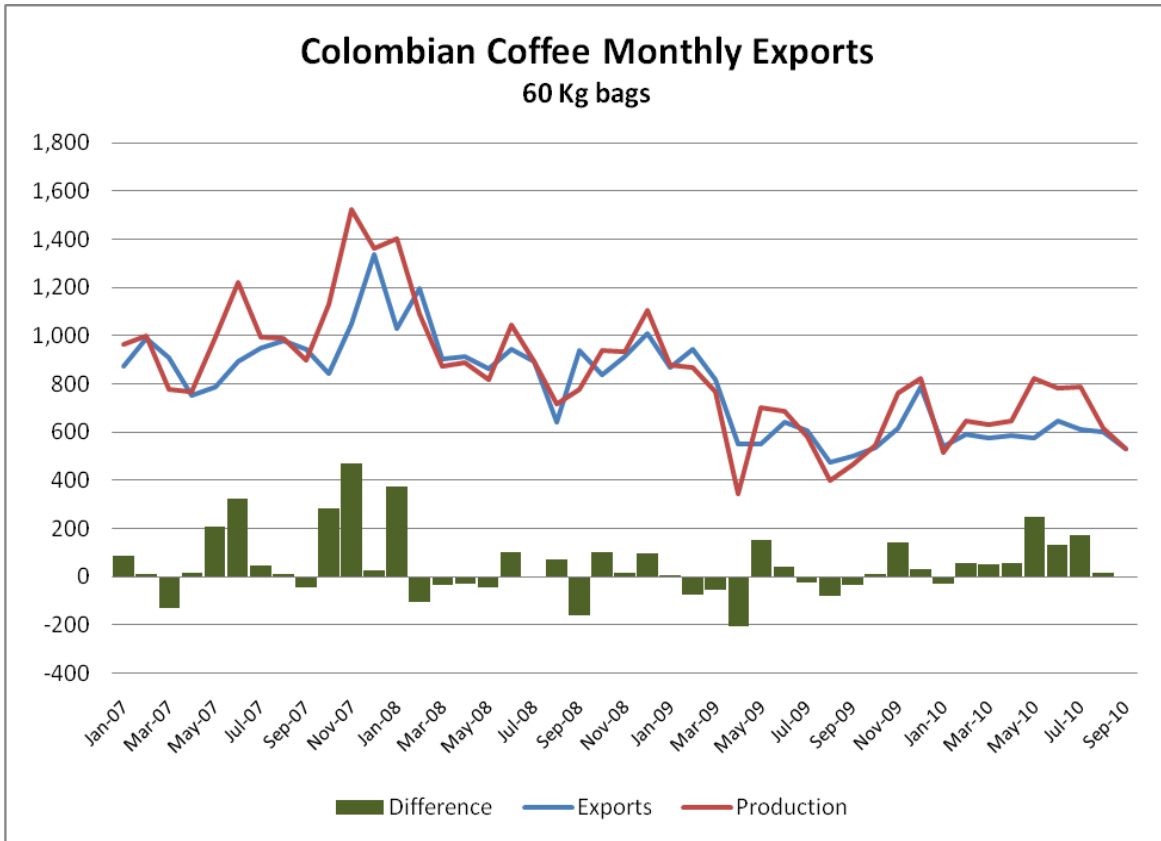


Trade:

In MY 2009/2010, Colombian coffee exports declined 17 percent to 7.2 million 60 kg bags from the previous year. They are expected to increase to 8.7 million 60 kg bags in MY 2010/2011 along with the production. An improvement is also expected in coffee quality as a result of support policies in place aimed to aid in the recovery of coffee production and quality.

In MY 2009/2010 coffee production surpassed exports which has not been the normal average relation (see graph 4). This rare pattern can say that the coffee quality was lower than normal and such coffee could not be exported, and explain why despite the high international coffee prices Colombian coffee export sharply declined.

Graph 4

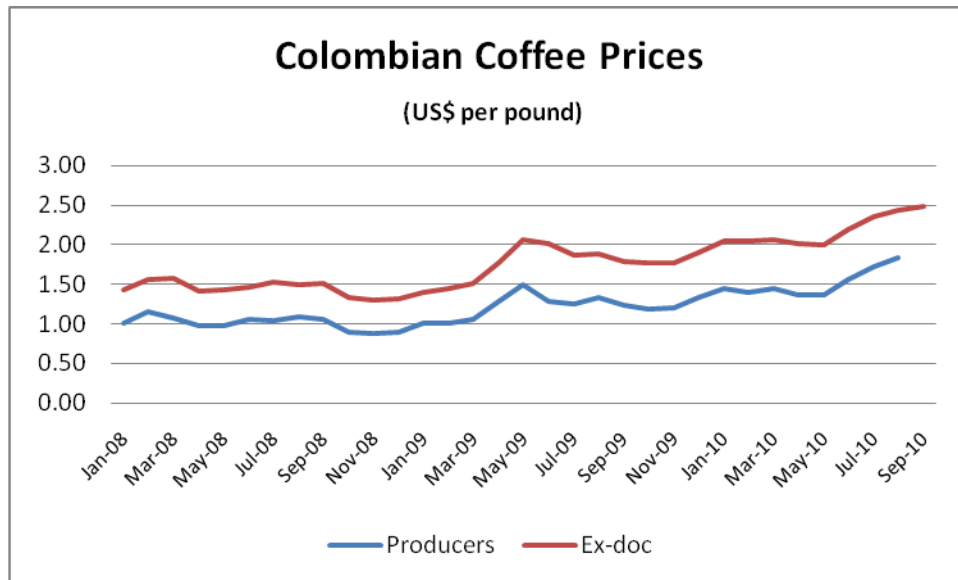


The United States continues by far to be the major single country destination for Colombian coffee exports. In MY 2009 the U.S market bought 40 percent of the total Colombian exports followed by Japan with 16 percent and the EU market with 29 percent.

Colombia continues its effort to add value to its coffee and increase exports of these products. Value added coffee products have gained 3 percentage points in the total coffee exports during this decade. Colombian specialty coffee has also been growing; certified and organic coffees and coffees of origin receive higher prices than traditional coffee. Although this differentiated coffee received better prices it is unlikely that its area will grow.

Prices for Colombian coffee on the international market have shown stronger levels in MY 2009. Colombian coffee prices averaged \$2.09 per pound, 27 percent higher than the previous year average. In spite of the fact that the peso strengthened against the dollar by 5 percent, the price transferred to coffee growers increased by 49 percent due to firm international prices (see graph 5).

Graph 5



Stocks:

Although there is no policy for holding coffee, the calculated inventory of coffee at the end of MY 2009/2010 totaled 809,000 60 kg bags, well above by 481,000 60 kg bags of the previous year. This is a result of a lower exporting pace than production during the last year (see graph 4). The higher stocks reflects the lower coffee quality of last year, which could not meet FEDECAFE's high standard for exporting. In MY 2010/2011, a reduction at 649,000 60 kg bags inventory is expected due to the increase in exports associated with better coffee quality.

Policy:

Ninety percent of Colombian coffee farms are smaller than 5 hectares and it is calculated that 500,000 household make their living directly from this activity. This special characteristic makes coffee highly sensitive for the government in terms of employment and social welfare. The current support program was modified to improve its benefits and was set for a time frame of 5 years.

The program's modifications target to increase the use of the Rural Funding Incentive (RIC) benefit and to make it more efficient in the fight against the coffee rust disease. The renovation program is now focused on renovating coffee-rust resistant varieties. The RIC benefit was extended to larger coffee farms from 1.5 hectares to 5 hectares on size and was also linked to coffee trees renovation. Also, the benefit granted under the ICR for smaller coffee farms, lower than 1 hectare, can now be received in fertilizers and other inputs and not only as a loan discount component. The government expects to speed up the use of this mechanism in the short term in order to cope more effectively with coffee rust.

To supplement the general government program, FEDECAFE set a \$ 5.5 million program called "Plan to Combat Coffee Rust Disease" that will grade the incidence of coffee rust disease in coffee farms smaller than 10 hectares. This program will provide coffee seed, bags, fertilizers and trees for renovation. For areas that can be recovered without coffee tree renovation, the program will provide fertilizers and chemical for coffee-rust control.

The program components currently in place such as the hedging instrument, the minimum guaranteed price to growers and the coffee purchasing guarantee remain and receive continued support from the Colombian government.

Production, Supply and Demand Data Statistics:

Coffee, Green Colombia	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	780	780	780	780	780	780	780	780	780
Area Harvested	640	640	640	640	640	640	640	640	640
Bearing Trees	2,900	2,900	2,900	2,900	2,900	2,900	2,900	2,900	2,900
Non-Bearing Trees	1,070	1,070	1,070	1,070	1,070	1,070	1,070	1,070	1,070
Total Tree Population	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970
Beginning Stocks	885	1,411	885	328	809	328	293	299	809
Arabica Production	8,664	8,664	8,664	8,200	8,800	8,098	9,000	11,000	9,000
Robusta Production	0	0	0	0	0	0	0	0	0
Other Production	0	0	0	0	0	0	0	0	0
Total Production	8,664	8,664	8,664	8,200	8,800	8,098	9,000	11,000	9,000
Bean Imports	650	0	650	775	0	740	850	0	780
Roast & Ground Imports	45	700	45	40	740	40	40	600	40
Soluble Imports	0	0	0	0	0	0	0	0	0
Total Imports	695	700	695	815	740	780	890	600	820
Total Supply	10,244	10,775	10,244	9,343	10,349	9,206	10,183	11,899	10,629
Bean Exports	7,941	7,816	7,816	7,100	8,100	6,447	8,000	9,200	8,000
Rst-Grnd Exp.	50	100	100	75	50	75	50	100	50
Soluble Exports	725	800	800	675	700	675	700	900	700
Total Exports	8,716	8,716	8,716	7,850	8,850	7,197	8,750	10,200	8,750
Rst,Ground Dom. Consum	900	950	900	900	900	900	900	900	930
Soluble Dom. Cons.	300	300	300	300	300	300	300	300	300
Domestic Use	1,200	1,250	1,200	1,200	1,200	1,200	1,200	1,200	1,230
Ending Stocks	328	809	328	293	299	809	233	499	649
Total Distribution	10,244	10,775	10,244	9,343	10,349	9,206	10,183	11,899	10,629

