

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Colombia

Coffee Annual

Coffee Production Stabilizes in Colombia

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Report Highlights:

Colombia coffee production remains strong as the renovated trees reach their peak productivity and weather conditions are favorable. The revised post forecast for MY 2016/2017 is 14.5 million bags (1 bag = 60 kilograms unless otherwise noted) green bean equivalent (GBE), 3.6 percent higher than the previous estimate of 14.0 million bags GBE. Production is forecast to marginally increase in MY 2017/18 to 14.6 million bags GBE if weather continues normal.

Executive Summary:

Post now estimates that Colombian coffee production will increase to 14.5 million bags GBE in MY 2016/17 (October through September), up from the previous forecast of 14.0 million bags GBE. Production is forecast to slightly increase in MY 2017/18 to 14.6 million bags GBE due to projected normal weather conditions. In 2016, the National Federation of Coffee Growers of Colombia (FEDECAFE) estimated that average coffee productivity has increased to 17.8 bags GBE per hectare, 29 percent higher than the last decade (13.8 bags GBE). This is a direct result of the replanting program, a reduction in the average age of coffee trees from 15 to 7 years, and higher plant density. The results of the rust resistant variety replanting program and favorable weather conditions have helped to maintain strong productivity during the first seven months of MY 2016/17, up 5.1 percent from the same time period a year before.

In MY 2016/17, Post revises export estimates to 13.1 million bags GBE paralleling the increase in production. Exports are forecast to marginally increase at 13.2 million bags GBE for MY 2017/18.

Commodities:

Coffee, Green

Production:

Colombia coffee production is at record levels not seen since the early 1990's as a result of the highly successful replanting program of coffee rust resistant varieties and good weather conditions. Post revised estimates for Colombian coffee production are 14.5 million bags GBE in MY 2016/17, higher than previous estimates of 14.0 million bags GBE. Production remains strong as a result of favorable weather conditions and productive maturity of renovated coffee trees. In addition, the fertilizer incentives provided by the Government of Colombia (GOC) and FEDECAFE to the 2015 drought-affected coffee farms will boost production. Post forecasts production to increase in MY 2017/18 to 14.6 million bags GBE as the production recovery stabilizes and weather patterns remain normal.

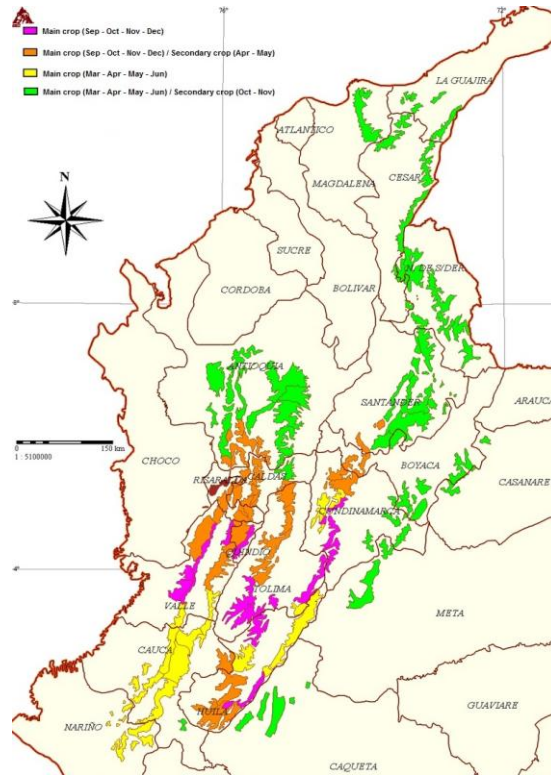
The table below illustrates the production from the last ten years by month, as a total and the annual variability in total production year-on-year, highlighting the turnaround in MY 2012/13.

MONTH	MY 2007/08 (1000 Bags)	MY 2008/09 (1000 Bags)	MY 2009/10 (1000 Bags)	MY 2010/11 (1000 Bags)	MY 2011/12 (1000 Bags)	MY 2012/13 (1000 Bags)	MY 2013/14 (1000 Bags)	MY 2014/15 (1000 Bags)	MY 2015/16 (1000 Bags)	MY 2016/17 (1000 Bags)
OCT	1,129	939	544	807	656	653	1,058	1,101	1,368	1,395
NOV	1,522	933	760	979	845	770	1,113	1,115	1,322	1,653
DEC	1,363	1,105	821	1,164	735	904	1,115	1,086	1,454	1,319
JAN	1,404	876	515	908	535	877	1,011	1,088	1,136	1,275
FEB	1,090	868	648	764	571	625	874	1,029	1,096	1,293
MAR	872	765	629	779	576	617	828	800	944	1,020
APR	886	345	647	523	580	970	832	924	1,043	834
MAY	820	702	822	673	689	937	1,050	1,165	1,163	-
JUN	1,046	685	780	471	714	913	944	1,240	1,158	-
JUL	891	582	787	530	668	1,031	1,236	1,463	1,102	-
AUG	715	397	615	466	565	770	1,151	1,264	1,189	-
SEP	777	467	530	459	519	860	912	1,058	1,034	-
TOTAL	12,515	8,664	8,098	8,523	7,653	9,927	12,124	13,333	14,009	8,789
VAR. %	2.9%	-30.8%	-6.5%	5.2%	-10.2%	29.7%	22.1%	10.0%	5.1%	

Source: FEDECAFE

The map below illustrates the coffee producing regions of Colombia. The geography and topography of the country are unique with three mountain ranges that trifurcate from north to south, creating multiple micro-climates and ideal conditions for coffee production. Moreover, Colombia's proximity to the

equator and ample growing season support harvesting coffee almost year-round. There are two peak harvest periods during the calendar year given the presence of two dry and two wet weather conditions.



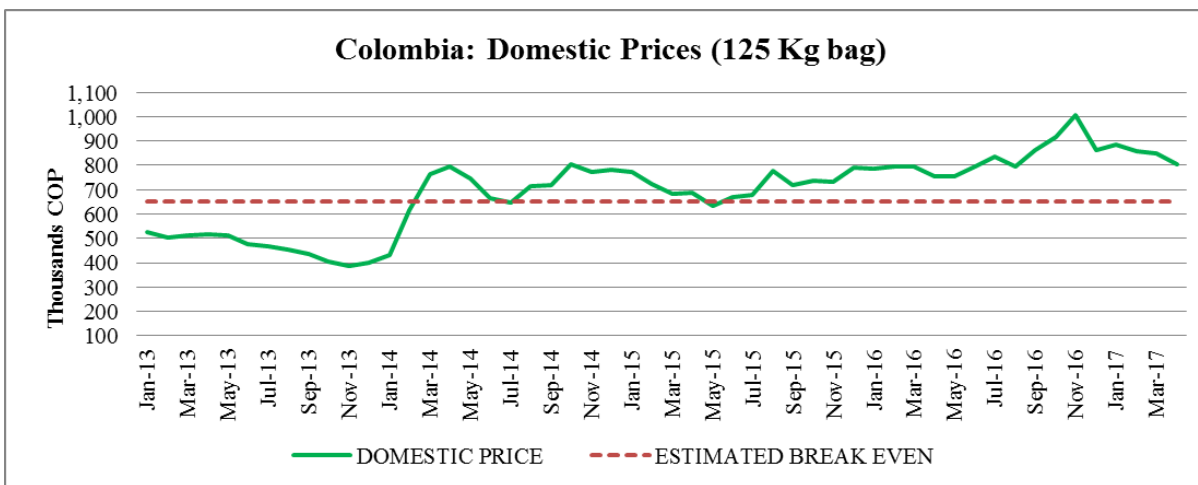
Source: FEDECAFE

The average size of the Colombian coffee farm is 4.5 hectares of land. FEDECAFE estimates there are 560,000 coffee growing families, where small farmers with less than 5 hectares of land are responsible for approximately 69 percent of coffee production in Colombia. There are 940,000 hectares of coffee planted in Colombia but only 780,000 correspond to technified crops which mean they are partially planted with improved coffee varieties, as rust resistant trees, dense plantations and are younger than 12 years. FEDECAFE indicates that 74 percent of coffee area is planted with rust resistant varieties, compared to 35 percent in 2010, when weather conditions had devastating effects on coffee production.

Despite the production recovery, a shortage of agricultural labor and a higher minimum wage have increased production costs for medium and large scale growers, mainly in the central region. However, the flowering period for the MY 2017/18 first harvest has been more dispersed than previous years. This will result in lower concentration of labor needs, and thus, less pressure for higher wages. FEDECAFE estimates that in 2016, average production cost per 125 kilogram bag was 600,000 Colombian Pesos (COP) (USD 207).

In December 2016, internal coffee prices reached high historical levels; however, during 2017 prices have shown a downward trend given the recovery of Colombian peso and lower international prices. In the first four months of 2017, the monthly average internal price of coffee reached COP 849,369 (USD 293) per 125 kilogram bag, a 8.5% increase from the same time period a year before.

The graphic below illustrates the monthly internal price paid per 125 kilogram bag to growers by FEDECAFE. As reference, the estimated Protection for the Income of Farmers (PIC) subsidy program trigger price is illustrated by the red, dotted line.



Source: FEDECAFE

Consumption:

Driven by an increasing number of coffee shops to satisfy the preferences of young professionals and the creation of new coffee products, domestic consumption is estimated to reach 1.6 million bags GBE for MY2016/17, increasing further in MY 2017/18 to 1.65 million bags GBE. Local coffee consumption is boosted by an increasing number of Juan Valdez coffee shops and small, consumer oriented coffee stores with high quality coffee or specialty coffee. The major players in the coffee stores market are: Juan Valdez, leading the market with 22.6% market share, followed by OMA (12.5%) and McCafé (4.6%). Other companies with a presence in this market include Illy, Segafredo, Café Tostion, and the mega-coffee retailer, Starbucks, which started operations in Colombia in 2014. Although Starbuck’s sales are below Juan Valdez and OMA cafes, the growth rate in 2016 was 19.4%, higher than its competitors: Juan Valdez (14.6%), OMA (11.4%) and McCafé (10.4%).

Trade:

In MY 2016/17, new Post estimates are exports will reach 13.1 million bags GBE. Revised exports are forecast to increase as a result of larger production. In MY 2017/18, Post estimates Colombian coffee exports will marginally increase further at 13.2 million bags GBE. Colombian coffee exports have been expanding significantly since 2013, paralleling the recovery in coffee production. The United States is the major single destination for Colombian coffee, importing approximately 40% of the value of all Colombian coffee exports, followed by the European Union, Japan, and Canada.

As part of a quality differentiation and improvement policy, Colombia continues increasing high quality coffee exports that meet the cupping and grading expectations for certifications to capture more value added. Value added, specialty coffee now comprises close to 40 percent of Colombia’s total coffee exports. Colombian specialty coffee is booming with certified and organic coffees receiving significant price premiums, typically higher than traditional coffee exports. Coffee denomination of origin labels from specific regions of Colombia, such as the southern growing regions of Huila, Cauca and Nariño, are gaining more international recognition for the cupping quality. Colombian specialty 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 and intermediaries, including FEDECAFE, to maintain the levels of quality that will meet certification standards and buyer/consumer expectations abroad.

In an effort to promote direct trading and increase small-scale producer income, FEDECAFE launched an initiative to allow registered exporters to ship coffee in small quantities. Shipments of up to 60 kilograms of green coffee, roasted coffee, instant coffee and coffee extract, are occurring with authorized private shipping companies.

In spite of the greater volume of production, the El Niño weather phenomena increased the presence of the coffee berry borer which affected the quality of Colombia's beans. Despite the fact that Colombia has prided itself on exporting only the finest beans, in May 2016, FEDECAFE modified exports standards to help growers sell lower-quality beans amid the drought and align Colombia to international standards. In addition, as a result of the increase in the quantity of grains of inferior quality, coffee soluble exports increased.

Stocks:

There exists no GOC or FEDECAFE policy to support large scale carry-over stocks of coffee. Post estimates for MY 2016/17 beginning stocks totaled 1.04 million bags GBE considering enlarged production and stored bags due to the trucker's strike which reduced the availability of transportation from the coffee regions. In MY 2017/18 beginning stocks will decrease to 981,000 bags GBE. In MY 2017/18 ending stocks will fall to 891,000 bags GBE given that there is no policy incentive or infrastructure to maintain long term stocks.

Policy:

The coffee sector has historically played a large role in Colombia's economic success, providing a livelihood for an estimated 600,000 producers and their families, giving FEDECAFE significant political influence. Most growers are members of FEDECAFE and take advantage of the organization's educational programs, technical training, and sales support. FEDECAFE purchases coffee from its members at an internal price which parallels the international commodity markets less some administrative and internal transport expenses. The FEDECAFE price acts as a floor price should farmers not procure higher price premiums for specialty coffee through other buyers and intermediaries.

The Protection for the Income of Farmers (PIC) subsidy program that began on March 18, 2013, was cancelled for the latter half of 2014 and remains suspended as prices have peaked above the PIC trigger price. Whenever prices dip below the PIC trigger price, coffee growers will clamor for reinstatement and threaten protest.

Other GOC and FEDECAFE programs to assist growers have focused on controlling coffee rust. These efforts successfully restored coffee production to an average of 14 million bags GBE. According to FEDECAFE's last sanitary survey, on average, borer infestation levels are 2.1% and rust levels are 3.0%.

FEDECAFE provides technical assistance and permanent support to coffee producers through the extension service in order to increase farm productivity and family income. The extension service

assists growers on good practices for planting, harvest and post-harvest, as well as productive phases that have an impact on the final quality of coffee. In addition, FEDECAFE manages low interest loan programs for the costs of replanting; however, loans are only offered for planting the rust resistant Castillo variety.

The GOC also offers financial assistance for all agricultural commodities through the Rural Funding Incentive program (ICR), which provides loans with discounted payback terms. Additionally, a special loan category supported by the GOC Financing Fund for Agricultural Sector (FINAGRO), was established for supporting small growers in replanting their coffee fields. The Ministry of Agriculture is also supporting specific projects focused on improving post-harvest process and coffee quality.

Most of the policies and programs for the coffee sector are sponsored by the National Coffee Fund which is a parafiscal account whose contributions are made exclusively by Colombian coffee growers. The Fund’s resources are managed by FEDECAFE.

Production, Supply and Demand Data Statistics:

Coffee, Green	2015/2016		2016/2017		2017/2018	
	Market year begin: Oct-15		Market year begin: Oct-16		Market year begin: Oct-17	
Colombia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	780	780	0	780	0	780
Area Harvested	640	640	0	640	0	640
Bearing Trees	2900	2900	0	3500	0	3500
Non-Bearing Trees	1070	1070	0	1000	0	1000
Total Tree Population	3970	3970	0	4500	0	4500

Beginning Stocks	666	666	1126	1041	0	981
Arabica Production	14000	14000	14500	14500	0	14600
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	14000	14000	14500	14500	0	14600
Bean Imports	150	150	100	100	0	100
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	115	115	80	80	0	50
Total Imports	265	265	180	180	0	150
Total Supply	14931	14931	15806	15721	0	15731
Bean Exports	11400	11450	12200	12200	0	12250
Rst-Grnd Exp.	90	90	90	90	0	90
Soluble Exports	800	800	825	850	0	850
Total Exports	12290	12340	13115	13140	0	13190
Rst, Ground Dom. Consumption	1165	1200	1200	1200	0	1250
Soluble Dom. Consumption	350	350	400	400	0	400
Domestic Use	1515	1550	1600	1600	0	1650
Ending Stocks	1126	1041	1091	981	0	891
Total Distribution	14931	14931	15806	15721	0	15731
1000 Ha, Million Trees, 1000 60Kg Bags.						