

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Colombia

Coffee Semi-annual

Coffee Production Drops Further than Expected

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Report Highlights:

In marketing year (MY) 2017/18, Colombian coffee production fell further than expected to 13.8 million bags (1 bag = 60 kilograms unless otherwise noted) green bean equivalent (GBE). The main reason for this drop in production was unfavorable weather conditions, particularly during the first half of the year, including excessive rains and considerable cloudiness. During MY 2018/2019, weather conditions are expected to be favorable, resulting in an estimated production of 14.3 million bags GBE. Exports should also grow by nearly five percent to 13.3 million bags GBE.

Executive Summary:

Heavy rains and cloudiness affecting the main coffee production regions during the first half of 2018 played a key role in the decreased levels of coffee production in Colombia in 2018. This resulted in a total production of 13.8 million bags GBE in MY 2017/18 (October through September), which represented a 5.5 percent drop from MY 2016/2017. In turn, coffee exports also fell to 12.7 million bags GBE in MY 2017/2018.

As more favorable weather conditions are expected during the first months of 2019, production is forecast to increase to 14.3 million bags GBE and exports to 13.3 million bags GBE in MY 2018/19. This recovery will be further supported by a continuation of the National Federation of Coffee Growers of Colombia's (FEDECAFE) replanting program and government funded programs to incentivize domestic coffee farming.

Commodities:

Coffee, Green

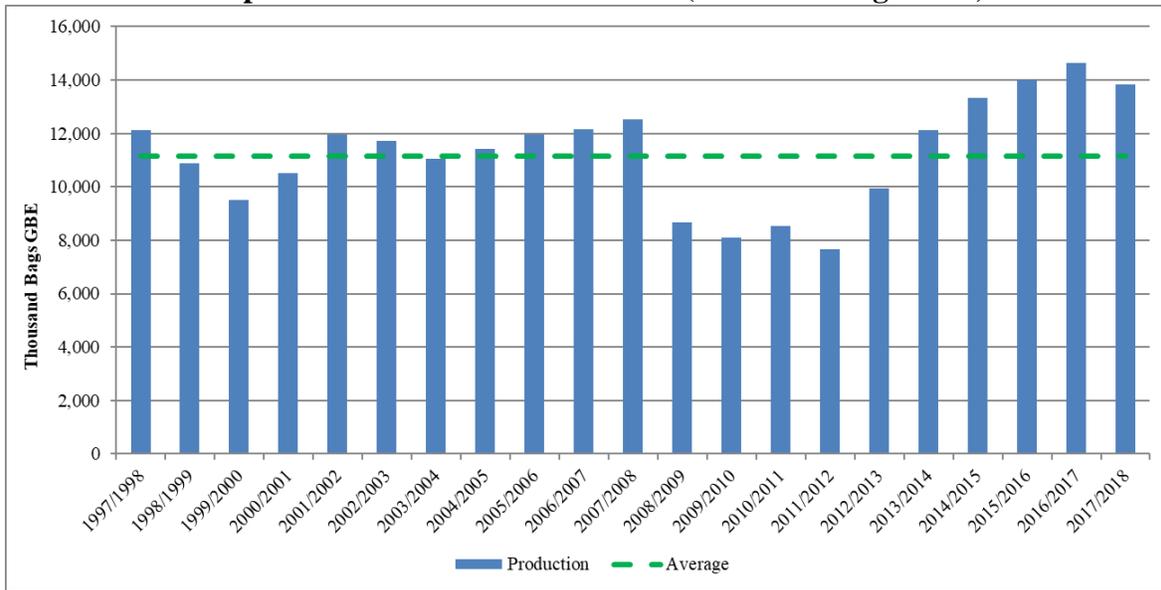
Production:

Rising cloudiness and rainfall due to a low intensity La Niña weather phenomenon greatly affected coffee production in Colombia, particularly during the first half of 2018. Additionally, despite FEDECAFE's and the Colombian government's plan to increase the number of hectares annually renovated to at least 90,000 hectares, only 72,000 hectares were renovated in 2017. As a result, in MY 2017/2018 domestic production reached 13.8 million bags GBE, representing a 5.5 percent drop from MY 2016/2017. Although this number is still higher than historical averages, it marked the end of three consecutive years of production levels over 14 million bags GBE.

Looking forward at production in 2019, the El Niño weather phenomenon is expected to bring warmer and drier weather conditions to key production regions in Colombia, which could be highly beneficial for the flowering period of MY 2018/2019. Furthermore, Colombian coffee production is expected to maintain production levels close to 14 million bags GBE, as a result of the continuation of the highly successful replanting program of coffee rust resistant varieties. FEDECAFE estimates that average coffee productivity has increased to 18.2 bags GBE per hectare, 32 percent higher than the last decade (13.8 bags GBE). From the beginning of the replanting program in 2012 up to now, more than 420,000 hectares have been renovated, which represents nearly half of the total coffee production area in the country. On average, 84,000 hectares are renovated annually, but FEDECAFE and the Colombian government plan to increase this number to at least 90,000 hectares per year to reach the production goal of 18 million bags GBE by 2024. In 2017, only 72,000 hectares were renovated, as the government support was not available to farmers until later in the year. The renovation cost per hectare is estimated between 8 to 12 million Colombian pesos (\$2,860-\$4,285 dollars).

The graph below illustrates production from the last twenty years, highlighting the turnaround in MY 2012/2013. As a reference, the average annual production is illustrated by the green dotted line.

Graph 1. Annual Coffee Production (Thousand bags GBE)



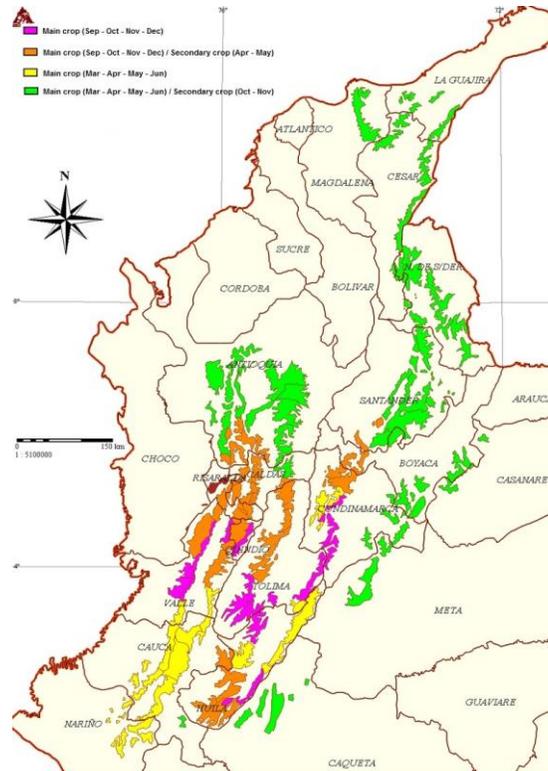
Source: FEDECAFE

The average size of a 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 such as rust resistant trees, and are in dense plantations less than 12 years of age. FEDECAFE indicates that about 80 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. According to FEDECAFE’s last sanitary survey, on average, borer infestation and rust levels are below two percent.

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. Some of the coffee regions have two peak harvest periods during the calendar year given the presence of two dry and two wet weather conditions.

The departments of Caldas, Quindío and Risaralda have been known as the Colombian coffee region (Eje Cafetero in Spanish) because years ago they grew and produced the majority of Colombian coffee. However, given lower agricultural labor costs and climate change, coffee production has shifted to other departments such as Huila, Antioquia and Tolima. In 2017, these three departments accounted for 46.8 percent of Colombia’s total coffee production, while Caldas, Quindío and Risaralda only accounted for 17.5 percent. The “coffee region” is nowadays well known for developing tourist attractions to highlight Colombian coffee and its culture.

Graph 2. Coffee Producing Regions in Colombia



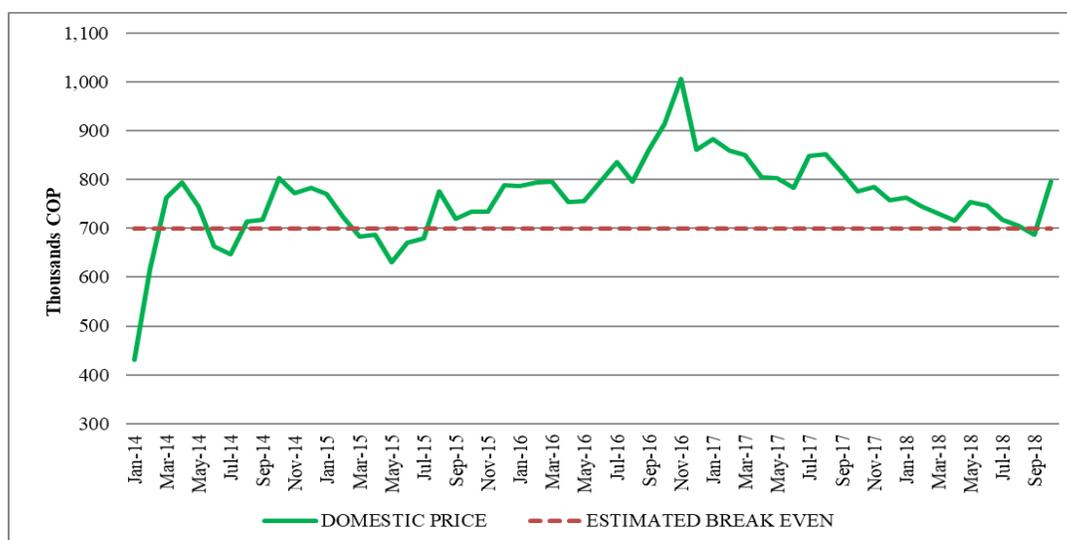
Source: FEDECAFE

Medium and large scale growers have faced higher production costs due to a shortage of agricultural labor during harvesting season; however, since 2016, Venezuelan seasonal workers have supported labor in the main producing regions. In addition, the flowering period for the MY 2017/18 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 average production cost per 125 kilogram bag is 600,000 Colombian Pesos (COP) (USD 215).

Domestic prices during MY 2017-2018 were lower as a result of a stronger Colombian currency and low global prices. Such a dramatic price reduction motivated coffee growers to claim support from the government, which in August 2018 pledged nearly \$31 million dollars in direct government assistance to Colombian growers affected by severe price reductions. Additionally, the Colombian government continues to assist Colombian growers with 100 grams of fertilizer per each new tree planted.

The graph below illustrates the monthly internal price paid to growers per 125 kilogram bag. As reference, the estimated average production cost is illustrated by the red dotted line.

Graph 3. Colombia: Domestic Prices (Thousand COP/125 Kg bag)



Source: FEDECAFE

Consumption:

Colombian coffee consumption continues to grow, driven by an increasing number of coffee shops and the creation of new coffee products to satisfy the rising demand of young professionals and foreign visitors. In MY 2017/18, domestic consumption is estimated to have reached 1.6 million bags GBE, compared to 1.2 million bags GBE in 2012/13, an increase of 33 percent. Domestic consumption is projected to marginally increase in MY 2018/19 to 1.8 million bags GBE. Domestic consumption is believed to present important opportunities for increased coffee demand in Colombia, where per capita consumption reaches 2.1 kilograms, a figure significantly lower than Brazil’s nearly 6 kilograms.

The major players in the Colombian coffee stores market are Juan Valdez, leading with 22.6 percent market share, followed by OMA (12.5%) and McCafé (4.6%). Other companies with a presence in this market include Illy, Segafredo, Café Tostao, and the mega-coffee retailer, Starbucks, which started operations in Colombia in 2014. Café Tostao presence has dramatically grown in the last two years to have about 300 small coffee stores in Bogota and Medellin.

Trade:

Coffee exports reached 12.7 million bags GBE in MY 2017/2018. The decline was primarily related to overall lower production levels in MY 2017/18. Following an anticipated production recovery in MY 2018/2019, Post estimates Colombian coffee exports will reach 13.3 million bags GBE in 2018/2019.

The United States is the major single destination for Colombian coffee, importing approximately 44% of the value of all Colombian coffee exports, followed by the European Union (25%), Japan (10%), and Canada (7%).

Traditionally FEDECAFE purchases coffee from its members, but 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. This initiative has resulted in a larger number of private exporters.

To satisfy the increasing domestic demand, imports are estimated to have increased in MY 2017/18 to 420,000 bags GBE, and further grow to 435,000 bags in MY 2018/19. Colombian coffee bean imports are mainly from Peru, Ecuador and Brazil. Imports are primarily used to meet the lower end of the domestic market.

Stocks:

Currently there is no government or FEDECAFE policy to support large scale carry-over stocks of coffee. In MY 2017/18 beginning stocks reached approximately 1,135 bags GBE. In MY 2018/2019 ending stocks will fall to 811,000 bags GBE. There is no policy incentive or infrastructure to maintain long term stocks.

Policy:

The decrease in domestic prices due to a stronger peso against the dollar and lower global coffee prices motivated coffee growers to seek government assistance through the Protection for the Income of Farmers (PIC) subsidy program. This government program had been suspended since the second part of 2014 as prices have peaked above the PIC trigger price (production cost) (see graph 3).

The Colombian government has not restated the PIC program but it is offering financial assistance through the Rural Funding Incentive program (ICR), which provides loans with discounted payback terms. Additionally, a special loan category supported by the government 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. The funds allocated in 2018 by the Colombian government and FEDECAFE’s fund are estimated at COP 45,000 million (USD 16 million), mainly to support the replanting program. Additionally, in August 2018, the Colombian government pledged nearly \$31 million dollars in direct government assistance to Colombian growers affected by severe price reductions.

Most coffee growers are members of FEDECAFE and take advantage of the organization’s educational programs, technical training, and sales support. FEDECAFE provides technical support to coffee producers through the extension service that assists growers on good practices for planting, harvest and post-harvest, as well as processing 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 rust resistant varieties.

FEDECAFE purchases coffee from its members at an internal price that parallels the international commodity markets less some administrative and internal transport expenses. FEDECAFE’s price acts as a floor price should farmers not procure higher price premiums for specialty coffee through other buyers and intermediaries.

Production, Supply and Demand Data Statistics

Coffee, Green	2016/2017	2017/2018	2018/2019
Market Begin Year	Oct 2016	Oct 2017	Oct 2018

Colombia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	780	780	780	780	780	780
Area Harvested	640	640	640	640	640	640
Bearing Trees	3500	3500	3500	3500	3500	3500
Non-Bearing Trees	1000	1000	1000	1000	1000	1010
Total Tree Population	4500	4500	4500	4500	4500	4500
Beginning Stocks	1131	1131	886	1175	871	1135
Arabica Production	14600	14634	14400	13824	14500	14300
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	14600	14634	14400	13824	14500	14300
Bean Imports	250	260	100	294	300	305
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	110	110	100	126	100	130
Total Imports	360	370	200	420	400	435
Total Supply	16091	16135	15486	15419	15771	15870
Bean Exports	12700	12445	12000	11695	12500	12314
Rst-Grnd Exp.	155	140	165	145	100	99
Soluble Exports	900	900	850	844	900	886
Total Exports	13755	13485	13015	12684	13500	13299
Rst,Ground Dom. Consum	1060	1075	1200	1200	1230	1320
Soluble Dom. Cons.	390	400	400	400	400	440
Domestic Consumption	1450	1475	1600	1600	1630	1760
Ending Stocks	886	1175	871	1135	641	811
Total Distribution	16091	16135	15486	15419	15771	15870

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