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Colombia

Coffee

Semi-Annual

2007

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Report Highlights:
Colombian coffee production reached 12.2 million bags for 2006/07 and it is forecast to increase to 12.4 million bags in 2007/08. Colombian exports are expected to expand by 433,000 bags to 11.7 million bags in 2007/08 bacause of high international prices.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Bogota [CO1]
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Executive Summary

The 2006/2007 coffee production estimate for Colombia has been reduced slightly based on updated information from the Federation of Coffee producers. There is no indication at this time that severe rains in the main coffee producing region that caused flash flooding has significantly impacted production. In 2007/2008, the moderate rate of increase is expected to continue resulting in Colombia's coffee production reaching 12.4 million bags, no change from our previous forecast. The major reason for the expected increase in production is due to continued expansion of planted area in the southern region of the Central coffee area in the Department of Huila.

Colombia's coffee exports for 2006/2007 were reduced by 100,000 bags due to updated end-of-year information from the Coffee Federation. In spite of this reduction, 2006/2007 exports represent about a 5 percent increase from the previous year. This trend is expected to continue in 2007/2008 where our forecast remains unchanged at approximately 11.7 million bags. International demand for high-quality coffee is expected to remain strong and offset the increased costs associated with the weak dollar and rising production costs. There were no changes in our forecast of processed coffee, which will capture a greater share of total exports in 2007/2008. The United States will continue to be the number one importer of Colombian coffee accounting for about 34 percent of total Colombian exports.

The 2007/2008 domestic consumption of coffee in Colombia was reduced as a result of lower expected stocks due to increased exports. While coffee imports will continue to play an important role in meeting Colombia's domestic coffee demand, our forecast for 2007/2008 has been reduced due to increased domestic production.

On the policy side, according to Colombian coffee institutions, the United States joining the International Coffee Organization has had a positive effect on prices for overall coffee-quality in the international market. This in turn will help Colombia expand to new markets and increase its presence in existing markets. Colombia also announced a new Coffee Renovation initiative to support small farmers, which will be implemented in early 2008. This policy will grant credit to small coffee producers at lower interest rates along with the forgiveness of up to 40 percent of the principal. This program is expected to renovate 300,000 hectares of coffee over five years.

Production

In 2006/07 Colombia produced approximately 12.2 million bags, only 1.8 percent higher than the year before. The trend is expected to continue into the 2007/2008 season resulting in another 240,000 bags of production. This net increase in production, while small, is the result of on going renovation policy that has increased the tree planting density in the traditional central coffee zone, and increased production from higher yields because of increased management and cultural practices. In the Huila and southern coffee regions where the altitude and weather conditions are ideal for producing high-quality coffee, overall production is a result of increased plantings and higher yields from newer coffee varieties. All of the increased production, so far, has been able to offset reductions in coffee production in marginal areas of the Central Coffee Area, which has lost planted area to eco-tourism and other crops. Although there is no updated census on coffee production areas in Colombia, (the last census was conducted in 1997) the southern coffee region in Huila has become more important with respect to total coffee production and is likely to become the leading coffee producing region in the near future. The Huila coffee region is expected to produce over 15 percent of Colombia's total coffee in 2006/2007, up from 11 percent in 2001/2002. The Huila coffee region is particularly important for high-value specialty coffee production.

FEDECAFE has increased its emphasis on increasing production of high-quality coffee and value-added coffee products that benefit from Colombia's high-quality coffee image, which is recognized throughout the world. In addition, FEDECAFE is promoting cultivation of supplementary crops for small producers, 90 percent of which have less than 5 hectares, to diversify their income and improve coffee quality and productivity. Overall, Colombia's coffee quality has increased over the past two years because of better farm practices and plant renovation policies. In addition, coffee production is moving to higher altitudes to further improve coffee quality and reduce the prevalence of the cherry borer pest.

Consumption
Colombian domestic coffee consumption has been very stable for many years, with increases coming mainly from increased population. This is changing, albeit slowly. Historically, most Colombians could not purchase the high-quality Colombian coffee exported around the world because of its high price. This trend is changing and domestic coffee consumption is on the rise because of strong economic growth and increased disposable incomes. FEDECAFE has introduced and is expanding its Juan Valdez coffee shops throughout the major urban areas of Colombia to provide Colombians high-quality coffee traditionally devoted exclusively for export. In addition, Non-FEDECAFE, private coffee companies are strongly marketing instant coffee and coffee containing products to stimulate consumption.

Trade
Colombia's coffee export value has benefited from the strong high-quality coffee recognition and the short supply of high-quality coffee over the past two years. In 2006/07, international coffee prices have remained above $1.00 for the third consecutive year and Colombian coffee has received, on average, $1.23 per pound in the New York commodity Exchange. The higher price resulted in increased coffee exports at about 11.2 million bags in 2006/2007. FEDECAFE is expected to continue promoting greater differentiation in its high-quality coffee. In 2007/2008, we forecast total coffee exports to rise to 11.7 million bags. In addition, Colombia's exports of instant coffee are increasing, which the United States is also the largest importer. While small, instant coffee exports are growing at a faster rate than coffee beans. In 2007/2008, we estimate Colombia will export over 800,000 bags of instant coffee representing a 27 percent increase over the 2006/2007 estimated exports of instant coffee.

More coffee-grower cooperatives are using future markets and selling greater quantities of coffee on behalf of coffee growers. Cooperatives sell the coffee at a set price and private exporters, not FEDECAFE, export the coffee. This mechanism has helped growers receive higher prices, while at the same time private exporters have gained a greater share of the export market. Private exports represented 76 percent of Colombian coffee exports in 2006/07 compared to FEDECAFE's 24 percent.

Colombian coffee imports have played an important roll in supplying coffee to local industry. According to Colombian coffee growers, however, much of this trade is conducted illegally. As a result, imports have increasingly been under tighter controls by border inspectors. The issue is to ensure proper quality levels and avoid pest risks and disease, rather than avoiding import duties. According to the most recent import data from the National Statistics Department (DANE), registered coffee imports were 82,000 bags during the period Jan-Jul 2007, which shows a dramatic reduction from 175,400 bags reported during the same period the year before. Peru and Ecuador are the main suppliers.

Stocks
An estimated 1.2 million bags are expected to be held in stocks at the end of 2007/2008. This amount represents 37 days of exports. This is about a 10 percent reduction from the 2006/2007 level. Increasing exports above growth in production due to strong international demand for quality coffee at relatively high international price, is the primary reason for the decline in ending stocks.

Policy

International Coffee Organization (ICO)

Since the United States joined the ICO, Colombian coffee growers and government authorities see the ICO helping consumer countries apply stronger quality controls on coffee imports. This has helped FEDECAFE apply quality recognition programs and obtain premium prices. This quality recognition is encompassed with the FEDECAFE efforts to promoting consumption and market development.

U.S./Colombian Trade Promotion Agreement (CTPA)

The free trade agreement, CTPA, negotiated between the United States and Colombia will have no impact on duties for coffee beans, since green coffee entering the United States currently pays no tariff. The Agreement does, however, provide for the immediate reduction of duties on coffee substitutes and preparations, essences, and extract or concentrates with a basis of coffee. Some of these products will be assigned TRQs, for instance sugar-containing products with coffee flavor.

Support

Although international prices have remained high, the Colombian government has kept guaranteeing a minimum price for coffee growers valued at 400,000 pesos ($195.1) per 125 kg bag, 40,000 pesos more than paid in 2005/06. The government, however, has not made any payment since 2004 because market prices have been above the trigger price. Part of the fund was available to purchase price and exchange rate derivatives for hedging against exchange rate fluctuations. However, it has not been used.

The government and FEDECAFE have launched the second tranche of the Coffee Renovation program for small growers. This new renovation plan will start in 2008 and is intended to renew 60,000 hectares per year during the following five years totalizing 300,000 hectares. The renovation plan will include replacing old coffee trees with newer trees as well as technical training on how to cut trees back to encourage new and increased production per tree. Details of the initiative are not fully known, but small farmers will be given low-interest loans with the possibility of having as much as 40 percent of the debt forgiven.

Prices

Under current pricing policy, growers receive a price based on the international price less transportation and handling cost to export the product. Since Colombia receives a premium for its coffee, grower income has benefited despite the increased peso strength against the U.S. dollar. Since December 2004, the international price for coffee has been above $1.0 per pound and the average base price paid to Colombian growers in 2006/07 was $0.83 per pound $0.05 higher than the previous year, while in 2003/04 growers received only $0.40 per pound.

Other Relevant Reports

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

Tables

Colombia Coffee, Green									
(1000 HA)(MILLION TREES)(1000 60 KG BAGS)									
	2006	Revised		2007	Estimate		2008	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		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007
Area Planted	770	770	770	780	780	780	780	780	780
Area Harvested	630	630	630	640	640	640	640	640	640
Bearing Trees	2800	2800	2800	2900	2900	2900	2900	2900	2900
Non-Bearing Trees	1050	1050	1050	1070	1070	1070	1070	1070	1070
Total Tree Population	3850	3850	3850	3970	3970	3970	3970	3970	3970
Beginning Stocks	931	931	931	1215	1215	1215	1240	1240	1302
Arabica Production	11953	11953	11953	12200	12200	12164	12400	12400	12400
Robusta Production	0	0	0	0	0	0	0	0	0
Other Production	0	0	0	0	0	0	0	0	0
Total Production	11953	11953	11953	12200	12200	12164	12400	12400	12400
Bean Imports	0	0	0	0	0	0	0	0	0
Roast & Ground Imports	303	303	303	400	400	400	500	500	400
Soluble Imports	0	0	0	0	0	0	0	0	0
Total Imports	303	303	303	400	400	400	500	500	400
Total Supply	13187	13187	13187	13815	13815	13779	14140	14140	14102
Bean Exports	10042	10042	10042	10605	10605	10507	10770	10770	10770
Rst-Grnd Exp.	100	100	100	100	100	100	100	100	100
Soluble Exports	610	610	610	630	630	630	800	800	800
Total Exports	10752	10752	10752	11335	11335	11237	11670	11670	11670
Rst,Ground Dom. Consum	950	950	950	950	950	950	950	950	950
Soluble Dom. Cons.	270	270	270	290	290	290	320	320	300
Domestic Use	1220	1220	1220	1240	1240	1240	1270	1270	1250
Ending Stocks	1215	1215	1215	1240	1240	1302	1200	1200	1182
Total Distribution	13187	13187	13187	13815	13815	13779	14140	14140	14102
Exportable Production	10733	10733	10733	10960	10960	10924	11130	11130	11150

Colombia			
Exports			
Coffee, Green			
Time Period	Jan-Jul	Units:	(,000) 60 kg bags
Exports for:	2007		**2008**
U.S.	2069	U.S.	
Others		Others	
Germany	782		
Japan	725		
Belgium	532		
Canada	282		
Italy	245		
United Kingdom	200		
Spain	184		
Sweden	145		
Finland	128		
Netherlands	110		
Total for Others	3333		0
Others not Listed	564		
Grand Total	5966		0

Source: World Trade Atlas

Colombia			
Prices			
Coffee, Green			
Prices in	Col pesos	per uom	125 kg bag
Year	2006	2007	% Change
Jan	524,551	478,489	-9%
Feb	474,144	471,559	-1%
Mar	445,223	439,738	-1%
Apr	468,394	423,394	-10%
May	459,641	406,994	-11%
Jun	449,903	424,500	-6%
Jul	452,101	418,423	-7%
Aug	461,120	450,288	-2%
Sep	442,238		-100%
Oct	428,801		-100%
Nov	476,739		-100%
Dec	509,875		-100%
Exchange Rate	2051.88	Local Currency/US $	
Date of Quote	11/14/2007	MM/DD/YYYY	

Source;Coffee Growers Federation