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Many Isthmus Producers in Continuing Jeopardy As World Coffee Outlook Improves

by LADB Staff

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World coffee prices have been firm just lately and are expected to remain so. For Central America, this is good news for the sector and for the economies as a whole, but with some troublesome caveats. The International Coffee Organization (ICO) said in July that consumption for the 2008 calendar year should reach 125 million 60-kg bags. That is up 2% from 2007, a 122.7-million-bag year. The outlook for the future looks good, as well.

Speaking at a meeting of regional producers in El Salvador, ICO executive director Nestor Osorio said the upward trend in consumption is expected to reach 150 million bags by 2015. "Brazilian output is barely covering consumption needs and there are no stocks," he said. Brazil, the largest producer, is expected to produce 36 million bags for the 2007-2008 year that ends in September. Second-largest producer Vietnam is projected to produce 18 million. But, around the region, these numbers do not necessarily mean a banner year.

The Instituto Hondureno del Cafe (IHCAFE) is reporting diminished production for the country, the second-largest producer on the isthmus. IHCAFE reported a reduction of 16.8% for August compared with August last year, or 214,731 bags versus 258,077 bags. Expectations are that the production downturn will continue into the 2008-2009 coffee year and result in lower figures, 3.2 million bags exported versus 3.7 million for the 2007-2008 period. IHCAFE officials attribute this to a characteristic of the growing cycle. Last year's figures represented a 7.1% increase over the year before. The coffee trees tend to produce less in the second year of a two-year cycle.

A report from the US Department of Agriculture (USDA) in Tegucigalpa was cited as the authority for this observation. Portents of a similar slide in production are seen for El Salvador, but from a different set of causes. In coffee growing, production is in great part a matter of fertilization; more chemistry in, more beans out. But now with coffee prices as high as they have been since the coffee crisis of 2000-2004 (see NotiCen, 2002-08-01, 2003-01-30), growers say they are at pains to afford the agricultural inputs, which are also breaking price records. "With fertilizer prices so high, we haven't been able to fertilize, and we'll feel the effects in the next harvest," said Luis Roque of UNEX, a grower and exporter. The trees the agronomist Roque looks after on the side of a volcano have already shown signs of insufficient nutrients stunted branches, thinning leaves.

Higher world demand and the rise in the price of oil, from which fertilizers are derived, have driven costs of feeding out of the reach of cafetaleros. After many years of relatively minimal fluctuation, common phosphate fertilizers have risen, in just the last 15 months, to a record US\$1,230 per ton, five times the price of just over a year ago. At this rate, farmers pay one-third of what they get for the crop for the chemicals. Said the ICO's Osorio, "What has been recovered in prices to a great extent has been lost because of the increasing costs." Governments of coffee countries are watching the situation and responding in ways ranging from not at all to somewhat.

In Colombia, for instance, the world's third-largest producer, "The government has been very conscious of the situation. It is supporting the farmers with fertilizer subsidies on a per-hectare basis," said Jorge Lozano of the Asociacion Nacional de Exportadores de Cafe de Colombia (ASOEXPORT). Nicaragua, in no position to devote US\$50 million to subsidies, as Colombia has done, has a different advantage to bring into play. As a member of the Alternativa Bolivariana de las Americas (ALBA), the economic bloc inspired by Venezuelan President Hugo Chavez, Nicaragua is able to import fertilizers at cost from Venezuela. Like El Salvador, Nicaragua had let much of its valuable coffee land deteriorate during the crisis. The sector had been slowly recovering when this latest surge hit.

Costa Rica, too, is struggling with overall production costs, reporting a 20% increase in those expenses over last year, according to Instituto del Cafe de Costa Rica (ICAFE) figures. The 20% figure needs to be taken only as a glimpse of the reality, however, said Rodrigo Vargas of Santa Eduvigis, one of the country's largest family-owned coffee operations. "Producers have not yet realized the extent of the problem," he said, "I see lower yields coming." Costa Rica has had good export experience in recent months, particularly in the agricultural sector, and coffee has been an important part of the 6.5% overall growth in exports reported for the first half of 2008, compared with the previous year.

Guatemala is the isthmus' largest producer of coffee, and the country produces some of the most desirable coffees, from a world market point of view. For the coffee year ending Sept. 30, it will have produced 4.8 million sacks. The country does not use the 60-kg standard but rather uses as the single unit the 46-kg, or 100-lb, quintal. It harvested 4.8 million of these this year, a 4.43% increase over the 4.6 million quintals of the 2006-2007 coffee year.

Christian Rush, president of the Asociacion Nacional de Cafe (Anacafe), said a higher figure had been anticipated, but high winds during the first quarter of 2008 resulted in losses of an estimated 150,000 quintals. In addition to the wind damage, "the impossibility of improving the soils, given the price increases in the cost of the fertilizers, was another factor in lowering production," he said. Rush pegged the price rises at between 200% and 300%. He noted that the smaller growers, plagued as well by energy costs, were especially hard hit in a market situation that would otherwise have been very favorable. He ranked the country as fifth largest after Indonesia. Other ranking systems place Guatemala as low as 10th, but the country remains a very significant player in the world market, generating US\$700 million for the economy in the present cycle. By Anacafe reckoning, Guatemala produces 4% of the global export crop.

In July, Anacafe hosted the XIX Congreso Nacional del Cafe, gathering more than 2,000 participants to workshops, conferences, and expositions. World market conditions favor producers in the coming year, but not by much. Analysts see current supply-demand ratios as near equilibrium. The multiplier effect of input prices could prove to be crucial in determining whether producers who weathered the crisis, or who returned to the field after failing in the last crisis, will survive to plant again.

Global consumption of their product is increasing at a very moderate 2% a year but is penetrating new areas, nontraditional consumption regions of Asia and Eastern Europe are examples. In India,

consumption is trending upward at a rate of 8%-10%. The longer term is also bright for isthmus producers who can manage to hang on. Vietnam, the second-largest producer, reported, "The world demand for coffee is expected to increase by 1.2 million metric tons a year to 8.4 million MT by 2018."

But the ICO is far from promising growers a rose garden. "Possibility of increasing production in response to the firmness in coffee prices is limited by the weakness of the US dollar and the rising costs of production and farm upkeep," said the organization. It singled out Central America as an area of relatively high costs. One thing keeping hope alive for struggling producers is that for the 2008-2009 crop year, opening stocks are expected to be at their lowest levels in years.

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