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In early July, the government discarded a controversial plan to import green coffee beans to compensate for an expected domestic shortfall. The plan had been proposed by coffee roasters, such as Nestle and the Consejo Mexicano del Cafe (CMC), because of concerns about a possible domestic shortage of coffee beans. The concerns about a shortfall first appeared in April, when international coffee prices rose to their highest point since 1977. At one point, the July coffee futures contract approached US$3.00 per pound on the Coffee, Sugar & Cocoa Exchange (CSCE) in New York. This was an increase of nearly US$2.00 per pound since the beginning of 1997.

Proposal based on concern about tight domestic supplies

According to coffee-market analysts, the surge in coffee prices followed concerns about possible frost damage to the coffee crop in Brazil, which is the world's largest coffee producer. The increase in international coffee prices led many coffee exporters, including Mexico, to increase their exports, thereby depleting some of their inventory. In turn, the reduction in coffee inventories led processors such as Nestle to request that the government temporarily reduce import tariffs on green coffee beans to increase domestic supplies. According to government sources, the Secretaria de Comercio y Fomento Industrial (SECOFI) was considering a proposal to reduce tariffs to boost coffee imports by 150,000 bags during July-December of this year.

SECOFI hinted at an inclination to approve an increase in imports in a market bulletin published in late May. In the bulletin, the secretariat said processors would request an increase in the coffee quota that represented "only 3% of the national coffee harvest." Coffee-industry sources said SECOFI had also taken into account the possibility of reduced supply from the 1996-1997 crop, which was estimated at about 5.1 million bags, compared with 5.5 million bags the previous year.

Producer organizations staunchly oppose imports

However, the plan to import coffee beans met with strong protests by the Coordinadora Nacional de Organizaciones Cafetaleras (CNOC), an umbrella organization for small-scale coffee producers. In a letter to President Ernesto Zedillo, CNOC said imports of green coffee could find their way into domestic marketing channels, thus displacing some sales from small-scale producers. "Coffee producers already have special distribution arrangements with roasters," said CNOC counsel Fernando Celis. "If these arrangements are disrupted, the producers may not find a market for their beans."

According to Celis, another concern is the lack of mechanisms to regulate the quality of imported beans. On the other hand, the CMC said there is no basis for concerns about coffee quality. The CMC is a joint government- private organization, comprising representatives of coffee producers, roasters, and several government secretariats. "There are certain international conventions that

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prevent any coffee-exporting nations from selling beans that have been exposed to disease or pests," said CMC president Ruben Castillo Fragoso. Furthermore, Castillo Fragoso said the request for the imports was also proposed for periods when coffee was not being harvested. In addition, he said, there were provisions requiring roasters to purchase domestic coffee before resorting to imports. Nevertheless, the opposition by producers may have led the CMC to drop its support for the proposal. "At one time, it appeared that imports would be necessary," said CMC spokesman Hector Gordoa in mid-July. "Now it appears we have enough domestic supplies to meet the needs of our country's coffee processors."

Meanwhile, the market conditions that led to the import proposal have changed. International coffee prices began to slide in July after the original concerns about frost in Brazil did not materialize. In early July, coffee prices were trading at a three- month low, with the September contract falling to about US$1.61 per pound, or about US$1.40 below the peak prices quoted in April and May. (Sources: El Financiero International, 06/30/97; The News, 06/05/97, 06/06/97, 06/11/97, 06/19/97; Excelsior, 07/15/97; El Economista, 06/11/97, 07/01/97, 07/03/97, 07/16/97)

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