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In early February, the Secretaria de Agricultura, Ganaderia y Desarrollo Rural (SAGAR) announced a major reduction in subsidies for the coffee sector this year. The subsidies, distributed under SAGAR's Alianza para el Campo program, will be cut to 202 million pesos (US$23.9 million) from the 308 million pesos (US$36.5 million) originally promised. SAGAR spokespersons said the cuts are necessary because of the reduction in the 1998 federal budget to compensate for an expected shortfall in oil-export revenues (see SourceMex, 01/21/98).

Agricultural groups say cuts will hurt output The subsidy reductions were opposed by producer organizations such as the Confederacion Nacional de Organizaciones Cafetaleras (CNOC), the Confederacion Mexicana de Productores del Cafe (CMPC), the Union Nacional de Organizaciones Regionales Campesinas Autonomas (UNORCA), and the Central Independiente de Obreros Agricolas y Campesinos (CIOAC). CIOAC leader Marcelo Herrera Gerber said the organizations are particularly angry at the timing of the cuts, announced after producers had begun planting their next crop. "We reject the cuts and demand to know what criteria the government used to reduce the subsidies," said Herrera Gerber.

CNOC president Fernando Celis said the reductions will leave many temporary and part-time workers without employment, increasing poverty in Chiapas, Oaxaca, Guerrero, and other states whose economies rely extensively on coffee production. The coffee sector employs 1.5 million full-time and temporary workers annually, said Celis. The CNOC leader said the subsidy cuts are especially significant because many small-scale coffee producers do not qualify for loans from commercial banks, and they face many hurdles obtaining credit from government institutions such as the Banco Mexicano de Comercio Exterior (BANCOMEXT) and the Banco Nacional de Credito Rural (BANRURAL).

In the end, Celis said, the reduction could affect Mexico's coffee output in the coming season, since producers will lack financing to increase yields. The reduction in production subsidies is the latest setback for the Mexican coffee industry, still suffering weather-related damage from Hurricanes Pauline and Tropical Olaf in September and October 1997 (see SourceMex, 10/22/97). Overly wet conditions continue to hamper production in Guerrero and Oaxaca states.

Coffee producers in the Costa Grande region of Guerrero have lost about 80% of their harvest because of excess rain and freezing temperatures. Cold snaps in December damaged more than 43,000 hectares of coffee in Hidalgo, Puebla, San Luis Potosi, and Veracruz. Puebla producers also report a significant outbreak of the broca disease.

Porfirio Hernandez, director of a local coffee association in Puebla, said at least 20% of Puebla's coffee trees are infected. Because of poor weather and other problems, the Consejo Mexicano del

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Cafe (CMC) recently reduced its forecast for coffee production in the 1997-98 season to about 5 million 60- kg bags, similar to the 5.1 million bags produced in 1996- 1997. The CMC had earlier forecast coffee output for 1997- 1998 at about 5.8 million bags. Coffee-bean imports also stir controversy While 5 million bags is considered adequate to meet domestic demand, an increase in exports would tighten domestic stocks. In 1997, a surge in international coffee prices triggered greater-than-anticipated coffee exports from Mexico, leading the government to consider and then discard a plan to import green coffee beans (see SourceMex, 07/23/97).

Increased coffee exports continued during late 1997, further tightening domestic stocks. In the end, the government allowed the import of 180,000 bags of green coffee from Brazil and Indonesia. The coffee was imported at reduced tariff rates at the request of the three largest producers of instant coffee, who were paying higher prices because of dwindling supplies. But the Zedillo administration's decision to import coffee was criticized by the CNOC and other organizations as favoring the three instant coffee manufacturers: Nestle de Mexico, Cafe Merino, and Cafes Solubles de Veracruz. The CNOC and other coffee organizations said the low tariffs cost producers about US $25 million and placed lesser-quality robusta beans on the domestic market. Celis said the imports created an oversupply of coffee beans, forcing many producers to store last year's production in warehouses. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb 11, reported at 8.43 pesos per US$1.00] (Sources: The News, 01/14/98, 02/04/98; El Nacional, La Jornada, 02/04/98; Reuter, 02/05/98, 02/09/98; El Financiero International, 02/09/98; Notimex, 02/10/98)

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