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Honduras

Coffee

Semi-Annual Report

1999

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Report Highlights:

*** After the sharp decline in output experienced in 1998/99 as a result of hurricane Mitch, Honduran coffee output is forecast to rebound to 2.78 million bags in 1999/00. * Similarly, exports (including contraband trade) could near 2.5 million bags during the same period. * Legislative changes have streamlined both domestic and international marketing procedures.**

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Table of Contents

Executive Summary	2
Production	4
Trade	4
Stocks	5
Policy	5

Executive Summary

Coffee production is estimated to have dropped from 2.9 million bags in 1997/98 to slightly under 2.5 million bags in 1998/99. Hurricane Mitch is largely to blame for this downturn in production. However, production is expected to regain its momentum during the 1999/00 crop, possibly reaching 2.8 million bags. Although the current crop is reported to be somewhat delayed due to weather factors, farmers are optimistic given increased credit to the sector. The apparent return to more favorable international price, and recent legislative changes which make coffee marketing more transparent. Exports, which in 1998/99 are estimated to have totaled 2.25 million bags including clandestine cross-border movements to neighboring Guatemala and El Salvador, are expected to climb to approximately 2.5 million bags in 1999/00.

PSD Table						
Country	Honduras					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Planted	276	276	281	281	288	288
Area Harvested	240	240	243	243	249	249
Bearing Trees	763	763	792	792	806	806
Non-Bearing Trees	135	135	129	129	131	131
TOTAL Tree Population	898	898	921	921	937	937
Beginning Stocks	26	26	127	127	120	109
Arabica Production	2905	2905	2500	2494	2850	2776
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	2905	2905	2500	2494	2850	2776
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	2931	2931	2627	2621	2970	2885
Bean Exports	2554	2554	2250	2255	2575	2496
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	2554	2554	2250	2255	2575	2496
Rst.Ground Dom. Consum	250	250	257	257	264	264
Soluble Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	250	250	257	257	264	264
Ending Stocks	127	127	120	109	131	125
TOTAL DISTRIBUTION	2931	2931	2627	2621	2970	2885

Production

Coffee production is estimated to have neared 2.5 million bags (60 kilograms) in 1998/99. The Honduran Coffee Institute (IHCAFE) reports that coffee entering normal commercial channels (purchases by exporting plants) reached 2,266,979 bags during 1998/99. The remainder is made up of coffee which is either purchased domestically by roasting plants outside of IHCAFE's control, traded illegally to neighboring countries, or simply consumed on-farm by growers.

Honduras' 1999/00 coffee crop is expected to rebound in a big way after having diminished considerably in 1998/99 as a result of hurricane Mitch. Total production during 1999/00 is expected to reach approximately 2.78 million bags given continued expansion of crop area and an upward shift in the production cycle. So far during the 1999/00 year (as of November 12), registrations totaled a mere 34,276 bags, less than half of the amount registered during the same period a year earlier. Changing weather patterns (dry spells in some parts of the country followed by period of heavy rains) are believed to be delaying the crop to some degree and also account for the slight reduction in the 1999/00 forecast. The bulk of the crop is expected to fully mature during the months of January and February 2000. While producers are optimistic about the 1999/00 crop, there is continued concern about the road situation throughout Honduras. Although IHCAFE and Honduran Coffee Fund were instrumental in clearing roads in main coffee growing areas after Mitch, there is still work to be done in this regard. Nonetheless, growers are encouraged by the recent increase in international prices. Exporting plants are currently buying coffee from growers and intermediaries at approximately Lps.1,278 (\$87) per 100 lbs. of green coffee. This is significantly above the break even point for Honduras' 80,000 low-tech growers and should continue to stimulate production.

Trade

During the 1998/99 coffee year, Honduras exported an estimated 2.25 million bags. Of this amount, IHCAFE reports exports through legal channels of 2,085,522 bags, worth \$269.8 million in earnings. In addition, it is estimated that illegal cross border movements of coffee totaled 170,000 bags, with roughly 85 percent going to Guatemala and the remaining 15 percent to El Salvador. In 1998/99 the top destination for Honduran coffee was Germany, followed by the United States and Japan. The export trade matrices provided in this report are on a marketing year (Oct-Sep) basis. A calendar year 1998 export trade matrix can be found in our annual report HO9006. With production on the upswing in 1999/00, exports are expected to climb as well and could possibly near 2.5 million bags, including contraband trade. Given Honduras' heightened need for foreign exchange and the lack of any retention agreements with other countries at the moment, Honduras is expected to export as much coffee as possible and not build up any significant amount of stocks during the present year.

Trade Matrix

Export Trade Matrix			
Country	Honduras		
Commodity	Coffee, Green		
Time period	Oct. - Sep.	Units:	60 kg. bags
Exports for:	1999		2000
U.S.	421186	U.S.	547408
Others		Others	
Germany	484712	Germany	523777
Japan	226012	Japan	259023
Italy	149011	Italy	145306
S. Korea	145343	Guatemala	145000
Guatemala	145000	S. Korea	139808
Spain	132825	Belgium	137636
Belgium	97923	Spain	128492
France	81593	France	84643
Holland	76783	Holland	64361
Finland	42694	England	52703
Total for Others	1581896		1680749
Others not Listed	252441		308703
Grand Total	2255523		2536860

Stocks

IHCAFE reports nationwide 1998/99 ending stocks of 109,095 bags (142,298 quintals). As opposed to previous years, the vast majority of these stocks are believed to be of domestic rather than of export quality. Hurricane Mitch is largely to blame for this excess in domestic quality coffee. In fact, this excess is one of the reasons why the government has opted to relinquish its control over the amount of coffee which exporters are to set aside each year for domestic consumption as well as over the price at which exporters are to sell this coffee to domestic roasting plants. These variables will now be dictated by market forces.

Policy

The Honduran Congress recently passed Decree 152-99, which will bring about several important changes to coffee marketing in Honduras. First of all, the Lps 10 (\$0.68)/100 lbs. export license fee will be increased to \$5.00. Of this amount, \$2.25 will be used to finance producer loans, \$1.75 will be contributed to the National Coffee Fund, and the remaining \$1 will be used to support IHCAFE. The new legislation will also do away with fixed percentages and quotas for domestic consumption, the controversial pricing mechanism for domestic quality coffee, and physical coffee retentions. Moreover, in August of 1999 the Honduran Government made available an additional Lps. 237 (\$16.2) million to coffee growers which will be channeled through the private banking system.