



Organización Internacional del Café
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Diversification

Presentation by Mexico

Background

A copy of the presentation made by Mexico on a pilot diversification programme is attached. This presentation was made during the 86th Session of the International Coffee Council.




United States of Mexico

PRODUCTION DIVERSIFICATION PROGRAMME FOR MARGINAL COFFEE GROWING REGIONS IN MEXICO



London
22 May 2002

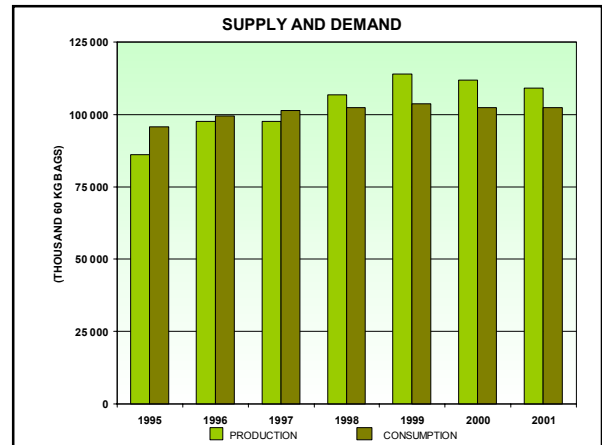


I. - BACKGROUND CURRENT SITUATION AND EXPECTATIONS REGARDING COFFEE

SUPPLY AND DEMAND

- IN THE COFFEE MARKET, PRODUCTION CONTINUES TO OUTSTRIP CONSUMPTION
- ICO-ESTIMATED PRODUCTION FOR THE CURRENT YEAR IS 109 MILLION BAGS
- PRODUCTION WILL BE DOWN ON THE 2000-2001 FIGURE (112 MILLION)
- THE LATEST FIGURE FOR U.S. COFFEE INVENTORIES (SEPTEMBER 2001) SHOWS A TOTAL OF 5.6 MILLION BAGS ⁽¹⁾
- THE SEPTEMBER 2001 INVENTORY IS UP ON THE AVERAGE INVENTORY FOR 2000 (5.1 MILLION BAGS)

(1) USDA DEC 2001



PHYSICAL PRICES ⁽²⁾

- COFFEE PRICES REMAIN HIGHLY DEPRESSED AND AT LEVELS BELOW PRODUCTION COSTS
- HOWEVER, THE PRICE SLIDE HAS HALTED IN 2002, WITH A SLIGHT IMPROVEMENT BEING OBSERVED
- THE ICO COMPOSITE INDICATOR PRICE FOR MARCH 2002 IS 49.49 US CENTS/LB, WHICH IS HIGHER THAN THE 2001 AVERAGE (45.60)
- THE JANUARY-MARCH AVERAGE OF THE SAME PRICE IS 45.75 - 75 CENTS UP ON THE PRICE IN 2001

(2) <http://www.ico.org/statist/pr>

PHYSICAL PRICES

- IN THE CASE OF OTHER MILDS, THE PRICE IN MARCH ON THE NEW YORK MARKET ⁽³⁾ WAS 66.38, WHICH IS UP ON THE 2001 AVERAGE (61.94)
- THE FOLLOWING TABLE SHOWS THAT MARCH'S RECOVERY DOES NOT SIGNIFY A POSITIVE OUTLOOK FOR COFFEE GROWING

Year	Price (US Cents/LB)
1999	101.54
2000	85.09
2001	61.94
JAN-MAR 2002	61.41

(3) UNDER THE ICO PRICE CALCULATION PROCEDURES MEXICAN COFFEE PRICE IS ONLY COLLECTED ON THE NEW YORK MARKET

INCOME

- EXPORTS ACCOUNT FOR OVER 80% OF INCOME FROM COFFEE GROWING
- IN THE FIRST FIVE MONTHS OF THE CURRENT COFFEE YEAR (OCTOBER-FEBRUARY) THE VALUE OF EXPORTS WAS 105 MILLION DOLLARS⁽⁴⁾
- EXPORTS IN THE SAME PERIOD OF THE PREVIOUS YEAR TOTALLED 307 MILLION DOLLARS
- THE OCT. 2001-FEB. 2002 CONTRACTION REFLECTS A DECREASE IN OUTPUT (2,189,000 BAGS IN 2000-01 AND 1,278,000 BAGS IN 2001-02) AND A PRICE DROP (NEW YORK PRICE FOR OTHER MILDS OF 68.54 AND 57.79)

(4) MEXICAN COFFEE COUNCIL

IMPACT

- BUSINESS LOSSES GIVEN PRICES SUB-STANDARD TO PRODUCTION COSTS
- USE OF PUBLIC FINANCE TO SUBSIDISE SMALL FARMERS
- EMERGENCE OF A DEFICIT IN VERACRUZ'S AGRICULTURAL TRADE BALANCE

ASSESSMENT

- THE CRISIS WE ARE EXPERIENCING IS DIFFERENT TO THE TRADITIONAL CRISES AFFECTING THE COFFEE WORLD
- ONE OF THE MAIN FEATURES OF THE NEW PHENOMENON IS THE EMERGENCE OF NEW, VERY LOW COST PRODUCTION AREAS IN DIFFERENT PARTS OF THE WORLD
- ANOTHER RELEVANT FEATURE IS THE RELOCATION OF PRODUCTION AREAS TO PLACES WHERE CLIMATE IS NO LONGER A FACTOR IN CYCLICAL VARIATIONS IN PRODUCTION LEVELS
- IN THE LIGHT OF THIS PROBLEM, ADDITIONAL COURSES OF ACTION ARE NEEDED TO REINFORCE THE MEASURES WHICH HAVE BEEN OR ARE ABOUT TO BE IMPLEMENTED

QUALITY PROGRAMME BASED ON ELIMINATION OF SUB-STANDARD COFFEE

- IMPLEMENTATION OF QUALITY IMPROVEMENT PROGRAMME AND ICO RESOLUTION NUMBER 407
- IMPROVEMENT IN THE QUALITY OF EXPORTED COFFEE AND, HENCE, A GROWTH IN CONSUMPTION
- REDUCTION IN WORLD COFFEE INVENTORIES
- REVERSAL OF THE PRICE TREND

REDUCING THE PRODUCTION AREA

- THE ELIMINATION OF COFFEE SURPLUSES DOES NOT MEAN THAT NEW SURPLUSES CANNOT DEVELOP ONCE MORE
- AN ALTERNATIVE TO PREVENT THE PERMANENT APPEARANCE OF SURPLUSES IS PARTIAL DIVERSIFICATION OF COFFEE PLANTATIONS
- VACANT AREAS WOULD BE USED TO ESTABLISH PLANTATIONS OF OTHER PRODUCTS
- ONE OPTION IS TO REPLACE COFFEE PLANTATIONS WITH FORESTRY PLANTATION

ADVANTAGES OF REDUCING THE PRODUCTION AREA

- ACHIEVEMENT OF A POSITIVE, LONG-TERM COFFEE PRICE TREND
- NEW FORESTRY PLANTATION WOULD GENERATE NET INCOME
- THE COMBINED RESULT IS GREATER ECONOMIC VALUE



II. - THE PROGRAMME



OBJECTIVES OF THE PROGRAMME

- IDENTIFY PRODUCTION ALTERNATIVES WHICH WILL GENERATE THE GREATEST POSSIBLE ECONOMIC RETURN, ENSURING BOOSTED INCOME STANDARDS FOR PRODUCERS
- BRING MEXICAN COFFEE PRODUCTION INTO LINE WITH THE COFFEE QUALITY STANDARDS DEMANDED BY THE MARKET (COMPETITIVE PRODUCT ADVANTAGE)



COMPONENTS OF THE PROGRAMME

- IDENTIFICATION AND REGIONAL ORGANIZATION OF MARGINAL COFFEE PRODUCING AREAS
- ANALYSIS OF THE DIFFERENT REGIONS' PRODUCTION ALTERNATIVES
- PRIORITISATION OF THE DIFFERENT OPTIONS FOR VIABLE RECONVERSION
- SELECTION OF RECONVERSION PROJECTS
- PROJECT ASSESSMENT
- PROJECT OPERATIONAL PLAN

CRITERIA FOR ANALYSIS OF ALTERNATIVES

- POTENTIAL SOIL USE
- TIMESCALES FOR PRODUCTION MATURITY
- ECONOMIC PROFITABILITY
- PRODUCERS' EXPERIENCE AND KNOW-HOW
- ENVIRONMENTAL IMPACT
- RESOURCE AVAILABILITY

PROJECT EVALUATION CRITERIA

- TECHNICAL AND PRODUCTION ASPECTS
- MARKET ASPECTS
- FINANCIAL ASPECTS
- ECONOMIC EVALUATION



COMPONENTS OF OPERATIONAL PLANS FOR VIABLE PROJECTS

- TECHNOLOGY
- FUNDING SOURCES
- MARKETING REQUIREMENTS
- REGULATIONS
- SUPPORT PROGRAMMES AVAILABLE
- INCENTIVES

PILOT PROGRAMME IN VERACRUZ, MEXICO

- FORMULATION OF PROGRAMME COMMENCING MARCH 2002
- FORMULATION WILL LAST FOUR MONTHS

III. - PROJECT SUMMARY



IDENTIFICATION OF RECONVERTIBLE AREAS IN VERACRUZ

- COFFEE-PRODUCING AREAS LOCATED AT BELOW 600 METRES ABOVE SEA LEVEL
- THE AREAS LIE IN 39 TOWNS IN THE STATE
- THEY COVER A TOTAL OF 47,810 HECTARES OR 31% OF TOTAL LAND IN PRODUCTION
- THERE ARE 24,400 GROWERS IN THESE AREAS, WHO REPRESENT 36% OF TOTAL GROWERS
- 44% OF THE RECONVERTIBLE AREA REPRESENTS VERY MARGINAL PRODUCTION

CHARACTERISTICS OF THE RECONVERTIBLE AREAS

- VERY LOW OUTPUT AREAS (LESS THAN SIX QUINTALS PER HECTARE)
- LOCATED IN MICRO-BASINS UNSUITABLE FOR COFFEE IN AGRO-ENVIRONMENTAL TERMS
- REDUCTION IN USE OF INPUTS AND IN MAINTENANCE OF THE COFFEE PLANTATIONS
- LOW PER HECTARE PLANT DENSITY
- AGEING PLANTATIONS
- DROP IN PRUNING AND CUTTING BACK
- NON-REPLACEMENT OF COFFEE PLANTATIONS
- ABANDONMENT OF FERTILISATION AND PLANT HEALTH CONTROL PRACTICES

CHARACTERISTICS OF THE GROWERS

- THEIR ORIGINS AND EDUCATION INFLUENCE THE TYPE OF PRODUCTION SYSTEM USED
- THEY ALSO INFLUENCE THEIR ATTITUDE TO THE PROBLEM
- THEY ARE NOT EXCLUSIVELY DEPENDENT ON COFFEE GROWING
- THEIR ECONOMY ALSO INCLUDES SUBSISTENCE AGRICULTURE, OTHER CASH CROPS AND SMALL ANIMAL HUSBANDRY
- THE ABOVE ARE COMBINED WITH PAID WORK AND REMITTANCES FROM ABROAD
- THE COFFEE PLANTATIONS ARE CONSIDERED MORE AS FAMILY ASSETS THAN AS AN ONGOING BUSINESS
- THEY ARE NOT CONSIDERING SUBSTITUTING COFFEE GROWING WITH A DIFFERENT PROFITABLE ACTIVITY
- THERE IS RESISTANCE TO RECONVERSION, GIVEN THEIR OTHER MEANS OF SUBSISTENCE AND LACK OF SUFFICIENT NEW INVESTMENT RESOURCES

RECOMMENDED RECONVERSION POLICIES

- COMPATIBILITY WITH THE PHYSICAL AND AGROLOGICAL CONDITIONS OF THE RECONVERTED ZONES
- CROPS WITH EXPANDING MARKETS
- GREATER USE OF FAMILY LABOUR
- SCHEMES FEATURING COMPLEMENTARY, RELATED CROPS
- GRADUAL TRANSITION

ALTERNATIVE CROPS

- TIMBER-YIELDING RESOURCES
- BAMBOO
- CHAMAEDORA PALM
- RED CEDAR
- MACADAMIA
- ALL SPICE

RECONVERSION SCHEDULE

YEAR	AREA	INCREASE
2	4,781	10%
5	19,124	40%
10	47,810	100%



TIMBER-YIELDING RESOURCES

- MEXICO'S AVERAGE RATE OF DEFORESTATION IS 668,000 HECTARES PER ANNUM
- IT IS ESTIMATED THAT THE STATE OF VERACRUZ HAS LOST 70% OF ITS FORESTRY RESOURCES AND THE ANNUAL RATE OF DEFORESTATION IS OF 2,773 HECTARES
- CURRENTLY AT GLOBAL LEVEL, THERE IS AN ANNUAL REDUCTION IN FOREST COVER OF APPROXIMATELY 15 MILLION HECTARES, WHICH ARE CLEARED MAINLY FOR AGRICULTURE (FAO 1997)

RECONVERSION OPTION: FORESTRY PROJECT

- THE CURRENT NET VALUE GENERATED BY ONE HECTARE OF PLANTED FOREST WOULD BE APPROXIMATELY US\$7,454
- THE RATE OF RETURN IS 28%
- THE COST OF DISMANTLING ONE HECTARE OF COFFEE IS US\$198
- THE ESTABLISHMENT COST FOR ONE HECTARE OF PLANTED FOREST IS US\$508
- THE AVERAGE ANNUAL MAINTENANCE COST IS US\$206 (17 YEARS)
- INCOME IS GENERATED IN YEARS 10 AND 18
- DISCOUNT RATE OF 6%
- THE PROJECTION INCLUDES AN ADVANCE TO GROWERS UNTIL CASH GENERATION COMMENCES
- THE ADVANCE WOULD BE US\$1,000 PER ANNUM, WHICH IS EQUIVALENT TO THE COST OF ELIMINATING ONE HECTARE OF COFFEE-GROWING LAND (40 QUINTALS) FROM PRODUCTION

FORESTRY PROJECT PROJECTIONS - DOLLARS PER HA

	0	1	2	3	4	5	6
INCOME	0	0	0	0	0	0	0
ESTABLISHMENT	673	0	0	0	0	0	0
DISMANTLING	198	0	0	0	0	0	0
MAINTENANCE	0	209	240	0	0	0	0
LOGGING + SAWING	0	0	0	0	0	0	0
ADVANCE TO GROWER	1,000	1,000	1,000	1,000	1,000	1,000	1,000
NET FLOW	-1,871	-1,209	-1,240	-1,000	-1,000	-1,000	-1,000

FORESTRY PROJECT PROJECTIONS - DOLLARS PER HA

	7	8	9	10	11	12
INCOME	0	0	0	19,453	0	0
ESTABLISHMENT	0	0	0	0	0	0
DISMANTLING	0	0	0	0	0	0
MAINTENANCE	0	0	0	0	0	0
LOGGING + SAWING	0	0	0	4,095	0	0
ADVANCE TO GROWER	1,000	1,000	1,000	0	0	0
NET FLOW	-1,000	-1,000	-1,000	15,357	0	0


FORESTRY PROJECT
PROJECTIONS - DOLLARS PER HA

	13	14	15	16	17	18
INCOME	0	0	0	0	0	48,632
ESTABLISHMENT	0	0	0	0	0	0
DISMANTLING	0	0	0	0	0	0
MAINTENANCE	0	0	0	0	0	0
LOGGING + SAWING	0	0	0	0	0	2,901
ADVANCE TO GROWER	0	0	0	0	0	0
NET FLOW	0	0	0	0	0	45,731

- ADVANTAGES OF DIVERSIFICATION**
- GENERATION OF VALUE
 - THE PROJECT PERMITS RECOVERY OF ADVANCES TO GROWERS
 - EXTREMELY POSITIVE ENVIRONMENTAL IMPACT
 - ATTRACTIVE FUNDING EXISTS FOR FORESTRY PLANTATION
 - FUNDING IS AVAILABLE AT VERY LOW OR NO COST

CONCLUSION

- We will press ahead with ICO Resolution number 407, to improve quality and eliminate sub-standard coffee from the market, at the same time implementing an integrated coffee consumption promotion programme.
- If it is to have a rapid impact on the market, implementation of the quality programme must be carried out by all producing countries with the support of the importers.



- Diversification must be based on a study of the agro-environmental conditions of each region, and a market analysis of the products to be utilised.
- Without implementation of an international strategy to eliminate sub-standard coffee and of crop diversification options, the coffee crisis will turn into a world security problem.