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## **An increase in coffee production is not appropriate**

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Although Colombian coffee prices have continued to rise, reaching a level of US\$1.28/lb yesterday, there are no grounds for envisaging a 'mini-boom', and even less for planning any increase in production, according to the Executive Director of the International Coffee Organization (ICO) Nestor Osorio.

The country should follow Brazil's example in regard to the strengthening of programmes designed to increase domestic consumption, since the present level is the same as it was twenty years ago when the population was half its present size.

These were some of comments made by Osorio, when he expressed his views on the current coffee situation and prospects for the new year, during which – he considers – the price of Colombian coffee will average between US\$1.10 and 1.15/lb.

### **To what do you attribute the recent price recovery?**

One of the main factors influencing the firmness of the market is Brazil's announcement of an estimated production of 42-43 million bags in the current crop year; this figure should be closely analysed, since Brazil has managed to achieve a substantial increase in its domestic consumption – now at a level of more than 15 million bags a year – and aims to increase this figure to 20 million bags in the next five years. With annual exports of around 25 million bags, Brazil would have only enough coffee to meet its domestic consumption and export requirements in 2006/07.

### **What impact will this situation have on the world market?**

With world consumption at between 115 and 117 million bags and supply at more or less the same levels, this year will see a repetition of a kind of balance between production and supply, although coffee from inventories held in importing countries – amounting to some 21 to 22 million bags – continues to find its way onto the market.

### **And what about price prospects?**

I think that prospects for 2006 are positive, although prices are not likely to rise too steeply. The prices we are seeing today are liable to some correction in the market and I would say that in the case of Colombian coffees the average price will be between US\$1.10 and 1.15/lb.

### **Can we talk about a mini boom?**

No. We've started the year on an upbeat note but we must manage the situation with the utmost care and not consider that we're having a mini-boom because this is not the case; the dollar is still a weak currency at present, petrol is still expensive, the costs of some inputs are still high and tending to rise...

**What, then, is your message to coffee growers?**

In the coffee market we must be very wary of predictions. I see a certain equilibrium in the market but it's a market that requires careful management, with orderly supplies, and we must be very clear that what we are witnessing is definitely not a sign that we can embark on policies to increase coffee production. Production levels must be kept in line with demand and we should respond to the increase of the latter only in a very measured way. I believe that gains made from these higher prices should be reinvested in technical improvements, renewal and improvements in coffee-quality, in other words we should add value to the commodity, produce a better quality of a coffee now recognized by the market so as to ensure that buyers continue to pay a better price.

**When should we consider increasing production?**

If countries like India, Colombia, Mexico and Vietnam, which have potential for increasing their domestic consumption, do the same as Brazil, and five or six countries were to consume another ten million bags, the underlying market structure would change and we would have a market controlled by sellers rather than buyers. When this happens, we could think about a programme for a gradual and well-planned expansion of production in order to meet demand requirements. We must take advantage of this moment of equilibrium to ensure that by carrying out promotion campaigns we bring about an increase in consumption both in the domestic market and in other emerging markets. In other words, increased production should be a response to demand rather than simply an activity designed to generate production in the hope of managing to find the required demand.

**What do you think about revaluation?**

It's obvious that if there hadn't been such a sharp fall in the dollar, export profits would have been higher, but the financial losses attributable to the current revaluation are no longer as great as when inflation levels were above 10%.