

El Tiempo

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The current improvement in coffee prices is temporary, says the Executive Director of the ICO

According to Néstor Osorio, international coffee prices could unravel from one minute to the next.

The senior official told us that although there is a shortfall on the international market of seven million bags, which is giving it a certain degree of strength, investment funds have purchased large volumes of the commodity which can be sold off at any time.

In an interview with *El Tiempo*, Osorio, who has just attended a meeting of the National Coffee Association of USA, recommended that the world's growers refrain from increasing coffee plantings since that could put paid to recovery and the nascent equilibrium between supply and demand.

Last week the price of coffee rose by 13 US cents/lb but by the week's end it had fallen back slightly to 142 US cents/lb.

What do the next few months hold in price terms?

Regarding the remainder of the year, I would forecast that the market will be quite firm, but a price reduction could occur at any time. Information I have received from different sources shows that investment funds, which have nothing to do with coffee, have good positions in the futures market and contributed to the price rise of recent weeks.

Low interest rates and the lack of other attractive investments have drawn them to coffee futures, but their positions can be sold off at any time to release profits.

In addition, as we approach the end of the year, estimates will begin of the new Brazilian crop. This year trees have been allowed to recover, partly because of the bad crop in Brazil, but as that situation changes there may be an impact on the market.

What sort of balance is there between coffee supply and demand?

Our analysis had led us to conclude that world supply is fluctuating between 107 and 108 million bags, and world consumption between 114 and 115 million bags, which gives a shortfall of seven million bags. On the other hand, the volume of inventories held by consumers stands at approximately 20 million bags, with producers holding a further 20 million. Three to four million bags of inventories are thought to have been used already.

Is there not a great danger that the current price situation will encourage new plantings?

Although there are signs that we are emerging from the crisis, lessons must be learned from the past, and what happened in 1994 must not be repeated. There must be a coordination of national and international production policies to avoid giving the green light to new plantings. The aim is for production to respond to consumption requirements.

Why is there such a wide gap between prices of Arabica coffee, such as those from Central America and Colombia, and Robustas?

Today we have an ICO composite indicator price for Other Milds of around 135 US cents/lb, while that of Robustas is 49 US cents/lb and Brazilian coffee has reached 115 US cents/lb and 120 US cents/lb.

What has happened is that Robusta coffee has replaced good quality mild Arabicas in other markets, such as Germany, Spain and the United States, where its percentage in mixtures has increased. This has led to the market being saturated with Robustas, and, therefore, its prices have evolved more slowly than those of Arabicas.

As top ICO official, what advice do you have for Colombian growers?

My advice is that quality pays, and that it provides higher income. I would also say that the name of the game now is not volume, and that in times of higher volumes quality and prices suffer. My message is one of caution and a note of warning, because the fact that prices are improving temporarily is not a green light to produce more.

In China demand for commodities is greatly increasing and everyone is looking to that country. President Uribe is even travelling there soon to explore new business opportunities. What are the chances of Colombian coffee reaching that market?

Colombia and Brazil are the two coffee origins which are most widely recognised in China. Consumption stands at half a million bags and is rising at between 15% and 20% a year, compared to a world average of 1.5%. When you think of China you should not think about a country with 1.3 billion inhabitants, but rather concentrate on a few specific activities in four or five cities, with a total of perhaps 250 million inhabitants, to carry out campaigns there. Of course tea is still a beverage which is very deeply rooted in people's culture, but that was the case in Japan 35 years ago. It is a matter of organizing policies to raise its profile, that will gradually pay dividends.

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