

Central America Coffee Production Outlook Clouded by Rising Costs

By Marvin G. Perez

Guaruja, Brazil, (CoffeeNetwork) Due to rising costs, a sizeable acreage expansion is unlikely in Central America, but significantly higher yields are viable in the near term, all depending on how world prices evolve over the coming years, an industry executive said Thursday.

The recent spike in production costs has limited the availability of the region to boost acreage planted with coffee, said J. Antonio Baltodano, chairman of New Jersey-based Mercon Coffee Group, which has extensive investments in Central America.

But terminal prices of 140 to 150 cents a pound for Arabica coffees, should lead to noticeable improvements in husbandry. According to the executive, fertilizer costs have risen between 20% and 61% for Central American producers in the last two years. Nicaragua has seen the highest increase at 61%, followed by Guatemala and Costa Rica, up 49% and 47%, respectively, while Honduras and El Salvador's have risen 43% and 19%.

Labor costs have also risen between 20% in Nicaragua and 41% for Costa Rica over that period, curtailing the sector capacity to boost acreage. In gross terms, the production cost increase over the last two years has been 20 to 30 cents per pound for the region, which produces mainly washed-Arabica coffee, he said.

Today, the average yield across the region is 15 bags per hectare. With improved husbandry, yields could reach 19 bags per hectare in the 3 to 4 years, he said. That equates to improvement in yields by 25% throughout the region, or about 3 million more bags of coffee, he said during a presentation at the 17th International Santos Coffee Seminar.

"The rise in the terminal price has benefited the producer," he said. "However, much of the gain has been mitigated by higher costs of production."

"Two years ago, prices above 120 would have promoted noticeable investment and improvements in husbandry. But today, 120 is not enough...unless prices stabilize at higher levels, supply will remain stagnant out of Central America," he said.

Current production costs for Central America are: Costa Rica 124 cents a pound, Guatemala 113 cents a pound, El Salvador 110 cents/lb, Nicaragua 106 cents and Honduras 98 cents a pound.

"The situation of soaring prices for basic foods in Nicaragua is indicative of much of the region, where the costs of basic goods have increased dramatically" including the price of rice and beans, staple foods for the region's inhabitants.

He estimates Central American 2007-08 coffee production at 12 million bags: Guatemala 3.7 million; Honduras 3.5 million bags, Nicaragua and Costa Rica at 1.7 million bags and El Salvador at 1.4 million bags. The region's production has fallen from levels above 16 million bags in the late 90s, and was severely affected during the low-price induced crisis at the beginning of the decade.