



International Coffee Organization
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E

LETTER FROM THE EXECUTIVE DIRECTOR

COFFEE MARKET REPORT

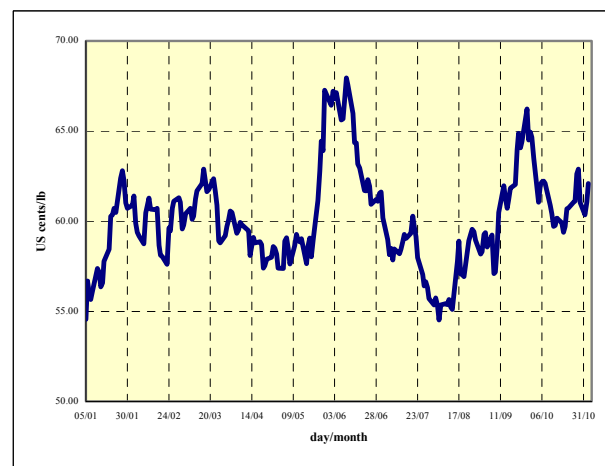
October 2004

In this month's Letter I shall be presenting a more concise Coffee Market Report in order to avoid needless repetition. Coffee prices, particularly in the case of Arabicas, rose slightly during October, confirming the improvement noted in September 2004. Market fundamentals continue to favour an upward trend in Arabica prices since prospects of a reduced supply in many exporting countries have become clearer. In the case of Robustas, however, prices have fallen slightly. This is reflected in the price differential with Other Milds, with the average price in October at 80.55 US cents/lb compared to 31.67 US cents/lb for Robustas, representing a differential of 48.88 US cents/lb, which is the highest since June 2000. This report includes information on the situation of coffee consumption in the southern European countries (Greece, Italy, Portugal and Spain).

Price movements

Despite the increase in Arabica prices, the monthly average of the **ICO composite indicator price** fell slightly, down to 61.10 US cent/lb in October compared to 61.47 US cents/lb in September 2004. In daily terms, prices during the first two weeks of November seem to have recovered the firm trend noted in September¹. Graph 1 shows daily movements in the ICO composite indicator price in 2004.

**Graph 1: Daily composite indicator price
5 January – 5 November 2004**



¹ The price level recorded on 11 November 2004 was 65.39 US cents/lb.

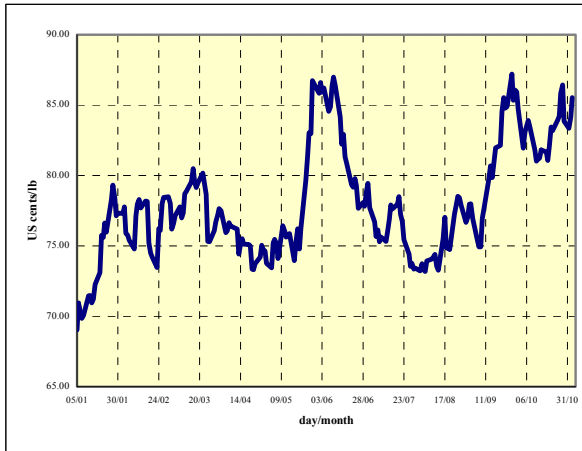
Table 1 shows ICO indicator prices and average prices on the New York and London futures markets. The monthly average of the **ICO indicator price for Colombian Milds** was 83.02 US cents/lb in October compared to 81.02 US cents/lb in September, representing an increase of 2.47%. This is the highest level recorded since December 2000. Compared to January 2004, the October average represents an increase of 12.55%. The monthly average of the **ICO indicator price for Other Milds** remained relatively stable at 80.55 US cents/lb in October compared to 80.47 US cents/lb in September. Compared to January 2004, the October average represents an increase of 10.75%. The monthly average of the **ICO indicator price for Brazilian Naturals** was 69.91 US cents/lb in October compared to 68.90 US cent/lb in September, representing an increase of 1.47%. Compared to January 2004, the October average represents an increase of 12.65%. The **ICO indicator price for Robustas** was down by 7.51%, from 34.24 US cents/lb in September to 31.67 US cents/lb in October. Compared to the level recorded in January 2004, this represents a fall of 20.51%. The London futures market (LIFFE), which reflects the situation of Robustas, fell by 7.81% compared to the average for September and by 21.47% compared to January 2004. The New York futures market, which is sensitive to the situation of Arabicas, fell by 0.72%, from 80.37 US cents/lb in September to 79.79 US cents/lb in October. Compared to January 2004 there was an increase of 6.59%. Graphs 2 to 5 show movements in daily indicator prices for the four coffee groups in 2004.

Table 1: ICO indicator prices and futures prices (US cents/lb)

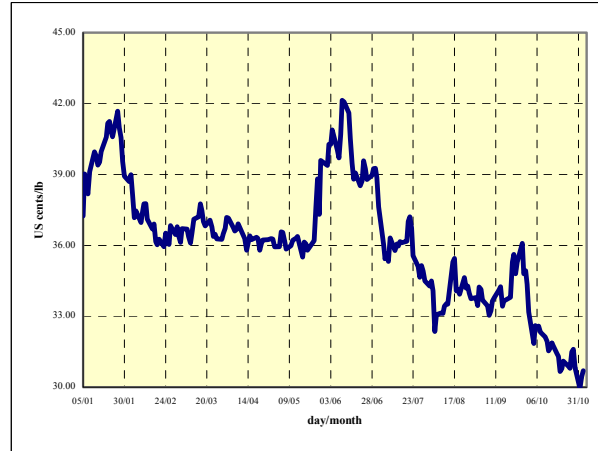
	ICO composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
2004							
January	58.69	73.76	72.73	62.06	39.84	74.86	35.95
February	59.87	76.53	76.21	65.52	37.05	75.75	34.68
March	60.80	77.97	78.06	66.97	36.70	76.67	33.54
April	58.80	75.22	75.44	63.70	36.37	73.51	33.57
May	59.91	77.17	76.99	65.16	36.56	75.62	33.31
June	64.28	82.51	82.21	69.61	39.87	81.48	35.92
July	58.46	76.13	74.94	62.89	36.02	73.40	32.18
August	56.98	75.35	73.61	61.75	33.91	72.73	30.88
September	61.47	81.02	80.47	68.90	34.24	80.37	30.62
October	61.10	83.02	80.55	69.91	31.67	79.79	28.23
		% variation between Oct-04 and Sep-04					
	-0.60	2.47	0.10	1.47	-7.51	-0.72	-7.81
		% variation between Oct-04 and Jan-04					
	4.11	12.55	10.75	12.65	-20.51	6.59	-21.47

* Average of the 2nd and 3rd positions

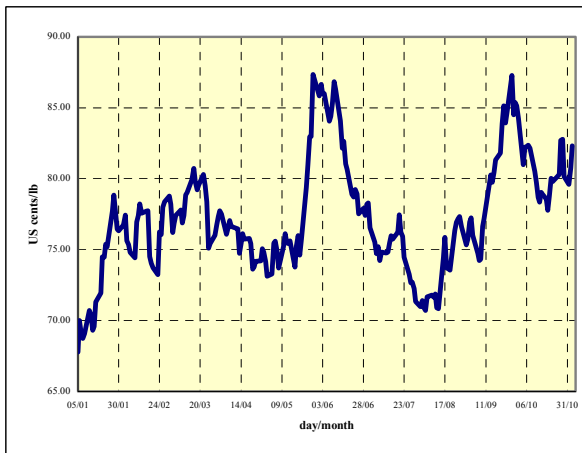
Graph 2: Daily indicator prices for Colombian Milds 5 January – 5 November 2004



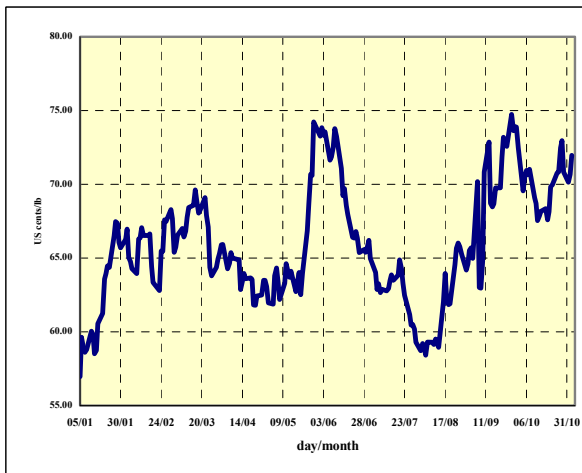
Graph 5: Daily indicator prices for Robustas 5 January – 5 November 2004



Graph 3: Daily indicator prices for Other Milds 5 January – 5 November 2004



Graph 4: Daily indicator prices for Brazilian Naturals 5 January – 5 November 2004



Market fundamentals

Factors related to supply and demand have remained unchanged since the last monthly report (Letter from the Executive Director, September 2004). Crop year 2004/05 has already begun but it is still too early to speak of the arrival of new crop coffee on the market. My estimates of total production remain unchanged, with a figure ranging between 112 and 114 million bags. With regard to Brazilian production for crop year 2005/06, which begins in April 2005, we must await preliminary official estimates to be published in December 2004 for more precise figures.

Total exports during coffee year 2003/04 (1 October 2003 – 30 September 2004) were 87.49 million bags, representing a fall of 0.71% compared to the total of 88.11 million bags for coffee year 2002/03 (Table 2). During the period under consideration, Robusta exports increased by 1.78% and exports of Brazilian Naturals by 1.43%. On the other hand, exports of Colombian Milds fell by 4.07% and exports of Other Milds by 4.81%. At the regional level, exports from the Asia/Oceania region increased by 15.75% while those of the other regions fell: South America by 7.27%, Africa by 3.68% and Mexico & Central America by 3.40%. Information on the effect of these changes in exports on export earnings will be provided in my next Coffee Market Report. In the meanwhile it should be noted that total exports of Arabica fell by 1.99% while total Robusta exports increased by 1.78% compared to coffee year 2002/03.

**Table 2: Exports
Coffee years 2002/03 and 2003/04**

	2002/03	2003/04	% variation
TOTAL	88.11	87.49	-0.71
Colombian Milds	11.92	11.43	-4.07
Other Milds	21.37	20.34	-4.81
Brazilian Naturals	24.84	25.19	1.43
Robustas	29.99	30.53	1.78
Arabicas	58.12	56.96	-1.99
Robustas	29.99	30.53	1.78
Africa	12.02	11.57	-3.68
Cameroon	0.73	0.88	19.88
Côte d'Ivoire	2.61	2.64	1.16
Ethiopia	2.28	2.37	4.25
Kenya	0.88	0.83	-5.38
Tanzania	0.84	0.55	-34.83
Uganda	2.81	2.52	-10.19
Others	1.87	1.78	21.42
Asia & Oceania	21.01	24.32	15.75
India	3.56	3.78	6.11
Indonesia	4.52	4.56	0.91
Papua New Guinea	1.14	1.12	-2.11
Vietnam	11.56	14.50	25.46
Others	0.23	0.37	55.81
Mexico & Central America	13.29	12.84	-3.40
Costa Rica	1.68	1.50	-10.42
El Salvador	1.32	1.34	1.81
Guatemala	3.96	3.28	-17.15
Honduras	2.44	2.79	14.56
Mexico	2.56	2.42	-5.45
Nicaragua	0.98	1.27	29.83
Others	0.35	0.22	-36.97
South America	41.80	38.76	-7.27
Brazil	27.63	25.34	-8.31
Colombia	10.48	10.15	-3.09
Ecuador	0.67	0.62	-6.72
Others	3.02	2.65	-12.31

In million bags

Stocks of green coffee in importing countries, including free ports, have remained unchanged at the level of 20.09 million bags recorded in September 2004. There have been a number of changes in the volume of certified stocks in the London (LIFFE) and New York (NYBOT) futures markets (Table 3).

Table 3: LIFFE and NYBOT certified stocks

End of	LIFFE	NYBOT
Oct-03	2.42	4.47
Nov-03	2.41	4.40
Dec-03	2.41	4.37
Jan-04	2.97	4.42
Feb-04	2.59	4.50
Mar-04	2.70	4.72
Apr-04	2.71	4.82
May-04	2.76	4.95
Jun-04	3.17	5.00
Jul-04	3.58	5.05
Aug-04	3.82	5.08
Sep-04	4.04	4.90
Oct-04	4.14	4.60

In million bags

Data on **opening stocks** for crop year 2004/05 are not yet available in exporting countries. In crop year 2003/04 the volume of stocks was 22.07 million bags.

World consumption is estimated at 113.08 million bags for calendar year 2003. Of this total, an amount of 27.87 million bags is accounted for by exporting countries and 85.1 million bags by importing countries.

The following section provides information on consumption in the importing countries of southern Europe (Greece, Italy, Portugal and Spain).

Consumption in Greece

With a total population of 11 million inhabitants in 2003, Greece has been steadily increasing its coffee imports over the last ten years. Total consumption was 1 million bags in 2003 compared to 865,000 bags in 2002. Unconfirmed per capita consumption figures indicate that there has been some increase, with the average for 2003 at 6.01 kg compared to 5.18 kg in 2002. The average for the last four years (2000-2003) was 4.73 kg compared to 2.83 kg for the period 1990-93. Imports totalled 1.07 million bags in 2003, of which only 70,000 bags were re-exported. The main origins of the country's green coffee imports in 2003 were: Brazil, Vietnam, India, Colombia and Ethiopia.

Consumption in Italy

Italy, which has a population of 60.2 million inhabitants, has become Europe's second largest market, ranking below Germany and above France. Consumption totalled 5.50 million bags in 2003 compared to 5.42 million bags for France and 9.13 million bags for Germany. The Italian market has grown steadily over the last ten years: from an annual average of 4.53 million bags in 1990-93 to 5.27 million bags in 2000-2003. Per capita consumption was 5.73 kg in 2003 compared to 4.93 kg in the 1990s. Imports of green coffee totalled 6.95 million bags in 2003 and re-exports totalled 1.45 million bags. It should be noted that in Europe this volume of re-exports is exceeded only by Germany (6.7 million bags) and Belgium/Luxembourg (2.2 million bags). The main origins of the country's green coffee imports in 2003 were: Brazil (38.06%), Vietnam (13.02%), India (10.96%), Indonesia (5.91%), Uganda (5.32%) and Cameroon (3.34%). Robustas accounted, on average, for around 36.50% of imports during the last three years (2000-2003) compared to 43.40% in 1990-93. During the same period, the share of Arabicas increased from 52.46% to 54.65%. However, the share of Colombian Milds in Italian imports fell by 3.33%. The annual average of the retail price rose to 546.72 US cents in 2003 compared to 457.12 US cents in 2002 but the level of taxation is very high and is likely to have an effect on consumption. There is a value-added tax of 20% on green coffee and roasted coffee and 10% on soluble coffee.

Consumption in Portugal

Portugal had an average per capita consumption of 4.34 kg in 2003 for a total population of 10.4 million inhabitants. Total consumption was 745,000 bags in 2003. Imports totalled 855,000 bags in 2003, of which 110,000 bags, representing 12.86% of this total, were re-exported. The main origins of the country's imports in 2003 were: Brazil (17.4%), Uganda (10%), Côte d'Ivoire (8.9%), India (8.7%),

Vietnam (8.7%), Cameroon (7.1%) and Honduras (6.6%). Robustas accounted for 41% of total imports in 2003 compared to 48% for Arabicas. No breakdown is available for the remaining imports. Retail prices increased from 385.32 US cents/lb in 2002 to 455.63 US cents/lb in 2003. The only tax on coffee is value-added tax at 12%.

Consumption in Spain

Consumption in Spain totalled 2.82 million bags in 2003, a relatively low level for a country with a total population of 41.3 million inhabitants. Per capita consumption was 4.21 kg in 2003. Imports of green coffee totalled 4.21 million bags in 2003, of which 1.38 million bags were re-exported. The country's main suppliers of green coffee in 2003 were: Vietnam (25.4%), Brazil (22.3%), Uganda (13.1%), Colombia (7.3%) and Côte d'Ivoire (6.2%). Robustas accounted on average for 56.3% of total imports in 2003 compared to 43.7% for Arabicas. Retail prices rose from 258.11 US cents/lb in 2002 to 300.07 US cents/lb in 2003. The only tax on coffee is the value-added tax of 7%.

The annex table contains data for the period 1965 to 2003 on imports, re-exports, retail prices and per capita consumption in the four countries referred to above.

In conclusion, I would like to note that the improvement in the market recorded in September continued in October even though the situation of Robustas continues to give cause for concern. Information from the main Robusta exporting countries has given rise to strong downward pressures on prices for this group. More accurate estimates on the size of crops in crop year 2004/05 will permit a proper evaluation of the situation of supply. I think there is reason to believe that the worst of the crisis is over although we must continue our efforts in regard to quality improvement and the promotion of an increase in consumption in order to assure satisfactory incomes for coffee producers.

**Volume of imports and re-exports of all forms of coffee (in 000 bags);
Average retail price of roasted coffee (US cents/lb) and per capita consumption (p.c.c.) in kilogram
in four selected E.U. countries**

Calendar years 1965 to 2003

	Greece				Italy				Portugal				Spain			
	imports	re-exports	retail price	p.c.c.	imports	re-exports	retail price 1/	p.c.c.	imports	re-exports	retail price	p.c.c.	imports	re-exports	retail price	p.c.c.
1965	182	-		1.28	2 004	5	158.48	2.39					722	0		1.46
1966	188	-		1.31	2 162	8	158.48	2.54					973	0		1.59
1967	210	-		1.44	2 428	9	158.64	2.75					852	0		1.66
1968	221	1		1.51	2 545	16	158.86	2.85	280	7		1.73	1 095	0		1.76
1969	234	1		1.59	2 614	13	158.55	2.93	310	7		2.00	1 224	0		1.95
1970	227	1		1.54	2 761	11	165.40	3.05	292	4		1.95	1 309	0		2.05
1971	237	1		1.60	2 984	19	170.63	3.28	344	6		2.26	1 109	80		1.95
1972	284	1		1.91	2 985	26	183.05	3.25	380	7		2.49	1 358	68		2.13
1973	285	1		1.91	3 376	28	192.66	3.63	361	6		2.37	1 338	53		2.29
1974	269	2		1.79	3 396	30	197.08	3.67	346	4		2.25	1 467	53		2.66
1975	351	3		2.31	3 398	27	219.27	3.63	255	2		1.61	1 296	50		2.72
1976	341	5		2.20	3 588	34	240.18	3.82	342	5		2.09	1 566	52		2.67
1977	244	3		1.56	3 076	29	434.96	3.30	206	1		1.15	1 392	62	408.78	1.86
1978	264	4		1.67	3 265	34	427.82	3.45	178	3	469.71	1.44	1 758	20	368.64	2.57
1979	422	5		2.65	3 831	45	417.79	4.03	204	1	438.75	1.39	1 753	110	374.52	2.82
1980	430	3		2.66	3 725	46	425.68	3.91	187	2	524.23	0.94	1 595	84	363.11	2.28
1981	431	4		2.63	3 804	51	330.96	3.98	223	1	420.77	1.48	1 574	61	285.60	2.75
1982	436	4		2.65	4 155	64	297.33	4.33	243	1	336.58	1.43	1 702	63	258.41	2.76
1983	466	5		2.81	4 183	69	292.26	4.34	295	1	316.57	1.93	2 275	89	238.16	3.19
1984	501	6		3.00	3 800	108	286.70	3.89	325	1	339.71	2.00	1 888	36	270.15	2.92
1985	496	6		2.96	4 812	116	303.46	4.93	362	1	357.19	2.24	1 796	28	290.81	2.75
1986	368	5		2.18	4 307	139	448.02	4.37	292	10	459.64	1.69	2 195	16	389.02	3.46
1987	506	6		3.00	4 481	173	506.27	4.51	457	7	459.90	2.70	2 282	93	444.18	3.27
1988	532	4		3.16	4 419	203	476.17	4.40	436	14	416.00	2.54	2 443	229	363.63	3.63
1989	588	7		3.45	4 605	291	455.77	4.50	472	24	373.92	2.70	2 754	129	305.04	4.01
1990	642	11		3.73	5 242	383	531.46	5.06	552	31	412.22	2.83	3 053	265	362.03	4.19
1991	407	20		2.27	4 630	402	562.06	4.47	557	34	426.76	2.72	2 970	268	350.42	4.09
1992	349	29		1.86	4 595	465	586.02	4.36	591	40	494.82	3.48	3 414	287	349.67	4.68
1993	375	227		0.86	5 594	664	458.84	5.18	666	38	426.68	3.21	2 813	168	278.85	4.19
1994	502	146		2.05	5 554	786	467.58	5.00	664	52	437.59	4.08	3 028	237	276.49	4.28
1995	523	139		2.20	5 388	749	570.43	4.86	633	74	623.81	3.82	3 146	397	444.70	4.21
1996	782	51		4.19	5 610	879	591.97	4.95	756	99	592.36	3.79	3 539	598	418.08	4.49
1997	804	50		4.31	5 745	879	545.38	5.08	746	108	504.38	3.75	3 818	783	356.94	4.63
1998	716	37		3.87	5 920	968	553.05	5.16	781	96	488.08	4.30	3 778	708	362.07	4.67
1999	741	93		3.69	5 975	1 039	516.19	5.14	878	99	465.27	4.79	4 030	645	322.76	5.12
2000	825	112		4.27	6 344	1 181	444.24	5.36	846	123	395.35	4.08	3 820	762	269.01	4.60
2001	902	323		3.47	6 569	1 317	433.07	5.44	867	117	383.76	4.47	4 126	1 257	254.15	4.27
2002	937	72		5.18	6 556	1 376	457.12	5.41	858	114	385.32	4.30	4 088	1 180	258.11	4.33
2003	1 073	70		6.01	6 956	1 453	546.72	5.73	855	110	455.63	4.34	4 212	1 386	300.07	4.21