**COLOMBIAN COFFEE FEDERATION, INC.**
(A Subsidiary of The National Federation of Coffee Growers of Colombia)

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Café de Colombia

Jean A. Webb,
Secretary,
Commodity Futures Trading Commission,
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21st Street, NW Washington, DC 20581

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COMMENT

Dear Madam,

On behalf of the Colombian Coffee Growers, represented by the National Federation of Coffee Growers of Colombia, we would like to express our views on the recent proposal to modify the Coffee Sugar & Cocoa Exchange "C" contract with regard to Peruvian coffee and the discounts to be applied for said origin. As you may be aware, Colombia is the world's second largest producer of coffee and the world's largest producer of washed arabica coffee. The integrity of the "C" contract, which is the main tool to price Colombian coffee and is used extensively by traders, importers, roasters, and exporters and, indirectly, by the growers we represent, is vital for the long-term benefit of our industry.

In our view, the proposal to change the discount for Peruvian coffee, from 4 cents per pound to 1 cent per pound, would have a negative impact on the integrity of the "C" contract as a viable hedging and pricing tool. Commodity futures markets should remain a financial instrument and not a cash contract. Changing the discount for Peruvian coffee would only increase the incentive to deliver additional volumes of Peruvian coffee to the Exchange.

Reading the notice posted on the CFTC's web site, regarding this matter, I would like to quote the document: *"With regard to the proposal to reduce the discount currently applicable to Peruvian coffee, the Exchange said that ``[T]he physical market currently values Peruvian coffee at par with the Coffee ``C" contract or at a premium. * * * [H]ence the Peruvian discount * * * needed to be narrowed from its current 400 points to 100 points to reflect commercial reality."* We respectfully disagree.

Judging from market prices and differentials over the last year, Peruvian coffee has been quoted and traded at approximately 16 cents discount per pound FOB under the relevant New York Coffee futures month (i.e., approximately 10 cents discount ex-dock). At the current 4 cents discount, 181,045 bags of Peruvian coffee have been profitably delivered to the exchange. The move to reduce the discount from 4 to 1 is clearly not supported by current market data. Decreasing the discount for Peruvian coffees will only increase the amount of Peruvian coffee that will be delivered, profitably, to the Exchange, thus making the "C" contract, by far, the best cash buyer in the market for this origin.

Looking at the proposed change from a longer term perspective, it could be argued that Peruvian coffee and Mexican coffee have been traded at similar differentials over a longer period of time, and that the "C" contract should reflect the reduction of the relative differential between these two origins. Although the quality of Peruvian may have improved over the years, the market relative differentials to other origins like Guatemala or Costa Rica would not justify a reduction in the "C" contract discounts for Peruvian coffee. Such a change would only be explainable when compared to one particular origin, Mexico.

As you may know, Mexican coffees have traded as low as 20 cents per pound FOB under the "C" and deliverable at par (basis). They now account for 347,238 bags of certified coffees. Mexican coffees used to trade at par with coffees from El Salvador, Guatemala and other Central American countries and now trade at deep discounts to these origins (see below Bridge News article). Together, Peru and Mexico presently account for 49% of the 1,076,905 bags of certified coffee, according to the CSCE data released yesterday. In my view the reduction of the relative differential between Mexican and Peruvian coffees does not necessarily have to be recognized by reducing the current discount applied for Peruvian coffees under the "C" contract regulations. Instead, increasing the discount for Mexican coffees under the "C" would more realistically mirror cash market realities and would at the same time reflect the increase of relative differentials between other coffees from Central America and those from Mexico.

The suggested measure will also contribute to eliminate distortions and incentives to certify coffee given the current market reality. A measure that further encourages a disproportionate accumulation of certified stocks would convert a futures market into a cash contract, thus diminishing its value as a hedging and pricing tool and converting the exchange into a "best buyer" rather than a buyer of last resort, sending inappropriate and distorted price signals. These price signals would be sent by accumulating a disproportionate amount of stocks relative to the market's annual needs, and by encouraging other origins to tender coffee given the implicit incentives under the "C" regulations.

Sincerely Yours,

Alvaro Villegas V.
President,
Colombian Coffee Federation, Inc.

Attachment: Bridge News article, highlights added.

-- [B] REPEATS: BRIDGE FOCUS: Increased Mexico coffee deliveries to CSCE seen --

By Robert Randolph, Bridge News

Mexico City--Feb 17--With Mexican coffee being punished for the second straight year by historic discounts in the physical market, exporters here say that shipments over the next months to Coffee, Sugar, and Cocoa Exchange

(CSCE) warehouses will boom, extending and intensifying last year's surge.

* * *

January and February, the first big export months in Mexico's coffee season, were to have been the test of whether Mexico would be able to command an acceptable price for its physical coffee in the 1999-00 crop--or have to "give it away for free," in the words of one exporter.

The results are now in and the physical prices have failed to meet grower hopes. Bids for standard Mexican prime washed coffee are languishing at about 22 cents under the nearby CSCE contract, free on board (fob) Veracruz, giving Mexico the discount of [illegible] approaching the cheapest arabica coffee in the world.

Meanwhile, similar coffee in recent years traded at 13c under New York.

Those low prices have forced the coffee sector to focus its energies on making the grade at the CSCE itself, where Mexican coffee can fetch the equivalent of at least 10c under, fob Veracruz, if it manages to pass stringent tests for quality and cup.

This moment has been a year in the making, since a flood of cheap Brazilian beans first swept the legs from under Mexican differentials in 1999. Some Mexican exporters and growers were alert and able enough to capitalize on the sudden CSCE appeal in the 1998-99 season, which ended in September.

About 300,000 bags of Mexican coffee were delivered to the CSCE that season out of at least 500,000 bags of attempts, up from virtually zero the previous year.

Now, forewarned and better prepared, Mexico could ship more than 1 million bags to the CSCE, or "board," in the current 1999-00 season, exporters say. That's about a quarter of Mexico's annual exports.

"Everybody is sending coffee to the exchange, to take pressure off Mexican coffee," said one multinational trader. Another exporter said his company plans to ship half its exports this year to the CSCE. Mexico's pass rate at the CSCE is estimated at 50-70%.

The shift in trade is already being felt in CSCE warehouses. Earlier this month Exchange-certified stocks breached the 1-million mark for the first time since 1995. Although some of that buildup is coming from Central America, which is also trying to find refuge from wide differentials, Mexico leads with about 30%.

PORING OVER BEANS

The incentive to prepare better-quality coffee was not lost on the sector.

CSCE grade coffee must give a smooth cup and above all have a minimum of defects. Some exporters and large-scale growers installed new machinery last year to better sort beans and remove defects, investing millions of dollars.

In Veracruz, the state coffee agency distributed thousands of flyers to farmers ahead of the harvest last autumn that instructed them to pick only ripe berries in the current harvest.

At the same time, tiny-scale indigenous coffee growers and their children in the mountains of Oaxaca state are sitting on piles of parchment coffee in wood-slat shacks this month, picking out the bad beans from the good.

"Definitely, there's an educational process going on," one trader said last fall. "We had forgotten to do it and we learned this year."

That would be just in time, because nearly a year of collapsed prices is straining the sector. Farmers, who claim that returns are preventing investment and proper upkeep in their fields, are getting restless, with one growers' representative warning last week of "violence" if prices didn't

improve. A thriving trade in smuggling Mexican coffee to Guatemala has reportedly sprung up, driven by the higher world prices for "Guatemalan"
Frustration with the physical market could even be heard among traders in their reactions to yet another cheap 20c under sale to a US buyer: "Whoever the idiot is who did that, he deserves to lose money."

DECADES TO OVERCOME

Mexico's immediate nemesis in the physical commercial market is South American coffee giant Brazil. Before the country's economic crisis, differentials for Mexico's standard prime washed coffee had typically been around 13c below the CSCE contract, supported by Mexican coffee's popularity then among US roasters.

"Last year, when there was a boom in Brazil's (exports), the roasters switched from Mexicans to Brazilians and got results," said one Mexico-based trader. "Now they're going back for more."

Mexico has some internal demons to tame in its quest for higher prices, and many revolve around quality. In the 1950s, when Mexico's coffee marketing was done by estates or sold as regional brands, [redacted]

Some blame state intervention in coffee marketing from the 1960s to the 1980s for having dulled incentives and practice among farmers in preparing quality coffee. A handful of "megaexporters" that mixed coffee indiscriminately into mediocrity is also cited for hurting perceptions abroad. Others say that it was the removal of INMECAFE's standards and supervision in the 1990s that contributed to a shipping free-for-all.

For growers, "it used to be 'throw everything in with everything and let's go,'" a coffee community leader in Oaxaca said about past practices.

Bad habits don't change over night. It is impossible to get Board-deliverable coffee out of many growing regions still, traders say. Exporters complain that middlemen continue to mix up qualities. Millers are accused of "burning " coffee in the drying process. Some distrust of shipments remains. A lack of financing in the sector, meanwhile, prevents some growers and traders from supplying the market in an orderly fashion.

FLUID

Excesses often are corrected by the market. By some estimates, Mexico's full potential as a source of CSCE tenderable coffee is 1.5 million bags. Attempts at passage from the current season are not expected to reach those levels and successful deliveries will surely be even lower.

Nonetheless, the coffee sector here hopes that the volumes that do get certified eventually will create anxiety among roasters about the availability of weaker-differential coffee for them in the physical market. That, combined with other developments--such as lighter-than-expected trade out of Brazil and Colombia--could tighten differentials again.

But Mexico's coffee sector hopes the CSCE's allure will not turn out to be a siren's song. Shipments to the Board will inevitably produce their byproduct. Even the most hopeful exporters do not expect rates over 80% at getting deliveries certified.

Coffee that fails graders' reviews ends up sticking around and being sold at bargain prices. Roasters will be watching for the castoff of this cheap, relatively good-quality coffee--alternate source for their blends. That will again weigh on differentials.

"In coffee, a business trend is not forever," said the multinational trader. "It has yet to be seen how this movie ends." End