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Starbucks Buying May Push Peru Coffee Sales to Record (Update2)
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(Adds Commerzbank report in ninth paragraph.)

By Alex Emery

Jan. 27 (Bloomberg) -- Peru's coffee exports may rise to a record this year as buyers including Kraft Foods Inc. and Starbucks Corp. boost purchases of the bean because of improving quality, the head of the Peruvian Coffee Chamber said.

Sales of coffee, Peru's biggest agriculture export earner, may climb by 12 percent to \$650 million in 2010, compared with \$580 million a year earlier, Eduardo Montauban, head of the association, said yesterday in an interview in Lima.

Peru's coffee output has doubled since 1999 as the country's exporters increased yields and enlarged plantations by half to 370,000 hectares (914,000 acres), according to the Agriculture Ministry. This year's harvest is slated to rise to 5 million bags from 4.8 million bags in 2009, Montauban said. The country is the world's largest producer of organic coffee.

"Companies are buying more of our organically grown Arabica beans because they're cheaper than Colombian coffee, have a smooth flavor and have improved in quality in recent years," Montauban said. "The long stretch of strong prices is also prompting farmers to plant more."

May Kulthol, a spokeswoman with Starbucks, said in an e-mailed response to Bloomberg News questions that the company doesn't disclose coffee purchases by country and that 78 percent of its purchases came from Latin America in 2008. Kraft, based in Northfield, Illinois, didn't immediately respond to an e-mail seeking comment.

Coffee prices may rise this year as harvests drop in Brazil, Vietnam and Mexico, said Scotiabank Peru analyst Pablo Nano. A bag of coffee weighs 60 kilograms (132 pounds).

Lower Production

Growers worldwide will probably produce 125 million bags this year, 2.3 percent less than last year, the International Coffee Organization said Dec. 9.

Arabica-coffee futures for March delivery fell 4.5 cents, or 3.3 percent, to \$1.3375 a pound at 1:18 p.m. on ICE Futures U.S. in New York. The commodity has climbed 10 percent in the past year after bad weather damaged crops in Colombia and Brazil, the world's biggest producer.

Robusta coffee for March delivery slumped \$14, or 1 percent, to \$1,333 a ton today on the Liffe Exchange. Robusta, which is planted in Brazil and Africa, will average \$1,650 a ton this year, Commerzbank AG said in a report.

Peru fell in the overall rankings last year to the world's sixth-largest coffee grower from fifth, according to the International Coffee Organization.

'Major' Output Boost

Coffee farmers will replace aging bushes on 100,000 hectares over the next 10 years, Nano said. "This will be a major boost for productivity," he said.

Local coffee producers such as Secovasa, Cocla and Cepicafe will invest \$25 million this year. Free-trade agreements with the U.S. and European Union may eliminate 12 percent import tariffs for roasted, ground and vacuum-packed coffee, Montauban said.

"Exporters are also benefiting from increased investment in infrastructure," Montauban said. "This will go a long way to cutting transport costs."

Brazil's Odebrecht SA is building a \$1 billion highway linking Atlantic and Pacific ports that will run through coffee-producing areas, while DP World Ltd. will finish a \$600 million pier at the country's largest port in May.

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--with reporting by Courtney Dentch in New York and Duane D. Stanford in Atlanta. Editors: Dale Crofts, Robin Saponar.

To contact the reporter on this story:

Alex Emery in Lima at +511-614-6806 or
aemeryl@bloomberg.net.

To contact the editor responsible for this story:

Dale Crofts at +54-11-4321-7735 or
dcrofts@bloomberg.net