

Opportunities for East Africa in the World Arabica Market



East African Fine Coffees Association Conference

February 11, 2010

EXECUTIVE SUMMARY

The specialty coffee market grew to 8 million bags in 2008. In 2008, approximately 25 million bags of Arabica coffee traded above the New York C, of which 8 million received differentials of plus 10 or more. The majority of East African coffees traded below the New York C, but the best East African coffees command very high premiums.

The specialty market could reach 19 million bags by 2020. Overall, Arabica coffee may grow at 1-2% over the next ten years. However, the specialty market is likely to grow at between 5-10% over the same period. This would represent an additional 10 million bags of specialty Arabica coffee.

East Africa has the opportunity to increase its Arabica coffee revenues by \$300 million. East Africa could provide perhaps 2 million of the incremental 10 million bags. This would generate \$300 million in additional revenues and could be achieved through a combination of yield improvement and increasing processing at wet mills.

East African farmers have the potential to double their incomes. Currently, farmers may receive 60 cents per pound farm gate for home processed coffee. Increasing processing at wet mills, making wet milling efficient and improving yields would significantly raise farmer incomes.

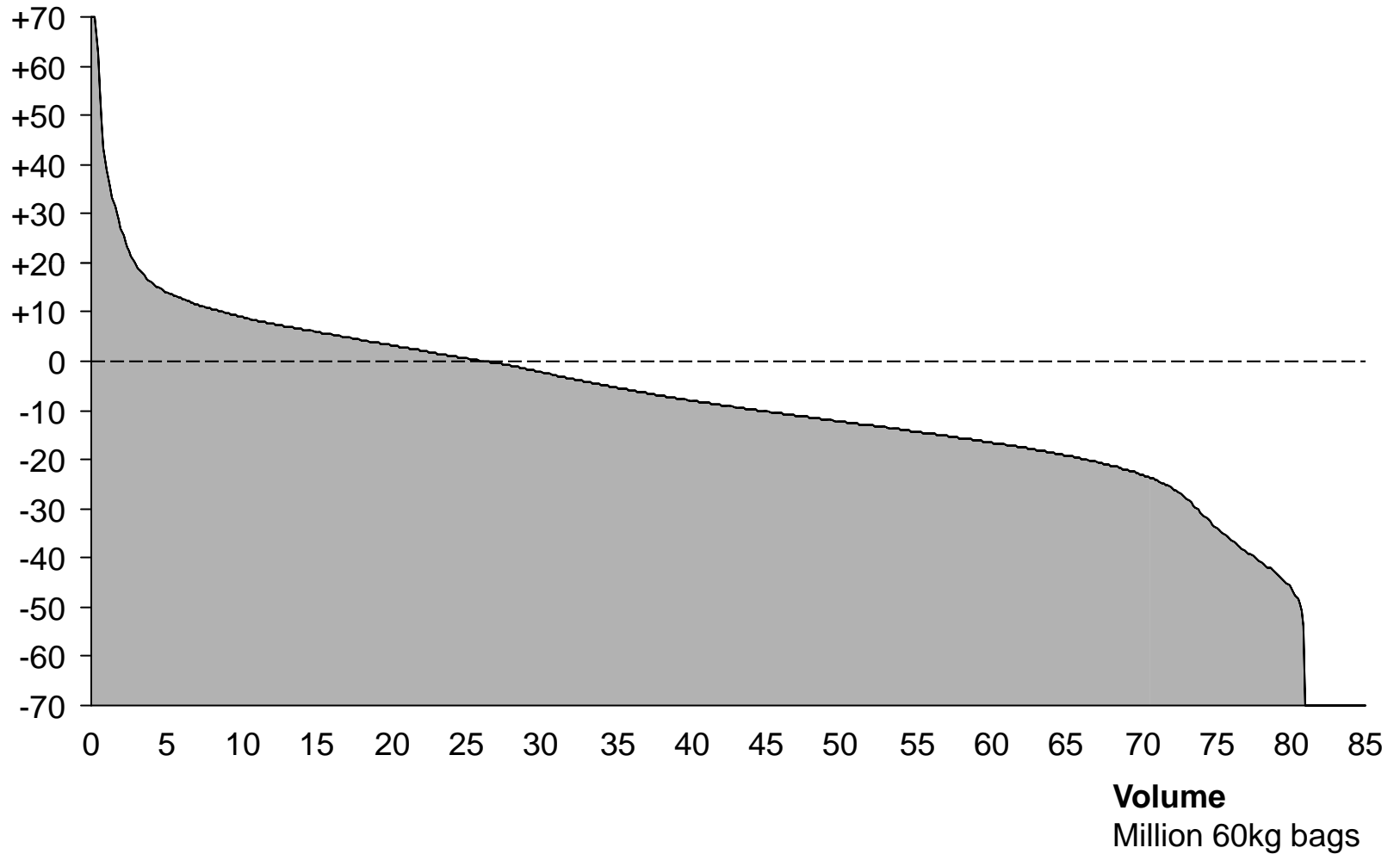
AGENDA

- **The specialty coffee market may grow by 10 million bags over the next ten years**
- East Africa could increase its Arabica coffee revenues by \$300 million
- East African coffee farmers could double their incomes

APPROXIMATELY 25M BAGS OF ARABICA SOLD AT A PREMIUM VERSUS THE NEW YORK C IN 2008

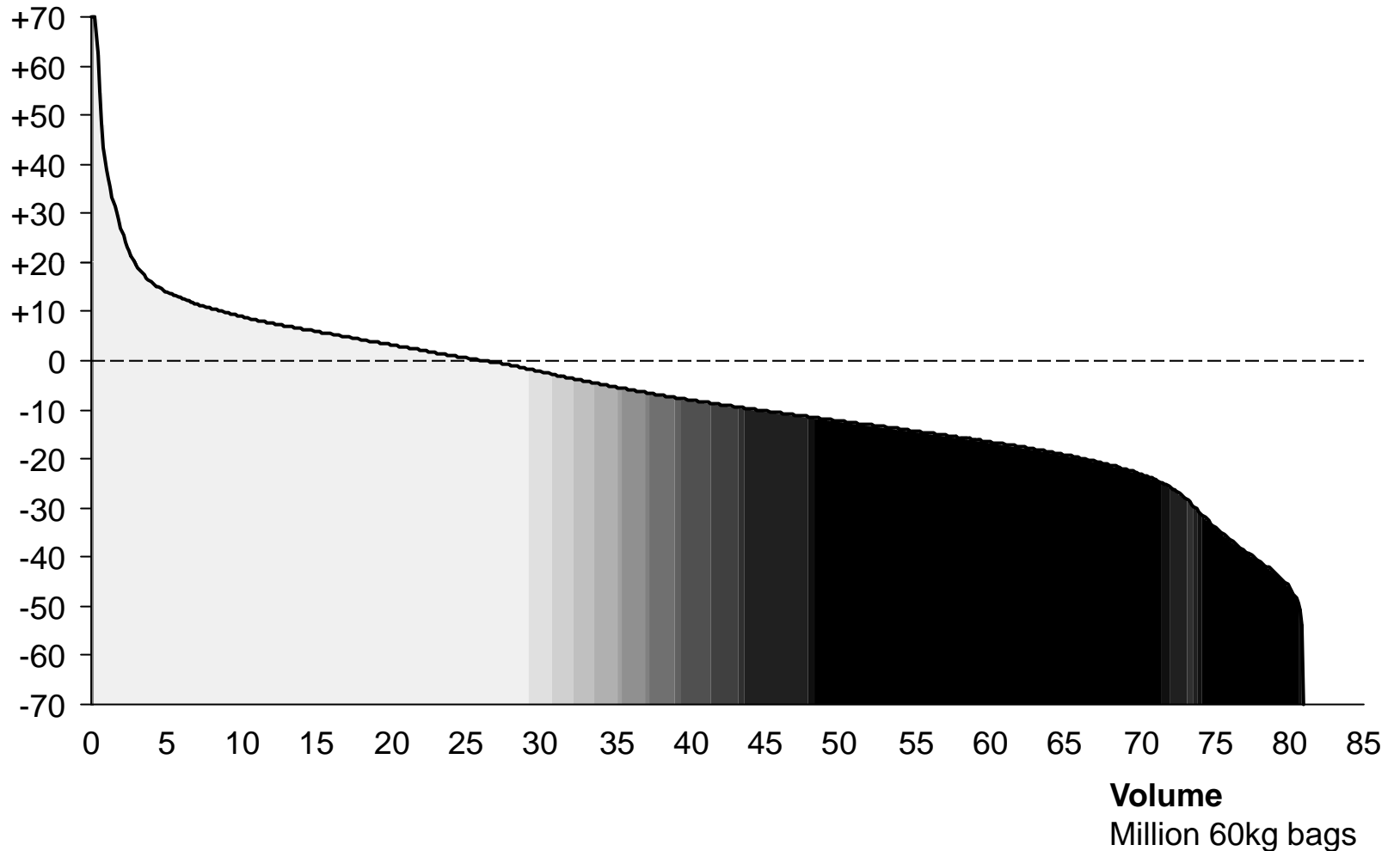
Global Arabica price differentials versus the New York C, 2008

Cents / lb



BRAZIL ACCOUNTS FOR MOST OF THE COFFEE SOLD AT A DISCOUNT TO THE NEW YORK C

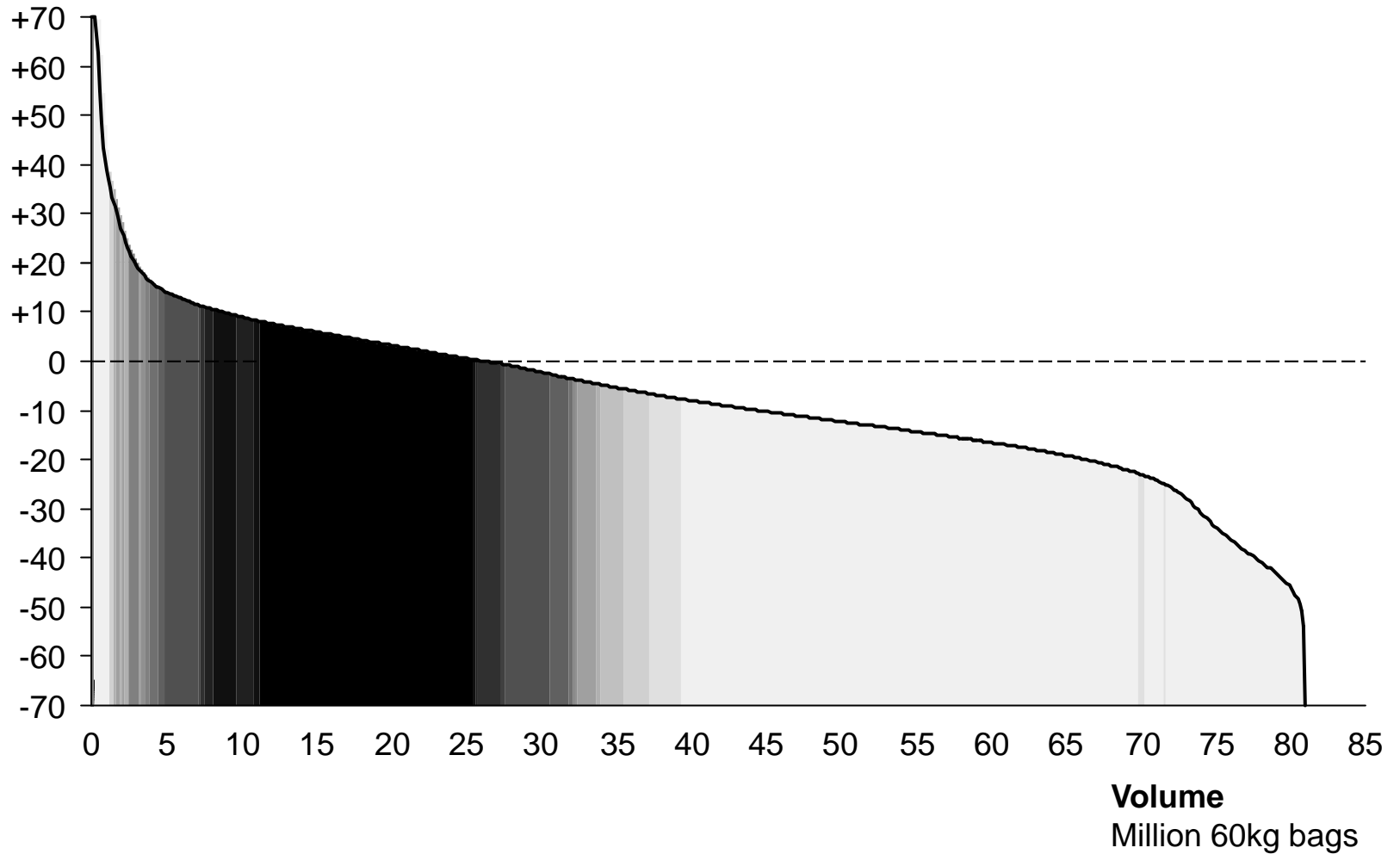
Global Arabica price differentials versus the New York C with Brazilian volume distribution, 2008
Cents / lb



Source: TNS estimates

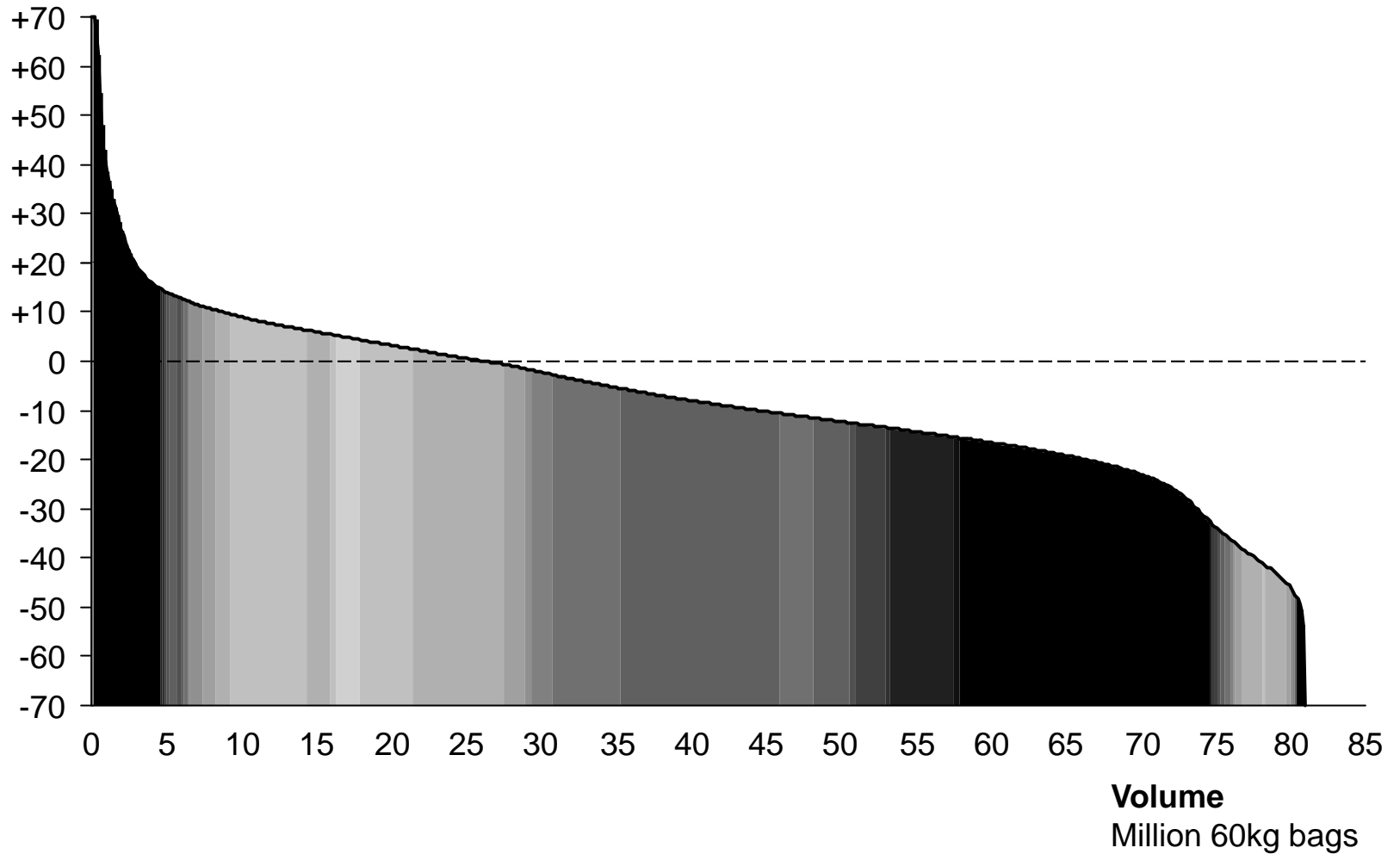
ALMOST ALL COLOMBIAN COFFEE SELLS AT A PREMIUM TO THE NEW YORK C

Global Arabica price differentials versus the New York C with Colombian volume distribution, 2008
Cents / lb



EAST AFRICAN COFFEE PRICES VARY GREATLY

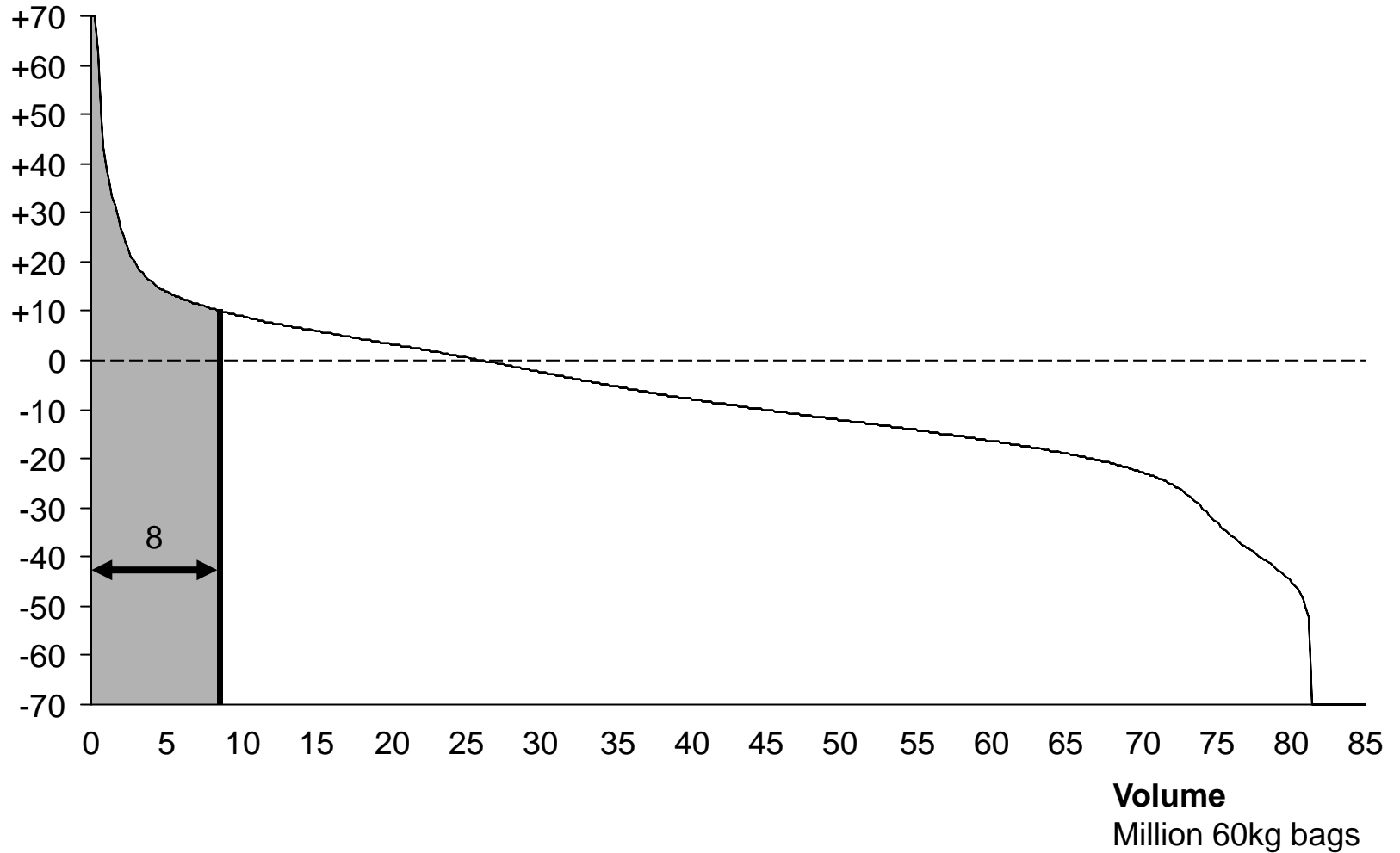
Global Arabica price differentials versus the New York C with East African volume distribution, 2008
Cents / lb



8 MILLION BAGS RECEIVED A PREMIUM OF 10 CENTS / LB OR MORE

Global Arabica price differentials versus the New York C, 2008

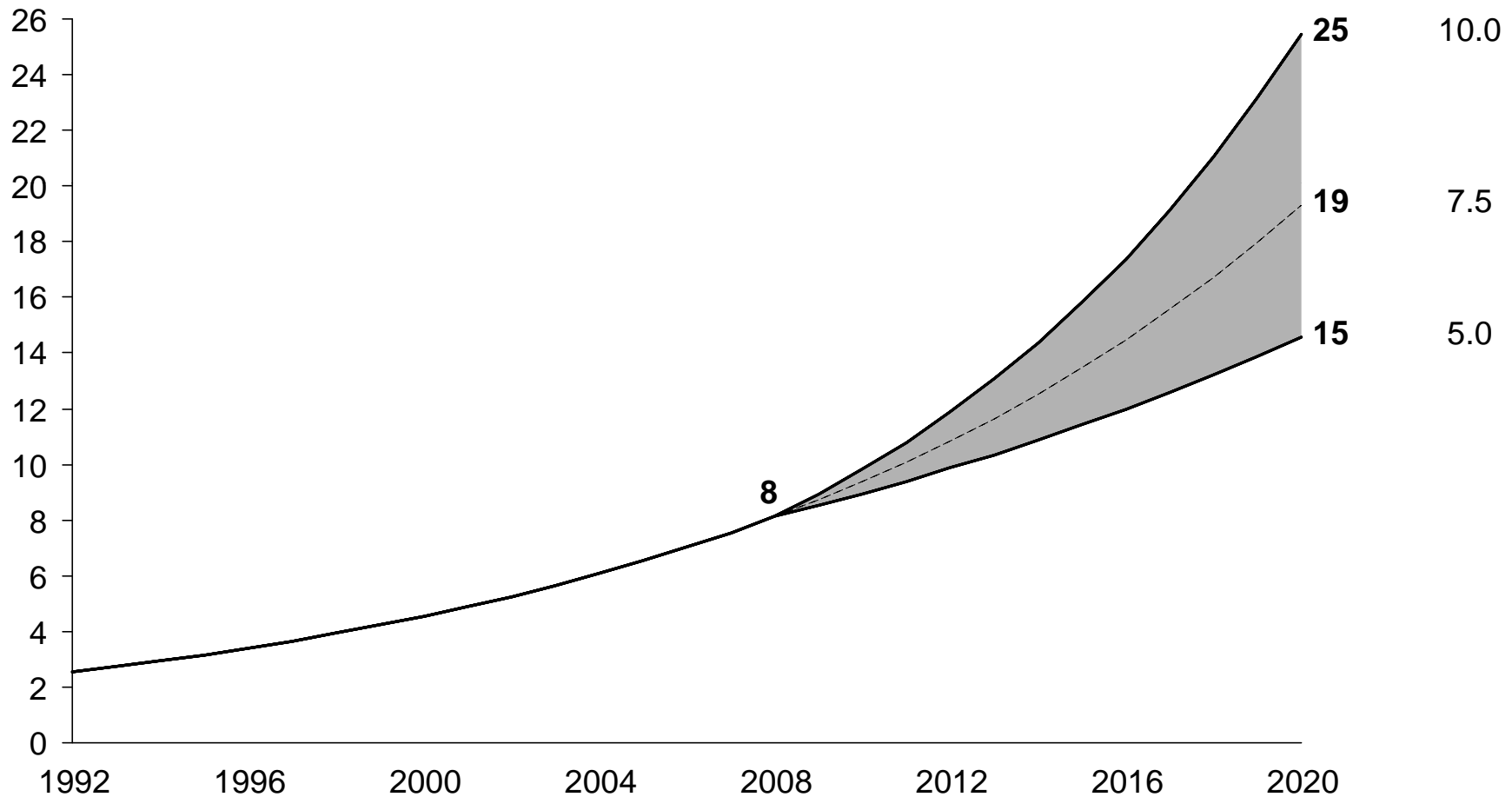
Cents / lb



THE SPECIALTY MARKET COULD REACH 19 MILLION BAGS BY 2020

Global specialty market*, 1992 – 2020 estimated
 Million 60 kg bags

**Estimated
 growth range
 Percentage**

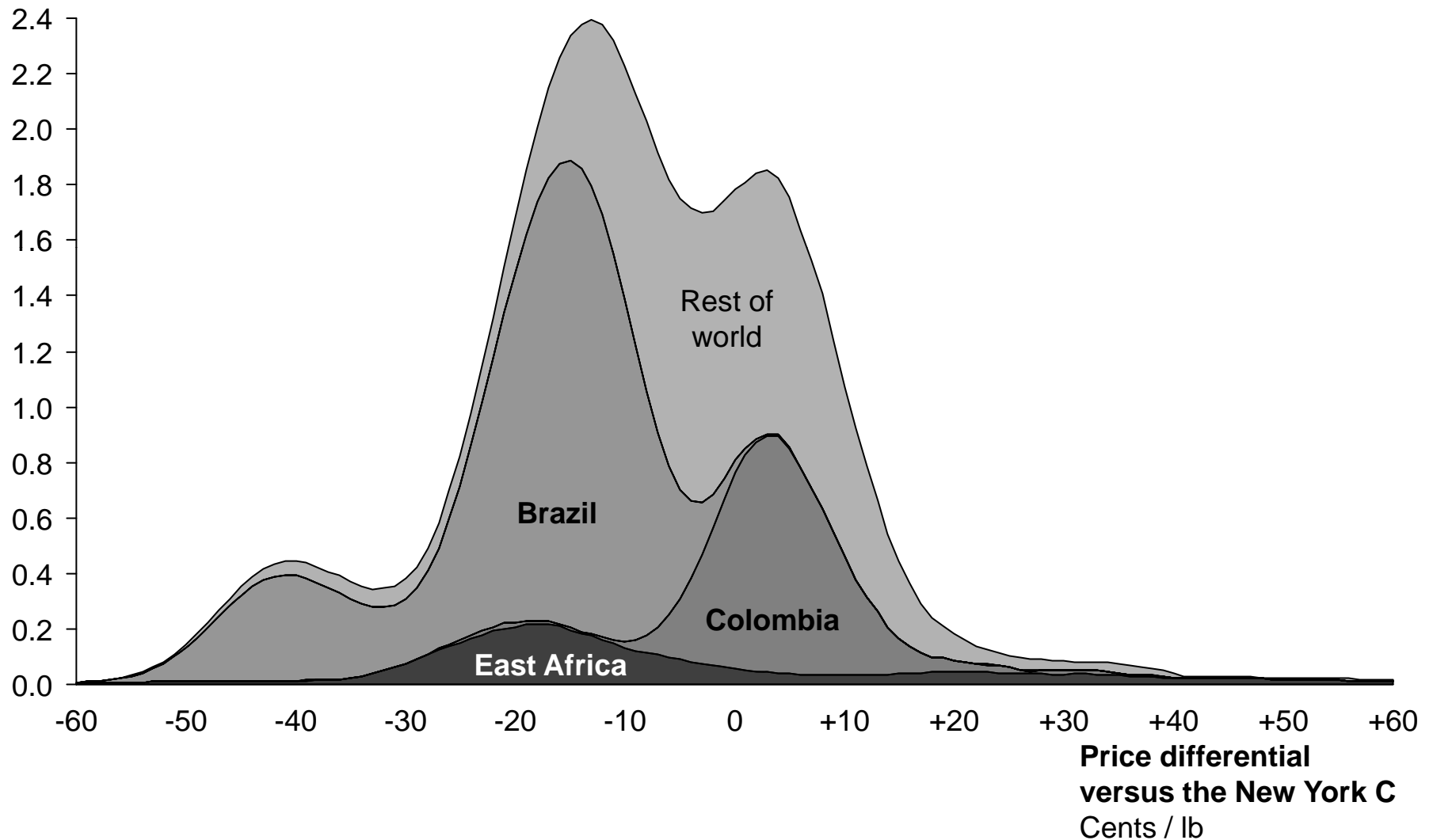


* Volume receiving a premium of 10 cents/lb or more in 2008 terms, based on estimated specialty market growth
 Source: SCAA; Industry data and interviews; TNS analysis

THE MAJORITY OF EAST AFRICAN COFFEE RECEIVES A LOWER PRICE THAN COFFEE FROM MOST OTHER REGIONS

Global Arabica volume distribution, 2008

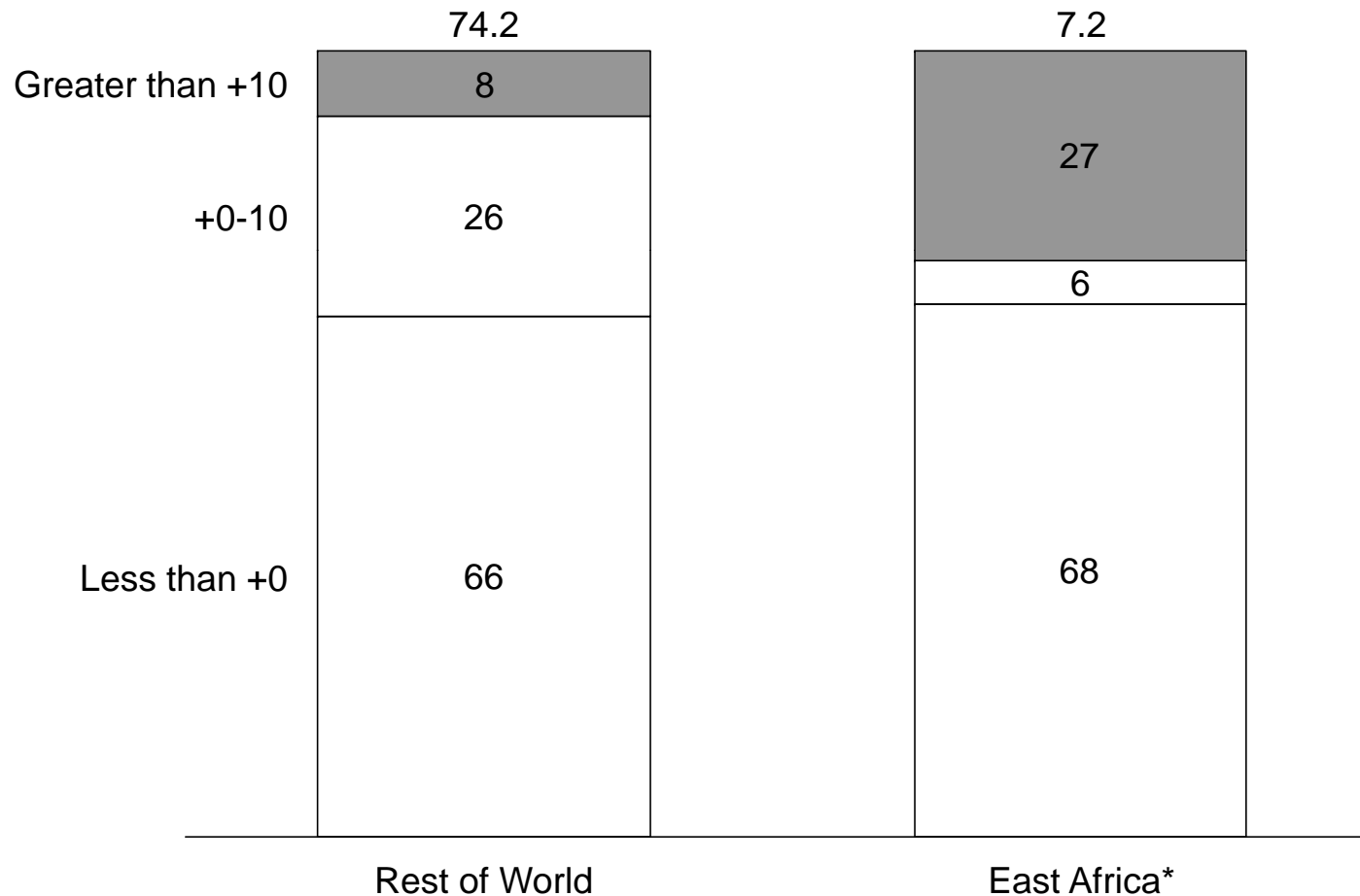
Million 60kg bags



Source: TNS estimates

27 PERCENT OF EAST AFRICAN ARABICA RECEIVES GREATER THAN 10 CENTS / LB ABOVE THE NEW YORK C

Estimated share of volume by differential to the New York C, 2008
 Percentage of million 60kg bags



* Includes Ethiopia, Kenya, Tanzania, Uganda, Burundi, Rwanda, Zambia, Malawi, Zimbabwe, and South Africa

Source: TNS estimates

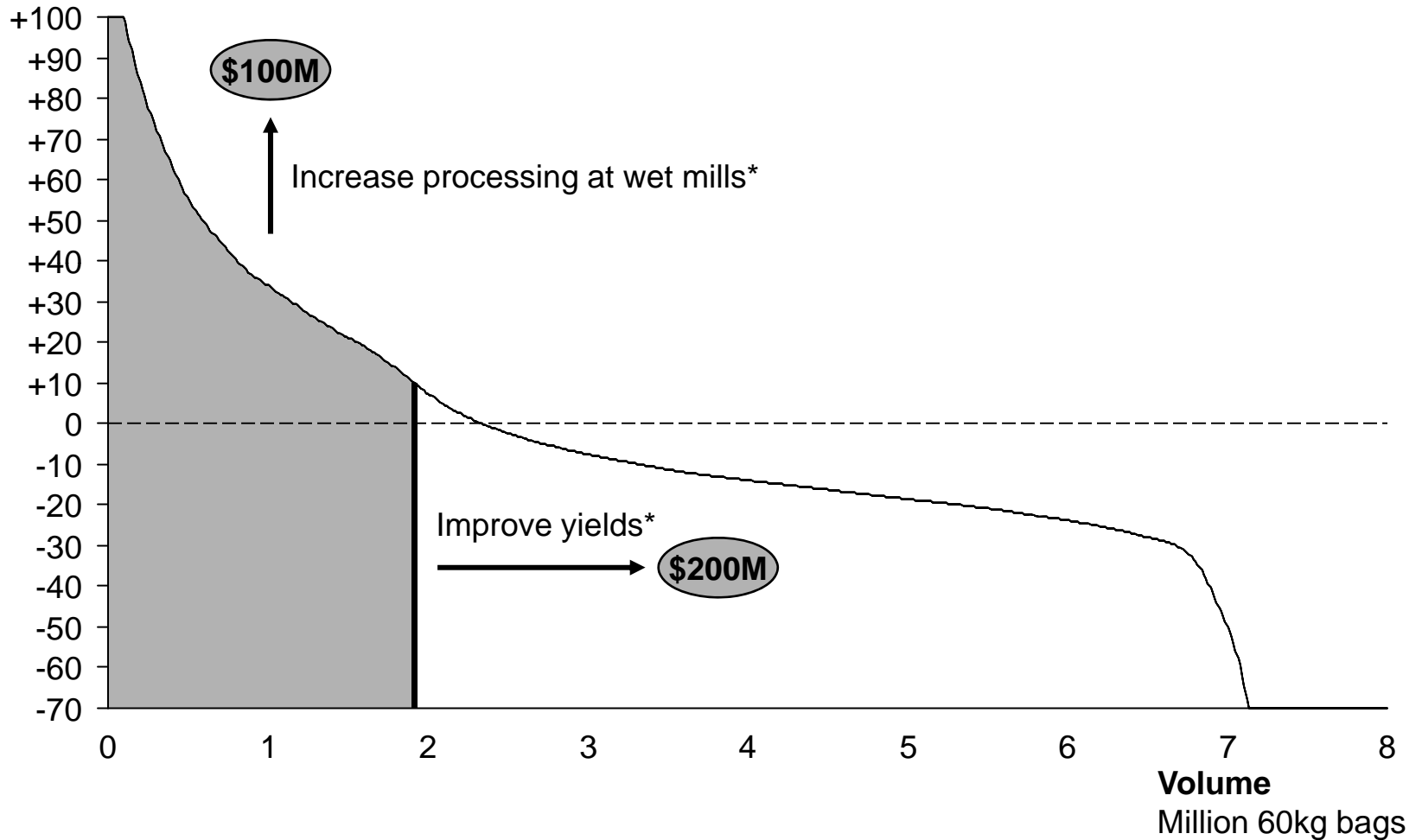
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EAST AFRICA HAS THE POTENTIAL TO INCREASE REVENUES BY \$300M BY INCREASING PROCESSING AT WET MILLS AND YIELDS

East African Arabica price differentials versus the New York C, 2008

Cents / lb

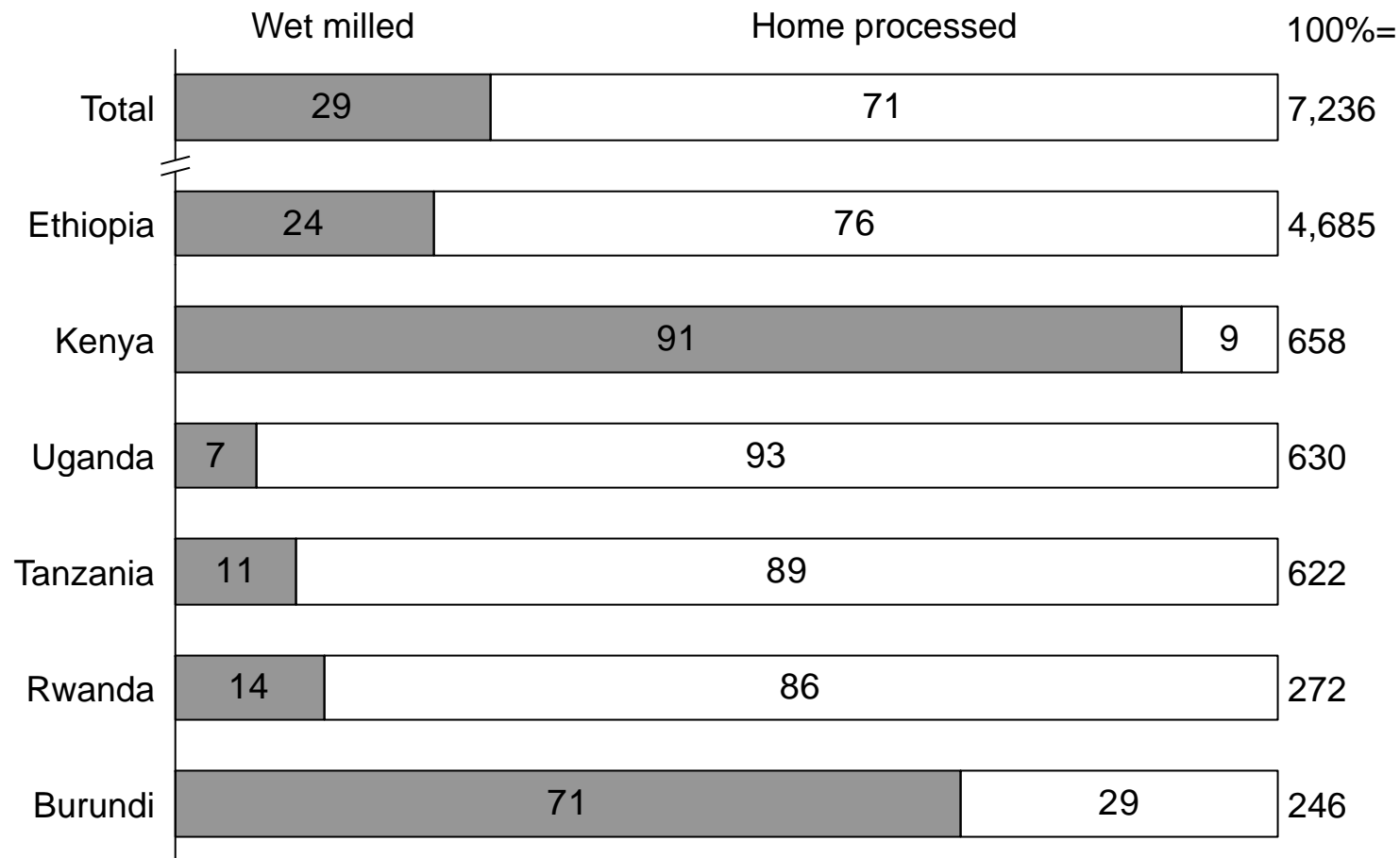


* Potential includes shifting to an average 50% share of wet milled coffee and 50% average yield improvements on volume receiving +10 cents / lb or more. Based on 2008 average NY C price of 132

Source: TNS estimates

THERE IS A SIGNIFICANT OPPORTUNITY TO INCREASE WET MILL PROCESSING IN EAST AFRICA

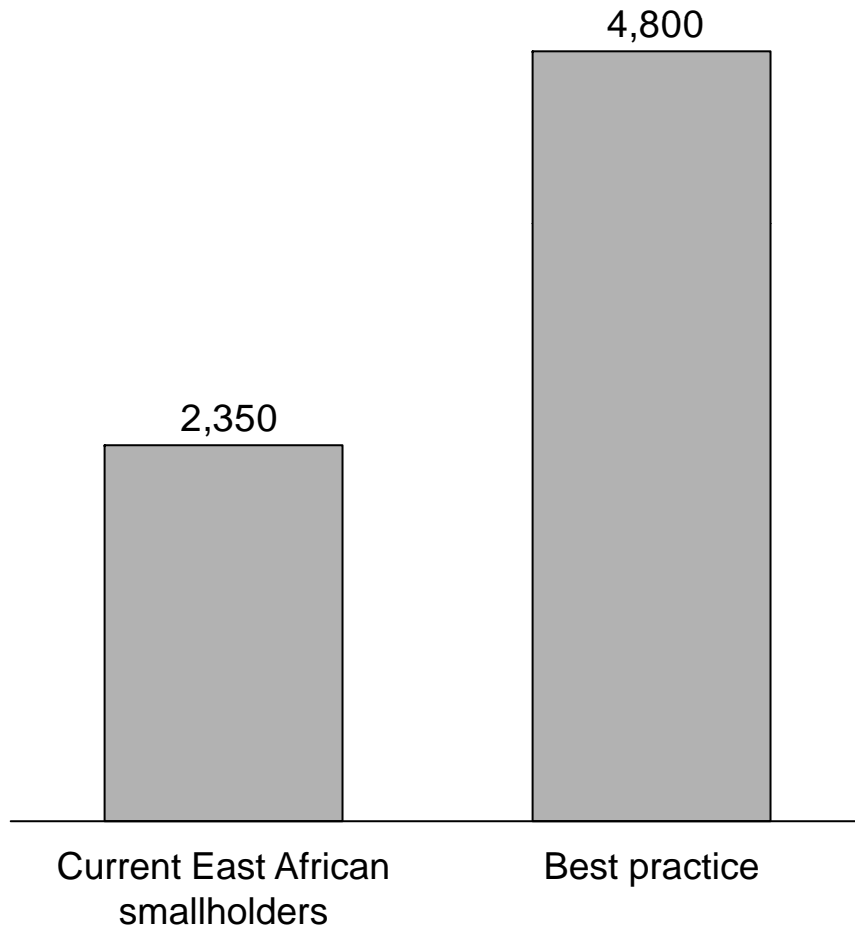
Arabica coffee volume*, 2008
 Percentage of thousand 60kg bags



* Including both export and domestic consumption. Total volume includes Zambia, Malawi, and Zimbabwe
 Source: ICO; NKG; ECX; KNCE; TCB; UCDA; Interviews; TNS estimates

ADOPTING A NUMBER OF AGRONOMY BEST PRACTICES HAS THE POTENTIAL TO DOUBLE YIELDS

Estimated yield compared to best agronomy practices
Kg cherry / Ha



Agronomy improvement areas:

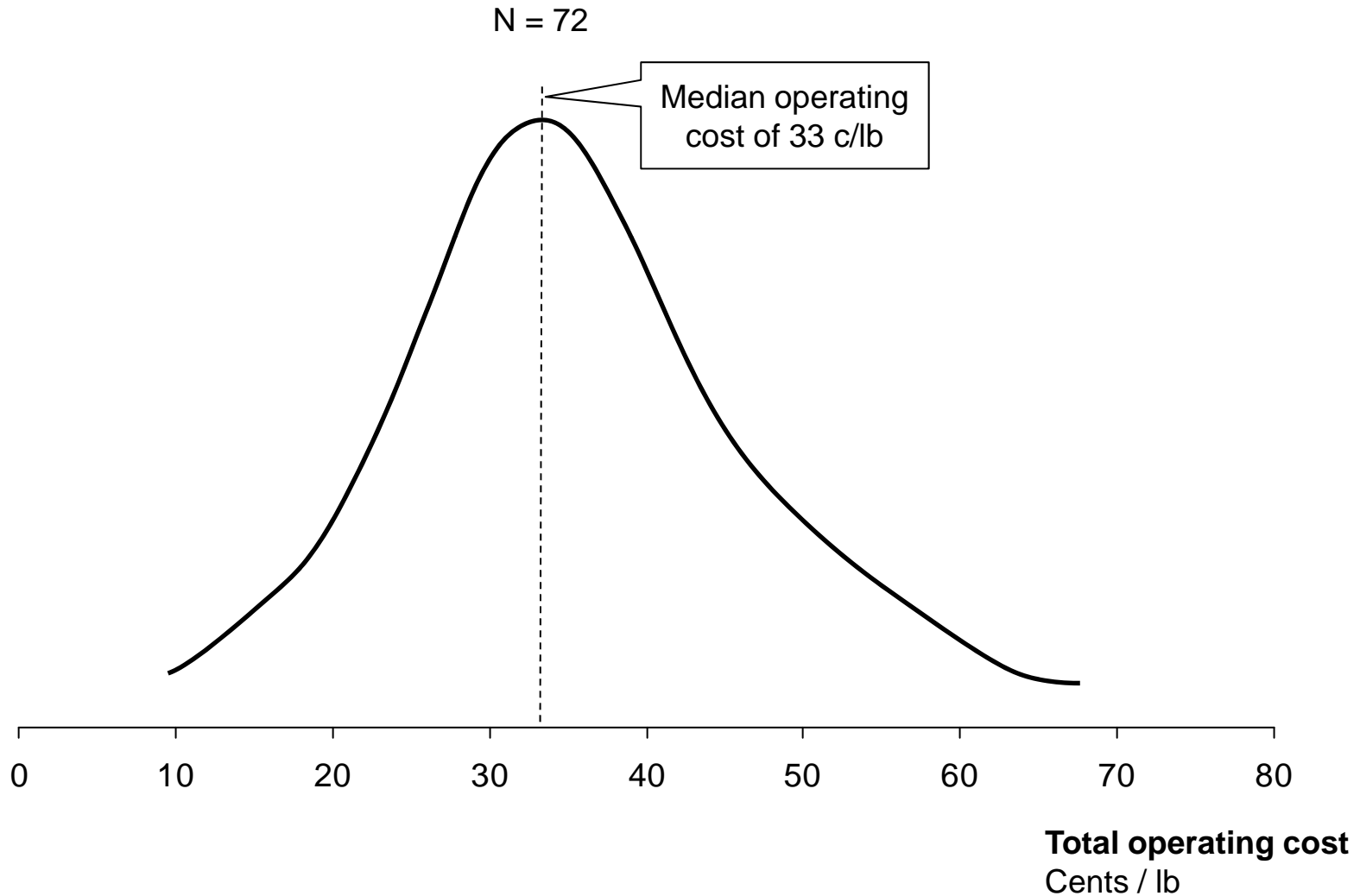
- Nutrition
- Integrated pest and disease management
- Rejuvenation and pruning
- Weeding, mulching, and erosion control

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APPROXIMATELY HALF OF EAST AFRICAN WET MILLS OPERATE OVER 30 CENTS / LB

Distribution of wet mills by operating costs
Percentage

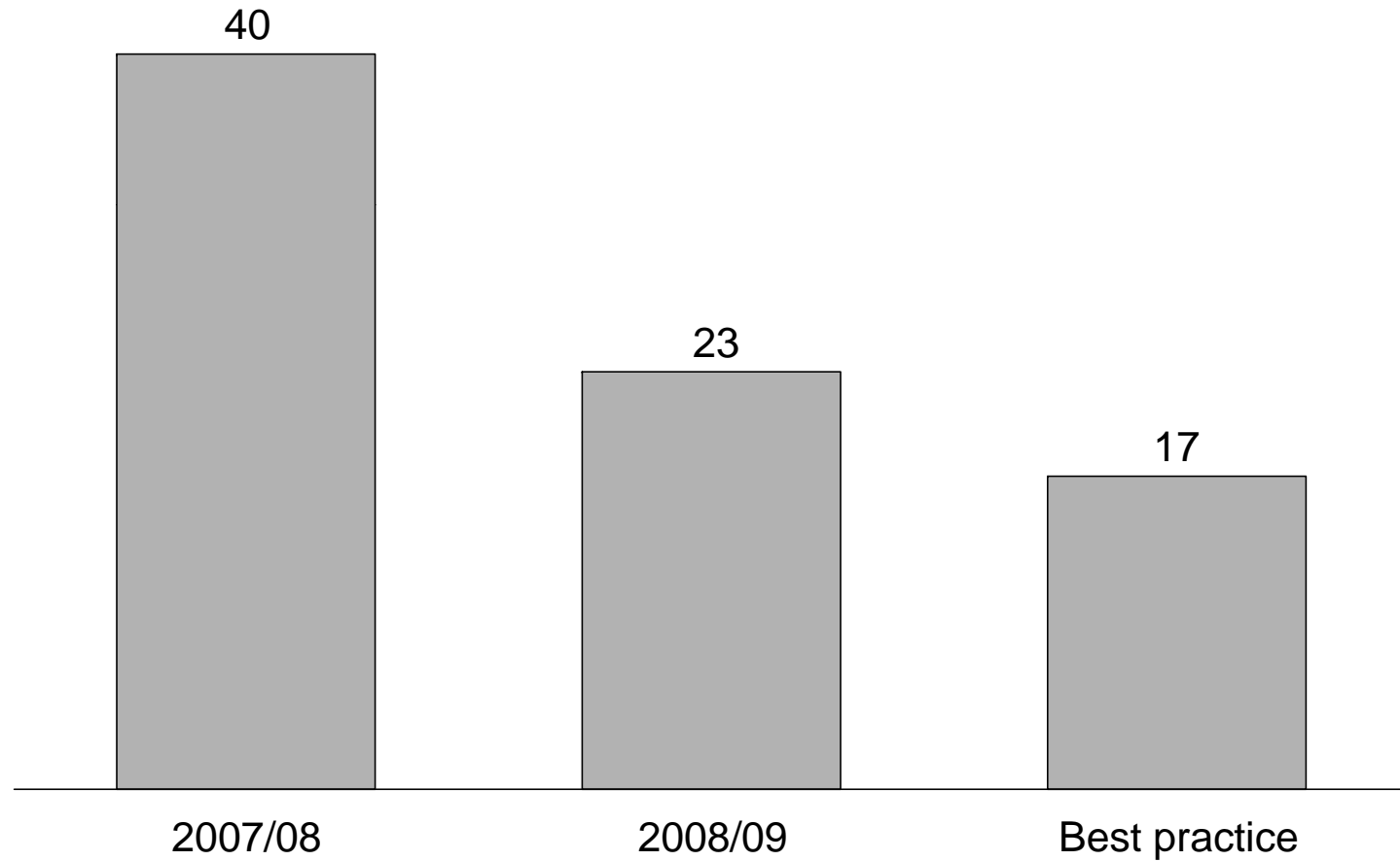


Source: TNS survey

SIGNIFICANT OPPORTUNITIES EXIST TO REDUCE WET MILL OPERATING COSTS

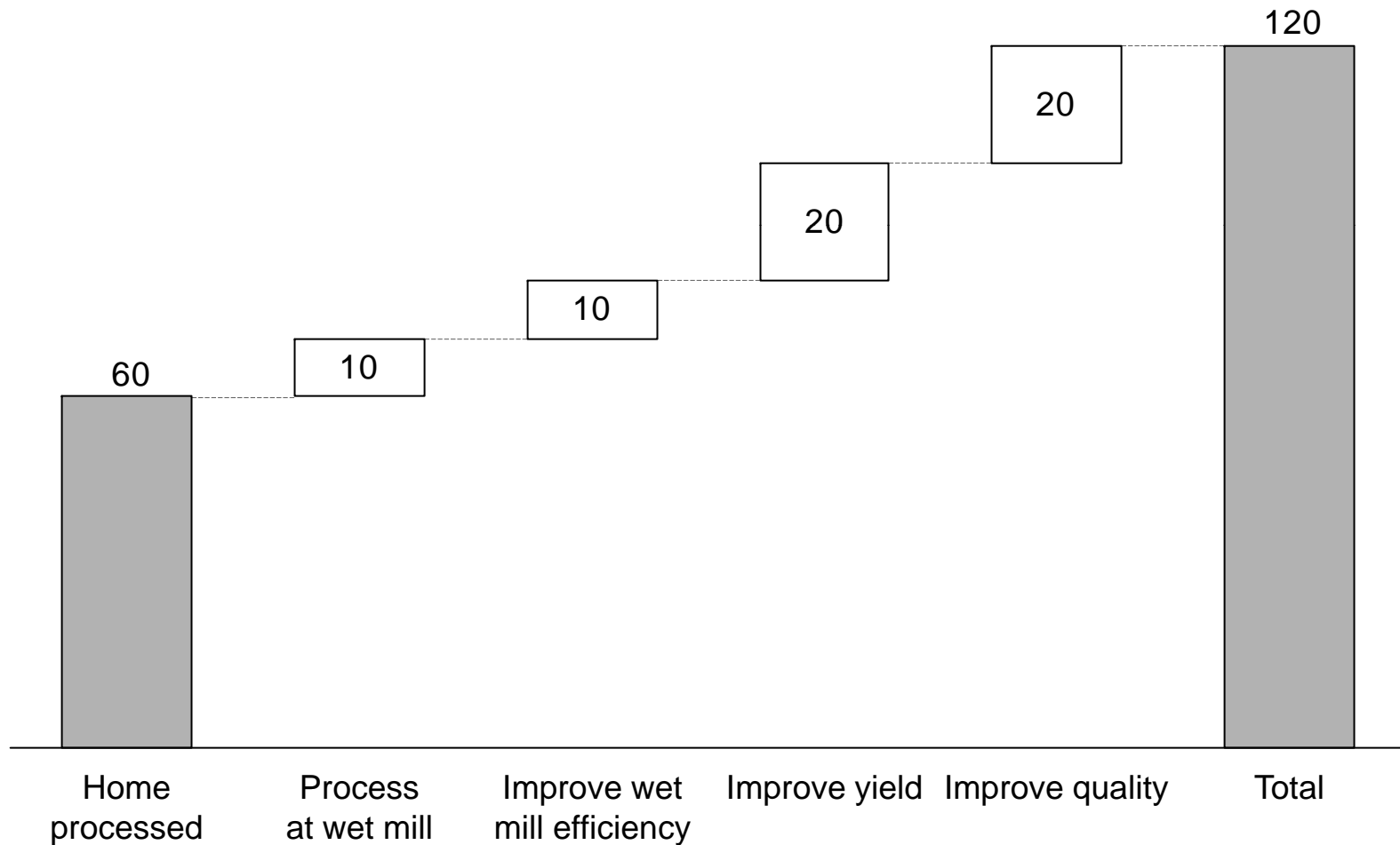
TechnoServe client cost reduction over time
Cents / lb

CLIENT EXAMPLE



EAST AFRICAN SMALLHOLDERS HAVE THE OPPORTUNITY TO DOUBLE THEIR INCOMES

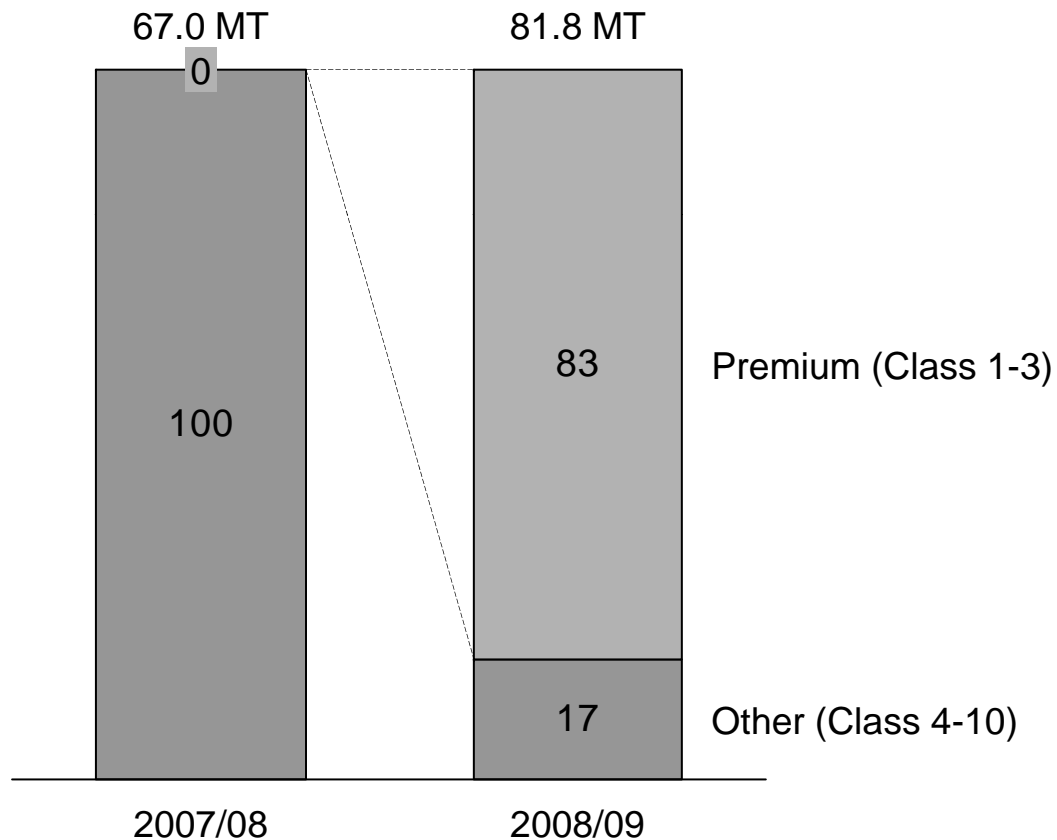
Illustrative farm-gate income increase potential*
Cents / lb



* Income increase shown in terms of original volume to illustrate change in farmer income after yield improvements
Source: TNS analysis

IRIA-INI COFFEE QUALITY HAS INCREASED AFTER PARTNERING WITH TECHNOSERVE IN SEPTEMBER 2008

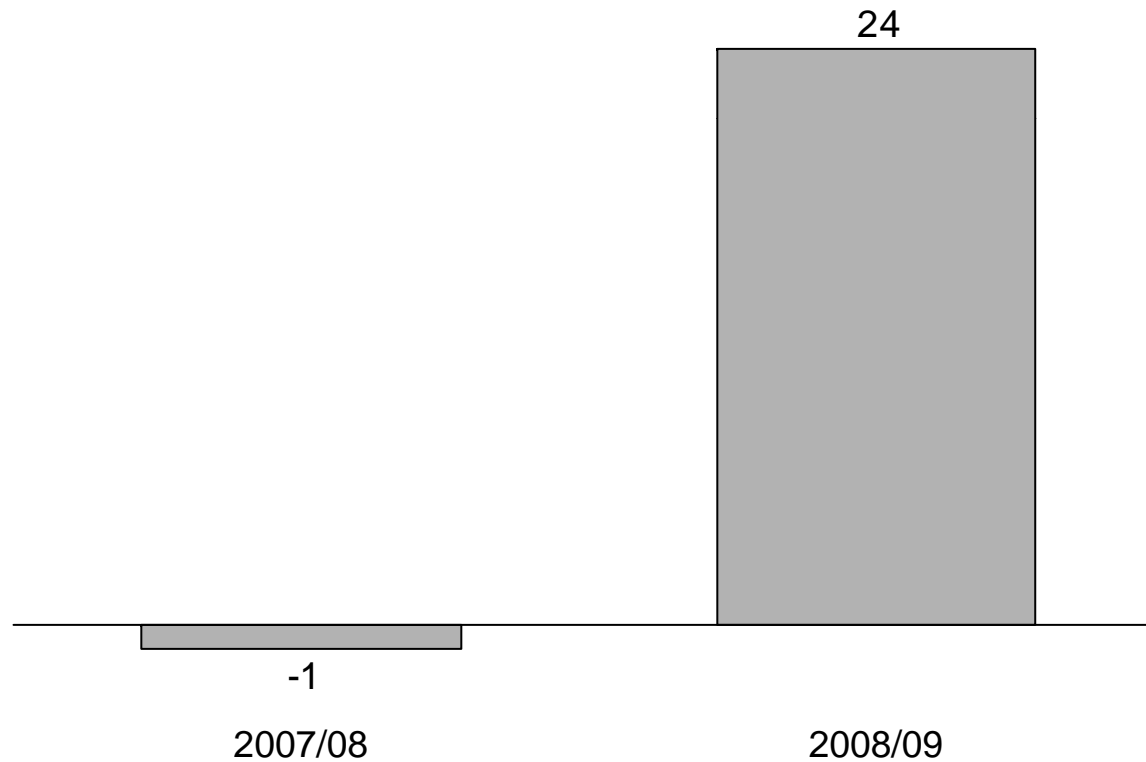
Quality distribution of Iria-ini Coop coffee volume
Percentage



- Iria-ini improved quality by:**
- Reduced over fermentation by checking fermentation level, rather than rely on a fixed time
 - Reduced drying time from 21 to 8-9 days by turning and leaving coffee exposed during midday
 - Improved cherry selection practices and cleanliness standards

IRIA-INI COFFEE PRICES HAVE INCREASED DUE TO IMPROVED COFFEE QUALITY

Iria-ini Coop average coffee price relative to Kenya auction average*
Cents / lb



* Average late harvest figures
Source: Iria-ini Coop; KNCE